



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER  
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500  
MADISON, WISCONSIN 53703  
(608) 266-2818  
FAX (608) 267-0410  
Leg.Audit.Info@legis.state.wi.us

December 10, 2002

Senator Gary R. George and  
Representative Joseph K. Leibham, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator George and Representative Leibham:

We have completed follow-up to our audit of the Wisconsin Works (W-2) program (report 01-7), as first requested by Senator Moore. Specifically, we reviewed the processes used by the Department of Workforce Development and W-2 agencies to sanction W-2 program participants.

We reviewed statewide data on sanctions issued by W-2 agencies and found that the overall rate at which participants are sanctioned has declined from 31.4 percent of the statewide caseload in October 1999 to 20.0 percent in October 2002. However, Milwaukee County W-2 agencies continue to sanction at rates higher than other agencies.

The Department has taken reasonable and appropriate steps to remedy problems associated with the inappropriate sanctioning of W-2 participants. However, a significant number of errors persist. For example, although W-2 agencies identified 614 inappropriately sanctioned cases from September 1997 through March 2001 that resulted in underpayments of \$115,792, we estimate that W-2 agencies made errors in assessing the appropriateness of sanctions imposed for an additional 127 cases, which also resulted in underpayments. Furthermore, we estimate that sanction policy was applied incorrectly without resulting in underpayments for an additional 320 cases. The timeliness of W-2 agency reviews of inappropriate sanctions is also a concern. We found that W-2 agencies had not yet reviewed 168 of the 263 potentially inappropriate sanctions issued since April 2001; half of these were issued before November 2001.

We have included a series of recommendations to address the ongoing problems we identified, including a recommendation for the Department to report to the Joint Legislative Audit Committee by May 1, 2003, on its progress in addressing these concerns.

We appreciate the courtesy and cooperation extended to us by the Department of Workforce Development and W-2 agencies in conducting our review.

Sincerely,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/PS/bm

## SANCTIONING OF WISCONSIN WORKS (W-2) PARTICIPANTS

The Department of Workforce Development contracts with county and private agencies to administer the Wisconsin Works (W-2) program, which was created by 1995 Wisconsin Act 289 to help participants achieve economic self-sufficiency through employment. The program took effect statewide in September 1997. Program participants, who are primarily women with dependent children, earn wages or receive cash grants and program services based on their employment status as determined by W-2 agencies.

The W-2 agencies determine participant eligibility, place participants in job categories, coordinate employment and training activities, and issue cash benefits. Participants are assigned to either subsidized or unsubsidized placements, based on their level of preparedness for employment. Subsidized placements include:

- transitional placements, which provide work practice experience and training for participants who are unable to perform independent, self-sustaining work or work associated with W-2 community service or trial jobs, and for which the monthly cash grant is \$628;
- community service jobs, which provide work experience and training to participants who are able to perform some job duties and are expected to eventually move into trial jobs or unsubsidized employment, and for which the monthly cash grant is \$673;
- trial jobs, which provide on-the-job work experience and training and may become permanent, unsubsidized positions, and for which participants earn not less than the state or federal minimum wage for every hour worked, and the employer receives a subsidy of no more than \$300 per month for each participant who works full-time; and
- custodial parents of infants, who are not required to work outside the home until their infants are older than 12 weeks, and who receive a monthly cash grant of \$673.

Except for custodial parents of infants, the monthly cash grants participants in subsidized placements receive are contingent upon compliance with work and training requirements. If a participant is noncompliant, W-2 agencies may sanction participants \$5.15 per hour for each hour they miss work or fail to participate in a required activity without good cause. Section DWD 12.20, Wis. Adm. Code, gives W-2 agencies substantial discretion in determining what constitutes good cause and, consequently, when to issue sanctions. Additional sanctions may be imposed on participants who commit fraud in obtaining benefits, or who intentionally violate other program requirements.

Participants in unsubsidized placements earn market wages at their jobs, but do not receive cash benefits. However, they are eligible to continue to receive W-2 case management services that are intended to assist them in finding or retaining employment, increasing their skills or wages, and overcoming barriers to employment that can include mental health problems and substance abuse. State statutes prohibit sanctioning of participants who are in unsubsidized case management placements.

In our April 2001 evaluation of the W-2 program (Report 01-7), we identified instances in which participants had been inappropriately sanctioned by W-2 agencies. As a result, we recommended that the Department review sanctions imposed by W-2 agencies since the inception of the W-2 program

and report to the Joint Legislative Audit Committee on its plans to compensate participants who were inappropriately sanctioned, the procedures it would employ to prevent W-2 agencies from imposing inappropriate sanctions in the future, and how it would monitor W-2 agencies to ensure ongoing compliance with established laws and policies. We evaluated the progress made in addressing our recommendations by reviewing the Department's and W-2 agencies' efforts to identify and remedy inappropriate sanctions that have been imposed. In conducting this review, we:

- analyzed statewide data on sanctions issued by W-2 agencies since October 1999;
- reviewed the procedures used by the Department and W-2 agencies to identify inappropriate sanctions and compensate participants who were sanctioned inappropriately;
- interviewed Department and W-2 agency staff to gain an understanding of the sanction process; and
- reviewed more than 300 individual cases to determine the extent to which inappropriate sanctions imposed since September 1997 have been identified and corrected by the W-2 agencies.

### **Participant Sanction Rates**

From October 1999 through October 2002, every public and private W-2 agency, except the Bad River Band of Chippewa, sanctioned at least one program participant. As shown in Table 1, the overall percentage of participants sanctioned has decreased from 31.4 percent of the statewide cash benefit caseload in October 1999 to 20.0 percent in October 2002. Milwaukee County agencies continue to sanction participants at a higher rate than other agencies in the state, but the difference has narrowed over time.

---

Table 1

#### **Percentage of Participants Sanctioned**

<u>Area of State</u>	<u>October 1999</u>	<u>October 2000</u>	<u>October 2001</u>	<u>October 2002</u>
Milwaukee County	33.3%	24.2%	22.6%	21.6%
Balance of state	20.3	13.9	14.3	14.2
Statewide average	31.4	21.8	20.6	20.0

---

We reviewed sanction rates for the 35 W-2 agencies with an average of at least 10 participants receiving cash benefits per month from October 1999 through October 2002. Table 2 shows the nine agencies that sanctioned at least 20 percent of their participants. YW Works—a private agency serving portions of Milwaukee County—had the highest sanction rate at 40.1 percent. In contrast, 14 agencies sanctioned fewer than 10 percent of their participants. Data for all 35 agencies is provided in Appendix 1.

Table 2

**Agencies with the Highest Percentage of Participants Sanctioned<sup>1</sup>**  
October 1999 through October 2002

<u>County/Agency</u>	<u>Average Number of Participants per Month</u>	<u>Average Number Sanctioned per Month</u>	<u>Percentage of Participants Sanctioned</u>
Milwaukee Region 1 - YW Works	665	267	40.1%
Monroe County/Workforce Conexions <sup>2</sup>	23	7	30.2
Milwaukee Region 3 - OIC-GM <sup>3</sup>	1180	350	29.6
Milwaukee Region 6 - Maximus	1207	281	23.3
Kenosha County	210	48	22.9
Dane County	363	82	22.6
Milwaukee Region 2 - UMOS <sup>4</sup>	875	181	20.7
Outagamie County	48	10	20.4
Waupaca County	21	4	20.0

<sup>1</sup> Includes those agencies that sanctioned more than 20 percent of their caseload from among the agencies with an average of 10 or more participants per month.

<sup>2</sup> Administered by the Monroe County human services department from September 1997 through December 1999, and Workforce Connections, a private corporation, thereafter.

<sup>3</sup> Opportunities Industrialization Center of Greater Milwaukee.

<sup>4</sup> United Migrant Opportunity Services, Inc.

As noted, participants may be sanctioned \$5.15 per hour for missed activities, up to their total monthly grant amount. We reviewed the dollar amounts sanctioned for the 37 agencies with an average of 10 or more participants from March 2000 through October 2002. The time period for this analysis differs from the prior analysis because relevant information on full benefit amounts for all participants was not available prior to March 2000.

As shown in Table 3, 10 of 37 agencies (27.0 percent) imposed sanctions that averaged more than 35 percent of their participants' monthly benefits. Milwaukee County Regions 4 and 5, which were administered by Employment Solutions, Inc. (ESI) through December 2001, imposed the highest average monthly sanctions, but all Milwaukee County W-2 agencies were among the agencies with the highest percentage of benefits sanctioned. The percentage of benefits sanctioned for each of the 37 W-2 agencies is provided in Appendix 2.

Table 3

**Sanctions as a Percentage of Benefit Levels<sup>1</sup>**  
 March 2000 through October 2002

<u>County/Agency</u>	<u>Average Sanction Amount</u>	<u>Percentage of Benefit Sanctioned</u>
Milwaukee Region 5 - ESI/UMOS <sup>2</sup>	\$373	56.7%
Milwaukee Region 4 - ESI/YW Works <sup>2</sup>	352	53.1
Milwaukee Region 6 - Maximus	302	46.9
Milwaukee Region 3 - OIC-GM	299	46.7
Racine County	297	45.7
Milwaukee Region 2 - UMOS	284	43.4
Shawano County - Shawano County Job Center, Inc.	269	42.1
Milwaukee Region 1 - YW Works	270	42.0
Dane County	252	38.3
Rock County	243	37.5

<sup>1</sup> Includes those agencies with greater than 35 percent of benefits sanctioned from among agencies with an average of 10 or more participants per month.

<sup>2</sup> Milwaukee Region 4 and Region 5 were administered by Employment Solutions, Inc., from September 1997 through December 2001 and thereafter by YW Works and UMOS, respectively.

We also reviewed sanction data by ethnicity. As shown in Table 4, a greater percentage of African American and Hispanic participants were sanctioned statewide in 2001 as compared to other ethnic groups.

Table 4

**Participants Issued Sanctions Statewide, by Ethnicity  
2001**

<u>Ethnicity</u>	<u>W-2 Participants</u>	<u>Participants with Sanctions</u>	<u>Percentage</u>
African American	9,211	4,346	47.2%
American Indian/Eskimo	237	70	29.5
Asian or Pacific Islander	183	52	28.4
Hispanic Origin	1,419	665	46.9
Southeast Asian	29	4	13.8
White	4,724	1,095	23.2
Other	44	12	27.3
Unknown	<u>2,539</u>	<u>991</u>	39.0
Total	18,386	7,235	39.4%

**Department Actions to Resolve Inappropriate Sanctions**

As noted, by statute participants can only be sanctioned for missed work or training during the portion of the month when these activities are required under community service jobs or transitional placements. As a result of our April 2001 recommendations, the Department reviewed sanction practices and determined that inappropriate sanctions most often occurred when custodial parents of infants or participants receiving only case management services were also in subsidized employment positions, such as community service jobs or transitional placements, during the same month. Consequently, it implemented changes to the Client Assistance for Re-employment and Economic Support (CARES) computer system, which tracks participant placements and work histories, to reduce the possibility of inappropriate sanctions by shortening from one month to one week the time period for which agency staff can enter hours of participant non-participation. In addition, the Department issued two operations memoranda in April and August 2001 to provide further guidance on the sanctioning process. Based on these criteria, the Department identified those participants who may have been inappropriately sanctioned from September 1997 (the first month of W-2 implementation statewide) through June 2002. The Department notified the responsible W-2 agencies and requested the agencies to review each case and issue corrective payments, as necessary. The W-2 agencies completed their review of sanctions issued prior to April 2001, but not all agencies have finished reviewing potentially inappropriate sanctions occurring after that time.

## Sanctions Imposed Prior To Our April 2001 Review

The Department identified 2,041 instances of potentially inappropriate sanctions that were imposed statewide from September 1997 through March 2001. As shown in Table 5, the W-2 agencies reviewed these cases to determine whether inappropriate sanctions were imposed and issued corrective payments for 614, or 30.1 percent, of the cases.

---

Table 5

### Participants Issued Corrective Payments, by Placement Type September 1997 through March 2001

<u>Placement Type</u>	<u>Number</u>	<u>Total Inappropriate Sanction Amount</u>	<u>Average Inappropriate Sanction Amount</u>
Custodial parents of infants	138	\$ 29,743	\$216
Case management	<u>476</u>	<u>86,049</u>	181
Total	614	\$115,792	\$189

---

As shown in Table 6, 17 W-2 agencies identified inappropriate sanctions issued through March 2001. Three agencies serving Milwaukee County—YW Works, Maximus, and Opportunities Industrialization Center of Greater Milwaukee (OIC-GM)—reported issuing more than 100 inappropriate sanctions each, and these three agencies accounted for 74.4 percent of the total number of inappropriate sanctions reported.

Table 6

**W-2 Agencies Identifying Inappropriate Sanctions**  
September 1997 through March 2001

<u>County/Agency</u>	<u>Number of Inappropriate Sanctions Identified</u>	<u>Total Inappropriate Sanction Amount</u>	<u>Average Inappropriate Sanction Amount</u>
Milwaukee Region 1 - YW Works	184	\$ 22,623	\$123
Milwaukee Region 6 - Maximus	158	51,210	324
Milwaukee Region 3 - OIC-GM	115	18,683	162
Milwaukee County - Region not identified <sup>1</sup>	35	7,649	219
Milwaukee Region 4 – ESI	30	4,150	138
Dane County	27	2,011	74
Milwaukee Region 5 - ESI	25	3,353	134
Racine County	16	1,256	79
Milwaukee Region 2 - UMOS	13	4,408	339
Eau Claire County	2	68	34
Waupaca County	2	11	6
Kenosha County	1	151	151
Outagamie County	1	62	62
Shawano County - Shawano County Job Center, Inc.	1	59	59
Rusk County	1	42	42
Rock County	1	30	30
Douglas County	1	21	21
Walworth County	<u>1</u>	<u>5</u>	5
Total	614	\$115,792	\$189

<sup>1</sup> Represents Milwaukee County cases for which the responsible region was not identified.

W-2 agencies indicated they issued corrective payments totaling \$110,475 to participants that had been inappropriately sanctioned, and they were unable to locate 17 former participants who were owed a total of \$5,317. The total amount inappropriately sanctioned by W-2 agencies represents less than 0.1 percent of the cash benefits paid to participants during this time period.

It should be noted that during the course of their review of potentially inappropriate sanctions, two Milwaukee W-2 agencies—Maximus and YW Works—incorrectly issued corrective payments to 218 participants, including:

- \$28,232 paid to 149 participants who had been inappropriately sanctioned but to whom the agencies paid a larger corrective payment than they were entitled; and
- \$41,738 paid to 132 participants who had not been inappropriately sanctioned.

Both Maximus and YW Works indicated that these errors were due to miscommunication with the Department. Instead of individually reviewing the cases identified by the Department and determining whether the sanctions were inappropriate, these two agencies made corrective payments to all of the participants identified. The Department contends these overpayments were made as a result of a failure by these two agencies to follow W-2 policies, and therefore prohibited the agencies from recouping these amounts from the affected participants. In addition, to compensate for the inappropriate expenditure of W-2 funds, the Department required Maximus and YW Works to repay \$10,438 and \$59,532, respectively, to the Department from non-W-2 funds in August 2002.

### **Sanctions Imposed After Our April 2001 Review**

In response to concerns raised in our April 2001 report, beginning in April 2001 both the Department and W-2 agencies began to identify potential instances of inappropriate sanctions by examining cases in which custodial parents of infants or participants receiving only case management services were also in subsidized employment positions during the same month. The Department requires that W-2 agencies review quarterly the sanctions they imposed and issue a corrective payment when they determine that a participant has been inappropriately sanctioned. In addition, approximately six weeks after the end of each quarter, the Department creates a list of potentially inappropriate sanctions that may have been missed by the agencies and forwards the list to the W-2 agencies for further review. Department staff indicate that they wait six weeks to provide this list in order to permit the W-2 agencies adequate time to identify and resolve inappropriate sanctions.

From April 2001 through June 2002, the Department identified 263 potentially inappropriate sanctions for the W-2 agencies to review. As shown in Table 7, as of October 25, 2002, the agencies had reviewed and reported back to the Department on 95, or 36.1 percent, of these cases. Milwaukee County accounts for 146 of the 168 outstanding cases.

Table 7

**Potentially Inappropriate Sanctions Reviewed, by W-2 Agency**  
April 2001 through June 2002

<u>County/Agency</u>	<u>Number to Review</u>	<u>Reviews Completed</u>	<u>Percentage of Reviews Completed</u>
Milwaukee Region 4 - ESI/YW Works <sup>1</sup>	44	17	38.6%
Milwaukee Region 5 - ESI/UMOS <sup>1</sup>	41	22	53.7
Milwaukee Region 6 - Maximus	39	14	35.9
Milwaukee Region 2 - UMOS	38	13	34.2
Dane County	28	16	57.1
Milwaukee Region 1 - YW Works	22	1	4.5
Milwaukee Region 3 - OIC-GM	22	0	0.0
Milwaukee County - Region not identified <sup>2</sup>	10	3	30.0
Racine County	4	4	100.0
Kenosha County	3	2	66.7
Outagamie County	3	1	33.3
Marathon County	2	0	0.0
Rock County	2	0	0.0
Douglas County	1	1	100.0
Monroe County	1	1	100.0
Dunn County	1	0	0.0
Sheboygan County	1	0	0.0
Waukesha County - Concera	<u>1</u>	<u>0</u>	0.0
Total	263	95	36.1%

<sup>1</sup> Milwaukee Region 4 and Region 5 were administered by Employment Solutions, Inc., from September 1997 through December 2001 and thereafter by YW Works and UMOS, respectively.

<sup>2</sup> Represents Milwaukee County cases for which the responsible region was not identified.

As shown in Table 8, the W-2 agencies determined that 32 of the 95 cases (33.7 percent) reviewed had been sanctioned inappropriately. These determinations were made by eight W-2 agencies, which in turn issued \$5,702 in corrective payments to the affected participants.

Table 8

**Participants Issued Corrective Payments, by Placement Type**  
 April 2001 through June 2002

<u>Placement Type</u>	<u>Number</u>	<u>Amount</u>	<u>Average</u>
Custodial parents of infants	7	\$1,232	\$176
Case management	<u>25</u>	<u>4,470</u>	179
Total	32	\$5,702	\$178

Because 168 cases have yet to be reviewed by the W-2 agencies, the extent to which these cases may result in additional corrective payments being issued is unknown. The lack of timeliness associated with the review of many of these cases is of concern. As shown in Table 9, 83 cases have been outstanding for more than one year. Five agencies account for 66.1 percent of the cases awaiting review. As of October 25, 2002:

- YW Works had not reviewed 27 cases in Region 4 and 21 cases in Region 1, including one from April 2001;
- UMOS had not reviewed 25 cases in Region 2 and 19 cases in Region 5, including nine from July 2001;
- Maximus had not reviewed 25 cases, including two from April 2001;
- OIC-GM had not reviewed 22 cases, including four from April 2001; and
- Dane County had not reviewed 12 cases, including one from June 2001.

Table 9

**Cases with Potentially Inappropriate Sanctions Awaiting Review<sup>1</sup>**  
 April 2001 through June 2002

<u>Benefit Period</u>	<u>Number Awaiting Review</u>	<u>Percentage of Total Awaiting Review</u>
Before November 2001	83	49.4%
November 2001	7	4.2
December 2001	4	2.4
January 2002	5	3.0
February 2002	7	4.2
March 2002	8	4.7
April 2002	19	11.3
May 2002	19	11.3
June 2002	<u>16</u>	<u>9.5</u>
Total	168	100.0%

<sup>1</sup> As of October 25, 2002.

It should be noted that YW Works and UMOS assumed administrative responsibilities from ESI for Milwaukee Region 4 and Region 5, respectively, beginning in January 2002. Thus, ESI was responsible for the inappropriate sanctions issued in these two regions before 2001.

**Review of W-2 Agency Efforts to Correct Inappropriate Sanctions**

We reviewed a random sample of more than 300 cases that W-2 agencies determined to have been appropriately sanctioned and for which no corrective payments were issued to determine whether W-2 agencies had correctly identified cases that may have been inappropriately sanctioned. To assess W-2 agency performance, we reviewed cases from September 1997 through March 2001 (representing the period before our April 2001 report was released) and from April 2001 through June 2002 (representing the period after agencies became aware of the problems that led to the imposition of inappropriate sanctions). During both time periods, we found that W-2 agencies had not consistently identified instances in which participants had been inappropriately sanctioned.

**Cases Sanctioned Prior to April 2001**

As noted, the W-2 agencies reviewed 2,041 cases from September 1997 through March 2001 and identified 614 instances requiring corrective payments due to sanctions. We randomly selected a sample from among the remaining 1,427 cases the W-2 agencies identified as having been

appropriately sanctioned in order to verify the accuracy of the agencies' review. Using data contained in the CARES computer system, we examined the program participation history, W-2 placement status, non-participation information, sanction amounts, cash benefit amounts, and case comments for each participant to verify whether the sanctions imposed were appropriate.

As shown in Table 10, based on these data, we found that W-2 agencies had issued appropriate sanctions for an estimated 760 of the 1,427 cases, or 53.3 percent. However, we found that an estimated 447 (31.3 percent) of cases that W-2 agencies previously determined to have been appropriately sanctioned were, in fact, sanctioned inappropriately. However, the inappropriate sanctions resulted in underpayments for only an estimated 127 cases (8.9 percent). Participants in these 127 cases should have received corrective payments averaging \$64.30 and totaling an estimated \$8,166.

Table 10

**Accuracy of Sanctions Determined to be Appropriate by W-2 Agencies<sup>1</sup>**  
September 1997 through March 2001

<u>Determination</u>	<u>Custodial Parents of Infants</u>	<u>Case Management</u>	<u>Total</u>	<u>Percentage of Cases</u>
Sanctions were appropriate	73	687	760	53.3%
Sanctions were inappropriate				
No corrective payment required	27	293	320	22.4
Corrective payment required	<u>37</u>	<u>90</u>	<u>127</u>	<u>8.9</u>
Subtotal	64	383	447	31.3
Unable to determine appropriateness	<u>69</u>	<u>151</u>	<u>220</u>	<u>15.4</u>
Total	206	1,221	1,427	100.0%

<sup>1</sup> Estimate based on a review of a random sample of 303 of 1,427 potentially inappropriately sanctioned cases.

In addition, we found that inappropriate sanctions imposed on 22.4 percent of the participants, or an estimated 320 participants, did not require a corrective payment because these participants received cash benefits at least equal to the amount they were entitled to receive. In these cases, rather than correctly prorate benefit amounts when participants moved from subsidized placements to unsubsidized placements during the same month, W-2 agencies applied sanctions incorrectly to reduce participants' benefits to appropriate levels.

Finally, we were unable to determine whether sanctions were appropriate for an estimated 220 cases (15.4 percent), because incomplete or contradictory information in the CARES computer system made such a determination impossible. For example, data on placement type, participation history, and hours of non-participation were often insufficient to allow us to render a judgement on the appropriateness of the sanctions imposed.

We found that the inappropriate sanctions imposed but not corrected from September 1997 through March 2001 in our sample were limited to W-2 agencies in five counties. As shown in Table 11, 90.6 percent of these cases were in Milwaukee County.

Table 11

**Percentage of Sampled Cases Inappropriately Sanctioned but not Corrected<sup>1</sup>**  
September 1997 through March 2001

<u>Agency/Region</u>	<u>Number of Cases Requiring Corrective Payment</u>	<u>Number of Cases Not Requiring Corrective Payment</u>	<u>Total Inappropriate Sanctions</u>	<u>Percentage of Total</u>
Milwaukee County				
Milwaukee Region 5 - ESI/UMOS <sup>2</sup>	7	23	30	31.6%
Milwaukee Region 4 - ESI/YW Works <sup>2</sup>	8	15	23	24.2
Milwaukee Region 1 - YW Works	6	7	13	13.7
Milwaukee Region 3 - OIC-GM	2	8	10	10.5
Milwaukee Region 2 - UMOS	1	3	4	4.2
Milwaukee Region 6 - Maximus	0	3	3	3.2
Milwaukee County - Region not identified <sup>3</sup>	<u>0</u>	<u>3</u>	<u>3</u>	<u>3.2</u>
Subtotal	24	62	86	90.6
Kenosha County	2	3	5	5.3
Dane County	0	2	2	2.1
Eau Claire County	1	0	1	1.0
Dodge County	<u>0</u>	<u>1</u>	<u>1</u>	<u>1.0</u>
Total	27	68	95	100.0%

<sup>1</sup> Based on a review of a random sample of 303 potentially inappropriately sanctioned cases.

<sup>2</sup> Milwaukee Regions 4 and 5 were administered by Employment Solutions, Inc., from September 1997 through December 2001 and thereafter by YW Works and UMOS, respectively.

<sup>3</sup> Represents Milwaukee County cases for which the responsible region was not identified.

## Cases Sanctioned from April 2001 through June 2002

Based on our findings that W-2 agencies were not correctly identifying all instances of inappropriate sanctions, we reviewed all cases W-2 agencies had deemed to be appropriate from among the potentially inappropriate sanctions issued from April 2001 through June 2002. As shown in Table 12, we found that W-2 agencies had correctly determined that sanctions were appropriate for 30 of 63 cases. In contrast, we found that 22 of 63 cases that W-2 agencies reviewed and determined to have been appropriately sanctioned were, in fact, sanctioned inappropriately. These inappropriate sanctions resulted in underpayments for 10 participants (15.9 percent). Participants in these 10 cases should have received corrective payments averaging \$75.45 and totaling \$754.50. The error rate among W-2 agencies in identifying inappropriate sanctions with underpayments increased from 8.9 percent for cases prior to April 2001 to 15.9 percent for cases after this period. Likewise, the extent to which we were unable to determine whether sanctions were appropriate increased from 15.4 percent for cases prior to April 2001 to 17.5 percent for cases after this period. These trends are of concern because it could be expected that these rates would decline after April 2001, when W-2 agencies became aware of specific problems with inappropriate sanctions.

Table 12

### Accuracy of Sanctions Determined to be Appropriate by W-2 Agencies April 2001 through June 2002

<u>Case Determination</u>	<u>Custodial Parents of Infants</u>	<u>Case Management</u>	<u>Total</u>	<u>Percentage of Cases</u>
Sanctions were appropriate	0	30	30	47.6%
Sanctions were inappropriate				
No corrective payment required	2	10	12	19.0
Corrective payment required	<u>0</u>	<u>10</u>	<u>10</u>	<u>15.9</u>
Subtotal	2	20	22	34.9
Unable to determine appropriateness	<u>4</u>	<u>7</u>	<u>11</u>	<u>17.5</u>
Total	6	57	63	100.0%

We found that six W-2 agencies in four counties did not correct inappropriate sanctions imposed from April 2001 through June 2002. As shown in Table 13, 59.1 percent of these cases occurred in Milwaukee County. However, at 31.9 percent, Dane County had the highest uncorrected inappropriate sanction rate among the six W-2 agencies we reviewed. It should be noted that this analysis may be incomplete because, as noted, W-2 agencies have completed their review for only 95 of the 263 cases identified by the Department during this time period.

Table 13

**Percentage of Cases Inappropriately Sanctioned but not Corrected**  
 April 2001 through June 2002

<u>Agency/Region</u>	<u>Number of Cases Requiring Corrective Payment</u>	<u>Number of Cases Not Requiring Corrective Payment</u>	<u>Total Inappropriate Sanctions</u>	<u>Percentage of Total</u>
Milwaukee Region 5 - ESI/UMOS <sup>1</sup>	2	4	6	27.3%
Milwaukee Region 2 - UMOS	3	2	5	22.7
Milwaukee Region 4 - ESI/YW Works <sup>1</sup>	<u>0</u>	<u>2</u>	<u>2</u>	<u>9.1</u>
Subtotal	5	8	13	59.1
Dane County	5	2	7	31.9
Kenosha County	0	1	1	4.5
Racine County	<u>0</u>	<u>1</u>	<u>1</u>	<u>4.5</u>
Total	10	12	22	100.0%

<sup>1</sup> Milwaukee Regions 4 and 5 were administered by Employment Solutions, Inc., from September 1997 through December 2001 and thereafter by YW Works and UMOS, respectively.

**Addressing Ongoing Problems With Sanctioning**

The Department has taken several reasonable and appropriate steps to attempt to remedy the problems associated with the inappropriate sanctions issued by W-2 agencies noted in our April 2001 evaluation (report 01-7). However, despite these efforts, we found that W-2 agencies continue to inappropriately sanction participants' benefits and fail to identify and correct a substantial percentage of these errors.

Our review of the progress made in identifying and addressing inappropriate sanctions raises four concerns. First, some inappropriate sanctions have resulted in W-2 program participants not receiving the benefits to which they are entitled, which may act to delay their progress and affect their efforts to achieve economic self-sufficiency. Second, sanctions applied incorrectly to reduce participants' benefits to appropriate levels without depriving participants of cash benefits remain a problem because they artificially inflate agency sanction rates, which provides an inaccurate picture of the rate at which participants are failing to comply with work and training requirements. This may limit the ability of administrators and policy makers to obtain valid sanction information on which to base programmatic decisions. Third, missing information and contradictory information about participant activities in CARES precludes a determination of the appropriateness of many sanctions, which raises concerns about the accuracy and utility of the information entered into CARES and limits its usefulness as a tool for overseeing W-2 agency actions. Finally, because a substantial percentage of potentially

inappropriate sanctions identified by the Department has not been reviewed in a timely manner by some W-2 agencies, the potential benefit of correcting inappropriate sanctions is substantially reduced. Therefore, to address these ongoing concerns, we recommend the Department of Workforce Development:

- work with W-2 agencies to address the additional inappropriate sanctions we identified and require W-2 agencies to issue corrective payments to affected participants;
- provide additional training to W-2 agencies on the appropriate use of sanctions and ensure W-2 agencies update participant placement information in CARES in a timely manner;
- ensure W-2 agencies enter sufficient information in CARES when a sanction is imposed, including the dates and hours for which a participant did not complete required activities when in a subsidized placement, so that the appropriateness of the sanction can be clearly determined upon later review;
- require W-2 agencies to review potentially inappropriate sanctions identified by the Department in a timely manner;
- enhance the general penalty provisions in current provider contracts by including specific penalty provisions in future contracts to encourage W-2 agencies to more closely monitor their imposition of sanctions and enhance their efforts to avoid inappropriately sanctioning participants; and
- report on the results of its efforts in addressing these issues to the Joint Legislative Audit Committee by May 1, 2003.

### **Sanction Policy**

The Department typically clarifies and communicates changes in program policies through operations memoranda and updates to its W-2 Manual, which provide guidance to agency staff on appropriate procedures when managing W-2 cases. Both the manual and relevant memoranda regarding sanctions indicate that decisions on whether to sanction participants should be based on the extent of the participants' noncompliance with program requirements, and that agency staff should work with participants to eliminate the need for sanctions.

In addition to these methods of communication, the Department occasionally issues letters to specific W-2 agencies with requests for information or instructions for improving program operations that reference specific program policies. For example, in February 2002, the Department issued letters to YW Works and UMOS regarding case management issues, including appropriate rates of sanctioning, in Milwaukee County Regions 4 and 5. In its letters to these two agencies, the Department set "transition targets" for sanctioning between 15 and 20 percent of W-2 participants receiving cash benefits by the end of March 2002.

Department officials indicate this directive was not intended as a communication of Department policy regarding sanctions; rather, it was intended to provide examples of areas in which the agencies needed to provide assurances that they were providing appropriate services to participants. For example, the Department reported that 17.1 percent of participants in Region 4 were sanctioned in

July 2001, but only 4.0 percent were sanctioned in January 2002. Both the Department and the W-2 agencies have acknowledged that this decrease, which the Department believes serves as an indicator that an agency may not be appropriately engaging participants in work activities, was due at least partially to the transition in administration from ESI to the new providers.

Department and W-2 agency staff indicate that the Department may require a corrective action plan from an agency if the Department determines that an agency is applying sanction policies inappropriately. However, the Department did not require a corrective action plan in Regions 4 or 5 for this purpose because the sanction rate in these regions rose in subsequent months. W-2 agency staff with whom we spoke indicated that the only criteria they have ever used to determine whether to assess sanctions has been participant noncompliance. However, YW Works and UMOS staff indicated that because of uncertainty with a number of cases that had been previously managed by ESI, they were conservative in imposing sanctions until they had completely assessed these participants' employability.

With the implementation of performance standards as the basis for determining W-2 agency bonus payments in January 2000, the incentive that once existed in Milwaukee County to sanction participants as a way of increasing the amount of unspent funds, and therefore the level of bonuses, has been eliminated. However, some have expressed concern about the perception that the Department communicates sanction directives indirectly through its budget process based on financial considerations. For example, prior to 2002, contract amounts for each W-2 agency were determined without reducing the total by an estimate of the amount of cash benefits that would be withheld from participants through sanctions. However, beginning with 2002-2003 W-2 contracts, the amount allocated to W-2 agencies was reduced based on their historical sanction rates. Some have viewed this as establishing an implicit target rate for sanctioning participants.

Some have also expressed concern that the Department may be encouraging sanctions as a way of limiting cash benefit expenditures, especially as some agencies face funding shortfalls due to increasing caseloads. For example, in a March 2002 letter from YW Works to the Department, W-2 agency officials indicated that they believed the Department's use of targets for participant sanctions implied that "the primary goal of the Region 4 transition is caseload reduction and sanctions" rather than "addressing the issues that prevent customers from making a successful transition to employment." To avoid similar confusion in the future, the Department may wish to consider referencing existing policies and procedures in communications about participant sanctions, which the Department maintains have been limited to instances of participant noncompliance.

Finally, questions have also been raised about the source of funds used to pay participants who were inappropriately sanctioned. We found that funds budgeted for participant benefits in W-2 agencies' current contracts have been used to fund these corrective payments regardless of whether the sanctions were imposed under the current or previous contracts. As a result, in some instances current contract funds have been used to pay benefits that should have been paid with funds from prior contracts. Although the dollar amounts have been relatively low, some question whether allowing this use of current contract funds for this purpose provides an adequate incentive to W-2 agencies to identify and correct inappropriate sanctions. Consequently, the Department may wish to consider requiring agencies to make corrective payments to participants inappropriately sanctioned during prior contract periods with non-W-2 funds.

\*\*\*\*

Appendix 1

**Percentage of Participants Sanctioned<sup>1</sup>**  
October 1999 through October 2002

<u>County/Agency</u>	<u>Average Number of Participants per Month</u>	<u>Average Number Sanctioned per Month</u>	<u>Percentage of Cash Benefit Caseload Sanctioned</u>
Milwaukee Region 1 - YW Works	665	267	40.1%
Monroe County/Workforce Connections <sup>2</sup>	23	7	30.2
Milwaukee Region 3 - OIC-GM	1180	350	29.6
Milwaukee Region 6 - Maximus	1207	281	23.3
Kenosha County	210	48	22.9
Dane County	363	82	22.6
Milwaukee Region 2 - UMOS	875	181	20.7
Outagamie County	48	10	20.4
Waupaca County	21	4	20.0
Milwaukee Region 4 - ESI/YW Works <sup>3</sup>	1095	212	19.3
Marathon County	81	15	18.5
Milwaukee Region 5 - ESI/UMOS <sup>3</sup>	1151	198	17.2
Rock County	138	22	15.6
Columbia County/Workforce Connections <sup>4</sup>	10	1	13.0
Winnebago County	47	6	12.2
Racine County	134	16	12.1
Fond du Lac County	45	5	11.9
Eau Claire County	27	3	11.8
Juneau County - Workforce Connections	11	1	10.2
Douglas County	34	3	10.0
Shawano County - Shawano County Job Center, Inc.	16	2	10.0
Dodge County	31	3	9.7
La Crosse County	28	3	9.3
Langlade County/Forward Service Corp. <sup>4</sup>	11	1	8.8
Chippewa County	16	1	8.7
Sheboygan County	32	3	8.4
Dunn County	20	1	7.3
Wood County	37	3	7.2
Brown County	36	2	5.9
Waukesha County - Concera	51	2	4.9
Washington County	15	1	4.3
Sauk County	12	1	4.3
Oneida Nation	10	<1	4.2
Portage County	11	<1	2.9
Walworth County - Kaiser Group	31	<1	1.6

<sup>1</sup> Includes agencies with an average of 10 or more participants per month.

<sup>2</sup> Administered by the Monroe County human services department from September 1997 through December 1999, and Workforce Connections thereafter.

<sup>3</sup> Milwaukee Region 4 and Region 5 were administered by Employment Solutions, Inc., from September 1997 through December 2001 and thereafter by YW Works and UMOS, respectively.

<sup>4</sup> Administered by county agencies from September 1997 through December 2001 and by a private corporation thereafter.

## Appendix 2

### Sanctions as a Percentage of Benefit Levels<sup>1</sup> March 2000 through October 2002

<u>County/Agency</u>	<u>Average Sanction Amount</u>	<u>Percentage of Benefit Sanctioned</u>
Milwaukee Region 5 - ESI/UMOS <sup>2</sup>	\$373	56.7%
Milwaukee Region 4 - ESI/YW Works <sup>2</sup>	352	53.1
Milwaukee Region 6 - Maximus	302	46.9
Milwaukee Region 3 - OIC-GM	299	46.7
Racine County	297	45.7
Milwaukee Region 2 - UMOS	284	43.4
Shawano County - Shawano County Job Center, Inc.	269	42.1
Milwaukee Region 1 - YW Works	270	42.0
Dane County	252	38.3
Rock County	243	37.5
Polk County	224	34.9
Washington County	217	34.0
Langlade County/Forward Service Corp. <sup>3</sup>	206	33.7
Eau Claire County	206	32.0
Kenosha County	204	31.5
Outagamie County	194	30.4
La Crosse County	192	29.6
Douglas County	185	29.3
Monroe County/Workforce Connections <sup>4</sup>	191	29.1
Waukesha County - Concera	186	28.9
Columbia County/Workforce Connections <sup>3</sup>	178	28.4
Waupaca County	167	26.8
Marathon County	173	26.5
Dunn County	153	26.1
Juneau County - Workforce Connections	157	25.4
Walworth County - Kaiser Group	163	25.0
Wood County	160	25.0
Brown County	160	24.8
Winnebago County	147	23.6
Sheboygan County	155	23.4
Dodge County	149	23.0
Chippewa County	138	21.0
Sauk County	119	19.3
Fond du Lac County	88	14.6
Portage County	87	13.7
Oneida Nation	80	12.4
Jefferson County	52	8.0

<sup>1</sup> Includes agencies with an average of 10 or more participants per month.

<sup>2</sup> Milwaukee Region 4 and Region 5 were administered by Employment Solutions, Inc., from September 1997 through December 2001 and thereafter by YW Works and UMOS, respectively.

<sup>3</sup> Administered by county agencies from September 1997 through December 2001 and by a private corporation thereafter.

<sup>4</sup> Administered by the Monroe County human services department from September 1997 through December 1999, and by Workforce Connections thereafter.