

**Improving Fiscal Accountability and
Effectiveness of Services in the
Kentucky Transitional Assistance Program**

Program Review and Investigations Committee

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Foreword

Program Review and Investigations Committee staff would like to thank Commissioner Mike Robinson and his staff in the Department for Community Based Services for their cooperation with the study. Staff would also like to thank the department's field office personnel in Boyle, Anderson, Franklin, and Jefferson Counties for taking the time to share their experiences with the Kentucky Transitional Assistance Program.

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Robert Sherman
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Summary

The Kentucky Transitional Assistance Program (K-TAP) provides financial payments and other services designed to help low-income families become self-sufficient. Assistance may be given to a family only if it includes a minor child or a pregnant woman. Services include job training, subsidized child care, transportation subsidies, and relocation assistance. To continue to receive benefits, recipients are required to participate in approved activities designed to result in self-sufficiency.

Kentucky uses a federal block grant and its own funds to implement K-TAP. Federal funding for K-TAP of more than \$187 million per year is provided through the Temporary Assistance for Needy Families program. State funding totals approximately \$72 million annually. Kentucky's Department for Community Based Services administers the program.

At its meeting on November 13, 2003, the Program Review and Investigations Committee directed staff to review aspects of the Kentucky Transitional Assistance Program. The review focused on the funding of K-TAP and examined program controls designed to both prevent fraud and monitor the quality of the placement process. The study assessed the results of the different training and work-related programs offered through K-TAP. Staff also reviewed a program designed to assist some low-income individuals through short-term difficulties and divert them from enrolling in K-TAP.

Major Conclusions

The number of clients served through K-TAP has decreased by more than half since 1996, and average monthly benefit payments have increased modestly. Given these conditions, a steady level of funding for K-TAP means that the proportion of expenditures devoted to services other than cash payments has increased. For every dollar spent in 1998, about 70 cents went for cash assistance. In 2003, that amount dropped to less than 40 cents per dollar. Work-related services accounted for less than 5 percent of funding in 1998 but increased to more than 30 percent in 2003. Analysis by Program Review staff confirmed that recent K-TAP clients seem more likely to have difficulty in making the transition to employment and may require more assistance to do so.

By federal law, the state's contribution to K-TAP is based on the amount of funding the state provided under related programs in 1994. The required "maintenance of effort" depends on the percentage of clients participating in approved work-related activities. States that meet the minimum rate of work participation for Temporary Assistance for Needy Families (TANF) recipients are required to spend 75 percent of the 1994 amount. States that do not meet the minimum participation rate must spend 80 percent. Kentucky has met its minimum participation requirement in each year of the TANF program. Kentucky's participation requirement levels are so low that the state is virtually guaranteed to meet the levels, but the Department for Community Based Services (DCBS) has funded the state contribution at the 80 percent rate each year. For fiscal year 2004, the difference between the 75 percent and 80 percent levels of funding

was \$4.5 million. Reducing the amount of state K-TAP funding to the 75 percent level would not necessarily reduce benefits. Kentucky has \$8.4 million in unobligated funds remaining in its 2003 federal block grant.

Funds being spent in other parts of the state budget that further the goals of TANF, even if not provided through K-TAP, may be included in the amount the state spends for its required contribution. This means that Kentucky's contribution could be lower than the 75 percent level as calculated.

The Cooperative Review of Eligibility investigative program, housed in the Office of the Inspector General within the Cabinet for Health and Family Services, was discontinued in 2002. Its function was to perform field investigations to intervene and prevent people from fraudulently obtaining benefits in the K-TAP, Food Stamp, and Medicaid programs. There is evidence that in the 10 counties in which it operated, the program identified more than \$6 million in inappropriate payments. Based on the results of a cost-benefit analysis, it may be worthwhile to revive this program or to create a similar one.

The Kentucky Works Program within K-TAP offers several services designed to help clients become employed and self-sufficient. Some activities appeared to be more helpful than others. Clients who participated in activities related to job search and preparation, improving job skills, and vocational training earned higher wages the more they participated. Providing education for those without a high school diploma and counseling and treatment to enable clients to work produced mixed results. Community service appeared to be the least effective activity for helping clients get jobs and higher wages. However, the true effectiveness of activities can only be ascertained by knowing how clients were assigned to each activity—information unavailable to Program Review staff. The report recommends that DCBS make use of such information as it initiates its own evaluations of Kentucky Works activities.

Overall, half the K-TAP clients were involved in Kentucky Works activities within two months of entering K-TAP and 75 percent were involved within six months. Regions varied considerably, however. In the region with the longest delay, it took four months to enroll half the clients; it took one month in the quickest regions. DCBS should investigate the regional differences and take steps to reduce the amount of time it takes clients to enter activities.

The Family Alternatives Diversion (FAD) provides short-term assistance to some low-income individuals in an effort to reduce their need to enroll in K-TAP. The program appears to have successfully lowered costs and kept a number of potential clients out of K-TAP. DCBS has implemented several policy changes to address earlier concerns about the program. The Program Review evaluation of the diversion program suggests another policy change that might result in further savings: restricting FAD payments to families that have not been on K-TAP in the past.

Recommendations

- 2.1 DCBS officials should review the feasibility of funding K-TAP at the 75 percent maintenance of effort level instead of at 80 percent. DCBS should provide the General Assembly with information about
 - the likelihood that the requirements for participation levels for the 75 percent funding effort will be met;
 - the actual state expenditures for the 75 and 80 percent spending levels, and
 - the potential consequences for K-TAP clients of the two funding levels.
- 2.2 Officials with DCBS and other appropriate executive branch officials should undertake a thorough review of state spending outside K-TAP that furthers the goals of TANF. Information about existing spending that could be counted toward the state's maintenance of effort for TANF should be provided to the General Assembly.
- 2.3 Officials with the Cabinet for Health and Family Services should discuss the possibility of accessing unobligated federal funds to offset the cost of spending at the 80 percent maintenance of effort during previous fiscal years. To the extent federal funds are available as an offset, officials should review all prior years' spending to minimize the use of state funds for K-TAP.
- 2.4 The Cabinet for Health and Family Services should review the feasibility of forming a field-based investigation unit such as the Cooperative Review of Eligibility program. The review should include a cost-benefit analysis. The results of the analysis and any actions taken to expand the capability of the Office of Inspector General to conduct field investigations should be reported to the Program Review and Investigations Committee prior to the 2005 session of the General Assembly.
- 2.5. The Quality Control Branch of the Cabinet for Health and Family Services should audit a representative sample of cases for each of the cabinet's 16 service regions so that valid comparisons of regional deficiency rates can be made. If necessary, the regional audits should be placed on a rotating schedule so that each region is audited at least once every four years.
- 3.1. DCBS should establish procedures to evaluate the success of each Kentucky Works Program component, focusing on the benefit to clients after they leave K-TAP. As an intermediate step, DCBS should study the screening process for clients and the quality of placements for activities this report found to produce poor or mixed benefits for clients. DCBS should implement changes to improve results.
- 3.2 DCBS should review the lag between the time a recipient enters K-TAP and when that recipient begins a Kentucky Works Program activity. Regional differences and delays in data entry should be explored. DCBS should take steps to reduce the amount of time recipients spend before entering a Kentucky Works activity. Problematic regions should be monitored, and efforts should be undertaken to ensure that recipient information is entered in a timely manner.

- 3.3** DCBS officials should consider restricting participation in the Family Alternatives Diversion program to clients who have not received K-TAP benefits.
- 3.4** DCBS should implement changes in systems and procedures so that subsidized employment hours can be tracked and reported separately from regular employment. DCBS should change the data systems so that the program code for the Warren County program cannot be misused. DCBS should then conduct an evaluation of the subsidized employment programs and determine whether they should be expanded or modified.

Chapter 1

Description and Background of the Kentucky Transitional Assistance Program

Introduction

In 1996, Congress enacted legislation creating the Temporary Assistance to Needy Families (TANF) program, dramatically altering the approach and implementation of welfare assistance in the United States. The entitlement program Aid to Families With Dependent Children was replaced with annual block grants to states. TANF imposes time limits on how long clients can receive public assistance and requires that clients participate in work-related activities. States are given flexibility as to the means of moving recipients from public assistance to the workforce.

Kentucky uses its federal block grant and its own funds to implement the Kentucky Transitional Assistance Program (K-TAP). K-TAP provides financial payments and other services designed to help families become self-sufficient. Services include job training, subsidized child care, transportation subsidies, and relocation assistance.

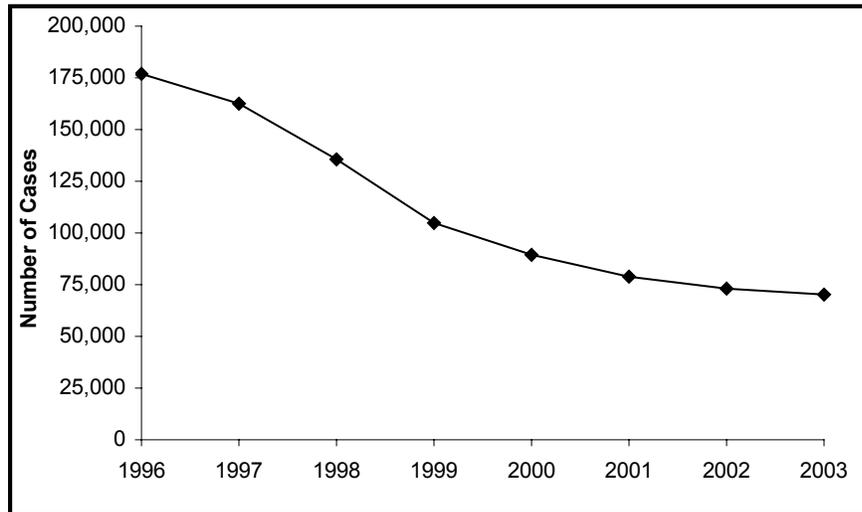
Since the passage of federal legislation creating the Temporary Assistance to Needy Families (TANF) program in 1996, public assistance caseloads have declined by more than half in the U.S. and in Kentucky.

Since the passage of the legislation creating TANF in 1996, welfare caseloads have decreased nationally by more than half, from 4.5 million families to 2.1 million. The share of adults on public assistance with paid jobs more than doubled: from about 11 percent to more than 25 percent (U.S. House 7-3 to 7-4).

Kentucky's percentage decrease in the public assistance caseload has been even greater. As Figure 1.A shows, enrollment declined from more than 176,000 cases in 1996 to fewer than 71,000 in 2003—a drop of 60 percent.

Annual funding for K-TAP has been relatively stable since 1996, ranging from \$237 million to \$262 million. The federal TANF grant accounts for about 70 percent of funding; Kentucky contributes the rest. As the number of cases has dropped over time, the proportion of funding devoted to cash assistance has decreased. The shares of funding allocated for work-related and other services have grown correspondingly.

Figure 1.A
Kentucky's Public Assistance Caseload, 1996 to 2003



Source: Compiled by Program Review staff from Cabinet for Health and Family Services PA-264 reports.

Description of This Study

How This Study Was Conducted

On November 13, 2003, the Program Review and Investigations Committee authorized a study of the Kentucky Transitional Assistance Program. In conducting the study, staff interviewed officials with the Department for Community Based Services (DCBS), the department with responsibility for overseeing K-TAP. Staff visited the department's field offices in Anderson, Boyle, Franklin, and Jefferson Counties to observe practices and interview staff. Staff also interviewed officials with Kentucky Refugee Ministries to discuss their observations in finding employment for their clients. Program Review staff obtained extracts of electronic databases from DCBS and the Department for Employment Services to compare K-TAP activities' effectiveness in leading to jobs. Program Review staff reviewed federal guidelines on the requirements for state contributions to K-TAP. Staff also interviewed officials with the federal Administration for Children and Families and spoke with experts with the National Conference for State Legislators.

The response to this report from the Department for Community Based Services is contained in Appendix C.

Organization of the Report

The remainder of Chapter 1 summarizes K-TAP and the federal legislation that led to its implementation and describes available K-TAP services.

Chapter 2 provides analyses of the funding of K-TAP, addressing the state's funding of the program and concerns with fraud prevention and quality control. Recommendations are made to improve the information available to the General Assembly related to K-TAP funding and to improve accountability.

Chapter 3 provides an overview of the various K-TAP work and training programs, including staff's analyses of the effectiveness of the different programs. Recommendations are made to evaluate the programs, to encourage more timely participation, and to consider changing how Family Alternatives Diversion funds are awarded.

Major Conclusions

This report has seven major conclusions.

1. The number of clients served through K-TAP has decreased by more than half since 1996, and average monthly benefit payments have increased modestly. Given these conditions, a steady level of funding for K-TAP means that the proportion of expenditures devoted to services other than cash payments has increased. For every dollar spent in 1998, about 70 cents went for cash assistance. In 2003, that amount dropped to less than 40 cents per dollar. Work-related services accounted for less than 5 percent of funding in 1998 but increased to more than 30 percent in 2003. Analysis by Program Review staff confirmed that recent K-TAP clients seem more likely to have difficulty in making the transition to employment and may require more assistance to do so.
2. By federal law, the state's contribution to K-TAP is based on the amount of funding the state provided under related programs in 1994. The required "maintenance of effort" depends on the percentage of clients participating in approved work-related activities. States that meet the minimum rate of work participation for Temporary Assistance for Needy Families (TANF) recipients are required to spend 75 percent of the 1994 amount. States that do not meet the minimum participation rate must spend 80 percent. Kentucky has met its minimum participation requirement in each year of the TANF program. Kentucky's participation requirement levels are so low that the state is virtually guaranteed to meet the levels, but

the Department for Community Based Services (DCBS) has funded the state contribution at the 80 percent rate each year. For fiscal year 2004, the difference between the 75 percent and 80 percent levels of funding was \$4.5 million. Reducing the amount of state K-TAP funding to the 75 percent level would not necessarily reduce benefits. Kentucky has \$8.4 million in unobligated funds remaining in its 2003 federal block grant.

3. Funds being spent in other parts of the state budget that further the goals of TANF, even if not provided through K-TAP, may be included in the amount the state spends for its required contribution. This means that Kentucky's contribution could be lower than the 75 percent level as calculated.
4. The Cooperative Review of Eligibility investigative program, housed in the Cabinet for Health and Family Services' Office of the Inspector General, was discontinued in 2002. Its function was to perform field investigations to intervene and prevent people from fraudulently obtaining benefits in the K-TAP, Food Stamp, and Medicaid programs. There is evidence that in the 10 counties in which it operated, the program identified more than \$6 million in inappropriate payments. Based on the results of a cost-benefit analysis, it may be worthwhile to revive this program or to create a similar one.
5. The Kentucky Works Program within K-TAP offers several services designed to help clients become employed and self-sufficient. Some activities appeared to be more helpful than others. Clients who participated in activities related to job search and preparation, improving job skills, and vocational training earned higher wages the more they participated. Providing education for those without a high school diploma and counseling and treatment to enable clients to work produced mixed results. Community service appeared to be the least effective activity for helping clients get jobs and higher wages. However, the true effectiveness of activities can only be ascertained by knowing how clients were assigned to each activity—information unavailable to Program Review staff. The report recommends that DCBS make use of such information as it initiates its own evaluations of Kentucky Works activities.
6. Overall, half the K-TAP clients were involved in Kentucky Works activities within two months of entering K-TAP and 75 percent were involved within six months. Regions varied considerably, however. In the region with the longest delay, it

took four months to enroll half the clients; it took one month in the quickest regions. DCBS should investigate the regional differences and take steps to reduce the amount of time it takes clients to enter an activity.

7. The Family Alternatives Diversion (FAD) provides short-term assistance to some low-income individuals in an effort to reduce their need to enroll in K-TAP. The program appears to have successfully lowered costs and kept a number of potential clients out of K-TAP. DCBS has implemented several policy changes to address earlier concerns about the program. The Program Review evaluation of the diversion program suggests another policy change that might result in further savings: restricting FAD payments to families that have not been on K-TAP in the past.

Temporary Assistance to Needy Families Replaced AFDC

As reported in the 1994 *Green Book* from the U.S. House of Representatives' Ways and Means Committee, by the mid-1990s the size and cost of the welfare system, specifically Aid to Families with Dependent Children (AFDC), had become a concern to policymakers:

Enrollment had soared to an all-time peak in 1994, covering five million families and more than one-eighth of U.S. children. More than half of AFDC children were born outside of marriage, and three-fourths had an able-bodied parent who lived away from home. Almost half of the families received benefits for more than five years, counting repeat spells. Benefit costs peaked in fiscal year 1994 at \$22.8 billion (\$12.5 billion in Federal funds, \$10.3 billion in State/local funds) (7-2).

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 addressed a number of issues of concern, including Food Stamps, child support enforcement, Supplemental Security Income for children, and efforts to reduce teen pregnancy. A significant provision of the law was the creation of the TANF program, which replaced AFDC and significantly changed the way welfare assistance is provided in the U.S.

AFDC was an entitlement program. A family meeting the income eligibility rules was eligible for assistance without time limits. Unless benefit levels were changed, total funding for AFDC nationally and by state varied depending on how many recipients

were in the program. Funding was provided from federal and state resources, but the program was controlled by federal rules.

TANF funding is provided through block grants to states. Kentucky's grant amount is more than \$180 million per year.

TANF funding is provided through a block grant and replaces three previous programs: AFDC, Job Opportunities and Basic Skills Training, and Emergency Assistance to Needy Families. Each state receives a fixed amount annually based on its historical expenditures for these three programs and can carry over unused grant funds to subsequent fiscal years. Kentucky's TANF block grant is more than \$180 million per year.

The prior welfare system was an entitlement program without time limits for benefit recipients. TANF limits benefits to five years and requires participation in work-related activities.

With the replacement of AFDC by TANF, many of the underlying assumptions of welfare changed. TANF benefits are limited to 60 months for a recipient. Up to 20 percent of adult recipients can be exempted from the time limit if categorized as hardship cases, however. The philosophy behind TANF is also apparent from the four broad goals of the program:

- Providing assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- Ending the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- Preventing and reducing the incidence of out-of-wedlock pregnancies; and
- Encouraging the formation and maintenance of two-parent families.

Recipients Must Participate in Approved Activities

TANF recipients are required to participate in approved activities to continue receiving benefits. Kentucky requires that adult recipients in single-parent families participate in approved activities for at least 30 hours per week. Adult recipients in two-parent families must participate in approved activities for a minimum combined total of 35 hours per week. If the two-parent family is receiving federally subsidized child care, the combined total hours per week must be at least 55 hours.

Recipients may participate in a range of activities. For example, hours spent in subsidized or unsubsidized work, on-the-job training, or community service may count toward a recipient's participation requirement.

The block grant is reduced for a state not meeting its required participation rates for TANF recipients.

Each state must meet an overall TANF participation rate or suffer a reduction in its TANF funding amount. Each state receives an adjustment to its effective participation rate based on the state's success in reducing the number of clients enrolled in TANF,

however. For each percentage point decrease in caseload since 1995, the state can reduce its required participation rate by a point.

Each state is required to provide a minimum amount of funding for TANF-related activities each year.

In addition to the federal block grant, each state is required to provide its own funding for TANF-related activities. In FY 2003, Kentucky allocated \$71.9 million for K-TAP. A state's maintenance of effort, the minimum it must spend, is determined as a proportion of the amount the state funded in 1994 under the AFDC program. If a state is meeting its federally mandated adjusted participation rate, it is required to provide at least 75 percent of its 1994 funding. If a state is not meeting its participation rate, it could be required to pay 80 percent of the 1994 amount. Additional penalties may be imposed for each subsequent year in which a state fails to meet its participation requirements.

The Kentucky Transitional Assistance Program

Kentucky's response to TANF is the Kentucky Transitional Assistance Program (K-TAP).

Kentucky's response to TANF is the Kentucky Transitional Assistance Program. The Cabinet for Health and Family Services administers K-TAP through its Department for Community Based Services (DCBS), Division of Family Support. The program provides temporary assistance to families with dependent children lacking the support of one or both parents. K-TAP provides financial payments, as well as training and services designed to help families become self-sufficient.

Eligibility and Cash Assistance

TANF assistance is limited to families with a minor child or a pregnant woman.

Federal rules mandate that TANF assistance may be given only to a family if it includes a minor child or a pregnant woman, but other exclusions also apply. For example, unwed mothers under 18 are ineligible unless they live in adult-sponsored arrangements, such as living with their parents, grandparents, or other adults. Noncitizens who entered the U.S. after the 1996 enactment of the Personal Responsibility and Work Opportunity Reconciliation Act are ineligible for five years (U.S. House). The Kentucky plan also specifies that those convicted of misrepresenting their state residency are ineligible for benefits for 10 years.

Income limitations also restrict who is eligible for K-TAP. To determine income eligibility, a potential client's earned and unearned income are combined to calculate gross monthly income. If the client's income exceeds the K-TAP limit for the relevant household size, he or she is not eligible for K-TAP. Meeting this

requirement does not guarantee cash assistance for a family though. Kentucky's TANF plan determines the eligibility for a cash payment by comparing the family's income to a standard of need (Commonwealth, "Temporary").

Cash-benefit levels are based on the standard of need, which takes into account average use of Medicaid and Food Stamps. Maximum monthly payments differ by family size and range from \$186 to \$482 per month.

The standard of need is calculated based on the maximum gross income, but includes a reduction in the income based on average use of the state's Medicaid system and the value of food stamps for a family of corresponding size. The family's income is subtracted from the standard of need to determine a deficit amount. The deficit amount is multiplied by 55 percent and the K-TAP cash payment is the lesser of that amount or the maximum K-TAP payment for the family size. Families with no income receive the grant maximum. K-TAP's gross monthly income limits, standards of need, and maximum monthly cash payments for different family sizes are shown in Table 1.1.

Table 1.1
K-TAP Monthly Income Limits, Standards of Need,
and Maximum Monthly Payments

Number of Eligible Persons	Gross Monthly Income Limit	Standard of Need	Maximum Monthly Payment
1 Person	\$742	\$401	\$186
2 Persons	\$851	\$460	\$225
3 Persons	\$974	\$526	\$262
4 Persons	\$1096	\$592	\$328
5 Persons	\$1218	\$658	\$383
6 Persons	\$1340	\$724	\$432
7 or more Persons	\$1462	\$790	\$482

Source: Commonwealth of Kentucky, Temporary Assistance for Needy Families Title IV-A State Plan, January 2004.

Some hypothetical examples may clarify who is eligible for which K-TAP benefits. First, assume that someone is in a household of three persons and the household's gross monthly income is \$1400. This person is ineligible for K-TAP because income is above the limit of \$974 for a three-person household. For the second example, assume that a child lives with her father, who is disabled and receives Supplemental Security Income. Disability payments do not count toward gross income so the child would qualify for assistance as a one-person household. The third example is a

mother who lives with her son in a two-person household with an adjusted monthly income of \$300.¹ Her income is below the \$460 standard of need, so she qualifies for cash assistance. Her monthly income would be subtracted from the standard of need, for a sum of \$160. Fifty-five percent of that would generate a monthly payment of \$88. She would also be eligible for other K-TAP benefits such as job training.

Families must also assign child support payments to the state. Payments up to the K-TAP benefit amount may be retained by the state to offset the cost of benefits. Families are required to cooperate with the Division of Child Support in establishing paternity. The division will take action to collect child support from absent parents. A family that does not cooperate with the division may have its K-TAP check reduced as a penalty.

The Kentucky Works Program

Adults receiving K-TAP benefits must take part in Kentucky Works Program activities designed to lead to jobs and self-sufficiency.

An adult receiving K-TAP benefits must take part in activities designed to result in a job, or to increase job skills and lead to self-sufficiency. These activities are included in the Kentucky Works Program. K-TAP participants must begin Kentucky Works activities within 24 months of entering K-TAP. Exceptions to the work requirement rule are granted in the following cases:

- Adults with a child under one year of age may be exempt for up to 12 months, but the 12-month exemption is a lifetime limit.
- Teen parents aged 18 or 19 are exempt while in high school.
- Victims of domestic violence are exempted from work requirements if participation would increase the risk of additional violence.

Adults required to participate in Kentucky Works activities undergo an assessment that is usually conducted during their application for K-TAP at the local DCBS office. The initial assessment reviews the family's needs relevant to achieving self-sufficiency through employment. If the assessment reveals the need for such services, recipients may also be placed in counseling programs for domestic violence, life skills training, substance abuse, or mental health.

Once the client has been approved for K-TAP, a more detailed assessment will be completed reviewing employment goals, work

¹ Gross monthly income may be reduced to account for a variety of factors such as child care and work expenses. Adjusted monthly income includes those deductions from gross earnings.

history, and any concerns or barriers to employment that the case manager identifies. The DCBS case manager and the client develop a self-sufficiency plan, which contains an employment goal and Kentucky Works activities needed to meet the goal. The plan also includes services to be provided by the agency and identifies other needs of the family.

Activities in which K-TAP recipients may be required to take part include

- a job,
- on-the-job training,
- work experience training,
- job search and readiness,
- vocational training or other education,
- community service,
- high school or a similar program for a teen parent who is 18 or 19 years old, and
- other activities necessary to prepare for a job (Commonwealth, “Facts”).

Recipients may attend postsecondary education for 24 months without participating in another work activity.

Recipients may also attend a postsecondary education institution for 24 months without participating in another work activity during that time period. After 24 months, the recipient may continue with his or her education but must also participate in other activities to meet the federal work requirement.

TANF recipients may be penalized if they refuse to participate in appropriate activities.

TANF recipients may be penalized if they refuse to participate in appropriate activities without good cause. Penalties are generally enforced by reducing the amount of assistance. After 24 months, if a recipient refuses to participate in activities, he or she may be disqualified if the person has accumulated 6 months of sanctions and still refuses to work. If the client reapplies for K-TAP later, he or she must have participated in an activity for two weeks before receiving the first assistance check.

Other K-TAP Services

The K-TAP program provides a number of services in addition to monthly cash payments.

K-TAP provides additional services such as affordable child care, transportation, and medical services designed to help families overcome barriers to self-sufficiency. Other services assist K-TAP clients in relocating to obtain jobs or escape from domestic violence. Another K-TAP service rewards clients for educational attainment. Table 1.2 provides an overview of K-TAP services. (Appendix A has more details. Further information on Kentucky Works may be found in Chapter 3.)

Table 1.2
Types of Financial Assistance

Benefit and Description	Recipients	Amount
<i>Cash Assistance</i>	K-TAP clients	Up to \$482/month
<i>Child care payments</i> to child care providers to allow adults to work or participate in Kentucky Works Program (KWP) activities	KWP participants, former K-TAP clients with jobs (up to 1 year)	Payments vary by age of child, region, and income of the client
<i>Transportation (monthly payments)</i> subsidies to clients based on amount of KWP participation	KWP participants	Up to \$60/month
<i>Transportation (auto repairs)</i> payments for repairs to make a vehicle functional or to pay other car expenses such as insurance	KWP participants	Up to \$500/year
<i>Medical Services</i> payments for services or devices needed to participate in KWP: corrective lenses, dentures, hearing aids, requirements for employment (e.g. physical exam)	KWP participants	No specific limit per payment, payments are from non-TANF funds, total funding is limited. Items are paid for only if not covered by Medicaid.
<i>Relocation Assistance</i> for relocation for employment or to escape domestic violence	K-TAP clients	Up to \$500 per move, limited to one move for employment, no limit for domestic violence
<i>Education Bonus</i> for receiving high school diploma, GED, or postsecondary certificate or degree	K-TAP clients	\$250
<i>Two-Month Earned Income Exclusion</i> of two months of wages from new employment from K-TAP income eligibility requirement	Former K-TAP clients	2 months of K-TAP cash assistance (up to \$964), limited to once in a lifetime
<i>Work Incentive Program</i> reimbursement for work-related expenses	Former K-TAP clients	\$130/month for up to 9 months, limited to once in a lifetime
<i>Safety Net</i> services for former clients no longer eligible for K-TAP benefits.	Former K-TAP clients	Up to \$635 over 4 months during a 12-month period
<i>Family Alternatives Diversion</i> for temporary assistance to stabilize families	Non-K-TAP, income-eligible clients with short-term needs	Up to \$1300, twice in a lifetime

Source: Commonwealth of Kentucky: DCBS Operations Manuals, TANF State Plan.

The Reauthorization of TANF

The reauthorization of TANF legislation is uncertain. The program's authorizing legislation expired in 2002; Congress has extended funding while different proposals are considered.

Officials with the Department for Community Based Services indicated that a key concern about the future of K-TAP is the uncertainty surrounding the reauthorization of the TANF program by Congress. Since TANF's authorizing legislation expired in September 2002, Congress has extended funding while different proposals are considered.

The U.S. House of Representatives and Senate are each considering measures to reauthorize TANF. Both would eliminate the separate participation rate for two-parent families. Both would increase the participation requirement for all families by 5 percentage points annually: from 55 percent in 2005 to 70 percent in 2008 and beyond (Center on Budget and Policy Priorities).

The Senate bill would also cap the caseload reduction credit, limiting it to no more than 40 percent in 2004, decreasing to no more than 20 percent in 2008. The House measure would keep the caseload reduction credit, but would change the base year used for its calculation to the fourth preceding fiscal year. Kentucky's K-TAP enrollment has changed little over the past four years, so such a change could drastically reduce Kentucky's caseload reduction credit and increase the adjusted participation rate.

Both bills would increase the number of hours required in an activity before that activity could be counted in the participation rate. The House version would increase the required hours of participation per week to 40. The Senate version would increase the hours required by four hours per week in most instances.

Should either the U.S. House or Senate measure pass in current form, Kentucky's required participation rates could be affected.

The Center for Law and Social Policy estimated that Kentucky would experience a shortfall in its participation rates by 2006 if the current House measure was enacted into law (Greenberg). Should either the House or Senate measure pass in its current form, Kentucky's caseload reduction credit could be impacted. Without the adjustment from the caseload reduction credit, it is unlikely that Kentucky will continue to meet its participation requirement. This could result in penalties that would require Kentucky to increase its amount of K-TAP funding.

Chapter 2

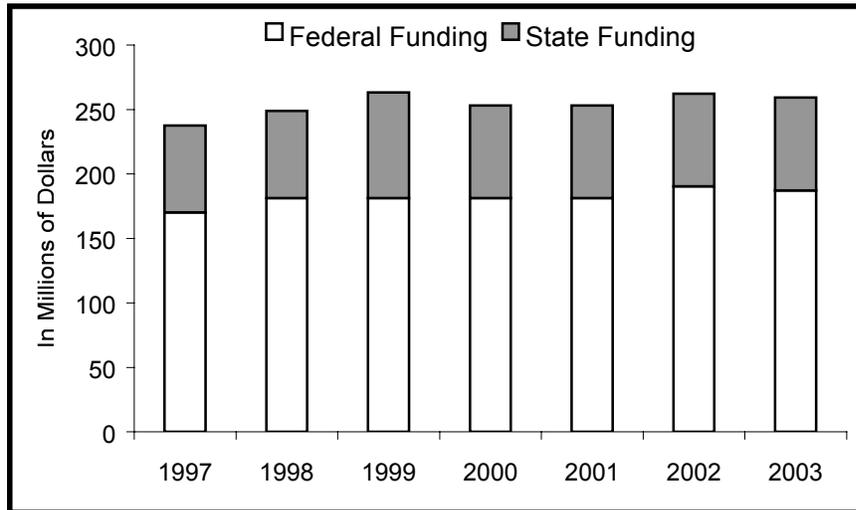
The Funding of K-TAP

As illustrated in Figure 2.A, the federal TANF block grant to Kentucky has increased modestly over time, rising from \$170 million in 1997 to \$187 million in 2003. The increase in recent years was primarily the result of bonuses awarded to the state. In FY 2002, for example, Kentucky received an \$8.5 million bonus for improvement in helping recipients find jobs and succeed in employment.

Since 2000, the state share of K-TAP funding has been \$71.9 million per year.

The state funds contributed to K-TAP increased during the early years of the program. Beginning in 2000, state funding stabilized at \$71.9 million per year.

Figure 2.A
Federal and State Funding of K-TAP, 1997 to 2003



Source: Compiled by Program Review staff based on information supplied by the Department for Community Based Services.

Allocations of K-TAP Spending Have Changed

K-TAP funding has been relatively stable, despite the reduction in caseload.

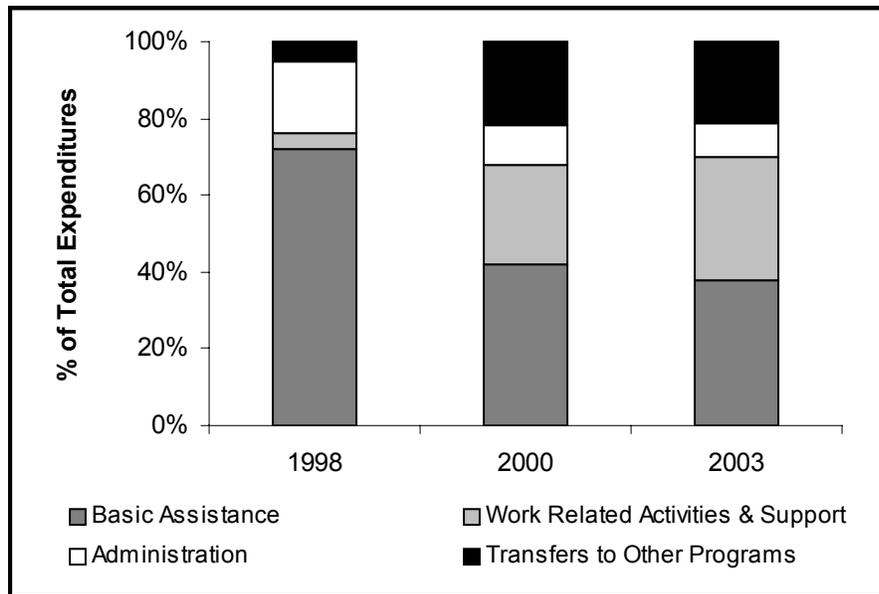
Kentucky's caseload has decreased significantly since 1996. The maximum monthly cash payments to eligible families have not changed. The average monthly payment has grown by less than 5 percent, increasing \$10 to \$228 per case from FY 1996 to

FY 2003. Given these conditions, a stable level of funding means that the proportion of expenditures devoted to K-TAP services other than cash assistance must have increased. Due to changes in K-TAP and in the state accounting system, obtaining comparable financial information over time to clarify this shift in expenditures was problematic.¹ Program Review staff extracted information from the statewide accounting system to review expenditures since FY 2000, but similar information was unavailable for earlier years. Information about years prior to 2000 was developed from reports generated by DCBS officials.

The proportion of funds spent on basic cash assistance has declined over time.

Figure 2.B depicts the percentages of K-TAP expenditures devoted to four broad areas in fiscal years 1998, 2000, and 2003: basic cash assistance, work-related activities and other support, administration, and transfer payments to the Social Services Block Grant and Child Care Development Fund.

Figure 2.B
Categories of K-TAP Spending for 1998, 2000, and 2003



Source: Compiled by Program Review staff based on information from DCBS budget staff and expenditure information compiled from the Management Reporting Database.

Over this time period, the percentages of expenditures devoted to cash assistance and administration have decreased significantly. For every dollar spent in 1998, about 90 cents went for cash

¹ The result is that the expenditure categories are not as specific as would be preferred.

assistance and administration. In 2003, that amount was less than 50 cents per dollar. Specifically, in 1998 more than 70 percent of spending went to cash assistance; 18 percent was for administration. In 2003, cash assistance declined to 38 percent; the share of spending devoted to administration was less than 10 percent.

Spending for the other two categories increased from less than 10 cents per dollar in 1998 to more than 50 cents per dollar in 2003. Work-related activities and support accounted for less than 5 percent of funding in 1998. The percentage increased to more than 30 percent in 2003. Spending for transfers to social services and child care grew from 5 percent to more than 20 percent over this time period.

According to DCBS officials, the proportion of clients that have more difficulty finding and keeping employment has increased. The increase in cases requiring more intensive support may account for the increased cost in work related activities.

The increased proportions of spending in work-related activities and other support services likely reflect changes that DCBS officials have described in the mix of K-TAP clients. The reductions in the number of clients in the early years of K-TAP were dramatic. DCBS officials have stated these early annual decreases were disproportionately composed of K-TAP clients who were the easiest to help make the transition to employment. These officials also stated that the proportion of clients that have more difficulty finding and keeping employment has since increased.

DCBS officials have stated that the current recipient population has a larger proportion of clients with multiple problems that must be resolved before they can become self-sufficient. For example, DCBS workers said current clients are more likely than before to need assistance with chemical dependency, basic job skills, child support, or transportation. The relative increase in cases requiring more intensive support could account for the increase in expenditures in work-related activities and other support services.

Up to 30 percent of TANF funds per year have been transferred to fund child care assistance programs and social service programs for adults and children.

Federal regulations allow transfers of up to 30 percent of a state's TANF funding to the Child Care and Development Fund and the Social Services Block Grant. No more than 10 percent may be allocated to the latter. Since 1998, the share of the TANF grant transferred to the Social Services Block Grant has ranged from 0 to 10 percent per year. The percentage allotted to the Child Care and Development Fund annually has been between 19 and 30 percent.

The Child Care and Development Fund goes to fund a variety of child care assistance programs. To be eligible, children must be under the age of 13—or 19 if physically or mentally incapable of

self-care—and reside with a family whose income does not exceed 85 percent of the state median income. Families who are discontinued from K-TAP due to employment are eligible for child care assistance for 12 months from the date they leave K-TAP as long as their income does not exceed 165 percent of the federal poverty level. Child care is also provided for families that receive protective services.

The Social Services Block Grant is a federal program to allocate money to the states to support social service programs for adults and children. The program's statutory goals include encouraging economic self-support and self-sufficiency; reducing inappropriate institutional care; and preventing or remedying neglect, abuse or exploitation of children and adults unable to protect themselves. The grants are determined by a statutory formula based on each state's population. States are responsible, within the limits of the law, for determining the use of their funds.

State Funding of K-TAP

Each state's required funding of the TANF program—its maintenance of effort—is based on the percentage of clients participating in work-related activities. As long as the actual participation rate is higher than the required rate, Kentucky is allowed to fund at the rate of 75 percent of the amount spent on related programs in 1994. In recent years, Kentucky's state funding of K-TAP has been 80 percent of the 1994 amount, a difference of approximately \$4.5 million per year.

Federal funding under TANF is provided to each state through a block grant. The state is required to contribute funding as well. The state's contribution is referred to as its "maintenance of effort" (MOE). The MOE amount is based on the amount of funding the state provided under AFDC and related programs in 1994. States are evaluated based on their participation rates: the percentages of TANF recipients working or participating in work-related activities for a specified number of hours per week. States that meet the minimum rate of work participation are required to spend 75 percent of the 1994 amount. States that do not meet the minimum participation rate must spend 80 percent.

For federal fiscal year 2004, Kentucky's basic TANF family assistance grant was \$181.3 million. Kentucky's MOE requirement was \$67.4 million if funded at 75 percent of the 1994 amount and \$71.9 million if funded at 80 percent—a difference of \$4.5 million.

Kentucky has met its minimum participation requirement in each year of the TANF program. Kentucky's participation requirement levels are so low that the state is virtually guaranteed of meeting them. DCBS, however, has continued to fund the state MOE at the higher amount.

Table 2.1 documents the amounts of state funds allocated to K-TAP over the past eight years and the 75 percent MOE amount required if the state met its participation rate. The difference in the two amounts indicates the amount of funds allocated to K-TAP above the amount required by federal law.

Table 2.1
Allocations Above Required Maintenance of Effort
(FY 1997 to FY 2003)

Fiscal Year	75 % Maintenance of Effort	State Funds Allocated	Amount Above 75% Requirement
1997	\$67,418,484	\$67,613,590	\$195,106
1998	\$67,418,484	\$67,613,590	\$195,106
1999	\$67,418,484	\$81,970,461	\$14,551,977
2000	\$67,418,484	\$71,913,050	\$4,494,566
2001	\$67,418,484	\$71,913,050	\$4,494,566
2002	\$67,418,484	\$71,913,100	\$4,494,616
2003	\$67,418,484	\$71,913,100	\$4,494,616

Source: ACF 196 Financial Reports submitted to the U.S. Department of Health and Human Services by DCBS.

In 1997 and 1998, K-TAP caseloads were still relatively high and the MOE funding level was little more than the minimum amount. Beginning in 1999, however, K-TAP enrollment declined significantly with federal funding staying about the same. The state increased its contribution to more than \$4 million per year above the levels when caseloads were highest.

States Must Meet Minimum TANF Participation Rates

One of the goals of TANF is to encourage clients to work. Clients are required to participate in work-related activities a minimum number of hours per week.

One of the primary goals of TANF is to reduce welfare dependence by encouraging clients to work. Thus, TANF requires adult recipients to participate for a minimum number of hours per week in activities designed to develop skills or to lead to jobs. States are evaluated on the participation rate of their TANF populations. Each state that fails to meet the designated participation rates may be required to spend more for its share of the TANF program.

The federal government identified nine activities that count towards a state’s participation rate.

The federal government identified nine priority activities that count toward a state’s participation rate (U.S. House 7-7). The priority activities include

- unsubsidized work,
- subsidized private or public sector employment,

- work experience,
- on-the-job training,
- job search and job readiness,
- community service,
- vocational educational training, and
- providing child care for a community service participant.

In order for the activity to be counted in the federal determination of participation rates, a minimum number of hours per week must be worked. Federal participation rates are established for two categories of TANF recipients: all families and two-parent families. The Kentucky TANF State Plan requires an adult in a single-parent household to participate 30 hours per week. If the single parent is the only caretaker for a child under six, the requirement is lowered to 20 hours per week.

Two-parent households must participate 55 hours per week if neither parent is incapacitated and the family is receiving federally subsidized child care. Two-parent families that do not receive federally funded child care or in which one of the parents is incapacitated are required to participate fewer hours. Single or married heads of households aged 18 or 19 are required to participate 20 hours per week if they are attending a secondary school or equivalent, or if they participate in education directly related to employment.

Federal participation rates are established for all families and for two-parent families.

The federal participation rate requirement has increased over time. Table 2.2 documents the participation rates for all families and two-parent families for federal fiscal years 1997 through 2003.

Table 2.2
Participation Rate by Federal Fiscal Year

Federal Fiscal Year	All Family Rate (%)	Two-Parent Family Rate (%)
1997	25	75
1998	30	75
1999	35	90
2000	40	90
2001	45	90
2002	50	90
2003	50	90

Source: U.S. Department of Health and Human Services, Administration for Children and Families.

Kentucky must meet a base participation rate of 50 percent for all families and 90 percent for two-parent families. These rates are adjusted, however, based on the overall decline in caseload. For each percentage point decline in the state’s caseload since FY 1995, the required participation rate is reduced a percentage point. For example, in FY 2001, Kentucky’s all-family enrollment was 39,903, a decrease of 47.1 percent from 1995. Subtracting the 47.1 percent enrollment decline from the participation rate required for all-families in FY 2002 resulted in an adjusted rate of 2.9 percent.

Kentucky’s actual participation rates have been significantly higher than the required rates each year.

Kentucky’s adjusted participation rate requirement and the actual participation rate Kentucky achieved for federal fiscal years 1998 to 2002 are documented in Table 2.3. So long as the state’s actual rate is higher than the adjusted requirement, Kentucky is allowed to fund at the 75 percent MOE level. As can be seen in the table, Kentucky’s actual rates have always been significantly higher than required. The actual all-family and two-parent rates have each averaged being more than 28 percentage points higher than required. The smallest margin—for the 1998 two-parent rate—was still more than 14 percentage points higher than required.

Table 2.3
Kentucky’s Required and Actual Participation Rates
(FY 1998 to FY 2002)

Federal Fiscal Year	Adjusted All-Family Requirement	Actual All-Family Rate	Adjusted Two-Parent Family Requirement	Actual Two-Parent Family Rate
1998	16.3%	39.3%	37.5%	52.0%
1999	5.8%	38.1%	17.6%	46.6%
2000	0.0%	25.6%	10.1%	35.8%
2001	0.0%	34.0%	9.4%	48.4%
2002	2.9%	32.4%	8.0%	43.7%

Source: U.S. Department of Health and Human Services, Administration for Children and Families.

Reducing the amount of state funding from the 80 percent level to 75 percent would not necessarily cause a reduction in benefits.

Reducing the amount of state funding provided to the K-TAP program by funding at the 75 percent MOE would not necessarily reduce benefits. According to officials with the Administration for Children and Families, the federal agency overseeing TANF, Kentucky has \$8.4 million in unobligated funds remaining in the 2003 block grant. The extra \$4.5 million the state is paying this year to fund at the 80 percent rate could be shifted to the federal funds without reducing Kentucky’s overall expenditure level.

Administration for Children and Families officials indicated that Kentucky has obligated less than 25 percent of the 2004 block grant during the first quarter of federal fiscal year 2004. Therefore, it is feasible that federal funds will be available to continue funding at the 75 percent MOE level without reducing the level of benefits in future years.

It should be noted that Program Review staff are not advocating that DCBS change Kentucky's maintenance of effort from 80 to 75 percent. There is nothing inherently wrong with providing more state funding than required for K-TAP services. That is a policy decision to be made by the General Assembly and the governor. Staff do recommend that the relevant information for making that decision be made available to members of the General Assembly in a clear and timely fashion.

Recommendation 2.1

DCBS officials should review the feasibility of funding K-TAP at the 75 percent maintenance of effort level instead of at 80 percent. DCBS should provide the General Assembly with information about

- **the likelihood that the requirements for participation levels for the 75 percent funding effort will be met;**
- **the actual state expenditures for the 75 and 80 percent spending levels, and**
- **the potential consequences for K-TAP clients of the two funding levels.**

States often spend money on other program areas that could be included in the calculation of the state's maintenance of effort.

Funds are dedicated in the budget process specifically to K-TAP to meet the state's MOE. However, funds that are considered to be part of the state's MOE do not have to be dedicated solely to K-TAP. According to a policy expert with the National Conference for State Legislators, states often spend money on program areas in other parts of the budget that serve the four broad goals of the TANF program:

- Providing assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- Ending the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- Preventing and reducing the incidence of out-of-wedlock pregnancies; and
- Encouraging the formation and maintenance of two-parent families.

Funds already being spent in the state budget for TANF goals could be included in the calculation of the state's maintenance of effort.

Funds being spent in other parts of the state budget for these goals, even if not provided through K-TAP, may be included in the calculation of the amount the state spends for its maintenance of effort. According to the *Green Book* from the U.S. House of Representatives' Ways and Means Committee:

Countable toward the MOE requirement are expenditures on cash assistance, child care, education activities specifically for TANF recipients and not the general population, administrative costs, *and any other spending on activities that further the goals of TANF* [emphasis added]. These expenditures can be made under the state's TANF program or a separate state program (7-18).

The *Green Book* specifies that only expenditures above the 1995 level would be countable toward the MOE and that the state expenditures cannot be made as a condition of receiving funds from any federal program. Under TANF's rules, state spending for child care is countable toward the MOE so long as the funds are not used as the state match for the Child Care Development Fund.

There are a number of examples of spending that might be included in the calculation of the state's MOE. Examples provided to Program Review staff by policy specialists include any increases in the state's need-based scholarship programs since 1995 and funding devoted to after-school programs for low-income children.

Including funds already budgeted could reduce the amount of new money the state is required to contribute.

A thorough assessment of social service spending by the state should be undertaken to identify spending on activities that further the goals of TANF. Any funds already budgeted that could be included in the calculation of the total MOE amount required by TANF could reduce the amount of new money the state is required to contribute to K-TAP. As with information on the option of spending at 75 or 80 percent maintenance of effort, accurate data on existing state spending on other activities that could count toward the state share of TANF are critical for informed decision making by the General Assembly.

Recommendation 2.2

Officials with DCBS and other appropriate executive branch officials should undertake a thorough review of state spending outside K-TAP that furthers the goals of TANF. Information about existing spending that could be counted toward the state's maintenance of effort for TANF should be provided to the General Assembly.

It is possible to amend the spending from prior fiscal years.

In addition to current and future funding, officials with both the Administration for Children and Families and the National Conference for State Legislators have indicated that it is possible to amend spending from prior fiscal years. If a state had funded at an MOE amount that was higher than necessary, and if the state had unobligated federal funds available, prior year state spending could be offset by drawing against the unobligated federal funds from prior or current fiscal years.

Other states have taken advantage of this feature of TANF to recoup spending from prior years. Mississippi was identified as a state that has taken advantage of this option. DCBS officials may wish to contact their counterparts there to review the process Mississippi followed in recouping excess expenditures for prior year MOEs. Finance officials with the Administration for Children and Families in Atlanta should also be consulted.

Recommendation 2.3

Officials with the Cabinet for Health and Family Services should discuss the possibility of accessing unobligated federal funds to offset the cost of spending at the 80 percent maintenance of effort during previous fiscal years. To the extent federal funds are available as an offset, officials should review all prior years' spending to minimize the use of state funds for K-TAP.

Field Investigations Are Limited

DCBS staff do not have the resources or training to do field investigations.

Program Review staff also asked about the controls officials have in place to prevent the improper expenditure of funds. Some DCBS case managers indicated that staff do not have the resources or training to do the field investigations necessary to observe and verify information such as unreported household members or income.

DCBS staff verify income through electronic databases, pay stubs, or letters from employers.

DCBS staff verify income through electronic databases, pay stubs, or letters from employers. Household composition is often verified through letters from neighbors or landlords. DCBS staff indicated that they do not have the training or time to go outside the office to verify information, even when they have a strong belief that a client has presented inaccurate information.

When K-TAP case information is not made in a timely manner, payments may be made inappropriately.

Changing circumstances can also affect the benefits that clients should receive. For example, changes in the family’s income or the absence of a child from home for more than 30 days without good cause can change what the family’s K-TAP payment should be. When this information is not provided in a timely manner, payments may be made inappropriately.

Overpayments are recouped by reducing future payments.

The claims collections process pursues only overpayments made due to client errors, not overpayments made due to agency errors. Overpayments are recouped by reducing future payments, but deductions are limited to no more than 10 percent of the monthly payment to the recipient. Table 2.4 documents the amounts collected for K-TAP and K-TAP-related claims since 1996.

Table 2.4
Annual Collections of
K-TAP Overpayments
(1996 to 2003)

Calendar Year	Amount Collected
1996	\$1,625,682
1997	\$1,417,963
1998	\$1,089,087
1999	\$980,706
2000	\$1,185,510
2001	\$963,058
2002	\$888,541
2003	\$581,679
Total	\$8,732,226

Source: Department for Community Based Services, Cabinet for Health and Family Services.

DCBS officials stated that in cases in which fraud is suspected, a referral may be made to the Office of Inspector General if the overpayment is thought to be from \$3,000 to \$5,000. When the suspected amount is more than \$5,000, agency officials stated they would refer the case to the Kentucky Attorney General.

An Investigative Program Is Discontinued

The Cooperative Review of Eligibility (CORE) investigative program, housed in the Cabinet for Health and Family Services’ Office of the Inspector General, was discontinued in 2002. Its function was to perform field investigations to intervene and prevent people from fraudulently obtaining benefits in the K-TAP, Food Stamp, and Medicaid programs.

1996 Program Review report recommended expanding investigative programs. Cooperative Review of Eligibility (CORE) was thought to be a cost-saving program.

CORE began in 1986 as a pilot project with one part-time investigator in Fayette County. By 1996, it had expanded to include three investigators in 10 counties. A Program Review report issued that year on the Department for Social Insurance recommended expanding investigative programs like CORE (Commonwealth, "Department"). The report noted that caseworkers interviewed had generally indicated satisfaction with the CORE program. Caseworkers in areas not served by CORE said they felt such a program could be useful.

An April 2004 letter to Program Review staff from the Inspector General of the Cabinet for Health and Family Services indicated that CORE resulted in cost savings. The Inspector General noted that investigators completed more than 3,400 investigations between FY 1997 and FY 2003. He estimated that these investigations identified \$6.6 million in payments inappropriately distributed to individuals.

CORE investigations served to prevent the issuance of fraudulent benefits. The cabinet may wish to revisit the decision to discontinue the program.

The Inspector General noted that investigations under the CORE program were generally completed within 15 calendar days. This allowed findings to be issued prior to the payment of benefits to those who might be ineligible. Thus, CORE investigations served to prevent the issuance of fraudulent benefits.

Depending on the results of a cost-benefit analysis, the Cabinet for Health and Family Services should consider reviving CORE or instituting a similar program. Even if such a program is revenue neutral, it could serve to deter some individuals who might otherwise attempt to take advantage of K-TAP by presenting false or inaccurate information.

Recommendation 2.4

The Cabinet for Health and Family Services should review the feasibility of forming a field-based investigation unit such as the Cooperative Review of Eligibility program. The review should include a cost-benefit analysis. The results of the analysis and any actions taken to expand the capability of the Office of Inspector General to conduct field investigations should be reported to the Program Review and Investigations Committee prior to the 2005 session of the General Assembly.

Quality Control Should Be Strengthened

KTAP recipients are required to participate in the Kentucky Works Program unless they meet exemption criteria.

One of K-TAP's requirements is that eligible clients participate in the Kentucky Works Program, designed to help recipients reach self-sufficiency through work experience and educational training. Any adult aged 18 or older who receives K-TAP benefits must participate in Kentucky Works within 24 months of enrolling in K-TAP unless he or she is exempt. To ensure that this requirement is being met, the Office of the Ombudsman of the Division of Program Integrity's Quality Control Branch audits the participation status of clients required to be enrolled in Kentucky Works. The Quality Control Branch receives a random sample of cases for review each month from the Commonwealth Office of Technology. These monthly samples total approximately 1,000 Kentucky Works cases each year. Of these 1,000 cases, approximately 25 percent are child-only cases and are excluded from the audit.

Quality Control staff indicated that the AFDC program had required a sample size of about 1,000. TANF has no specific requirements for sample size, so the 1,000-person sample was continued. It should be noted that because child-only cases are removed after the sampling of cases was made, a full 1,000-person sample is not audited. Quality Control staff explained that they have requested that child-only cases be removed before the sample was drawn but were told by staff at the Commonwealth Office of Technology that this could not be done.

Quality Control analysts review selected cases for deficiencies in required Kentucky Works participation. The statewide deficiency rate for 2003 was 14.35 percent. Most deficiencies were due to lack of cooperation by clients.

Once a sample of Kentucky Works cases is received, Quality Control analysts throughout the state review each case file and interview the K-TAP client to ensure that all requirements are met. If a deficiency is detected, it is documented by the analyst and forwarded to the state and local DCBS offices.

The results of each month's audits are summarized in an annual report. According to the audit for the year ending September 30, 2003, 885 Kentucky Works cases were reviewed by the Quality Control Branch to see if recipients were in compliance with participation requirements. The statewide deficiency rate for this annual reporting period was 14.35 percent, with more than two-thirds of deficiencies due to clients' lack of cooperation because they were not working, in school, or participating in Kentucky Works.

Quality Control's methodology does not allow for meaningful comparisons of regional deficiency rates.

The purpose of the annual report is to present to officials of individual agencies and the cabinet's service regions the summary of findings on the reviewed cases. The report, therefore, provides a breakdown of deficiencies by region. An audit of approximately 750 randomly selected Kentucky Works cases provides a sufficient sample size to make inferences that apply to the entire state. In fact, a sample of about half the size would be acceptable.²

The number of cases reviewed in each region does not provide a representative sample that can be used for meaningful regional comparisons. As an example, for the Bluegrass (Fayette) Region, the most recent Quality Control Report shows that its deficiency rate was 27 percent. Given the sample size used, the deficiency rate could be as low as 13 percent or as high as 41 percent, assuming a 95 percent confidence interval. In other words, the region's deficiency rate could have been 50 percent above or below the state figure. If regional comparisons are to be done, the Quality Control Branch needs to review a random sample of sufficient size from each region for which comparisons are to be made.

Table 2.5 provides an estimate of the number of Kentucky Works cases that would need to be audited in each service region to provide meaningful comparisons of deficiency rates.³ Accurate regional deficiency rates are important because they would allow DCBS staff to identify potential problem areas of the state. Obtaining sufficient regional data significantly increases the total number of cases to be audited significantly. If it is not feasible to sample the increased number of cases each year, regional audits could be done on a rotating basis so that not every region would be audited every year. Some resources could be freed up by reducing the size of the statewide sample. If regional comparisons are to be made—and such comparisons do seem to provide valuable

² Assuming a 95 percent confidence interval, an acceptable margin of error of plus or minus 5 percentage points, and a true deficiency rate of 40 percent, 361 cases statewide would suffice.

³ The numbers in this column are the suggested sample sizes after child-only cases have been excluded. In calculating these sample sizes, Program Review staff assumed a 95 percent confidence interval and an acceptable margin of error of plus or minus 5 percentage points. This means that if the results of a regional sample indicated a deficiency rate of 15 percent, we could be 95 percent certain that the true rate was between 10 and 20 percent. Increasing the confidence interval or decreasing the acceptable error would result in the need for larger samples. Decreasing the confidence interval or increasing the acceptable error would allow for smaller samples. To calculate sample sizes, it was also necessary to make an assumption about what the true deficiency rate was. Program Review staff assumed a 40 percent deficiency rate.

information—there is no alternative to having regional samples of sufficient size so that such comparisons are valid.

Table 2.5
Suggested Sample Sizes
for Regional Comparisons of
Kentucky Works Deficiency Rates

CHFS Service Region	Sample Size*
Lake Cumberland	273
Barren River	267
Bluegrass (Rural)	286
Purchase	231
Gateway/Buff	234
Cumberland Valley	313
Northern Kentucky	267
FIVCO	235
Kentucky River	288
Lincoln Trail	239
KIPDA (Rural)	167
Pennyrile	235
Green River	243
Bluegrass (Fayette)	231
Big Sandy	287
KIPDA (Jefferson)	324

*Assuming a 95 percent confidence interval, a plus or minus 5 percentage point margin of error, and a true deficiency rate of 40 percent.

Recommendation 2.5

The Quality Control Branch of the Cabinet for Health and Family Services should audit a representative sample of cases for each of the cabinet’s 16 service regions so that valid comparisons of regional deficiency rates can be made. If necessary, the regional audits should be placed on a rotating schedule so that each region is audited at least once every four years.

Chapter 3

Creating Self-sufficiency: An Assessment

The primary objective of TANF is creating self-sufficiency for needy families.

The primary objective of TANF is to help needy families become self-sufficient. The program provides cash and support services but requires clients to work toward financial independence. Clients are expected to acquire

- skills or education necessary to get and hold a job,
- job experience, and
- treatment or protection from abuse if needed to get and hold a job.

K-TAP provides long-term assistance to two types of clients: adults with children in need; and “child-only” cases such as orphans, foster and kinship care children, and children whose parents are disabled or exempt from work requirements. Because this chapter addresses self-sufficiency programs, it is limited to analysis of adult cases.

Specifically, this chapter analyzes and assesses how K-TAP has helped clients move toward self-sufficiency. The main topics are

- the implications of caseload reduction for the provision of K-TAP services,
- programs that encourage work or help prepare clients for work, and
- support services that make it easier for clients to get and hold jobs.

Caseload Reduction and the Provision of Services

A relatively large share of the decline in the K-TAP caseload occurred during the first years of the program. DCBS officials indicated that they believed the clients who left earlier were more likely to have marketable job skills and thus were easier to place. DCBS officials also stated that the remaining pool of K-TAP recipients contains a larger percentage of clients who have fewer job skills and who have more difficulty in finding and keeping employment. Such a difference in clientele matters because the effectiveness of K-TAP in fostering self-sufficiency depends on matching services and clients appropriately.

One way to verify if clients who left K-TAP in earlier years were different from those who left later is to compare their employment situations. To do this, Program Review staff analyzed wage data from the Kentucky Department for Employment Services (DES) unemployment insurance database. The data consist of the wages reported quarterly by employers for every worker subject to unemployment insurance from October 1998 to December 2003. Unemployment insurance returns do not include income from the self-employed or from those who have moved to or work in another state. The wage data should contain most of the income earned by those who have left K-TAP, however.

According to DCBS staff, those who left K-TAP earlier were easier to place in jobs. Analysis by Program Review staff confirmed that those who left K-TAP before mid-1999 worked more and earned more than those who left later.

For comparison, recipients were divided into those who left K-TAP before July 1999 and those who left from July 1999 to December 2002.¹ Table 3.1 summarizes the employment information for the two groups after leaving K-TAP.² The two groups are similar in terms of quantity of employment. For each group, the average person was employed in 41 percent of the quarters and held just over one job when working during a quarter.³

Table 3.1
A Comparison of Employment Outcomes
for Former K-TAP Clients

Group	Quarters Employed	Avg. # of Jobs Held When Working	Actual Annual Income	Annualized Wages When Working
Left prior to July 1999	41%	1.18	\$5,690	\$11,567
Left July 1999 to Dec. 2002	41%	1.19	\$4,844	\$9,835

Source: Program Review staff analysis based on data from the Department for Community Based Services and the Department for Employment Services.

The average incomes of members of the two groups did differ. In the table, Actual Annual Income is the average annual income, including periods when the person was not working. Annualized

¹ Wage data covered the period from October 1998 to December 2003, so wage information was missing for the first few quarters for some members of the first group. The second group was selected so that its members would have at least four quarters of wage information after leaving K-TAP.

² This includes only quarters for which DES provided wage data.

³ Some persons were employed by more than one employer in a quarter.

Wages When Working is a measure of income as if the person worked a full year, based on his or her average wages when actually employed. By either measure, those who left K-TAP July 1999 or earlier earned about 17.5 percent more per year on average than those who left later.

The difference in earnings between the two groups tends to support the idea that those who left K-TAP earlier were more capable or better prepared than those who left later. In 2004, the federal poverty level for a family of two was \$12,490. Looking at the annual wages, it is clear that neither group lifted itself out of poverty. Most of these families probably continued to receive food stamps, Medicaid, and other noncash support.

Program Review staff also compared those who left K-TAP prior to July 1999 to active K-TAP clients as of February 2004. No follow-up wage information exists but demographic differences can be analyzed. The results suggest a number of differences between those who left the program earlier and current clients. Current recipients are more likely to be unmarried, living in an urban area (Jefferson County or Fayette County), and younger. They are also much more likely to have been on K-TAP before.

Studies in other states indicate that remaining TANF clients are likely to have significant barriers to employment.

Studies in other states have reported that remaining TANF clients are likely to have significant barriers to employment, “including: basic skills deficiencies, mental and physical health problems, learning disabilities, and similar disadvantages” (Manpower, “Testimony”). If the remaining K-TAP recipients do have more barriers to self-sufficiency than those who left earlier, programs that were previously successful may not be as effective now.

The Kentucky Works Program

The Kentucky Works Program (KWP) includes several components intended to prepare clients for self-sufficiency.

Under TANF, states are allowed to develop a variety of services that enable clients to work or to prepare for work. The Kentucky Works Program (KWP) includes distinct components to meet various needs of clients. Several of these components are provided in cooperation with the Cabinet for Workforce Development. Table 3.2 summarizes the hours clients spent in each category of activity for the month of December 2003. A single category can include several activities, and recipients can engage in more than one activity during their KWP tenure. As shown in the table, employment and vocational training accounted for about 75 percent of the time spent in Kentucky Works activities. A brief summary of each category of service is provided below.

Table 3.2
Work-related Hours Spent in Kentucky Works Activities
(December 2003)

Category	Hours	Percent of All Hours
Employment	474,139	43.3
Vocational Training	354,281	32.3
Community Service	95,009	8.7
Job Search and Readiness	58,117	5.3
Work Experience	40,780	3.7
Education Without High School Diploma	34,164	3.1
Job Skills Education	22,927	2.1
Other Work Preparation Activities	16,515	1.5

Source: Program Review staff analysis based on data from the Department for Community Based Services and the Department for Employment Services.

Because TANF is a “work-first” program, *Employment* is the cornerstone of K-TAP. This category consists of workers in regular jobs and in jobs with subsidized wages. In December 2003, 43 percent of all Kentucky Works Program hours were in the Employment category. On average, clients who were working put in about 25 hours per week. Those who worked enough hours at a high enough wage made the transition from K-TAP as soon as their income exceeded the benefit limits. Many clients did not earn enough to discontinue K-TAP.

Most education beyond high school is considered *Vocational Training*. Kentucky Works includes five components, depending on the type of education or training. The first 12 months is countable toward the federal participation rate and falls into this category. In Kentucky, a client may continue education after high school for an additional 12 months, but this does not count toward the federal participation rate. The additional training is considered *Job Skills Education*.

Community Service is defined as “any voluntary activity in the community” (Commonwealth, “DCBS Volume IIIA” §4230). Examples include volunteering for charitable or nonprofit community organizations and caring for an ill or incapacitated person who does not live with the client. There is a lifetime limit of 12 months of community service participation.

Job Search and Job Readiness training helps the client learn “general work place expectations, ... appropriate work behavior, attitudes, life skills, and personal hygiene, etc.” (Commonwealth,

“DCBS Volume IIIA §4220). DES also runs a structured job search program with instruction and actual job interviews. Time spent looking for a job or preparing for the job search is countable toward Kentucky’s participation rate for up to six weeks in a fiscal year.

Work Experience is designed to give certain clients experience in a work environment if they have been unable to find a job. These placements are unpaid positions in nonprofit agencies. Clients who meet the Work Experience profile are required to participate.

Eligible clients may participate in *Education Related to Employment Without a High School Diploma*. Included in this category are GED preparation, adult basic education, literacy programs, and English as a second language.

When a client is engaged in education after high school that will lead to self-sufficiency, Kentucky allows 24 months of training. After the first 12 months, TANF considers the additional months *Job Skills Education*, which does not count toward the federal participation rate. Clients may continue beyond 24 months if they also have at least 20 hours per week of a countable activity—such as a part-time job.

Recognizing that some clients must overcome barriers to work, the Kentucky Works Program provides services to clients with special needs. These *Other Work Preparation Activities* include substance abuse treatment, mental health treatment, and domestic violence counseling. These services are beyond the requirements of the TANF statute, but the federal government has noted that “States may want to demonstrate their additional efforts at helping individuals become self-sufficient even though these activities are not [countable]” (Federal Register 17909).

Evaluation of Kentucky Works Activities

Program Review staff analyzed the benefits of each category of KWP activity.

Especially given the change in K-TAP’s clientele over time, a review is warranted of the effectiveness of the different Kentucky Works programs in helping recipients make the transition to self-sufficiency. DCBS conducts quality control audits, but it does not have an ongoing process to examine what happens to clients after they leave K-TAP or whether clients are transitioning into true self-sufficiency.

In order to evaluate the effectiveness of the different Kentucky Works Program activities, Program Review staff combined K-TAP

administrative data with wage data from DES. The information about wages earned after K-TAP was compared to different categories of Kentucky Works activity. Program Review staff examined the information to determine the relative frequency of employment of clients after leaving K-TAP and their wages earned over time.

By looking at how well the participants in each category did after their Kentucky Works Program activities were completed, it was possible to compare the value of the different activities. Some differences in the outcomes of activities will be attributable to differences in the types of individuals placed in each activity. For example, those placed in a program to work toward their GEDs could differ markedly from clients with high school diplomas who are placed in a postsecondary vocational program. Still, the intent of these activities is to help clients become self-sufficient. Thus, Program Review staff assessed the degree to which these activities helped clients get and retain jobs, as well as the extent to which these jobs helped clients achieve self-sufficient wages.

Table 3.3 compares the outcomes of recipients involved in different Kentucky Works activities. K-TAP recipients who left the program without engaging in any work-related training program are also included as a baseline. The table shows, for each activity, the percentage of participants who were included in DES wage information following their departure from K-TAP, those who were employed for four consecutive quarters after leaving K-TAP, and the average annual wages for those individuals who were employed for four consecutive quarters. Presumably, most of those not appearing in the DES data did not have jobs. A person would also not appear in the data if he or she was employed in another state, was self-employed, was incarcerated, or was deceased.

Job Skills Education was the most effective activity in terms of employment and earnings. Education Without a High School Diploma and Community Service were relatively ineffective.

Job Skills Education produced the best results, with four of five participants becoming employed and more than 30 percent of its participants remaining employed for four consecutive quarters. Those undergoing Job Skills Education also had the highest wages of those employed for four quarters—about \$3,500 more than any other activity.

Among the activities generating the weakest results were Education Without a High School Diploma and Community Service. The age and schooling of those engaged in the education activity may account for these results in part. Clients in that category have the lowest average number of years of education on entering K-TAP (9.2 years on average) and are the youngest (23.8

years old). More complete demographic information about Kentucky Works participants may be found in Appendix B.

Table 3.3
Comparison of Employment Outcomes for Kentucky Works Activities

Kentucky Works Activity	Percent Included in DES Data	Percent Employed Four Quarters	Annual Wages for Those Employed Four Quarters
Employment	73.9	24.0	\$11,380
Vocational Training	70.2	21.3	\$13,063
Community Service	53.4	17.2	\$11,448
Job Search and Readiness	69.1	22.1	\$11,890
Work Experience	63.6	20.9	\$10,288
Education Without High School Diploma	65.9	18.5	\$9,156
Job Skills Education	79.8	30.2	\$16,646
Other Work Preparation Activities	51.6	13.8	\$11,392
No Activity	56.7	13.3	\$12,206

Source: Program Review staff analysis based on data from the Department for Community Based Services and the Department for Employment Services.

Those participating in Community Service are generally older than clients in most other activities, with an average age of 29.4 years on entering K-TAP. They were also relatively less educated, averaging 10.1 years of schooling.

Program Review staff also assessed KWP activities by reviewing whether increased hours of participation in each program resulted in increased earnings.

Program Review staff also assessed the various activities within Kentucky Works by reviewing whether increased hours of participation in each program resulted in increased earnings once recipients made the transition from K-TAP. Table 3.4 shows the results for each activity.¹ A positive effect means that the more hours someone spent in an activity, the higher the wages that person earned later. A negative effect means that more hours in an activity resulted in lower wages. For some activities, there was no statistically significant relationship between hours and wages. A detailed explanation of the analysis is contained in Appendix B.

¹ The results are from a regression analysis using hours per week or total hours in an activity to predict wages.

Table 3.4
Effect of Hours Spent in Kentucky Works Activities
on Clients' Earnings After Leaving K-TAP
(October 1999 to December 2002)

Category	Number of Participants	Effect on Earnings
Employment	17,139	No Effect
Vocational Training	6,940	Positive
Community Service	4,015	Negative
Job Search and Readiness	3,727	Positive
Work Experience	2,646	No Effect
Education Without High School Diploma	1,181	No Effect
Aged 21 or older		No Effect
Aged 16 to 20		Positive
Job Skills Education	605	Positive
Other Activities	1,257	Positive

Source: Program Review staff analysis based on data from the Department for Community Based Services and the Department for Employment Services.

The amount of time employed while on K-TAP had no significant effect on wages earned later.

The amount of time spent in the Employment activity had no significant effect on wages earned later, probably because clients who find good jobs leave K-TAP and become self-sufficient. Clients who worked longer while on K-TAP earned slightly less afterwards, probably because they had more difficulty finding or holding jobs. The employment rate for those who worked while on K-TAP was the second highest among the Kentucky Works Program categories, however.

Work experience outcomes were mixed and further assessment is needed.

Work Experience placements are created for clients who have not been able to obtain regular work. Some clients did well later, but the average client earned less in wages the more hours spent in such placements. The success of clients in this activity, however, varied so much that there was no clear trend. This suggests that clients should be screened more carefully before placing them in Work Experience. It is also possible that the quality of placements varies significantly. DCBS should investigate and take corrective action.

Job Search and Readiness provided the greatest return on time invested.

Job Search and Readiness encompasses short-term activities designed to help a client enter the job market. This category showed the greatest benefit of any activity. DCBS assigns clients to a component based on their backgrounds and abilities, which indicates that case workers have done a good job in picking the clients who will benefit from Job Search and Readiness. DCBS

should explore whether more clients would benefit from this relatively effective activity.

Community Service activities were associated with lower earnings later.

Community Service is the second most used Kentucky Works component, not counting regular employment. It is also the most questionable. Clients who participated in this activity spent more months in the activity and had more months in K-TAP than other clients. Most clients who engaged in Community Service earned less in wages the more hours they spent in the activity. This was true overall and on a weekly basis.

This may be due to the poor quality of some placements. Some DCBS workers stated that Community Service activities often did not prepare the client for work. It is feasible that some clients would benefit more than others from these activities. DCBS should investigate this further.

Vocational Training and Job Skills Education resulted in higher wages.

Vocational Training is a long-term activity. It had a strong positive benefit overall. As with most training, increased hours of participation in Vocational Training reached a threshold, after which data showed diminishing returns; therefore, adding more hours per week did not necessarily lead to better results.

As a supplement to Vocational Training, Job Skills Education can lead to professional certification or a college degree. The number of hours spent per week was not as important as the total number of hours in training. This was the most effective Kentucky Works activity in terms of later earnings, leading to a 47 percent higher income than the next highest category.

Because work-related higher education clearly leads to increased income and financial security, DCBS should consider whether it is feasible to include more clients in this category.

Benefits of remedial education varied depending on the age of the client. Younger clients had higher earnings later; older clients did not.

For Education Without a High School Diploma, there was no clear benefit to adding more hours per week. The overall benefit to clients varied so much that there was no clear trend.

Age matters. Those aged 16 to 20 without a diploma benefited from education. The longer they stayed in the activity, the more they earned later. This was the second most effective Kentucky Works activity.

The results for those 21 and older without a diploma varied so much that no trend was discernible. Some adults did better after education and some did worse. Program Review staff did not find

any other factors that explained this. The results of this analysis are supported by a Manpower Demonstration Research Corporation study that shows poor or mixed results for remedial education among TANF clients (Manpower, “Improving”). The study did find that getting a GED was beneficial. Most adults in Kentucky Works, however, did not obtain a GED. DCBS should further investigate the performance of older clients without a high school diploma.

Clients needing treatment services tended to have the lowest earnings.

The Other Activities category contains a number of different components: mostly counseling or treatment that would enable the client to work. Participants in this category had the lowest annual income of any, which probably reflects their barriers to self-sufficiency.

The outcomes were mixed. The longer a client was involved, the less the client earned later. But spending more hours each week led to increased earnings later. It may be that clients who participate in treatment actively and complete it in a timely manner are more successful in work. Those who are less active in treatment or who fail to complete it on schedule are probably less successful in work. DCBS should monitor the progress of clients who have these barriers and should work to find the most effective services for them.

The overall effectiveness of Kentucky Works components was positive.

The overall effectiveness of Kentucky Works components intended to prepare clients for regular work was positive. As summarized above, some activities appear to be more helpful than others. Activities that helped clients search and prepare for jobs that helped improve job skills, and that provided vocational training yielded higher wages the more the clients participated. Results were mixed for providing unpaid work experience, for providing education to those without a high school diploma, and for counseling and treatment to enable clients to work. Based on the results of this analysis, Community Service stands out as being particularly unhelpful to many clients.

DCBS Should Evaluate the Effectiveness of Kentucky Works Activities. Clients are not assigned to activities at random. A screening process is completed to match each client to appropriate activities based on employment goals and background. This means the analyses presented in this chapter can only indicate which activities produced positive, mixed, or negative results. Without knowing the specific criteria used to assign clients, it is impossible to know the degree to which an activity’s relative success or failure

is due to the characteristics of the program or to the types of clients taking part in it.

The true effectiveness of any Kentucky Works activity can only be determined if it is measured against the appropriate baseline. The appropriate baseline has to take the characteristics and goals of participating clients into account. This report recommends that DCBS initiate efforts to do so through evaluations of Kentucky Works Program activities.

Recommendation 3.1

DCBS should establish a process to evaluate the success of each Kentucky Works Program component, focusing on the benefit to clients after they leave K-TAP. As an intermediate step, DCBS should study the screening process for clients and the quality of placements for activities this report found to produce poor or mixed benefits for clients. DCBS should implement changes to improve results.

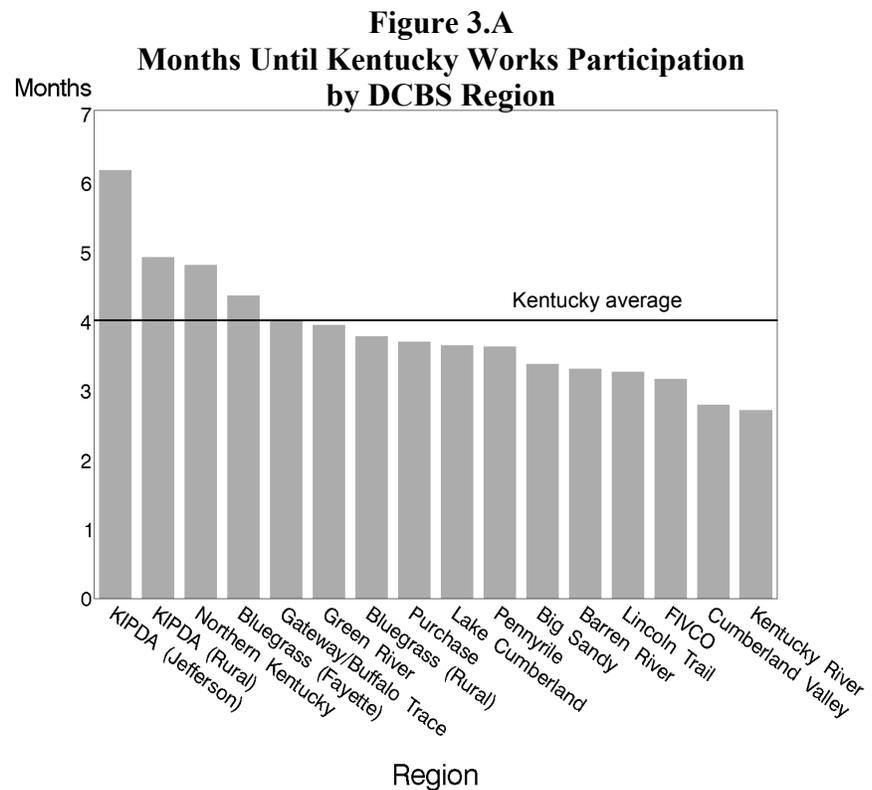
Timeliness of Participation in Kentucky Works

Overall, half the clients were involved in Kentucky Works activities within four months of entering K-TAP. Participation in work-related activities varied by region, with the time to enroll half the clients in Kentucky Works taking from two to six months.

Another area of concern is the time it takes after entering K-TAP for recipients to begin work or another Kentucky Works activity. Although recipients are encouraged to participate from the time they enter K-TAP, they are permitted to receive payments for up to 24 months without participating in any specific activity. If a recipient is not engaged in an activity after 24 months or refuses to participate in an activity, the client may be dropped from K-TAP. If the recipient reapplies for enrollment in K-TAP, no cash assistance may be provided until the client has been actively participating in a required activity for two weeks.

Program Review staff calculated the number of months between entry into K-TAP and the first time any Kentucky Works Program hours were recorded in the recipient's case file. Overall, half the clients were involved in Kentucky Works within two months, and 75 percent were involved within six months. Figure 3.A displays the average number of months from K-TAP enrollment until participation in Kentucky Works. The figure illustrates the considerable variation among regions. Jefferson County had the greatest delay; half were involved within four months and 75 percent within nine months. DCBS staff explained that worker caseloads in Jefferson County make it difficult to start working with a client early in the process. Clients were enrolled in

Kentucky Works the quickest in the Kentucky River and Cumberland Valley regions. Half were involved within one month and 75 percent within four months.



Source: Program Review staff analysis based on data from the Department for Community Based Services.

Timely entry of participation data may be an issue in some regions. As explained by DCBS workers, a client's participation in Kentucky Works may not be recorded in the month in which it actually occurred. A delay can occur depending on the case manager's workload. This could make the average length of time somewhat inflated.

Recommendation 3.2

DCBS should review the lag between the time a recipient enters K-TAP and when that recipient begins a Kentucky Works Program activity. Regional differences and delays in data entry should be explored. DCBS should take steps to reduce the amount of time recipients spend before entering a Kentucky Works activity. Problematic regions should be monitored and efforts should be undertaken to ensure that recipient information is entered in a timely manner.

The Family Alternatives Diversion Program

DCBS caseworkers perform an assessment of any individual who applies for any kind of assistance. One item that caseworkers review is whether the applicant has short-term or long-term need. If the applicant has only “a verified short-term need that resulted from an unexpected change in circumstance... [and is] determined to be self-supporting if the short-term need is met,” he or she may be eligible for the Family Alternatives Diversion (FAD) program (Commonwealth, “Operations Manual Volume III” §2013).

The Family Alternatives Diversion (FAD) program diverts self-supporting families from K-TAP by providing up to \$1,300 over a three-month period. Some DCBS workers said that clients used FAD to work the system. Others praised the program.

FAD attempts to promote self-sufficiency without enrolling applicants in K-TAP. Funded with TANF money, FAD is a diversion program to meet a family’s short-term needs during a difficult period without providing ongoing K-TAP payments. Though funded through K-TAP, the FAD program does not count against the recipient’s 60-month limit on benefits.

FAD provides up to \$1,300 over a three-month period for a variety of expenses that would keep the family afloat until its job situation improves. Approved expenses include transportation, unsubsidized child care expenses, shelter and/or utility costs, and employment-related expenses. No medical costs can be paid as a FAD payment (Commonwealth, “Operations Manual Volume IIIA” §2015). Checks are typically made to a vendor or as two-party checks to the vendor and recipient.

During field interviews of DCBS workers, Program Review staff heard mixed reports about the use of the FAD program. Some DCBS workers claimed that some FAD clients were “working the system” by coming in during lulls in employment for a FAD check, or timing their applications so that they could receive FAD payments whenever they were eligible. However, FAD also received praise from DCBS field workers as an effective way to help families “over the hump” and keep them off K-TAP.

DCBS has made several program changes to address concerns about FAD.

In January 2003, DCBS made several program changes to address concerns about FAD. The payment limit was reduced from \$1,500 to \$1,300. The waiting period between FAD applications was increased from 12 months to 24 months. A lifetime limit of two FAD payments was also implemented. Restrictions were put in place to limit the practice of issuing checks directly to the client.

Assessing the Family Alternatives Diversion Program

Program Review staff looked at the benefits received for FAD cases compared with non-FAD K-TAP cases for November 1997 to October 2000.

For cases that were opened in the period from November 1997 to October 2000, Program Review staff looked at the amount of benefits received for FAD clients compared with K-TAP clients who did not receive FAD. Overall, it appears that FAD may result in cost savings for K-TAP. Through February 2004, the average K-TAP-only case cost \$3,676, which consisted almost entirely of K-TAP benefits. The average FAD client cost more than \$600 less in combined FAD and K-TAP benefits during this period.

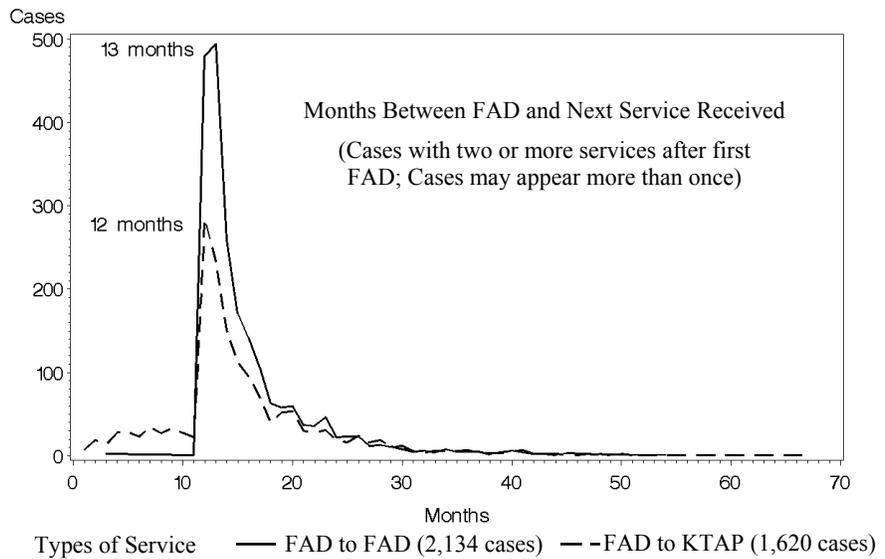
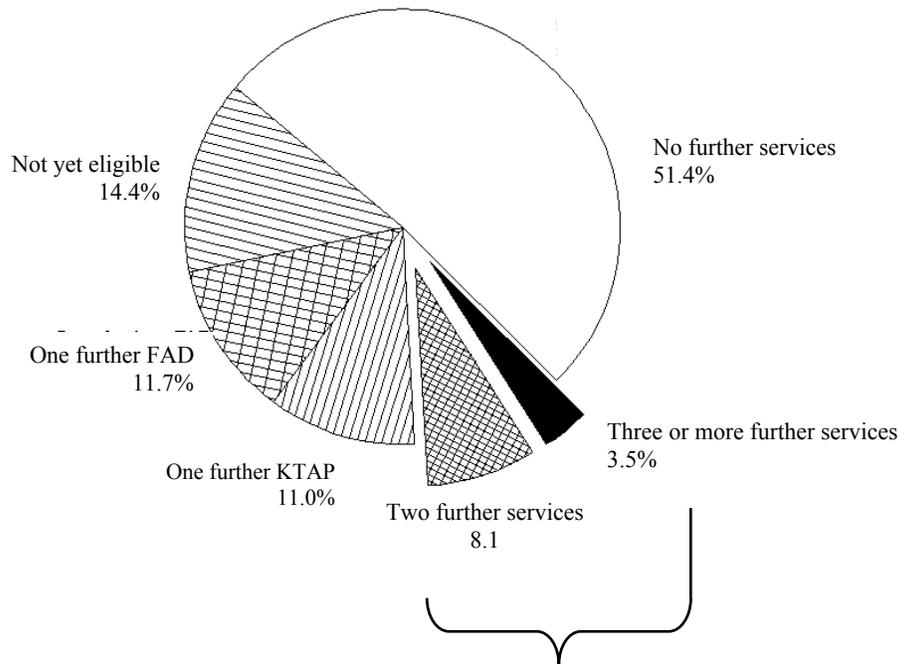
The analysis also indicated that FAD recipients who received K-TAP benefits prior to entering the FAD program were more costly. FAD clients who had been on K-TAP previously averaged \$3,777 in overall K-TAP and FAD benefits. FAD clients who had not been on K-TAP before cost an average of about \$1,500 less for FAD and subsequent K-TAP benefits.

More than half the FAD recipients used the program once and did not go on K-TAP. Some FAD clients did return multiple times for services.

The difference in the costs of FAD recipients over time is tied to how many times they returned for services. Figure 3.B shows that more than half of FAD recipients received FAD once and did not go on to enter K-TAP. About 12 percent used FAD one more time and about 11 percent went into K-TAP for one period of time.

The primary concern is the nearly 12 percent who went on to use two or more additional services (FAD and/or K-TAP). As shown in the second part of the chart, the great majority of these clients returned for their next service as soon as they were eligible: 12 months from the last FAD application. Some of these clients may have been taking advantage of the system, but it should be noted that most clients appeared to be using FAD properly. The changes DCBS made in January 2003 seem to have strengthened controls over potential abuse of the FAD program.

Figure 3.B
Services Used After Receiving FAD
and Time Between Services
(Cases from February 1997 to February 2004)



Source: Program Review staff analysis based on data from the Department for Community Based Services.

On average, FAD appears to save TANF funds. It also has the additional benefit of preserving months of K-TAP eligibility for clients who are having short-term difficulties. However, FAD is much less successful at saving TANF funds if awarded to former K-TAP recipients, as it does not appear to be successful in keeping former K-TAP recipients from relapsing into K-TAP. It might be more helpful for clients who are former K-TAP recipients to return to K-TAP and get the benefit of Kentucky Works activities.

Recommendation 3.3

DCBS officials should consider restricting participation in the Family Alternatives Diversion program to clients who have not received K-TAP benefits.

Subsidized Employment Should Be Documented and Evaluated

KWP provides subsidized employment for some clients. It was not possible to evaluate subsidized employment because the data do not indicate which employment is subsidized.

The Wage Subsidy Program is a KWP activity provided through a contract with the Department for Employment Services. The program gives some employers a partial wage subsidy when they employ certain K-TAP recipients. The subsidy is intended “to cover the cost of providing training and supervision” (Commonwealth, “Operations Manual Volume IIIA” §4260). The wage subsidy continues for six months. After four months, the employer must tell the Department for Employment Services whether he or she expects to keep the employee after the subsidy ends. If the employer decides not to keep the employee, the employer must give eight hours of paid leave each week for the final two months so the employee can look for other work.

Program Review staff were unable to evaluate the effectiveness of this program. In the main database of K-TAP clients, hours from the Wage Subsidy Program are combined with regular work hours. Although the federal TANF report has a column for subsidized employment, the data supplied by DCBS did not include those hours. DCBS officials reviewed the situation and discovered that those hours are not included on Kentucky’s TANF report. However, DCBS officials pointed out that there should be minimal impact on the participation rate because most subsidized work participants are discontinued from K-TAP immediately because their earnings are too high for them to qualify.

DCBS does fund a separate wage subsidy program in Warren County, and those hours are kept separately in the DCBS data system. Program Review staff found that many hours were incorrectly assigned to this component—only about 18 percent of hours were from Warren and surrounding counties. DCBS staff indicated that they would pursue system changes to prevent the miscoding.

Subsidized work in general may or may not be a useful activity. If it is useful, it should be expanded. If not, it should be reviewed for modification. DCBS should determine how well it is working and take appropriate action.

The procedure used to collect subsidized employment hours appears flawed.

In a review of the DCBS Operations Manual, Program Review staff also found that the procedure for monitoring subsidized work appears subject to error and delays. The procedure depends on a manual transfer of data and on timely entry by a Department of Employment Services worker and a DCBS worker (Commonwealth, “Operations Manual Volume IIIA”§4260).

Recommendation 3.4

DCBS should implement changes in systems and procedures so that subsidized employment hours can be tracked and reported separately from regular employment. DCBS should change the data systems so that the program code for the Warren County program cannot be misused. DCBS should then conduct an evaluation of the subsidized employment programs and determine whether they should be expanded or modified.

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Appendix A

Other K-TAP Services

K-TAP provides services other than cash assistance and the Kentucky Works Program.

Child Care. K-TAP recipients are eligible for supplemental payments for child care to enable parents to work or pursue Kentucky Works Program activities. The supplemental payments are made to the child care provider, not to the K-TAP recipient. Payments may continue for up to one year after the recipient has left K-TAP for full-time employment.

Transportation. DCBS officials have noted that the availability of transportation is especially a problem in rural areas without public transportation. The lack of a functioning car can be a significant impediment to a K-TAP recipient trying to find or maintain employment. The Kentucky TANF state plan specifies that if free or low-cost transportation is unavailable, direct payments may be made to clients to defray transportation costs. Monthly payments are made based on the client's amount of participation in Kentucky Works activities: \$9 for participating 3 days or fewer per month, \$35 for 4 to 16 days, and \$60 for 17 days or more (Commonwealth, "Operation Manual Volume IIIA" §5300).

If a K-TAP client's vehicle has broken down, the client may receive additional funds for car repair if the vehicle is necessary to the client's job search or continuation in a job. Clients are eligible for up to \$500 per 12-month period. A caseworker must pre-approve the repair, and the vehicle must be registered in the name of the K-TAP client. This funding may also be used for other costs of having a car such as insurance.

Targeted Assessment Program. In collaboration with the University of Kentucky, DCBS provides this type of assistance in 15 communities. DCBS workers screen K-TAP recipients for serious barriers to self-sufficiency, focusing on substance abuse, mental health, learning disabilities, and domestic violence. When such barriers exist, DCBS personnel design a service/referral plan and monitor the client's progress.

Supplemental Medical Services. Supplemental payments may be made for recipients participating in a Kentucky Works activity for medical services not covered by Medicaid such as eyeglasses, hearing aids, and dentures. DCBS officials must pre-approve.

Relocation Assistance Program. This program is designed to help K-TAP recipients relocate to another area, either to access an available job or to escape from domestic violence. The recipient may qualify for up to \$500 to assist with moving expenses and the first month's rent.

For an individual who moves to access a job, there must be a verified offer of employment before the payment can be approved. The weekly pay must be at least as much as 30 hours at minimum wage. Relocation assistance for employment is available only once. Individuals who move to escape domestic violence are not limited to a single payment and are not required to have a verified job offer in the new locale.

Education Bonus. A bonus is offered to K-TAP recipients as an incentive for individuals to further their education. An adult or child who receives a GED, high school diploma, post-secondary certificate, or degree while on K-TAP may receive a bonus of \$250.

Two-month Earned Income Exclusion. DCBS officials reported that the expenses of clients could increase as they move from being on public assistance to having jobs. Recipients may need to buy new clothes or uniforms, or their transportation may be more costly. To ease the transition to employment, K-TAP offers a two-month earned income exclusion. A person starting a new job is allowed to receive a K-TAP check and the income from employment for two months without penalty. The recipient must apply for the exclusion in a timely manner, and it is available only once in a lifetime.

Work Incentive Program. Another program designed to ease the transition from public assistance to work is the Work Incentive Program (WIN). The program provides \$130 per month in cash assistance to the recipient for up to nine months. WIN is available once a recipient obtains a job with earned income and K-TAP benefits are ended. If the recipient's total gross income is at or below 200 percent of the federal poverty level and there are work-related expenses of \$130 or more, he or she may qualify for WIN. Payments are discontinued if the recipient loses his or her job and does not find another job within 30 days. A series of WIN payments can be received once in a lifetime. Once payments stop, they cannot be resumed.

Safety Net. This program provides services for former clients who are no longer eligible for K-TAP benefits because their time limit for receiving benefits has expired or they have not completed a Kentucky Works assessment. The recipient's gross income must be at or below 200 percent of the federal poverty level. The maximum assistance is \$635 over 4 months during a 12-month period.

Family Alternatives Diversion (FAD). This program is an alternative to K-TAP. The purpose of FAD is to divert families in short-term financial difficulty that might otherwise lose their self-sufficiency and become K-TAP recipients. To qualify, families must meet the same gross income limits as for K-TAP, must not be receiving K-TAP payments, and must have an ongoing means of support. The standard of need limitation does not apply.

Families apply for FAD through the same process they would follow to apply for K-TAP. During the assessment process, the DCBS caseworker determines if FAD is an appropriate alternative for the family. If approved, the family is eligible for up to \$1,300. Funds may be paid in a lump sum or divided into payments, which can be made over a period of up to three months depending on the need of the family and the approval of the caseworker. Permissible items for FAD payments include rent, utilities, and automobile repair. Checks are typically made to a vendor or as two-party checks to the vendor and recipient. Checks written directly to recipients are discouraged. Recipients may be approved for FAD twice in a lifetime, and the approvals may only occur once in any 24-month period. A person approved for FAD may not receive K-TAP benefits within 12 months except in cases of emergency or job loss that is not the client's fault.

Appendix B

Research Methods

Evaluation of Kentucky Works Activities

In order to assess the effectiveness of different aspects of the Kentucky Works Program (KWP) in preparing K-TAP recipients for work and self-sufficiency, Program Review staff extracted data from three electronic databases:

- Kentucky Automated Management and Eligibility System (KAMES);
- Federal TANF reporting file; and
- Kentucky's Electronic Workplace for Employment Services (KEWES).

The first two databases were used to obtain demographic data and the hours worked in different activities. Data from the Department for Employment Services (DES) was extracted in order to determine quarterly wages for individuals after they made the transition from K-TAP.

Program Review staff combined K-TAP administrative data from DCBS with wage data from DES to look at whether clients benefited from KWP activities. Wages earned after leaving K-TAP were compared for different categories of KWP activity.

DCBS provided Program Review with the TANF reporting file that is sent to the federal Administration for Families and Children. For each month, it showed the average weekly hours that each adult spent in each of the KWP categories described above. Data covered the period from October 1999 to December 2003.

DES provided Program Review with KEWES unemployment insurance wage data. This gave the quarterly wages reported by employers for every worker subject to unemployment insurance. Data covered the period from October 1998 to December 2003.

Unemployment insurance returns do not include income from the self-employed or from those who have moved to or work in another state. However, the wage data should contain most of the income earned by those who have left K-TAP.

There are a number of ways to measure successful transition to self-sufficiency. One way is to look at whether someone has stable employment or has breaks in employment. Another way is to look at the wages earned over time. Program Review staff decided to use wages because the amount of money earned determines the level of financial well being.

From K-TAP data, staff selected adults who left K-TAP during or before December 2002. This ensured that everyone had at least four full quarters of wage information after leaving K-TAP.

From that group, staff selected two smaller groups:

- Adults who entered K-TAP (either for the first time or as a repeater) during or after October 1999. This ensured that they would have KWP data for their entire time in K-TAP.
- Adults who were on K-TAP prior to October 1999 if they continued at least six months further. This added at least some KWP data for longer-term recipients.

The two smaller groups were combined, resulting in 41,129 K-TAP recipients.

Staff totaled the hours each adult spent in each KWP category and also calculated the weekly average for each category.¹ Total and average hours were compared with the average annual income after leaving K-TAP. If an adult left K-TAP in the middle of a quarter, that quarter was not included.

By looking at how well the participants in each category did later, it was possible to estimate the value of an hour of activity in that category using linear regression. In other words, if a person spent one more hour in that activity, they would most likely earn a certain amount more (or less) per year. This was done both for total hours in the activity and for weekly hours in the activity. Table B.1 shows the results for each category.

Each calculated number in Table B.1 has a “p-value,” an indicator of its statistical significance. A smaller p-value means that more clients had the same kind of experience in that activity, and there was a positive or negative effect. When a p-value is “ns,” this means the reliability of the number is “not significant.” This could be because clients had very different experiences in that activity or the activity’s impact was minimal.

For this analysis, a significance level of .05 was used. This means that the result is likely to have occurred by chance less than 5 percent of the time. In other words, 95 percent of the time the result will reflect a true relationship between hours and later income.

In the text of the report, the results for each KWP category were interpreted based on Table B.1.

¹ For the purposes of this analysis, hours reported as “subsidized employment” were included with regular work. According to DCBS officials, subsidized employment included only the Warren County wage subsidy program (along with some hours that were incorrectly coded for that program). The bulk of subsidized work hours (the statewide Wage Subsidy Program) were not included in the TANF file and thus could not be analyzed.

Table B.1
Earnings Value of Hours Spent in Kentucky Works Program Activities
(October 1999 – December 2002)

Category	Number of Participants (of 41,129)*	Yearly \$ Per Total Hour	p-value**	Yearly \$ Per Weekly Hour	p-value**	Average Annual Income
Employment	17,139	-1.35	<.0001	1.20	ns	\$5,882
Overall Except Regular Employment	15,077	0.20	<.05	53.21	<.0001	\$5,173
Vocational Training	6,940	1.79	<.0001	11.29	ns	\$5,995
Community Service	4,015	-0.83	<.0001	-31.70	ns	\$3,870
Job Search/Readiness	3,727	0.02	ns	211.46	<.0001	\$5,555
Work Experience	2,646	-0.12	ns	-23.93	ns	\$4,363
Education Without High School Diploma	1,181	0.46	ns	17.53	ns	\$3,753
Adults (aged 21+)		-1.36	ns	-5.61	ns	
Youth (aged 16-20)		1.80	<.001	35.56	ns	
Job Skills Training	605	2.33	<.01	51.37	ns	\$8,816
Other Activities	1,257	-0.94	<.01	33.60	<.05	\$3,161

*Participants add to more than 41,129 because some participants are in more than one category.

**P-values greater than .05 are marked “ns:” not statistically significant.

Source: Program Review staff analysis of data derived from KAMES, TANF, and KEWES databases.

The average annual income shown in Table B.1 differs from Table 3.3. In Table B.1, clients with no income were included in the average. Table 3.3 included only clients who were employed for the first four consecutive quarters after leaving K-TAP. Therefore, the incomes shown in Table B.1 are smaller, and the order of categories based on income is different.

The KAMES and TANF databases provided demographic characteristics of K-TAP recipients. Some of the characteristics are summarized in Table B.2. The information includes the average years of school attended upon entry into K-TAP, the average age on entering K-TAP, the average size of households, and the number of months enrolled in K-TAP before beginning a KWP activity.

Table B.2 was the source of some explanatory text in the report. For instance, participants in Community Service are the oldest, among the least educated, and are more likely to take a relatively long time to begin the activity.

Table B.2
Demographic Characteristics of Kentucky Works Participants

Category	Years in School Entering K-TAP	Age Entering K-TAP	Size of Household	Months in K-TAP Before Starting Ky. Works*
No Ky. Works Activity	10.6	27.8	2.9	N/A
Regular Work	10.6	27.5	3.0	3.6
Work Experience	10.0	28.9	3.1	2.3
Job Search/Readiness	10.5	29.0	3.0	2.2
Community Service	10.1	29.4	2.9	2.2
Vocational Education	10.9	26.5	2.9	2.5
Job Skills Education	11.6	26.5	2.7	1.9
Education Without High School Diploma	9.0	23.8	2.8	2.6
Other Ky. Works Activity	10.4	29.3	2.9	3.2

*This is the number of months before starting *any* KWP activity or regular work, not the number of months before starting in the specific category.

Source: Compiled by Program Review staff based on data from the KAMES and TANF databases.

The KAMES database showed the months in which each recipient was involved in a K-TAP case. Program Review staff compared the number of times on K-TAP for current K-TAP recipients (as of February 2004) and for former K-TAP recipients. Table B.3 shows the results.

Table B.3
Times on K-TAP Per Recipient

Times on K-TAP	As % of Former K-TAP Recipients	As % of Current K-TAP Recipients
1	70	50
2	20	26
3	7	14
4 or more	3	10
	100%	100%

Source: Compiled by Program Review staff based on data from the KAMES database.

Clearly, a much higher percentage of current recipients have used K-TAP in the past. Table B.3 was the source of some explanatory text in the report.

Several limitations apply to this analysis:

- Inflation was not taken into account, so older wages may be underrepresented. (Inflation was relatively low during the years examined.)
- Historical unemployment rates were not taken into account.
- Regional differences were not taken into account.

- Selection bias (the way DCBS assigned participants to activities) was not taken into account, although it was considered as a factor in the text of the report.
- The effect of participating in more than one category was not taken into account.

Evaluation of Family Alternatives Diversion Program Costs

DCBS provided Program Review with a database of all Family Alternatives Diversion (FAD) payments from inception through February 2004. Program Review staff looked at the FAD and KAMES databases to determine the cost benefit of FAD.

Because the University of Louisville completed a study of FAD using FAD cases from November 1997 through October 2000, Program Review staff used the same time frame as the starting point (Barber). However, a different approach could be used because the university study did not have follow-up data. The University of Louisville study looked only at the estimated cost of benefits during the year after receiving FAD. Program Review staff were able to calculate the total actual payments through February 2004.

Program Review staff selected two groups of cases for comparison:

- First-time FAD clients from November 1997 through October 2000.
- First-time K-TAP clients from November 1997 through October 2000, excluding any who had also received FAD prior to October 2000 (this prevented any overlap between the two groups).

Each FAD case was marked to indicate whether the recipient had been on K-TAP before receiving FAD. Each K-TAP case was marked to indicate whether a recipient received FAD at a later date.

For each case, the total of all FAD payments and all K-TAP income maintenance (cash) payments were calculated. Table B.4 shows the results.

**Table B.4
 FAD Cost-Benefit Results**

FAD Category	Total FAD Payments	Later K-TAP Payments	Total Cost
Overall	\$2,016	\$1,034	\$3,050
Not previously on K-TAP	\$1,883	\$414	\$2,297
Previously on K-TAP	\$2,144	\$1,633	\$3,777
K-TAP Category	Total K-TAP Payments	Later FAD Payments	Total Cost
Overall	\$3,587	\$90	\$3,677
Not using FAD later	\$3,596	N/A	\$3,596
Using FAD later	\$3,441	\$1,577	\$5,018

Source: Compiled by Program Review staff based on data from the FAD and KAMES databases.

From these results, it is clear that FAD recipients overall used less in resources than K-TAP recipients from the same time period. It is also clear that FAD recipients who were previously on K-TAP were more likely to re-use FAD and used more K-TAP resources later. FAD recipients who had not been on K-TAP used fewer resources than K-TAP recipients.

Similarly, K-TAP recipients who later used FAD used slightly less in K-TAP resources but added a considerable amount of FAD expense.

Table B.4 provided the basis for the FAD assessment in the text of the report.

Several limitations apply to this analysis:

- The K-TAP group is not a true control group. It is likely that if FAD had not existed, the FAD recipients would have used less in resources than typical K-TAP recipients. Therefore, the estimated savings may be overstated. This problem was minimized by using only new K-TAP applicants for comparison, omitting longer-term recipients.
- Supportive service payments (especially KWP expense payments) were not included in the K-TAP amounts. Therefore, the estimated savings may be understated. Including these payments probably would only strengthen the results
- Regional differences were not taken into account.
- Recent changes in FAD payment limits (from \$1,500 to \$1,300) were not taken into account.

Appendix C

Response From the Department for Community Based Services

Recommendation 2.1

DCBS officials should review the feasibility of funding the K-TAP program at the 75 percent Maintenance of Effort instead of 80 percent. DCBS should provide the General Assembly with information about:

- **the likelihood that the requirements for participation levels for the 75 percent funding effort will be met,**
- **the actual state expenditures for the 75 and 80 percent spending levels,**
- **and the actual potential consequences for K-TAP clients for the two funding levels.**

Based on this recommendation, the Cabinet for Health and Family Services will undertake an evaluation of the different spending levels and their impact to the program, both now and in the anticipated future. As a part of this process, the General Assembly will be provided the information suggested in the recommendation so that sound budget decisions can be made.

Under current federal law, Kentucky has easily met the work participation requirements which allow for a 75 percent maintenance of effort level rather than 80 percent. This is due not only to the number of recipients participating in the Kentucky Works Program, but also the caseload reduction credit allowed under current law.

For two years now, Congress has been debating different proposals that will reauthorize the TANF law. While the House and Senate disagree on some details, both have proposed increases in individual participation and the participation rate states are required to meet, while replacing or severely limiting caseload reduction credits. Once TANF reauthorization is implemented, the possibility of Kentucky being required to spend at the 80 percent level greatly increases.

Kentucky has kept MOE spending at the 80 percent level because of these anticipated changes, but will evaluate the necessity for continuing to do so.

Recommendation 2.2

Officials with DCBS and other appropriate executive branch officials should undertake a thorough review of state spending outside K-TAP that furthers the goals of TANF. Information about existing spending that could be counted toward the state's maintenance of effort for TANF should be provided to the General Assembly.

Kentucky provides state funding for many services that promote one or more of the four purposes of TANF. DCBS will examine other state spending that can help meet

Kentucky's MOE requirement. However, some caution is recommended when exploring this possibility.

First, many of these services are fiscally supported by a combination of state-match to federal funds. Federal regulation (45 CFR 263.6 c) prohibits identifying state funds used to draw down federal dollars to meet the MOE requirement.

Second, the majority of MOE is currently spent on K-TAP cash assistance to clients. By counting other programs' funds towards meeting our requirement rather than using actual state dollars dedicated to TANF, more Federal dollars would need to be used to provide cash assistance to cover the loss in state funds. This would, in turn, require that TANF services currently funded by Federal dollars be reduced or eliminated. This would have a negative impact on the working poor and their counties of residence.

A third caveat relates to increased administrative costs. Some services may be provided to fulfill TANF goals without regard to income, while other goals require services to be provided to low-income families only. If the state-funded program is determined to meet a goal which requires an income test, eligibility for TANF will need to be explored for each family/applicant before the expenditure can be claimed towards the state's MOE. In addition to those increased administrative costs, changes will need to be made to the TANF state plan as well as MOE reporting to the Federal government. HHS requires a separate report for each source of MOE expenditures.

Finally, another concern relates to the potential loss of state funding for other programs identified as helping meet Kentucky's MOE requirements. This is especially problematic of funding for programs operated by other state agencies outside the Cabinet for Health and Family Services. CHFS would have no control if the General Assembly enacts a budget where such funding is reduced or eliminated. CHFS would be responsible for paying penalties for not meeting MOE requirements unless the same amount of state dollars are allocated to CHFS to meet MOE requirements.

It should also be noted that the penalties for failure to meet the MOE requirement (reduction in the federal grant by the amount the MOE is deficient) cannot be mitigated by corrective action plans or reasonable cause (45 CFR 263.8 and 263.9).

Recommendation 2.3

Officials with the Cabinet for Health and Family Services should discuss the possibility of accessing unobligated federal funds to offset the cost of spending at the 80 percent maintenance of effort during previous fiscal years. To the extent federal funds are available as an offset, officials should review all prior years' spending to minimize the use of state funds for K-TAP.

The Cabinet has begun research into this recommendation and will be contacting staff in Mississippi as well as the regional Health and Human Services office in Atlanta. If a carry forward of Federal TANF funds exists in future years, CHFS will research the

possibility of using those funds to offset MOE expenditures that exceed Federal requirements.

At this time, however, Kentucky's entire TANF carry forward has been budgeted in SFY 05 and 06 to provide child care assistance. Using this carry forward to offset state spending in previous years would require additional state dollars to support the child care program in each of the next two years or to reduce child care services available to the working poor. This increase in child care funding will be more important if TANF reauthorization requires more participation from a greater number of TANF recipients.

Recommendation 2.4

The Cabinet for Health and Family Services should review the feasibility of forming a field-based investigation unit such as the Cooperative Review of Eligibility program. The review should include a cost-benefit analysis. The results of the analysis and any actions taken to expand the capability of the Office of Inspector General to conduct field investigations should be reported to the Program Review and Investigations Committee prior to the 2005 session of the General Assembly.

Based upon the committee's recommendation, the Department for Community Based Services will conduct a cost-benefit analysis of reestablishing a field investigative unit and will report its findings to the committee. Such a project will likely cover, as did CORE, the more populous areas of the state.

Kentucky has undertaken two other recent initiatives designed to detect fraud and abuse in public assistance programs. First, Kentucky is now a member of the Public Assistance Reporting Information System (PARIS). Designed by the Department of Health and Human Services Administration for Children and Families, PARIS provides state public assistance programs with information to see if clients are receiving benefits in more than one state. The initiative provides information regarding TANF, Food Stamps, and Medicaid recipients, and is currently in place in five of Kentucky's seven border states, including Indiana, Ohio, Tennessee, Virginia, and Illinois. The service is free to states, other than costs associated with processing, sending and receiving files. Kentucky will perform its first match in August, 2004.

Also, on June 1, 2004, the Cabinet issued a press release to publicize the toll-free hotline operated by the CHFS Office of Inspector General. The number can be used by anyone to report fraud and abuse in health and public assistance programs.

Recommendation 2.5

The Quality Control Branch of the Cabinet for Health and Family Services should audit a representative sample of cases for each of the cabinet's 16 service regions so that valid comparisons of regional deficiency rates can be made. If necessary, the regional audits should be placed on a rotating schedule so that each region is audited at least once every four years.

Federal regulations require states to ensure the application of penalties to individuals not participating in work activities (45 CFR 261.54). If this requirement is not met, states are required to pay a penalty of one to five percent of its grant. Because of this requirement, the current Quality Control reviews in the TANF program focus solely on Kentucky Works participation and the proper application of Kentucky Works policy.

The report noted that the current method of pulling cases for a random sample included child-only cases, which are not required to participate in Kentucky Works. Steps are being taken to remove child-only cases from the sample currently generated by the Governor's Office of Technology. The new programming will be in effect by August 2, 2004.

Recognizing the need for consistency and accuracy among regional reviews, DCBS is studying the feasibility of and alternatives to the recommended regional sample sizes cited in the report.

Several levels of review are already conducted outside the Quality Control process and focus on a broader spectrum of case elements, including eligibility determination. These include supervisory reviews, regional reviews, and annual audits from the Auditor of Public Accounts.

Recommendation 3.1

DCBS should establish procedures to evaluate the success of each Kentucky Works Program component, focusing on the benefit to clients after they leave K-TAP. As an intermediate step, DCBS should study the client screening process and the quality of placements for activities this report found to produce poor or mixed benefits for clients. DCBS should implement changes to improve results.

States must design their programs in order to meet federal participation rates, taking into account the core activities and other activities that are limited in some way by the TANF law. The Department is aware of which components work better than others (U of L study *Welfare Reform: Program Participation and Time Limits*, June 2002), but must work within the framework provided by federal law and regulations.

Two components cited in the report, community service and education above high school, require more background information in order to be viewed in their proper context. First, Community Service is one of the core activities in the current law (along with subsidized and unsubsidized employment and work experience). Its utilization is necessary in meeting federal participation rates. Factors influencing a client and case manager to choose this placement include:

- The lack of employment opportunities in the area;
- The lack of short-term or post-secondary educational opportunities;
- Participating while waiting for another appropriate component to begin (e.g. waiting for the start of a college semester); and

- Filling in hours to meet participation requirements when one activity does not last a full month or does not meet required weekly hours.

Recognizing the fact that community service does not lead to greater self-sufficiency, the Department wanted to avoid placing an individual in a community service for their entire 60 months of benefits, even though it would help meet federal participation rates. Beginning September 1, 2003, community service placements, as well as work experience placements, are limited to 12 months in a lifetime when community service is the sole activity.

Second, education above high school (vocational, college, and job skills training) produces the best results. However, states are limited to counting 30% of program participants in education, and Kentucky is above that threshold now. Increasing the number of participants in these educational components will not necessarily achieve a higher participation rate unless the individual is participating in another core activity (work, community service, work experience, etc.) a minimum of 20 hours per week.

An individual's plan for self-sufficiency is developed according to the needs and direction of the individual and his or her family. The activities in which the client participates and whether or not the client participates at the appropriate level (or not at all) are personal choices of the recipient. Case managers facilitate the exploration of realistic goals, needs and barriers. However, the ultimate outcome of the plan is client-driven.

Recommendation 3.2

DCBS should review the lag between the time a recipient enters the K-TAP program and when that recipient begins a Kentucky Works Program activity. Regional differences and delays in data entry should be explored. DCBS should take steps to reduce the amount of time recipients spend before entering a Kentucky Works activity. Problematic regions should be monitored, and efforts should be undertaken to ensure that recipient information is entered in a timely manner.

Federal law and regulations require states to ensure an individual's participation in work activities within 24 months. As the report indicates, Kentucky is currently meeting this requirement. Several factors can influence the amount of time from entry to K-TAP to participation in Kentucky Works, including:

- Time spent during the assessment process;
- Securing support services , e.g. childcare and transportation;
- The Medical Review Team (MRT) process if good cause is claimed, and any hearings requested as a result of that process;
- Caseload levels in urban areas being much higher than in rural areas;
- Starting dates of specific components are in the future or waiting lists exist (i.e. school semesters or waiting for a substance abuse treatment slot to open); and
- Recipients applying for SSI

Participation data is never entered in the STEP or KAMES systems the month performed. Tracking always occurs the month following participation in order to capture the entire month.

As a result of this review, DCBS is taking steps to better track the timeliness of KWP placements. A report will be produced by KAMES/STEP systems to monitor the timeliness of assessment and placement of KWP participants. The report will be monitored monthly at the county level by the supervisor. Service regions will report to central office on a quarterly basis. These reports will allow DCBS to identify regions with the longest periods of inactivity and develop procedures designed to reduce such periods.

Recommendation 3.3

DCBS officials should consider restricting participation in the Family Alternatives Diversion program to clients who have not received K-TAP benefits.

FAD has been shown to save the state money. The University of Louisville Kentucky Welfare Reform Evaluation (Summary: Program Participation and Time Limits, June 2002.) found that “the Diversion Program is currently saving the state nearly \$1 million per year in cash assistance payments, and about 24,000 months of K-TAP eligibility annually.” In the same report, FAD was shown to have diverted former K-TAP recipients as well as potential new K-TAP recipients from the K-TAP caseload.

Changes made to the program in January 2003 should address the issues related to cyclical utilization while keeping intact the program’s intent, which is to address short-term needs and keep families off cash assistance. The changes included increasing the period between FAD episodes from 12 months to 24 months, and limiting a family’s receipt of FAD to twice in a lifetime.

FAD is an option only offered to applicants showing the ability to be self-sufficient if a short-term need (e.g. gaps in employment) can be met with a one-time payment. If the Department is to deny FAD for all former K-TAP recipients, this leaves us with no choice but to bring that family back onto the K-TAP rolls. The change recommended in the Committee’s report would:

- increase expenditures in monthly assistance payments, supportive services and transportation,
- increase administrative costs for maintaining the open case and providing eligibility and case management services, and
- expend more of the recipient’s months of K-TAP eligibility.

In short, this would reduce the Department’s flexibility in deciding which services are best suited to an individual family’s situation simply based on prior K-TAP receipt. Prior receipt could be an aspect that is examined when determining whether or not to offer FAD, but should not be the sole factor in eliminating a family from FAD participation.

Recommendation 3.4

DCBS should implement changes in systems and procedures so that subsidized employment hours can be tracked and reported separately from regular employment. DCBS should change the data systems so that the program code for the Warren County program cannot be misused. DCBS should then conduct an evaluation of the subsidized employment programs and determine whether they should be expanded or modified.

A meeting with program and systems staff has already been established to discuss TANF federal data reporting issues, and subsidized employment is one of the items to be discussed. Changes made as a result of this meeting should address the concerns regarding the capture of this data. Once data collection on this component has been completed, a more thorough assessment of the component and any necessary changes or enhancements can be completed.

The code for the Warren County program can be made available only to counties in the Barren River Region, and steps are being taken to accomplish this.

