

Letter Report

Financial Management of Selected W-2 Agencies

July 2005



Legislative Audit Bureau

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Janice Mueller
State Auditor

July 20, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed our financial management review of selected Wisconsin Works (W-2) agencies, including a review of administrative salaries, as part of our comprehensive audit of the W-2 program requested by the Joint Legislative Audit Committee.

Our April 2005 evaluation (report 05-6) and various other reports on W-2 agencies' operations have included information on staffing expenditures. However, in response to ongoing questions about the salaries and bonuses paid to agency officials, we reviewed salary information in detail in a sample of agencies. We found that private agencies in Milwaukee County—which in 2004 included Maximus, Inc., Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM), and United Migrant Opportunity Services, Inc. (UMOS)—tended to pay their officials more than agencies elsewhere did. Among those who were paid more than \$60,000 annually, the average salary was \$89,346 in Milwaukee County compared to \$75,540 elsewhere in the state.

We also reviewed \$7.4 million in expenditures by 17 W-2 agencies and identified \$19,600 in questioned costs related to two agencies: YW Works and UMOS. These costs include \$17,103 in purchases for which the receipts and other documentation were missing. We identified additional unallowable and questioned costs for OIC-GM, a former provider of W-2 services, in a report released in November 2004.

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

Sincerely,

Janice Mueller
State Auditor

JM/PS/ss

FINANCIAL MANAGEMENT OF SELECTED W-2 AGENCIES

Ensuring strong financial management of Wisconsin Works (W-2) agencies has been a concern since the program's inception. We first identified significant problems with program expenditures in reviews of W-2 agency transactions under the initial contracts, which were in effect from September 1997 through December 1999. Our findings from three previous financial reviews are summarized in Appendix 1.

The Department of Workforce Development (DWD) conducts its own reviews of W-2 agencies, including programmatic reviews of participant case files created by agencies and reviews of agency decisions related to extension requests and participant sanctions. It also requires agencies to submit annual financial audits and other reports, which it reviews. In addition, DWD has conducted special expenditure reviews of three W-2 agencies: YW Works in 2003, the Southwest Consortium in 2004, and Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM) in 2004.

In its reviews of OIC-GM and YW Works, DWD disallowed costs that had been inappropriately charged to the W-2 program, including:

- \$216,000 in legal service fees that OIC-GM documented inadequately; and
- \$76,800 in excessive severance payments that did not follow YW Works' policy of providing employees one week of severance for each year they had worked at the agency. YW Works indicates that policy has subsequently been discontinued.

In May 2004, DWD reviewed the Southwest Consortium's allocation of indirect administrative costs to W-2 and identified no disallowed or questioned costs.

Salaries of W-2 Agency Administrators

To answer questions about the level of salaries and bonuses paid to officials of W-2 agencies, we requested information on salaries for all employees who earned more than \$60,000 in 2004 and whose salaries were at least partially paid for with W-2 funds. We also requested information on bonuses paid to any employees who were at least partially funded by W-2. Overall, we found that private W-2 agencies in Milwaukee County, which in 2004 included Maximus, OIC-GM, and United Migrant Opportunity Services, Inc. (UMOS), tended to pay their officials more than agencies elsewhere. For example, eight officials in Milwaukee County agencies were paid more than \$100,000 annually, while only one official outside of the county was paid more than this amount.

It should be noted that because many officials in county-run agencies have responsibilities that extend beyond the W-2 program, W-2 pays for only a portion of their salaries. For example, directors of county human or social services agencies typically oversee other programs such as Medical Assistance, public health programs, food stamps, child care subsidies, child support, juvenile court services, and programs for the elderly and people with disabilities. In addition, a number of factors affect salary levels at all of the W-2 agencies, including:

- the number of participants that an agency serves;
- the overall level of funding from all sources that an agency receives;
- the extent of an official's education and work experience; and
- the complexity and volume of work.

In November 2004, we reported that OIC-GM had paid 14 of its officials more than \$60,000 annually, including 4 who were paid more than \$100,000. We found that OIC-GM is not unique in this respect. In 2004, UMOS paid 13 officials more than \$60,000 annually, including 3 who were paid more than \$100,000; Maximus paid 4 officials more than \$60,000, including 1 who was paid more than \$100,000. In addition, we found that private agencies administering W-2 in Milwaukee County charged a substantially larger portion of these salaries to the program: 61.0 percent of the cost of salaries that exceeded \$60,000 was charged to W-2 by Milwaukee County agencies, compared to only 18.3 percent for agencies elsewhere. This occurs because, as noted, most officials in county-run agencies have responsibility for a number of other programs and have their salary costs spread among a larger number of funding sources.

Among the 13 W-2 agencies outside of Milwaukee County that we reviewed:

- Marathon County reported no official involved in administering W-2 was paid more than \$60,000, including the director of the county's social services department;
- Dane County reported that it paid 13 officials involved with W-2 more than \$60,000 annually, but none of them was paid more than \$100,000; and
- La Crosse County was the only provider of W-2 services outside of Milwaukee County that reported paying an official more than \$100,000 annually.

Appendix 2 provides 2004 salary information for W-2 officials at each of the 16 W-2 agencies we reviewed.

The practice of W-2 agencies providing their employees with bonuses has also raised concerns. In a February 2001 audit report, we noted that Employment Solutions, Inc. (ESI) had used W-2 funds to provide substantial bonuses in 1999: 84 ESI employees received incentive payments, including 49 who each received \$10,000 or more; 6 who each received \$20,000 or more; and the agency's chief executive officer, who received \$61,645.

In November 2001, in response to recommendations in our audit report, DWD instructed W-2 agencies on acceptable practices for paying employee bonuses with W-2 funds. DWD must now approve agencies' employee bonus policies, and bonuses must be "necessary and reasonable" for administering the W-2 contract.

From 2002 through 2004, 13 of the 16 W-2 agencies we reviewed reported that they did not pay any bonuses with W-2 funds. Four agencies did:

- Maximus paid \$687,338 in monthly and quarterly bonuses to employees who met performance measures in its W-2 contract. Based on data reported to us by Maximus, it paid \$111,873 in 2002, and the average bonus was \$87. In 2003, it paid \$179,587, and the average bonus was \$143. In 2004, it paid \$395,878, and the average bonus was \$215. Information on the number of employees who received bonuses was not readily available. In addition, Maximus paid separate bonuses to its senior officials; however, this information was also not readily available. All bonuses were paid, in part, with W-2 funds.
- ACS State and Local Solutions, which administers the W-2 program in Waukesha County, used program funds to pay a total of \$5,245 in bonuses to two employees in 2004.
- OIC-GM used W-2 funds to pay a total of \$2,460 in bonuses to three employees in 2003.
- Forward Service Corporation, a private agency that administers W-2 in a number of counties, used W-2 funds to pay one employee approximately \$75 in 2002, and another employee \$275 in 2003.

Review of Selected Transactions

We reviewed the appropriateness and reasonableness of costs other than personnel costs that 17 W-2 agencies charged to the program from January 2002 through December 2003. Appendix 3 lists the 17 agencies and the dollar amounts of the transactions that we reviewed. We did not select the transactions randomly; rather, our selection was based on transaction size and type of vendor.

We tested the appropriateness of agency transactions using the standards identified in federal regulations, DWD's W-2 financial management manual, and other policy documents. The manual describes state and federal program and financial compliance requirements, required internal controls, and allowable cost criteria. Other DWD policy documents provide guidance on specific types of costs, such as those related to employee incentive payments.

Allowable costs are limited to what is reasonable for proper and efficient program administration. A cost is considered reasonable if it:

- does not exceed the costs that would be incurred by a prudent person;
- is ordinary and necessary to the operation of the agency or the performance of the contract;
- is incurred in accordance with the agency's established procurement policy; and
- is supported by the agency's accounting records and adequate documentation.

Based on these criteria, and in addition to our findings for OIC-GM that were reported in November 2004, we questioned \$1,200 in costs for UMOS and \$18,432 for YW Works. Questioned costs for YW Works include:

- \$17,103 for 11 purchases for which YW Works was unable to provide any documentation;
- \$1,000 that was loaned to a YW Works employee for use as part of a down payment to purchase a home; and
- \$329 for two monthly cellular phone bills that appear to be excessive or inappropriate, in part because they appear to include personal calls made by a former YW Works employee, including calls made during nighttime hours and recurring calls to several out-of-state numbers. YW Works indicated that it considered monthly cellular bills that exceeded \$100 to be excessive, and that the agency subsequently limited employees' monthly bills to no more than \$50.

Appendix 4 lists all costs that we questioned.

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Appendix 1

**Unallowable and Questioned Costs W-2 Agencies
Charged to the W-2 Program**

	Amount
Employment Solutions, Inc.¹	
Out-of-State Costs Charged to the W-2 Program	\$ 270,268
Miscellaneous and Undocumented Costs	39,301
Benefits to Agency and Staff	31,276
Advertising and Public Relations	11,178
Restaurants, Meals, and Related Purchases	6,237
Legal Services	4,130
Air Travel and Car Rental	3,329
Hotel Charges	1,682
Subtotal	367,401
Maximus, Inc.²	
Advertising and Public Relations	195,745
Out-of-State Costs Charged to the W-2 Program	51,304
Miscellaneous and Undocumented Costs	47,746
Fees and Overpayments	40,178
Agency-sanctioned Employee Social Activities	35,054
Entertainment	30,006
Restaurants, Meals, and Related Purchases	22,248
Benefits to Agency and Staff	15,741
Donations	12,026
Gift Certificates	9,170
Overhead or Other Maximus Projects	3,936
Transactions With Questionable Benefits to the W-2 Program	1,899
Florists	1,498
Subtotal	466,551
Opportunities Industrialization Center of Greater Milwaukee, Inc.³	
Legal Services	421,200
Sponsorship of Radio Programs	75,100
Consulting Services	14,547
Excessive Transportation Costs	1,900
Bank Fees	1,118
Miscellaneous	640
Subtotal	514,505
Other W-2 Agencies¹	127,091
Total	\$1,475,548

¹ Identified in our February 2001 letter report.

² Identified in our July 2000 letter report.

³ Identified in our November 2004 letter report.

Appendix 2

Salaries of W-2 Agency Officials¹
2004

W-2 Agency	Title of Official	Salary	Amount of Salary Paid with W-2 Funds
Brown County	Director, Human Services	\$ 93,627	\$ 2,069
	Management and Budget Administrator	68,561	1,515
	Deputy Director, Human Services	62,743	1,387
	Economic Support Manager	61,102	6,507
Dane County	Director, Human Services	98,596	37,447
	Division Administrator	88,713	31,200
	Associate Director of Fiscal Management	75,374	28,627
	Associate Division Manager	73,475	25,841
	Associate Division Manager	73,475	25,841
	Program Coordinator	72,344	27,476
	Program Analyst	65,115	24,731
	Program Analyst	63,298	24,041
	Budget and Contracts Manager	62,573	23,765
	Systems Accountant	62,068	23,573
	Collections Coordinator	61,420	23,327
	Communications Manager	61,420	23,327
	Ombudsman	60,211	22,868
Fond du Lac County	Director, Social Services	86,310	3,245
	Deputy Director, Social Services	64,763	23,490
Grant County	Director, Social Services	72,030	2,766
Kenosha County	Director, Human Services	91,321	12,712
	Assistant Director, Human Services	82,342	11,462
	Fiscal Manager, Human Services	75,315	10,484
	Director, Workforce Development	74,699	25,136
	ES/W-2 Program Coordinator, Workforce Development	62,696	29,712
	ES/W-2 Supervisor, Workforce Development	62,601	29,667
	ES/W-2 Supervisor, Workforce Development	60,477	28,660
La Crosse County	Director, Human Services	129,558	2,591
	Operations Manager	91,069	1,821
	ES Manager	82,413	26,372
	Financial Manager	74,228	1,485
	ES Supervisor	66,063	14,534

W-2 Agency	Title of Official	Salary	Amount of Salary Paid with W-2 Funds
Marathon County ²	none	n.a.	n.a.
Milwaukee County— Maximus	Vice President	\$145,455	\$ 74,082
	Project Director	88,000	58,694
	Project Manager	80,000	70,006
	Operations Manager	61,350	57,145
Milwaukee County— OIC-GM ³	Vice President of Finance/Chief Financial Officer	151,278	79,103
	Senior Vice President/Chief Operating Officer	151,278	87,893
	W-2 Administrator	105,019	105,019
	Vice President of Community Relations	101,389	58,907
	Vice President of Human Resources	95,793	57,399
	Information Technology Director	85,280	48,610
	Vice President of Family and Neighborhood Services	81,712	40,856
	Controller	77,250	34,775
	Research and Planning Specialist	75,000	43,575
	Director of Human Resources	67,600	39,276
	Director of Administrative Services	67,600	37,944
	Information Technology Manager	67,100	38,247
	Accounting Manager	61,800	27,820
	Executive Assistant to the Chief Operating Officer	60,000	34,860
Milwaukee County— UMOS	President/Chief Executive Officer	170,000	82,263
	Vice President of Operations	107,868	52,197
	Vice President of Administration	102,088	76,076
	Finance Director	95,658	46,289
	Corporate Lawyer	94,983	45,962
	W-2 Services Director	82,861	82,861
	W-2 Services Director	82,037	82,037
	Director of Human Resources	74,871	36,230
	Network Manager	72,000	27,742
	Manager of Fiscal Program Services	68,221	33,012
	Executive Assistant	67,898	32,856
	Contract Manager	65,948	65,948
	W-2 Manager	62,397	62,397

W-2 Agency	Title of Official	Salary	Amount of Salary Paid with W-2 Funds
Oneida County ⁴	Chief Executive Officer, Forward Service Corp.	\$97,868	\$10,824
	Chief Financial Officer, Forward Service Corp.	79,299	8,548
	Chief Program Officer, Forward Service Corp.	71,820	25,295
Outagamie County	Deputy Director, Health and Human Services	66,988	1,976
	Manager, Fiscal Systems	64,392	1,900
Portage, Adams, Wood Consortium	Director, Wood County Social Services; Fiscal Agent for the Consortium	77,418	6,077
	Director, Portage County Human Services	72,925	2,603
	Deputy Director, Wood County Social Services	66,643	5,231
Rock County	Director, Human Services	93,330	4,415
	Deputy Director, Human Services	72,134	3,412
Sheboygan County	Director, Health and Human Services	99,508	1,612
	Manager, Community Programs	81,266	1,317
	Manager, Social Services	79,010	1,280
	Manager, Public Health	70,933	1,149
	Manager, Economic Support	62,876	1,019
Waukesha County ⁵	Regional Vice President, ACS State and Local Solutions	89,500	8,055

¹ Includes all officials at 16 W-2 agencies we visited who earned at least \$60,000 annually in 2004 and whose salaries were paid for, at least in part, with W-2 funds.

² No Marathon County official whose salary was paid for with W-2 funds earned \$60,000 or more annually as of June 2004.

³ In February 2005, OIC-GM discontinued its operations.

⁴ Forward Service Corporation provided W-2 services in Oneida County.

⁵ ACS State and Local Solutions provided W-2 services in Waukesha County.

Appendix 3

W-2 Agencies Included in Our Review of Transactions
2002-2003 Contract Period

Agency	Dollar Amount of Transactions Reviewed
ACS State and Local Solutions (Waukesha County)	\$ 348,601
Brown County	189,424
Dane County	512,673
Fond du Lac County	53,953
Forward Service Corp. (Oneida County)	51,663
Grant County	99,032
Kenosha County	298,722
La Crosse County	111,074
Marathon County	70,334
Maximus (Milwaukee County)	1,485,690
OIC-GM (Milwaukee County)	1,176,832
Outagamie County	141,469
Rock County	74,008
Sheboygan County	46,598
UMOS (Milwaukee County)	1,859,029
Wood County	59,794
YW Works (Milwaukee County)	855,861
Total	\$7,434,757

Appendix 4

**Questioned Costs for United Migrant Opportunity Services, Inc.
and YW Works**

2002-2003 Contract Period

Payee/Vendor	Description	Amount
United Migrant Opportunity Services, Inc.		
Barnes & Noble	Duplicate payment	\$ 623
Diner's Club	Airfare charged to W-2 in error	577
Subtotal		1,200
YW Works		
YW Works Employee	Employee home ownership program	1,000
Verizon Wireless	Excessive cellular phone bill with what appear to be personal calls	221
U.S. Cellular	Excessive cellular phone bill	108
Enrichment Opportunities	No documentation provided	6,500
Enrichment Opportunities	No documentation provided	800
Fresh & Safe Box Lunches	No documentation provided	485
Fresh & Safe Box Lunches	No documentation provided	694
Fresh/Bag Lunches	No documentation provided	49
Garber's One Hour Cleaning	No documentation provided	191
Directors of Continuation Services	No documentation provided	5,000
Washington Law Office	No documentation provided	1,485
Kohn Law Office	No documentation provided	900
Office Team	No documentation provided	952
What's Fresh, Inc.	No documentation provided	47
Subtotal		18,432
Total		\$19,632