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**Property Tax, Rent, and Heat Rebate Program  
Department of Revenue**

**Performance Audit  
August 2013**

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August 5, 2013

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Property Tax, Rent, and Heat Rebate Program in the Department of Revenue. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Revenue and Department of Human Services.



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## *Glossary of Terms and Abbreviations*

**DHS** – Department of Human Services

**LEAP** – Low-Income Energy Assistance Program

**OAP** – Old Age Pension

**PTC** – Property Tax Credit, also known as the Property Tax, Rent, and Heat Rebate

**Rebate Year** – The calendar year during which a PTC Program participant incurs the expenses that qualify them for the rebate

**SSI** – Supplemental Security Income



# PROPERTY TAX, RENT, AND HEAT REBATE PROGRAM

## Performance Audit, August 2013 Report Highlights



Dianne E. Ray, CPA  
State Auditor

Department of Revenue

### PURPOSE

Evaluate the Department of Revenue's (the Department) administration of the Property Tax, Rent, and Heat Rebate (PTC) Program, including application controls and Program outreach.

### BACKGROUND

- The PTC Program provides rebates for property tax and heat expenses incurred by elderly or disabled Colorado residents whose income falls below Program thresholds.
- The Department's Taxpayer Services Division is responsible for administering the PTC Program, processes rebate applications and conducts outreach to inform the public of Program requirements.
- In Fiscal Year 2013 about 21,000 households participated in the Program and received a total of about \$6.9 million in rebates or \$329 each.

### OUR RECOMMENDATIONS

The Department should:

- Properly update its system each year to ensure accurate payments and eligibility determinations and pay participants who were underpaid and applicants who were improperly denied rebates.
- Eliminate system controls that deny applications for reasons not supported by statute.
- Ensure that it has adequate information to confirm applicants' disability status.

The Department and Department of Human Services (DHS) should:

- Improve Program outreach through increased coordination between agencies.
- Consider the benefits and costs of moving the Program to DHS and work with the General Assembly on legislative change if the determination is made that moving the Program would be beneficial.

The Department and DHS generally agreed with these recommendations.

### AUDIT CONCERN

**The Department needs to improve its controls to determine Program eligibility and calculate rebate payments and should coordinate with the Department of Human Services to improve Program outreach and administration.**

### KEY FACTS AND FINDINGS

- The Department did not properly update the system it uses to determine Program eligibility and calculate rebate payments. As a result, about 7,000 (40 percent) of the 17,713 Program participants we reviewed were underpaid, 120 eligible applicants were denied rebates, and 483 ineligible applicants were allowed to participate in the Program.
- The Department denied 321 applicants for eligibility reasons that were not support by statute or Program rules. In addition, Department staff responsible for assisting in person applicants erroneously disallowed applicants from claiming rebates for heat sources other than gas (e.g. electricity, propane).
- The Department does not have adequate controls to verify that applicants are disabled, as required by statute and Program rules. We found that for eight (29 percent) of 28 sampled participants who qualified based on a disability the Department did not have adequate disability information on file.
- The Department does not notify applicants who are approved for the Program of their application's status prior to paying the rebate. Because rebate payments are made on a quarterly basis, some applicants must wait for over three months to learn the amount of rebate they should expect.
- The Department has not provided counties with PTC Program information for distribution to Old Age Pension recipients on an annual basis as required by statute. In addition, there may be opportunities for the Department to improve Program outreach through increased coordination with DHS.
- Since its inception, the PTC Program has been expanded to cover a broader segment of the population and now serves a similar population as other benefit programs administered by DHS. As a result, the State may be able to improve outreach and provide better service to participants by moving the PTC Program, in whole or in part, to DHS. However, moving the Program could result in significant initial costs.

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	18	Ensure that eligible participants are paid the proper rebate by (a) maintaining a process to update GenTax annually, (b) issuing payments to underpaid participants and recovering payments from overpaid or ineligible participants and (c) notifying approved individuals of their rebate amount.	Department of Revenue	a. Agree b. Agree c. Agree	a. Implemented b. August 2013 c. January 2014
2	21	Establish controls to ensure the Department has sufficient and accurate information to verify applicants' disability status before approving applications.	Department of Revenue	Agree	January 2014
3	26	Ensure that applicants are only denied based on reasons supported in statute and rules by (a) discontinuing the practice of requiring applicants' addresses to match the address on file with the Division of Motor Vehicles, (b) discontinuing the practices of subtracting gifts from applicants' expenses and denying applicants solely because their expenses exceed their income and (c) ensuring that in-person applicants may claim heat rebates for any heat source.	Department of Revenue	Agree	January 2014
4	35	Improve outreach by (a) determining the most cost-effective and efficient methods for providing Program information to pension recipients as required by statute, reviewing the requirement, and seeking statutory change, as necessary and (b) working with the Department of Human Services to identify low-cost methods to promote awareness of the Program.	Department of Revenue  Department of Human Services	Agree  Agree	January 2014  January 2014

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**RECOMMENDATION LOCATOR**

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Addressed</b>	<b>Agency Response</b>	<b>Implementation Date</b>
5	39	Ensure that the Program operates as effectively as possible by (a) evaluating the potential benefits and costs of moving some or all Program responsibilities to the Department of Human Services and (b) reporting the results of the evaluation to the General Assembly and working on statutory changes as needed.	Department of Revenue	Agree	January 2015
			Department of Human Services	a. Partially Agree	January 2015
				b. Partially Agree	July 2015

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# Overview of the Property Tax, Rent, and Heat Rebate Program

## Chapter 1

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Statute (Section 39-31-101 et seq., C.R.S) establishes the Property Tax, Rent, and Heat Rebate, also known as the Property Tax Credit (PTC) Program (the Program), to provide financial assistance with property taxes, rent, and home heating expenses to low-income Coloradoans who are either elderly or disabled. Because the PTC Program was created as a grant within the State's tax laws (Title 39, Articles 1 through 35, C.R.S), it is administered by the Department of Revenue (the Department). During Fiscal Year 2013, about 21,000 individuals and married couples received rebates totaling about \$6.9 million.

Applicants may apply annually beginning January 1 after the calendar year in which they incurred the property tax, rent, or heating expenses, which is referred to as the "rebate year." For example, any expense incurred between January 1, 2011 and December 31, 2011 was within Rebate Year 2011. Applicants have up to 2 years to apply for the rebates after the rebate year has ended. Thus, for Rebate Year 2011, individuals and couples could apply for a rebate beginning January 1, 2012, and will be able to apply through December 31, 2013.

Statute [Sections 39-31-101(2) and 104(1), C.R.S.] divides the PTC rebate into two categories: (1) property tax or rent and (2) heat. The maximum property tax or rent rebate a Program participant may receive is \$600 per year, and the maximum heat rebate is \$192 per year, for a maximum total rebate of \$792. The actual amount participants receive is determined by their rebate year expenses and income, with the average participant receiving \$329 during Fiscal Year 2013.

## Program Eligibility

Statute provides that both individuals and married couples are eligible for the PTC Program, with married couples required to apply jointly, and establishes the following PTC Program eligibility criteria:

- **Colorado Residency and Lawful Presence.** Statute [Section 39-31-101(1)(a), C.R.S.] requires PTC rebate recipients to be Colorado residents for the full rebate year. Statute [Section 24-76.5-103(4), C.R.S.] also requires recipients to be lawfully present in the United States, produce a

valid driver's license or state ID, and sign an affidavit confirming their legal status.

- **Disability Status.** Under statute [Section 39-31-101(1)(c), C.R.S.], individuals of any age who are unable to work due to a medically determined permanent physical or mental impairment may be eligible to receive a PTC rebate. According to statute, individuals enrolled in disability benefits programs, such as those administered by the Social Security Administration, Veterans Administration, or Department of Human Services (DHS), are considered disabled for the purposes of determining eligibility for the PTC Program.
- **Age.** If not eligible based on a disability, statute [Section 39-31-101(1)(a) and (b), C.R.S.] requires participants to be 65 years of age or older or a surviving spouse who is 58 years of age or older.
- **Income.** As provided by statute [Section 39-31-101(2), C.R.S.], applicants whose income is below statutory thresholds, which are adjusted for inflation each year, are eligible for the Program. For Rebate Year 2012, the thresholds were set at \$12,481 for individuals and \$16,476 for married couples.

In addition, statute [Section 39-31-101(3)(a), C.R.S.] provides that individuals who can be claimed as dependents on another person's tax return are not eligible for a PTC rebate. Also, statute [Section 39-31-101(4), C.R.S.] requires PTC Program participants to reside in a private, non-tax-exempt property. A resident of a facility owned by a tax-exempt organization, such as a nonprofit agency, would only be eligible for a rebate for heating expenses. Further, statute [Sections 39-31-101(4)(b) and 104(1)(a), C.R.S.] prohibits residents of nursing homes from receiving a property tax or rent and heat rebate.

## Program Administration

Within the Department, the Taxpayer Services Division (the Division) is responsible for administering the PTC Program. Division staff conduct the following activities related to the Program:

- **Outreach.** Staff promote awareness of the Program through outreach efforts, such as mailing applications to prior-year recipients, issuing press releases, and maintaining a Program website.

- **Application assistance.** The Division assists Program applicants with questions about the Program and helps applicants who choose to apply in person at the Department's offices to fill out the application form.
- **Application processing and payment.** The Division uses similar procedures for the PTC Program rebate as it does for processing tax returns and relies on GenTax, the Department's tax database, to automatically determine eligibility and make payments. When GenTax discovers eligibility issues that make an applicant ineligible, it flags the application for Division staff to confirm that GenTax made the proper determination.

In addition to administering the PTC Program, the Division is responsible for processing tax returns and operating a call center to provide taxpayers with assistance.

## Program Funding and Expenditures

PTC Program rebates are funded entirely with general funds. In Fiscal Year 2013, the Program paid about \$6.9 million in rebates. Similar to tax refunds, total rebates for the Program each year are not limited by an appropriation and are paid from revenue held in the statutory income tax refund reserve, meaning all who are eligible and apply for the PTC Program should receive a rebate. No full-time-equivalent (FTE) staff are appropriated to the Division for the PTC Program, and the Division has no staff that are solely assigned to the Program; however, Division management estimates that it uses about 1.9 FTE, primarily tax examiners, data entry staff, and call center staff, to conduct PTC Program activities.

The table on the following page provides the number of participants, average rebates, and total amount of rebates paid for Fiscal Years 2009 through 2013. As shown, participation in the PTC Program has declined about 20 percent from Fiscal Year 2009 to Fiscal Year 2013. Although Department staff were not sure why Program participation has declined, increased participation in other benefits programs that provide income to similar populations, such as the Supplemental Security Income Program, may have reduced the number of eligible individuals and the rebate amount participants can receive.

<b>Property Tax, Rent, and Heat Rebate Program</b>						
<b>Number of Participants, Rebate Amounts Disbursed, and Average Rebates</b>						
<b>Fiscal Years 2009 Through 2013</b>						
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Percentage Change, 2009-2013</b>
Number of Participants	26,058	23,595	24,206	21,703	20,878	-20%
Total Rebates Paid	\$8,290,629	\$7,581,317	\$7,373,322	\$7,254,389	\$6,874,010	-17%
Average Annual Rebate	\$318	\$321	\$305	\$334	\$329	3%
<b>Source:</b> Department of Revenue Fiscal Year 2012 Annual Report and Fiscal Year 2013 Department of Revenue data.						

## Audit Purpose, Scope and Methodology

This report includes the results of our performance audit of the PTC Program at the Department of Revenue. We conducted this audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions and agencies of state government. The audit was prompted by a legislative audit request. Audit work was performed from January through July 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives

The key objectives of the audit were to assess the Department's:

- Controls to ensure only eligible applicants are approved for rebates and that rebates are paid according to requirements found in statute and rule.
- Outreach for the PTC Program to ensure that potentially eligible people are aware of the Program.
- Efficiency and effectiveness of Program administration. Because the Department does not administer other public benefits programs, this objective included an assessment of whether moving some or all of the

Department's responsibilities for the PTC Program to DHS would better serve participants and improve the efficiency of the Program.

To accomplish our audit objectives, we:

- Reviewed relevant state laws, Department promulgated rules, and PTC Program policies and procedures.
- Interviewed Department staff to determine how they assist individuals applying for the PTC Program and process Program applications.
- Analyzed data on rebate payments for Rebate Year 2011 to determine whether the payment amounts were in accordance with requirements found in statute and rule.
- Analyzed data on denied applications for Rebate Year 2011 to determine the reason for the denial and whether the denial decision was in accordance with statute and rule.
- Interviewed Department staff about outreach efforts and reviewed outreach materials to determine whether the Program conducted outreach in accordance with requirements found in statute. We also compared the Department's outreach activities with the efforts of similar programs at DHS.
- Compared the participation rate of the Program, which is the percentage of the eligible population in Colorado that participated in the Program, to the participation rate of the Low-Income Energy Assistance Program.
- Interviewed management at both the Department and DHS to determine the cost and benefits of moving some or all of the Program responsibilities to DHS. We also compared the cost for DHS to administer similar programs to determine the potential cost-effectiveness of DHS administering the Program.

We relied on sampling techniques to support our audit work as follows:

- We selected a nonstatistical random sample of 40 PTC Program participants for Rebate Year 2011. We selected our sample to provide representation of the 17,713 participants for Rebate Year 2011 who received rebates during Calendar Year 2012. We designed our sample based on our audit objectives to test whether the Department paid the correct rebate amount to participants.

- We selected a nonstatistical random sample of 28 disabled PTC participants for Rebate Year 2011. We selected our sample to provide representation of 10,447 disabled participants for Rebate Year 2011 who received rebate payments during Calendar Year 2012. We designed our sample based on our audit objectives to test whether the Department had sufficient information to verify the participants' disability.

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# Rebate Processing and Payment

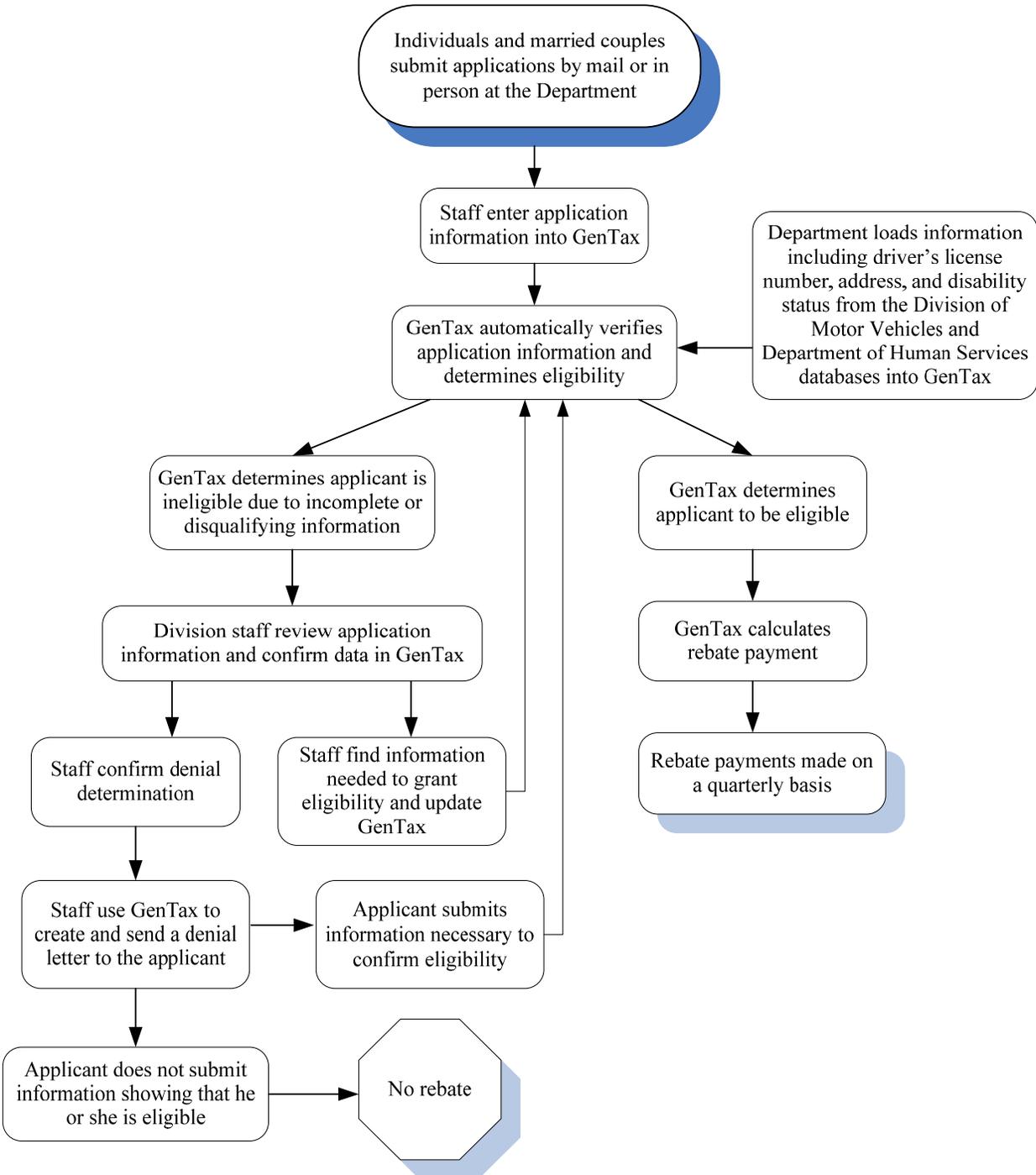
## Chapter 2

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The Department of Revenue (the Department) processes applications for Property Tax, Rent, and Heat Rebate (PTC) Program (the Program) with a process similar to the one used for state tax returns. Beginning on January 1 after the rebate year, applicants either mail a hard-copy application form to the Department or apply in person at the Department's main office in Denver. The application requires applicants to provide their age; disability status; income; property tax, rent, and heat expenses; and address for each residence they lived in over the rebate year.

Staff enter information from each application into GenTax, the Department's tax processing system. The Department verifies application information, such as income, address, and disability status, using tax data stored in GenTax and data the Department loads into GenTax from other sources, such as federal tax returns, the Division of Motor Vehicles (DMV) database, and data on disability benefits recipients from the Department of Human Services (DHS). GenTax automatically determines whether the individual is eligible for the PTC Program. The flow chart on the following page outlines the application process.

### PTC Program Rebate Application Process



Source: Office of the State Auditor's review of PTC application process.

During the audit, we reviewed the Division's processing and payment of PTC rebates. As discussed in this chapter, we found three key problems with the Division's process for determining eligibility and making rebate payments: (1) it lacked procedures to ensure GenTax makes proper eligibility determinations and calculates rebate amounts accurately, (2) it lacked controls in GenTax to verify applicants' disability status, and (3) it denied rebates for reasons not supported by statute and Program rules and improperly prevented some applicants from applying for heat rebates.

## **Rebate Payment Controls**

As previously discussed, the Department relies on GenTax to automatically approve and process PTC rebate payments. GenTax is programmed to calculate and issue payments according to a statutory formula that is based on an applicant's income along with his or her property tax, rent, and heat expenses. Because the calculation of income and rebate amounts can vary each year based on inflation and on the income participants receive from other public benefits programs, the Department must ensure that it keeps up-to-date information in GenTax so that its rebate payment and eligibility controls work properly.

### **What audit work was performed and what was the purpose?**

The purpose of the audit work was to determine whether the Department calculated payments correctly, paid PTC Program participants the correct total amount, and notified applicants of the Department's determination on their application in writing. To do this, we interviewed staff about the application review process and evaluated the Department's controls for determining rebate amounts. We then tested whether the Department paid the correct amount to participants by comparing payment amounts to information within GenTax, on hardcopy applications, and from other documentation on file at the Department for a random sample of 40 out of the 17,713 PTC participants for Rebate Year 2011. We also interviewed Department staff and management about procedures for notifying individuals of the status of their application. In addition, we reviewed statute, Colorado rules and regulations, and application processing practices for similar programs in Colorado, such as the Low-Income Energy Assistance Program (LEAP) and Old Age Pension (OAP) Program.

### **How were the results of the audit work measured?**

The Department calculates PTC Program rebates according to a statutory formula that is based on applicants' income and property tax, rent, and heat expenses. Statute requires the Department to take the following steps to calculate an applicant's rebate payment:

**Determine applicants' income.** Statute [Section 39-31-101(3)(b), C.R.S.] and Program rules require applicants to report income, which includes wages, business income, and income received through certain public assistance programs such as Social Security. In addition, Program rules [Regulation 39-31-101(3)(b)(iii), 1 C.C.R., 201-15] specify that Medicare premiums paid out of the individual's Social Security benefit are considered income, and the Department uses information from DHS to add these premiums to applicants' reported income if they fail to do so on the application. Income received as gifts, or from prior year payments from PTC rebates and LEAP, are not considered income for determining PTC rebates. According to statute [Section 39-31-101(2), C.R.S.], the maximum income to receive any rebate in Rebate Year 2011 was \$12,313 for individuals and \$16,205 for married couples. To account for cost of living increases, statute [Section 39-31-101(2), C.R.S.] requires the Department to adjust the income limits annually based on inflation.

- **Determine the maximum rebate based on expenses.** PTC rebates are broken down into two categories of expenses: (1) property tax or rent, and (2) heat. According to statute [Sections 39-31-101(2) and 104(2), C.R.S.], the maximum property tax or rent rebate Program participants may receive is their actual expenses or \$600 per year, whichever is less, and the maximum heat rebate is their actual expenses or \$192 per year, whichever is less. Thus, participants can receive a maximum combined annual rebate of \$792. Statute [Section 39-31-101(4)(a), C.R.S.] provides that for participants who pay rent and do not pay property taxes directly, 20 percent of the rent paid will be considered property tax expenses for the purposes of calculating the maximum amount they can receive. For example, if an applicant paid \$1,000 for rent during the rebate year, he or she would be eligible for a maximum property tax and rent rebate of \$200. Similarly, if a participant's rent payments include heating expenses, statute [Section 39-31-104(1)(a)(II), C.R.S.] calculates the heating expense amount as 10 percent of the rent paid. Using the previous example, if the applicant paid \$1,000 in rent and his or her heat was paid by a landlord as part of a rental agreement, the applicant would be eligible for a maximum heat rebate of \$100 in addition to the property tax and rent rebate of \$200, for a combined maximum rebate of \$300.
- **Calculate any reductions to the maximum rebate.** Statute [Section 39-31-101(2), C.R.S.] provides a formula to reduce the maximum rebate amount participants receive if their income exceeds certain thresholds. For Rebate Year 2011, the year we tested, the income thresholds were \$6,313 for individuals and \$10,205 for married couples. Rebate payments are reduced according to the amount of income applicants have above the thresholds, with applicants over the maximum income limits for the Program receiving no rebate. Statute [Section 39-31-101(2), C.R.S.]

requires the Department to adjust these thresholds each year according to inflation.

Once the total heat and property tax rebate has been calculated, statute [Section 39-31-102(1), C.R.S.] requires the Department to pay the total rebate amount on a quarterly basis, with the amount of all payments equal to the total rebate divided by the number of quarters remaining in the calendar year. For example, if a participant qualifies for a \$120 total rebate and applies in January, then the rebate should be paid out in four \$30 installments, whereas the same participant applying in April would receive three \$40 payments.

In addition, we reviewed the payment practices of two other benefits programs in the state that assist elderly and low-income populations. State rules require these other benefit programs to notify applicants of their application status in advance of payment. Specifically, DHS has promulgated rules (Section 3.350-11, 9 C.C.R., 2503-3 and Section 3.756.15, 9 C.C.R., 2503-7) requiring counties to send OAP and LEAP applicants notification of the decision on their application in writing. Because notifying applicants in advance of the agencies' determination can help applicants plan ahead, we expected that the Department would notify applicants of its determination on their PTC rebate applications in writing and if they are eligible, inform them of the rebate payment they should expect to receive.

### **What problems did the audit work find and why did they occur?**

We found that the Department did not pay all approved PTC participants the proper amount for Rebate Year 2011. Based on our review of participants' expenses and income, we found that it underpaid 18 (45 percent) of the 40 Rebate Year 2011 participants in our sample for property tax, rent, and heat rebates. The amount the Department underpaid these 18 participants ranged from \$1 to \$48 and totaled \$387, or 5 percent of the \$7,917 that they should have received.

According to the Department, the underpayments we identified occurred because GenTax was not updated on time to reflect annual Program changes. Specifically, income thresholds in GenTax were not adjusted on time to account for inflation as required by statute and Medicare premiums paid through applicants' Social Security benefits, which must be included in applicants' income when determining eligibility, were also not adjusted on time to reflect annual changes. Both updates were made on February 29, 2012, about two months after the Department began processing applications for Rebate Year 2011. The Department reported that the updates should have occurred before GenTax began determining whether applicants were eligible for the Program and calculating the amount approved applicants should receive for each of their quarterly payments. This

delay caused GenTax to incorrectly calculate payment amounts and make improper eligibility determinations for applications processed prior to the updates.

In addition to improper payments, we found the Department lacks a consistent process for notifying applicants of its eligibility determinations on their applications. Specifically, the Department only notifies applicants of their application status if they are denied a rebate and does not notify applicants in writing when their applications are approved for payment. Instead, applicants must either call the Department to ask about the status of their application or wait until they receive the first payment to be notified that they were approved and what rebate amount they should expect.

### **Why does this finding matter?**

It is important that the Department update GenTax each year, before it begins processing PTC Program applications, to reflect annual changes to ensure that participants receive the correct payment amount and that GenTax makes correct eligibility determinations. This is particularly important for the PTC Program, because rebate payments can represent a significant financial benefit to Program participants. After we informed the Department about the underpayments we identified in our sample, it ran a system check in GenTax to identify the number of individuals that were affected by the update delays and reported that the delays affected a significant number of PTC Program applicants and rebate recipients:

- **Underpayments to participants.** 7,000 (40 percent) of the 17,713 PTC rebate participants who applied for Rebate Year 2011 during Calendar Year 2012 were paid less than the amount provided in statute. The incorrect rebate payments ranged from \$1 to \$63 and resulted in a total of \$165,116 in underpayments. The Department will need to attempt to contact these participants and provide each with a rebate payment equal to the amount they were underpaid.
- **Incorrect denials of applicants.** 120 applicants were denied a rebate when they should have been approved. These applicants did not receive a total of \$44,440 (an average of \$370 per applicant) in rebates for which they were eligible. The Department will need to attempt to contact these applicants and provide a rebate payment to each that is equal to the amount the applicant should have been approved for and received.
- **Incorrect Approvals of Applicants.** 483 applicants who should have been denied were approved and were paid about \$200,644 (an average of \$415 per applicant). The Department will need to attempt to collect these erroneous rebate payments. Because the population served by the PTC Program has few assets, collecting the money owed may be difficult.

Thus, the Department may ultimately be unable to collect a significant portion of the overpaid amount.

In addition to affecting Program applicants and participants, the system problems we identified also affected DHS's calculation of the amount of funding the State must provide to the Supplemental Security Income (SSI) Program in order to meet the State's federal maintenance of effort requirement. SSI is funded using both state and federal funds, and the State must provide funding equivalent to at least 100 percent of the prior year's state funding of these programs to meet federal maintenance of effort requirements. PTC Program payments are part of the State's maintenance of effort funding, and DHS estimates that Program payments comprised about \$5 million (18 percent) out of the State's total funding benchmark of \$27.4 million in Calendar Year 2012. According to DHS, it must accurately estimate State expenditures to prevent overpayment and potential fines for underpayment. DHS determined that in Calendar Year 2012 the State had underpaid its benchmark by about \$712,000; however, if the Department had properly calculated PTC Program rebates, the amount underpaid would have been as much as \$9,000 less, or \$703,000. Although this is a small difference, if the Department does not properly update PTC Program information in GenTax each year, there is a risk of larger discrepancies in DHS's calculation of the State's maintenance of effort requirement that could increase costs to the State.

The Department reported that it implemented processes for Calendar Year 2013 to ensure all necessary GenTax updates occur before applications are processed and test that payments are correct. However, we were unable to evaluate Calendar Year 2013 payments because they did not begin until April, just before fieldwork on the audit was completed. In addition, after we reported the inaccurate payments from our sample to the Department, it reported that it planned to pay underpaid participants and incorrectly denied applicants the amounts owed and take steps to recover funds paid to individuals who were ineligible.

In addition to conducting timely updates in GenTax, providing written notice of the approved rebate amount to applicants can improve customer service and reduce staff time spent answering phone calls from applicants. Under the Department's current process, approved applicants are not informed of their application status and rebate amount until they receive their first payment, which may be more than three months after they apply. Because PTC rebates can be a significant source of funds for applicants, it would benefit applicants to know the amount of the rebate they will receive in advance so that they can make financial plans. Further, Department staff indicated that PTC applicants frequently call the Department's customer service line to attempt to determine if their applications were approved and find out when they can expect to receive payments. Thus, by mailing notifications to both approved and denied applicants in a timely manner, the Department may be able to reduce staff time required to answer phone calls.

## **Recommendation No. 1:**

The Department of Revenue should ensure that it pays eligible participants the proper Property Tax, Rent, and Heat Rebate by:

- a. Maintaining a process for ensuring that GenTax system updates occur and are tested prior to January 1 each year.
- b. Attempting to contact and issue payments to underpaid participants for amounts underpaid or incorrectly denied and attempting to recover payments from participants who were overpaid or who were incorrectly deemed eligible.
- c. Creating a process to notify individuals whose applications are approved of their rebate amount and schedule of payments in writing.

## **Department of Revenue Response:**

- a. Agree. Implemented.

The Department of Revenue identified the system issue and made the appropriate change discussed in this recommendation in February 2012. The change was effective for the remainder of the 2011 rebate year. The Department updated its year end processes to ensure that system updates for the PTC Program were identified and properly tested by December 2012 for the 2012 rebate year. The process utilized for the 2012 rebate year will be used for the 2013 and subsequent rebate years.

## ***Auditor's Addendum:***

*As noted in the report, the Department updated information in GenTax to properly calculate PTC Program rebates and determine eligibility for Rebate Year 2011 in February 2012. This information should have been updated in GenTax before the Department began processing applications in January 2012. In Recommendation No. 1a we recommend that the Department maintain a process to ensure that GenTax system updates occur on time in future years. The Department reports that it implemented this part of the recommendation in December 2012. However, we were unable to evaluate the implementation of this recommendation because Calendar Year 2013 payments did not begin until April, just before fieldwork on the audit was completed.*

- b. Agree. Implementation date: August 2013.

The Department of Revenue reevaluated affected applications to determine proper eligibility. The population has been identified and notifications and subsequent payments or bills will be sent to affected applicants in August 2013.

- c. Agree. Implementation date: January 2014.

The Department of Revenue will program GenTax to produce notifications regarding the approval of the PTC benefit as part of its year end change process. The notifications will include information regarding the schedule of payments and the amount of each payment.

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## Disability Verification Controls

During Rebate Year 2011 about 59 percent of all PTC Program participants qualified for the Program due to having a disability. To apply on the basis of a disability, applicants must indicate that they are disabled on the application form, but the Department does not require them to provide any documentation to verify their disability. Instead, the Department relies on data provided by DHS and loaded into GenTax to confirm that applicants participated in a state or federal disability program, such as the State's Aid to the Needy Disabled Program or the federal Supplemental Security Income (SSI) Program. According to the Department, it verifies disability status based on data from DHS instead of requiring documentation from applicants in order to automate the application and approval process and reduce staff time necessary to administer the PTC Program. Additionally, not requiring applicants to provide documentation of their disability benefits is beneficial to applicants because the Social Security Administration charges a fee to individuals to provide disability documentation.

### What audit work was performed and what was the purpose?

The purpose of the audit work was to determine whether the Department has adequate controls to ensure that applicants who claim to be disabled meet the eligibility requirements for the PTC Program. We reviewed electronic data from GenTax for all 17,713 Rebate Year 2011 Program participants. Of these participants, 10,447 were approved based on the applicant being disabled. To perform our testing, we selected a random sample of 28 disabled applicants from Rebate Year 2011. For each application in our sample, we reviewed GenTax data, hard-copy applications, and other documentation on file at the Department to determine whether the Department had sufficient information to verify the

participants' disability. In addition, we interviewed Department staff on the process and controls used to determine eligibility and load DHS information into GenTax.

### **How were the results of the audit work measured?**

Statute [Section 39-31-101(1)(c), C.R.S.] states that a person is eligible for a PTC rebate if they "were disabled during the entire taxable year to a degree sufficient to qualify for the payment to them of full benefits from any bona fide public or private plan or source based solely upon such disability." To verify that an applicant for the PTC Program had a disability during the entire year for which he or she is applying for a rebate, as is required, the Department needs either the date the individual was declared disabled or the date the individual started receiving monthly disability benefits, and the monthly payment amounts the individual received. In addition, to rely on the disability information from DHS, the Department needs to have controls to ensure the information is complete for use in determining Program eligibility.

### **What did the audit work find?**

We found that the Department did not obtain sufficient information to verify that some of the PTC Program participants who claimed a disability were in fact disabled. Specifically, for eight (29 percent) of the 28 participants we reviewed, the Department had insufficient disability information on file or in GenTax to confirm their disability during Rebate Year 2011. GenTax determined these participants to be disabled even though the data it had on file from DHS lacked a disability onset date and monthly disability payment amounts that would show the timing and duration of the applicants' disability.

When we brought this issue to the Department's attention, it requested the individuals' disability onset date and the amount the individuals received in disability payments from DHS through a manual process outside of GenTax. Based on the additional information the Department obtained, we were able to confirm that seven of the eight applicants were disabled and their income through monthly disability payments qualified them for the PTC Program. For the remaining approved application, GenTax showed that the applicant had received no disability payments. However, DHS provided information showing that, contrary to the information in GenTax, the applicant *had* received benefit payments of about \$1,000 per month that should have been included in their income. Because these payments put the applicant over the PTC Program's income limits for Rebate Year 2011, the applicant should have been denied a rebate; however, the Department approved the application and paid the applicant \$292 in rebates based on the incorrect information in GenTax.

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### **Why did the finding occur?**

We found that the Department lacks controls to ensure that GenTax contains sufficient information to confirm PTC applicants are disabled. Based on our review, it appears that the GenTax system considers an applicant to have disability status if the applicant is included in the DHS data it receives, even if the data are insufficient to confirm that the applicant was disabled during the rebate year. Specifically, GenTax automatically accepts the applicant as disabled without requiring the applicant's disability onset date or the amount of disability payments. Further, the Department does not have a process in place to flag applications in GenTax so that it can obtain additional documentation from DHS or applicants when it lacks sufficient data from DHS to verify that the applicant was disabled and received benefits payments.

### **Why does this finding matter?**

The Department needs complete and accurate information to verify the disability status of PTC Program applicants to ensure that only eligible individuals are approved for rebates. The Department paid the seven applicants from our sample a total of \$2,091 in rebates without verifying that they were disabled. Although we only identified one instance where an applicant was approved despite being ineligible and was improperly paid \$292, a lack of sufficient disability information to verify that applicants are disabled creates a risk that ineligible applicants could be approved and receive rebates. Because 59 percent of the PTC Program participants for Rebate Year 2011 were approved by the Department based on their disability, this risk extends to most PTC Program participants.

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### **Recommendation No. 2:**

The Department of Revenue should ensure that it has sufficient and accurate information to verify that Property Tax, Rent, and Heat Rebate Program applicants are disabled. This should include establishing controls to ensure that GenTax has information necessary, including applicants' disability onset date and payment amounts, to confirm applicants' disability status before approving applications. When applicants do not have sufficient information in GenTax, the Department should obtain additional documentation of disability status from the Department of Human Services or the applicant as necessary to verify the disability.

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## **Department of Revenue Response:**

Agree. Implementation date: January 2014.

The Department of Revenue will modify its business rules to include an applicant's disability onset and payment amount and will notify the Department of Human Services of the statutory requirements necessary to process PTC applications. The Department of Revenue will update procedures to require that the application has the necessary disability information to be approved, provided either by the Department of Human Services or by the applicant. The Department will develop a process to notify the Department of Human Services when any necessary requirements are missing.

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## **Improper Denials of Applications**

As discussed, the Department performs numerous checks within GenTax to verify that the information reported on applications is accurate and that applicants are eligible to participate in the PTC Program. These checks include comparing the applicant-reported information to other data, such as the Department's motor vehicle and income tax data, the Internal Revenue Service's income tax data, and disability benefits data from DHS, which are all periodically loaded into GenTax. If an applicant provides information that indicates that they are ineligible for a rebate or GenTax cannot verify key information in the application, such as income, age, disability, or legal presence, it denies the application. Once GenTax denies the application, it is forwarded to Department staff for review. Staff check other systems, such as the motor vehicle and DHS databases, to verify that the applicant is not eligible and that data in the other systems haven't been updated since they were last loaded into GenTax. Once Department staff verify that the applicant is ineligible, a denial letter explaining the reason for denial is mailed to the applicant. When they receive denial letters, applicants have the opportunity to address the reasons for denial by providing additional documentation to the Department and can later be approved for a rebate if the reasons for the initial denial are resolved.

### **What audit work was performed and what was the purpose?**

The purpose of the audit work was to determine whether the reasons that the Department denied PTC applications complied with statutes and rules pertaining to the PTC Program. We reviewed electronic data from GenTax for the 4,998 applications that were denied for Rebate Year 2011. We also selected a random sample of 15 out of the 4,998 denied applications and compared the sample to

GenTax, hard-copy applications, and other documentation on file at the Department. Using electronic data and our sample, we assessed whether the Department had made denial determinations in accordance with statute and Program rules. We also interviewed Department staff responsible for assisting applicants who apply in person at the Department's offices to determine whether they are appropriately applying the requirements found in statute and rule.

### **How were the results of the audit work measured?**

Statute (Section 39-31-101 et seq., C.R.S) provides eligibility requirements for the PTC Program. Additionally, rebate payments made under the PTC Program are considered a public benefit, and statute [Section 24-76.5-103(9), C.R.S.] prohibits the payment of a public benefit to individuals who are not lawfully present in the United States. In order to comply with these two sections of statute, an applicant must:

- Have less than the maximum income, which for Rebate Year 2012 was \$12,481 for single applicants or \$16,476 for couples.
- Pay property taxes, rent or heat.
- Apply for a rebate within 2 years of the end of the rebate year.
- Be disabled, 65 years of age or older, or 58 years of age or older if a surviving spouse.
- Live in Colorado for the entire rebate year.
- Not be claimed as a dependent on another individual's tax return.
- Sign an affidavit stating that he or she is legally present in the United States and verify lawful presence by providing a valid social security number and a driver's license or state identification card number on the application.

### **What did the audit work find?**

We found that the Department has denied some applicants for reasons that could prevent eligible applicants from receiving benefits and are not supported by statute. According to the GenTax data we reviewed, the Department utilizes 35 different reasons to deny applications. Most of the reasons for denial are related to Program requirements, such as age or income, but we found that two reasons resulted in the Department denying applicants who met the statutory criteria for the PTC Program. Based on our review of the 4,998 applications that the Department denied for Rebate Year 2011, we identified the following problems:

- **321 (6 percent) were denied rebates solely because the address on their application did not match the address in the Department's motor vehicles database.** According to the Department, applicants frequently change addresses and do not update their address with the

Department's DMV, making address discrepancies between the PTC application and the motor vehicle database a common reason for denial. However, statute does not require recipients of the PTC Program or other public benefits to have an updated address with the DMV to receive benefits.

- **460 (9 percent) were denied rebates in part because the expenses they listed on their application exceeded their income.** However, there is no statutory provision or Program rule that indicates that an applicant's income must exceed the amount claimed in expenses. Applicants may be using funds, such as gifts, that statute [Section 39-31-101(3)(b)(I), C.R.S.] expressly excludes from being considered income for the purpose of determining eligibility for the Program. In addition, when an applicant provides documentation of receiving gift funds, the Department's practice is to subtract the gift amount from applicant's reported expenses and reprocess the application. This practice is also not supported by statute or rule.

In addition, we found that in person applicants were denied the opportunity to apply for heat rebates solely because of their heating source. PTC Program statutes and rules allow an applicant to receive heat rebates regardless of his or her heating source (e.g., natural gas, electricity, propane, or wood), as long as the applicant is otherwise eligible. However, some Department staff who are responsible for assisting applicants who apply in person reported that heating rebates are only available to applicants whose heating source is natural gas. According to these staff, when applicants apply in person at the Department's main office, Department staff review applicants' documentation of heating expenses and only permit applicants to claim heat expenses if their heating source is natural gas. Applicants who apply in person and disclose a heating source such as electric heat or propane have effectively been denied a heat expense rebate. In contrast, when applicants mail in their applications, the Department does not review the source of heat expenses and allows rebates based on any heat source. Because the Department does not track the number of in person applicants who attempted to claim a heat source other than natural gas, we were unable to determine how many applicants were improperly denied heat rebates due to this practice.

### **Why did the finding occur?**

According to the Department, comparing the address on the application with the address on file in the motor vehicle database provides a reasonability check on the applicant's identity and legal presence in the United States. Therefore, the Department denies applicants whose application address does not match the address on file in the Department's motor vehicle database because the

Department concludes that the applicants' identity and legal presence have not been verified. However, the Department has other controls to verify identity, such as matching the applicants' names, driver's license numbers and social security numbers. Further, the Department can confirm applicants' residency in Colorado and property tax status using just the addresses provided on their applications, regardless of whether they match the address on file with the DMV.

The Department denies applications if the reported expenses exceed income because it is concerned that applicants may have other sources of income that were not disclosed on the application. Although an applicant having expenses that exceed income may be a valid reason to request more information from the applicant to determine whether they reported all sources of income, without more information indicating that the applicant had unreported income, denying the application or subtracting gift amounts from the applicant's reported expenses are practices not supported by Statute (Section 39-31-101 et seq. C.R.S.) or Program rules (1 C.C.R. 201-15).

In addition, Department staff told us that their understanding was that applicants with heating sources other than natural gas are ineligible for the heat rebate because of the difficulty in determining the portion of an electric utility bill due to heating and the portion unrelated to heating. However, Department management stated that any heat source is acceptable for reimbursement and that staff should have allowed applicants to claim expenses for heat sources other than natural gas. We reviewed written training materials provided to staff responsible for assisting PTC Program applicants and found the materials did not specifically address which heat sources are allowable.

### **Why does this finding matter?**

Denial reasons that are not supported in statute or rule can create a barrier to legitimate participation in the PTC Program, which is intended to assist low-income disabled and elderly Colorado residents. Based on our review, 321 otherwise eligible applicants were denied benefits based on address mismatches. Although the Department allows applicants to provide additional information once they receive a denial letter, and some initially denied applicants may eventually be approved for a rebate, this process can result in significant delays for the applicant. For example, under the Department's current process, an applicant to whom the Department denies a rebate in March would likely have to wait until at least July for his or her first rebate payment. In addition, because Department staff improperly disallowed participants who claimed heat sources other than gas from applying, some applicants may not have applied for up to \$192 in heat rebates they could have received and may not apply for heating rebates in future years because of the incorrect information they received.

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

The Department of Revenue should ensure that Property Tax, Rent, and Heat Rebate (PTC) Program applications are only denied based on reasons supported in statute and rules by:

- a. Discontinuing the practice of requiring that applicants' addresses match the address on file in the Division of Motor Vehicles' database to be eligible for the PTC Program.
- b. Discontinuing the practices of subtracting gifts from applicants' expenses and denying applicants solely because their expenses exceed their income.
- c. Ensuring that in person applicants may claim the heat rebate for any heat source. This should include training staff to ensure that they allow applicants to claim expenses from all heat sources.

### **Department of Revenue Response:**

- a. Agree. Implementation date: January 2014.

The Department of Revenue reviewed the statutory requirements and rules and regulations governing the PTC Program, and determined that the only requirement is that the applicant's identification is valid, not that the identification's address match the application, when determining eligibility for this population. As a result, the Department will change its business rules in GenTax starting with the 2013 application period.

- b. Agree. Implementation date: January 2014.

The Department of Revenue will discontinue the practice of subtracting gifts from an applicant's expenses starting with the 2013 application period and will update its training and procedures to reflect this change. The PTC application form currently directs applicants to not include gifts received as income. The Department will change its practice of denying an application outright solely because the expenses exceed income; rather the Department will seek additional information from the applicant. In the future, the Department will amend its form to let the applicant know that if their expenses exceed income they will be required to submit information explaining why.

- c. Agree. Implementation date: January 2014.

Beginning with the 2013 application process, any form of heat will be eligible for the heat rebate. The Department will update its training and procedures to reflect this change.

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# Outreach and Program Administration

## Chapter 3

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The Property Tax, Rent, and Heat Rebate (PTC) Program (the Program) has undergone several significant changes since it was established in 1971 by House Bill 71-1040. When it was created, the PTC Program only applied to low-income Coloradoans who were 65 and older. Additionally, the original Program only provided a reimbursement for property taxes paid directly to counties or indirectly through rent and did not reimburse participants for heat expenses. Because it was created as a refundable tax credit that participants claimed on their tax returns, the Department of Revenue (the Department) was responsible for administering the Program. Over time, the PTC Program shifted from being solely a tax-based credit to reimbursing participants for expenses other than those paid directly or indirectly for property taxes and expanded to include a larger population. Specifically, the following changes have occurred:

- In 1974, the Program was expanded to include disabled individuals
- In 1975, individuals 58 and older if a surviving spouse became eligible for the Program
- In 1979, rebates for heating expenses were added to the Program

As a result of these changes to the PTC Program, much of the population served by the Program now overlaps with the population served by other public benefits programs, such as those administered by the Department of Human Services (DHS) and county human service offices, including the following:

- **Old Age Pension (OAP)**—Provides cash assistance to low-income, elderly residents
- **Low-Income Energy Assistance Program (LEAP)**—Supplements seasonal heating costs incurred by low-income individuals
- **Supplemental Security Income (SSI)**—Provides cash assistance to individuals who are unable to work due to a disability

As discussed in this chapter, because much of the population served by the PTC Program is also eligible for other public assistance programs, we reviewed the Department's coordination and outreach with other agencies that provide

assistance to low-income, elderly, and disabled Coloradoans. In addition, we assessed the efficiency and effectiveness of the Department's administration of the Program, as compared with programs administered by DHS and counties. Overall, we found that the Department could improve its outreach efforts for the PTC Program through increased coordination with counties, the Public Employees' Retirement Association (PERA), DHS, and other agencies that serve similar populations. In addition, we found that opportunities may exist to improve Program effectiveness by moving administrative responsibility for the Program from the Department to DHS. We discuss these findings in the following two sections.

## Program Outreach

The Department conducts the following outreach activities each year to ensure that potentially eligible Coloradoans are aware of the PTC Program:

- Provides assistance to walk-in applicants with filling out their PTC Program applications and makes applications available at its tax service centers located around the State.
- Maintains a webpage with information about the Program and application forms.
- Sends annual news releases to 199 newspapers and radio and television stations.
- Emails information about the Program to tax professionals and businesses in case they are aware of an individual who might be eligible.
- Includes Program information on DHS's LEAP application.
- Mails applications to the previous year's PTC participants.
- Provides applications to Division of Motor Vehicles offices and other organizations, such as public libraries, that request them.

In October 2012, the Department also contacted about 125 city and county employees, such as county administrators, to request assistance publicizing the PTC Program. The Department reports that about 30 individuals responded, mostly employees of county social services agencies, who provided a link from their counties' websites to the Department's PTC website.

## **What audit work was performed and what was the purpose?**

The purpose of the audit work was to assess the Department's outreach for the PTC Program and assess whether opportunities exist for the Department to improve outreach through increased coordination with other agencies. To accomplish this objective, we reviewed statutory requirements related to PTC Program outreach and determined whether the Department, PERA, and counties complied with the requirements. We also reviewed outreach materials distributed by the Department and interviewed Department staff and management about Program outreach activities. In addition, we interviewed staff at a sample of six county social services departments who work on OAP, as well as the communication director of PERA, to determine the outreach they conduct and their familiarity with the Program. We also interviewed the DHS managers responsible for overseeing LEAP, OAP, and SSI to identify their practices for administering benefits programs and opportunities for the Department and DHS to work together to improve PTC Program outreach. In addition, we worked with the State Demography Office to estimate the size of the population in Colorado that is eligible for the PTC Program, as well as LEAP, and the programs' participation rates within the eligible population.

## **How were the results of the audit work measured?**

Statute (Section 39-31-103, C.R.S.) requires the Department to notify individuals of the PTC Program and its requirements on an annual basis by providing forms with Program information to county social services departments and PERA. Once the Department provides these forms, the counties are required to send them to all OAP recipients, and PERA is required to send them to all of its pension recipients.

In addition, we reviewed other benefits programs' outreach efforts and compared the Department's outreach activities for the PTC Program with the following practices we identified:

- **Collaboration with other organizations.** DHS conducts outreach for OAP by coordinating with county social services offices and nongovernmental agencies, such as non-profits that work with low-income and elderly populations, to help them reach potentially eligible individuals. In addition, DHS conducts outreach for LEAP by working with energy companies, such as Xcel Energy, to distribute eligibility and application materials in customers' bills.
- **Combined outreach efforts for multiple programs.** DHS advertises elderly assistance programs, such as SSI, OAP, and the Department of Health Care Policy and Financing's Medicaid Program, through an

advertisement that airs on 9News. An individual is likely to be eligible for more than one of the programs, so combining outreach efforts reduces costs and duplication of effort.

- **Use of a combined application.** DHS uses a single, combined application to determine eligibility for most of the assistance programs it oversees, allowing applicants to apply for multiple programs with a single form and reducing the cost of processing multiple applications. Applicants can submit the combined application through county social services offices, which enter applicants' information into the Colorado Benefits Management System (CBMS), or through PEAK, an online application that is available to the public and feeds into CBMS.

### **What did the audit work find and why did it occur?**

Overall, we found that the Department could improve its PTC Program outreach by sending Program information to the pension recipients required by statute and increasing collaboration with DHS and other agencies that serve low-income elderly or low-income disabled populations. We describe these issues in the following two sections.

**The Department, PERA, and counties have not conducted outreach activities required by statute.** Specifically, the Department does not provide PTC Program forms to counties or PERA and, as a result, counties and PERA have not mailed any forms to OAP recipients. Although the Department has created a booklet on the PTC Program that would satisfy the statutory requirements, it does not send it to counties or PERA. Department staff responsible for PTC Program outreach were unaware that statute (Section 39-31-103, C.R.S.) requires the Department to provide forms to counties and PERA and stated that they could not recall the Department ever providing this information. Further, the six counties we contacted and PERA reported that they had not received any information from the Department regarding the requirement and had no knowledge of their organization ever sending any PTC Program materials to pension recipients.

According to Department and DHS management, printing and providing hard-copy forms may not be the most cost-effective way to disseminate information about the Program, and counties might have difficulty absorbing the expense of mailing additional forms. Department and DHS management reported that starting in Fiscal Year 2014 OAP applications and reapplications will include information about the PTC Program. However, OAP recipients reapply for benefits every other year, so this approach would not completely satisfy the statutory requirement that OAP recipients be notified *each* year. The Department could evaluate whether mailing PTC information to OAP recipients every year is

necessary. If the Department determines that mailing the form every year is not necessary, it should seek statutory change.

**The Department could improve its outreach for the PTC Program by increasing its coordination with other programs that serve similar populations.** Implementing cost-effective, collaborative methods for program outreach is particularly important for the PTC Program because the Department does not budget or receive funding for PTC Program outreach. We found that the Department has only met with one other organization, DHS in 2011, to discuss ways to collaborate on outreach. Department staff reported DHS had offered to assist the Department with PTC Program outreach, but no further steps were taken for the two departments to work together. With the exception of DHS including PTC Program information on the LEAP application, the Department has not combined its outreach efforts with any other state programs that serve similar populations or promoted awareness of the Program through any other applications, such as the common application used by OAP and SSI. However, the Department does mail PTC Program applications to other governmental and nongovernmental organizations, such as public libraries, when requested.

We interviewed DHS management and they provided several potential strategies for increasing coordination between the Department and DHS, including the following:

- DHS can assist the Department in collaborating with other organizations that serve similar populations to the PTC Program by organizing trainings for county staff on the PTC Program and how to apply, passing out Program brochures at events for the elderly, and helping the Department contact nongovernmental organizations that work with low-income elderly or low-income disabled populations.
- DHS could advertise the PTC Program along with outreach efforts for similar programs, such as LEAP and OAP, by including PTC Program information in advertisements for assistance programs that air on local news programs.
- DHS could incorporate information about the PTC Program into existing applications. Specifically, DHS could include PTC Program information on OAP applications and reapplications, as explained above, and add a module within DHS's combined online application system, PEAK, to refer potentially eligible individuals to the PTC Program. The PEAK System would not make the determination of eligibility, but would refer the individual to the Department if, based upon the information the individual entered into the application, he or she appeared to be eligible for a PTC rebate.

### Why does this finding matter?

Outreach to potentially eligible populations is necessary to ensure they are aware of the PTC Program and how to apply for a rebate. Inadequate outreach can lead to lower participation rates in the Program and reduce the Program's ability to provide assistance to the individuals it was created to help. Based on our review of data provided by the State Demography Office, the Department, and DHS, we estimate that only about 37 percent of eligible households were participating in the PTC Program for Rebate Year 2010. Although this participation rate is higher than the estimated 29 percent for LEAP, it still indicates that most of the eligible population is not participating in the PTC Program. The table below shows the PTC Program participation rate for Rebate Year 2010 by eligibility category.

<b>PTC Program Participation Rate by Eligibility Category Rebate Year 2010</b>			
<b>Eligibility Category</b>	<b>Estimated Eligible Households</b>	<b>Number of Participants</b>	<b>Participation Rate</b>
65 and Older	28,556	7,507	26%
58 and Older and Widowed	2,512	339	13%
Disabled	21,938	11,784	54%
<b>Total</b>	<b>53,006</b>	<b>19,630</b>	<b>37%</b>
<b>Source:</b> Office of the State Auditor analysis of data provided by the Department of Local Affairs' State Demography Office and the Department of Revenue.			

Although some eligible individuals may choose not to participate, the 37 percent participation rate in the Program indicates that many eligible individuals may not be aware of the PTC Program. In particular, our estimates indicate that the elderly population may not be aware of the Program, with only 26 percent of the eligible population participating. This result highlights the importance of the Department sending Program information to counties and PERA, so that they can forward the information to pension recipients. Further, working with agencies, such as DHS and nonprofit organizations, could help the Department to reach more eligible individuals and provide them the opportunity to apply for the Program.

In addition, overall participation in the PTC Program has fallen considerably in recent years. From Fiscal Year 2009 through Fiscal Year 2013, the number of participants decreased 20 percent, from about 26,000 to about 21,000, and the total amount of rebates paid decreased from \$8.3 million to \$6.9 million (17 percent). Although factors outside the Department's control, such as an increase in payments from other benefits programs, such as SSI, may have caused some decrease in participation, improved outreach could help ensure that declines

in participation are not due to fewer eligible individuals being aware of the Program.

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### **Recommendation No. 4:**

The Department of Revenue should improve outreach for the Property Tax, Rent, and Heat Rebate (PTC) Program by:

- a. Determining the most cost-effective and efficient methods for providing PTC Program information to recipients of Old Age Pension (OAP) and the Public Employees' Retirement Association (PERA) beneficiaries. This should include reviewing the statutory requirement that the Department send Program forms to counties and PERA every year. Based upon its conclusions, the Department should work with the General Assembly to amend statutory language, as necessary.
- b. Working with the Department of Human Services (DHS) and other governmental and nongovernmental organizations to identify low-cost methods to promote awareness of the PTC Program. These methods could include developing joint advertisements, collaborating with DHS to contact organizations that work with elderly and disabled populations, and notifying individuals about the Program on the application forms of programs that serve similar populations. As needed, the Department should develop a memorandum of understanding with DHS to outline the roles and responsibilities of each department.

### **Department of Revenue Response:**

- a. Agree. Implementation date: January 2014.

The Department of Revenue will work with the Department of Human Services to leverage their relationship with the county social services departments to provide sufficient copies of the PTC forms to Old Age Pension recipients in the most efficient and effective manner possible. It will contact PERA and other pension systems to ensure copies of the PTC form are sent to their members. The Department agrees that the statutes governing the notification of possible PTC recipients should be reviewed and possibly updated to allow for the most efficient communication.

- b. Agree. Implementation date: January 2014.

The Department will work with DHS and other interested parties to promote awareness of the PTC Program in the most cost efficient manner possible and that satisfies the Program's statutory requirements. The Department of Revenue currently performs outreach as a part of its administration of the PTC Program, which includes attending the annual Project Homeless Connect in Denver and producing news releases in January and March each year. It will add to this effort by meeting with the Department of Human Services to formalize the roles and responsibilities of each department through a memorandum of understanding.

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

- a. No response required.
- b. Agree. Implementation date: January 2014.

DHS agrees to collaborate with the Department of Revenue to identify low-cost methods to promote awareness of the PTC Program.

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## **Program Administration**

In addition to the problems we identified during the audit, we found that the administrative structure of the PTC Program presents significant challenges to the Department. As previously discussed, the PTC Program was initially created in 1971 as a tax credit to assist low-income, elderly individuals with their property tax expenses, but it has expanded over the years to include disabled individuals and provide rebates for rent and heat expenses. Because it was originally created as a tax credit, the PTC Program is administered by the Department and is structured to provide rebates only after the taxable year is completed (as is the case with tax refunds) instead of providing benefits when they are incurred, which means that participants must wait for more than a year to be reimbursed for their expenses. In addition, the Department uses the same staff and procedures that are used to process tax returns for the PTC Program. These staff are primarily trained as tax examiners and generally do not have expertise in administering public benefits programs. Further, the Department receives no appropriation for the Program and has limited funds to use to conduct outreach activities and provide assistance to PTC Program participants.

## What audit work was performed and what was the purpose?

The purpose of our audit work was to evaluate whether opportunities exist to improve the efficiency and effectiveness of the PTC Program by moving it from the Department to DHS. We compared the administration of the PTC Program with that of similar programs administered by DHS, using the following key criteria:

- **Quality of client services.** We assessed the Department's and DHS's ability to assist program applicants with the application, the ease of the application process for participants, and the timeliness of benefits payments.
- **Program outreach.** As discussed in our previous finding, we compared participation rates for the PTC Program to LEAP and reviewed Department and DHS practices for ensuring that potentially eligible individuals are aware of the programs.
- **Cost of administration.** To assess this factor we compared the administrative cost of the PTC Program to OAP. We also interviewed Department and DHS management on the potential costs of moving and integrating the Program with the existing benefits programs administered by DHS.

## What did the audit work find and why did it occur?

Overall, we found that opportunities may exist to increase the effectiveness of the PTC Program by moving the administration of the Program to DHS. As discussed below, we found that the PTC Program may be able to provide better service to Program participants and improve outreach to potential participants if it were administered by DHS. However, moving the Program could have significant up-front costs and higher ongoing administrative costs to the State and counties.

**Improved service to participants.** Programs that are administered by DHS, such as OAP and LEAP, appear to provide better service to program participants than the PTC Program in several ways:

- *Offering In Person Services.* Applicants who are eligible for OAP can get in-person assistance with the application any time of the year at county social services offices. In contrast, the Department only provides assistance to in person applicants during January.
- *More Frequent Contact with Eligible Population.* DHS and county social services office employees work with elderly and disabled individuals on a

regular basis and can help them identify all the assistance programs for which they may be eligible. In contrast, Department staff reported that they are not accustomed to working with the population that participates in the PTC Program and are primarily trained to assist citizens with tax returns.

- *Resolving Problems with Applications.* Department staff process PTC Program applications with the same system that is used for taxes and, as is the case with tax returns, do not contact applicants when they make an omission or mistake on the application. Instead, they send a letter, indicating that an applicant has been denied benefits and could provide more information if they wish to contest the decision. This can cause significant delays in payment when applicants omit information or make mistakes on the application form. In contrast, counties work with applicants to correct application errors and ensure that they receive benefits for which they are eligible.
- *Making Assistance Payments Earlier.* The PTC Program's structure as a tax rebate payment processed after each calendar year requires applicants to wait at least 15 months from when they began incurring the expenses to receive payment. Other programs administered by DHS, such as LEAP, provide participants with assistance as expenses are incurred.

**Improved outreach.** If the PTC Program were overseen by DHS and administered at the county level, like OAP, potential applicants may be more likely to be aware of the Program and apply. Although the Department could improve participation rates by improved collaboration with DHS, the Department will likely continue to face challenges in raising awareness of the PTC Program because the Program is the only public assistance program the Department administers. According to DHS staff, individuals seeking public assistance typically qualify for more than one program and are accustomed to going to their local county social services departments to learn about and apply for benefits programs. Because the Department administers the PTC Program, potential applicants may not learn that they are eligible, especially because some of them are not required to file tax returns and have little or no contact with the Department. Further, applicants for DHS programs can apply for multiple programs with one common application that can be filled out at a county social services office. If DHS administered the PTC Program, and added it to this common application system, applicants could find out if they qualify for PTC Program benefits and start receiving payments automatically.

**Increased costs.** Although moving the Program to DHS could be beneficial, DHS staff reported that making the changes to CBMS that would be required to incorporate the PTC Program would have a significant cost and could take more than a year to implement. Alternatively, if the Program was not incorporated into

CBMS, DHS would have to create a new automated system to process PTC Program applications, which would also have significant costs. In addition, if the PTC Program were moved to DHS, it might have higher ongoing administrative costs than it currently does at the Department. For example we found that DHS's administrative costs for the OAP Program are about 4 percent of total program costs compared to about 1 percent for the PTC Program as it is currently operated at the Department. DHS staff also indicated that if counties had to administer the PTC Program, they would likely seek additional state funding to cover the added cost. In considering these costs, it is important to note that the relatively low-cost administration for the PTC Program is achieved in part by providing less service to applicants and processing applications with the same system that is already used for tax returns. Further, as discussed in the previous findings, there are problems within the existing system at the Department that could also have significant costs to correct.

To determine whether the benefits of moving the PTC Program to DHS would outweigh the added costs, the Department and DHS need to perform an assessment of the potential costs of moving the Program and the potential improvements to the services provided to applicants. In addition to evaluating the possibility of moving the entire Program to DHS, this assessment also could include an evaluation of moving only certain Program responsibilities, such as outreach and application assistance. If the agencies determined that it is in the State's best interest to move the Program or certain aspects of the Program, they will need to develop a transition plan and seek statutory change.

### **Why does this finding matter?**

The General Assembly created the PTC Program to help low-income elderly and low-income disabled individuals with their living expenses. Because the Department lacks expertise with the population served by the Program and does not have the administrative structure that exists at DHS, current participants may have more difficulty applying for benefits and may experience delays in receiving benefits, and potential participants might not be as likely to learn about the Program and apply. By assessing the possibility of transferring the PTC Program from the Department to DHS, both agencies can ensure that the State is providing the most cost-effective services to PTC Program participants.

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

The Department of Revenue and the Department of Human Services (DHS) should work together on options to ensure the Property Tax, Rent, and Heat Rebate (PTC) Program operates as effectively as possible by:

- a. Evaluating the potential benefits and costs of moving the PTC Program or some Program responsibilities to DHS and determining if doing so would be in the best interests of the State and Program participants.
- b. Reporting the results of the evaluation recommended in part “a” to the appropriate General Assembly Committees of Reference and the Legislative Audit Committee and working with the General Assembly as needed on statutory changes if the determination is made that the PTC Program, either in whole or in part, should be transferred to DHS.

### **Department of Revenue Response:**

- a. Agree. Implementation date: January 2015.

The Department of Revenue agrees that evaluating whether the PTC Program should be moved in whole or part to the Department of Human Services needs to occur. It will work with the Department of Human Services to identify the benefits and consequences of such a move.

- b. Agree. Implementation date: January 2015.

The Department of Revenue will, with the Department of Human Services, report to the appropriate committees of reference and the Legislative Audit Committee the benefits and consequences of moving the PTC Program.

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

- a. Partially agree. Implementation date: January 2015.

DHS believes that a thorough analysis of the benefits and costs of moving the PTC Program from the Department of Revenue to DHS will require a substantial effort that may not be necessary, based on the successful implementation of Recommendation No. 4. Rather than undergoing the analysis concurrent to the expanded efforts of outreach, DHS agrees to implement Recommendation No. 5 part “a” sequentially, and only if the outreach efforts are found to be ineffective.

- b. Partially agree. Implementation date: July 2015.

DHS agrees that, if it is determined by both DHS and the Department that the PTC Program, either in whole or in part, should be transferred

to DHS, it will work with the Department to develop a transition plan and seek statutory change necessary to transfer Program responsibilities to DHS. Any such a decision will be considered in the context of the analysis of the effectiveness of the outreach efforts as described in Recommendation No. 4 and as referred to in our response to Recommendation No. 5 part “a” above.

***Auditor’s Addendum***

***Although the Department of Human Services (DHS) only agrees to implement Recommendation No. 5 if outreach efforts described in Recommendation No. 4, part “b” are found to be ineffective, our recommendation to perform an analysis of the costs and benefits of moving the PTC Program from the Department of Revenue to DHS was based only in part on the potential to improve outreach. Our audit also identified potential service improvements that could be achieved by moving the Program and therefore, the analysis described in Recommendation No. 5 would be beneficial even if Program outreach improves with increased coordination between the agencies.***

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