

AN EVALUATION

*Wisconsin Works
(W-2) Program*

Department of Workforce Development

01-7

April 2001

2001-2002 Joint Legislative Audit Committee Members

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April 10, 2001

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 our evaluation of the Wisconsin Works program (W-2), as required by s. 49.141(2g)(a), Wis. Stats. This is the sixth and final report issued under that requirement.

W-2 is a time-limited employment assistance program administered by the Department of Workforce Development. It replaced cash entitlements provided to low-income families under Aid to Families with Dependent Children in September 1997. Through September 2000, W-2 program costs totaled \$710.4 million, of which 93.6 percent was spent by local public and private contractors for program services, benefits, and administration.

Implementation of W-2 has resulted in large declines in the number of individuals receiving cash assistance. From January 1998 through September 2000, cash assistance caseloads declined more than 50 percent, from 14,204 to 6,771 cases. However, the program's success in achieving economic self-sufficiency for participants has been mixed. Among 2,129 participants who left W-2 during the first three months of 1998, 1,377 filed 1999 Wisconsin tax returns. Of those who filed, 643, or 46.7 percent, had incomes above the federal poverty level when earned income tax credits were included. In addition, we found that 26.1 percent of those who left the program from January through March of 1998 had returned for cash assistance or other services by July 2000.

Before the start of a new contract period, which is scheduled to begin January 2002, the Department and the Legislature will need to consider challenges posed by returning participants and those with multiple or severe barriers to employment; how to best address the needs of those who are nearing time limits on program participation; and how to assist individuals who have entered the workforce in maintaining their employment, advancing, and raising themselves and their families out of poverty.

We appreciate the courtesy and cooperation extended to us by the Department of Workforce Development and staff of the many W-2 agencies we contacted during the course of our review. The Department's response is Appendix 15.

Respectfully submitted,

Janice Mueller
State Auditor

JM/PS/ao

The Wisconsin Works program, more commonly known as W-2, was created by 1995 Wisconsin Act 289 to help participants achieve economic self-sufficiency through employment. It took effect statewide in September 1997. W-2 participants, who are primarily women with dependent children, are not entitled to cash benefits as they would have been under Aid to Families with Dependent Children (AFDC). Instead, they earn wages or receive cash grants and other program services based on their employment status. Through September 2000, W-2 program costs have totaled \$710.4 million and have been funded by state general purpose revenue and federal Temporary Assistance for Needy Families (TANF) block grant funds. This evaluation of the history and effectiveness of the W-2 program is the sixth and last in a series of reports we have conducted, as required by Wisconsin law.

Program participants receive services from counties, private agencies, and tribes under the terms of contracts the agencies signed with the state agency responsible for administering W-2, the Department of Workforce Development (DWD). To receive cash benefits under W-2, applicants must meet two financial eligibility requirements:

- the family gross income must be at or below 115 percent of the federal poverty level, which is currently \$16,825 for a family of three; and
- the family must have assets at or below \$2,500, excluding the combined equity of vehicles valued at up to \$10,000 and one home that serves as the homestead.

W-2 participants are assigned to either subsidized or unsubsidized placements, based upon their level of preparedness for employment. Subsidized placements include:

- transitional placements, which provide work practice and training for participants who are unable to perform independent, self-sustaining work or work associated with community service or trial jobs, and for which the monthly benefit is a cash grant of \$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 benefit is a cash grant of \$673; and
- trial jobs, which provide work experience and training and may become permanent, unsubsidized positions, and for which the participant earns 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.

In addition, custodial parents of infants are not required to work outside of the home until the infants are older than 12 weeks. They receive a monthly cash grant of \$673.

Participants in unsubsidized placements earn market wages and do not receive additional cash benefits. However, participants in both subsidized and unsubsidized placements are eligible to receive program 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. In addition, most participants are also eligible for services through other public assistance programs, including health care through Medical Assistance, food stamps, and subsidized child care through the Wisconsin Shares program.

In general, W-2 participants who are ready for unsubsidized employment receive fewer services than those who have more barriers to employment and who remain in the program for a longer period of time. However, the type and amount of services provided to participants varies from agency to agency.

Of all the services provided, only employment search services were provided to more than half of all those served by W-2 agencies in 2000: a total of 21,497 individuals, or 61.0 percent of those enrolled in either W-2 or the Food Stamp Employment and Training (FSET) program, whose participants are also served by W-2 agencies under their contracts with the State, searched for employment with the assistance of a W-2 agency. The only other services that were provided to more than 20 percent of all participants were adult basic education, which was provided to 31.6 percent of all participants, and motivational training, which was provided to 25.1 percent.

It was expected that caseloads would decline in the transition from AFDC to W-2, but they did so much faster than had been projected. In three years, the decline was 50.9 percent, from 22,761 in September 1997 to 11,171 in September 2000. The most significant decline has been in the cash benefit caseload; that is, among participants in the program's three categories of subsidized job placement—transitional placements, community service jobs, and trial jobs—and custodial parents of infants. In contrast to the decline in the number of individuals receiving cash benefits, the number receiving case management services—such as education and training services, counseling, and various assessment services—has generally increased since the beginning of the program. In September 2000, 4,400 participants received case management but not cash assistance.

During the program's initial contract period, from September 1997 through December 1999, a total of \$651.5 million was budgeted for W-2, and \$413.6 million was spent. Approximately 50 percent of the funds the local agencies received was spent on services for program participants, 40 percent for the payment of cash benefits, and almost 10 percent for administration. However, a controversial aspect of local administration of the program during the initial contract period was the agencies' ability to retain a portion of unspent contract funds as profits.

Largely because of the unanticipated decline in caseloads, \$237.9 million in funds that had been contracted remained unspent. Contracts called for the majority of the unspent funds to be returned to the local agencies, which were allowed to retain a portion of these funds as unrestricted profits that could be spent for a variety of purposes, and as restricted profits, known as community reinvestment funds, that must be spent on TANF-eligible individuals.

Under the terms of the initial implementation contracts, W-2 agency profits totaled \$65.1 million. The agency with the largest profit—Employment Solutions, Inc., a private agency serving a portion of Milwaukee County—received \$9.5 million. The agency with the smallest profit—Pepin County—received \$42,071. Private agencies are not under any contractual or legal obligation to disclose the way in which their unrestricted profits were used.

In site visits to 17 public and private agencies, we asked about profit use. We found that most public agencies reported using their profits to offset county property tax levies or to provide various services to low-income residents. The private agencies' uses of profits varied, but some profits were used to expand businesses serving low-income persons or for a variety of education and training activities.

Community reinvestment funds earned by W-2 agencies under the initial implementation contracts totaled \$83.4 million. These funds may be used to provide services to families whose incomes are below 200 percent of the federal poverty level, which is currently \$29,260 annually for a family of three. The allowable uses of community reinvestment funds are numerous and include supplementing agency budgets under the current implementation contracts, providing transportation services, providing counseling services not covered by Medical Assistance, and expanding services to address cultural and language barriers. Marinette County has spent all of its community reinvestment funds, while 15 agencies reported no expenditures through September 2000. Overall, W-2 agencies spent \$14.2 million, or 17.0 percent of the community reinvestment funds they received under their initial implementation contracts, through September 2000. Two private W-2 agencies in Milwaukee County—Employment Solutions and Opportunities Industrialization Center of Greater Milwaukee—have agreed to provide a portion of their community reinvestment funds, \$3.8 million and \$300,000, respectively, to Milwaukee County.

In order to improve agency performance, and in response to concerns about the \$65.1 million of profits paid, DWD developed seven performance standards for the current contract period with the intention of ensuring monetary incentives are related to performance and not the level of unspent funds. Further, DWD and the Legislature reduced amounts provided in the current contract period to reflect lower-than-anticipated caseloads and the shorter time period of the contracts. Current W-2 contracts, which began on January 1, 2000 and are effective through December 31, 2001, total \$369.3 million. During this period, up to \$25.9 million will be available to local agencies for performance bonuses if the performance measures are met. In March 2001, DWD announced that all but two agencies—Bayfield and Menominee counties—were meeting or exceeding base-level performance measures.

To evaluate the program's effectiveness in meeting its primary objective—helping participants achieve self-sufficiency through employment—we reviewed the income of all participants who left the program in the first quarter of 1998 and, with the assistance of the Department of Revenue, matched this population with those who filed 1999 Wisconsin income tax returns. During the first quarter of 1998, 2,129 participants left the W-2 program. Of this group, 64.7 percent filed 1999 Wisconsin income tax returns. The average income reported by the former W-2 participants was \$11,988.

When only this income is considered, 33.8 percent of these filers were above the federal poverty level for their respective family size, while 66.2 percent were below it. However, the incomes of many former W-2 participants who filed 1999 tax returns were enhanced by receipt of state and federal earned income tax credits. If the value of these credits is

included, 46.7 percent of former W-2 participants were above the federal poverty level in 1999. It should be noted, however, that this figure does not take into account the more than one-third of our original sample who did not file tax returns. Those who did not file presumably were not required to do so based on their limited income, because they were no longer Wisconsin residents, because they became eligible for Supplemental Security Income, or because they were supported a spouse or other adult in the household.

The highest average incomes were reported by former W-2 participants who received only case management services before obtaining unsubsidized employment. Maximus, a private agency serving a portion of Milwaukee County, and Brown County had the largest percentage of former participants above the poverty level at 55.3 percent and 53.3 percent, respectively, when the value of state and federal earned income tax credits was included.

Despite the significant decline in the program's caseload, there are indications that at least a portion of former participants are returning to W-2. DWD officials indicate that the extent to which participants return to the program may not be a good measure of success because the program is designed to encourage employment, and returning to the program for services may assist participants in achieving the long-term goal of economic self-sufficiency. However, analyzing changes in the number of returning participants over time, the frequency with which they return, and the reasons for which they originally left provide information useful in assessing program effectiveness, as well as improving service delivery. Furthermore, an understanding of the characteristics of returnees may be useful in modifying the program to address new or special participant needs that present barriers to employment.

By July 2000, 26.1 percent of 2,129 former participants who had left the program during the first three months of 1998 participated again in reopened cases. The percentage of participants who returned through July 2000 ranged from a high of 43.3 percent for Opportunities Industrialization Center of Greater Milwaukee, a private agency, to a low of 7.7 percent for Sawyer County. Of the 555 cases that were reopened, 409, or 73.7 percent, returned in a subsidized job placement, while 146, or 26.3 percent, returned in an unsubsidized placement in order to receive case management services. Milwaukee County had a greater percentage of returning participants than the balance of state.

In July 2000, Milwaukee County accounted for 85.2 percent of all returning participants statewide. Returning participants had been 2.7 percent of all Milwaukee County participants in July 1998 but were 42.4 percent of all Milwaukee County Participants by July 2000. In the rest of the state, returning participants increased from 9.7 to 25.0 percent of all W-2 participants.

W-2 agencies also exercise considerable discretion in sanctioning participants' cash benefits if they miss work or fail to participate in a required activity without good cause. The percentage of participants sanctioned has decreased from 31.4 percent of the statewide caseload in October 1999 to 21.1 percent in December 2000. However, in Milwaukee County the sanction rate has consistently been approximately 10 percentage points higher than in the balance of the state. Four of the five agencies serving Milwaukee County sanctioned more than 20 percent of participants receiving cash assistance from October 1999 through December 2000.

W-2 was designed to provide individual W-2 agencies the flexibility they need to modify the type of services they provide and the manner in which services are provided. However, the wide variation in the number and amount of sanctions raises concerns about the equitable treatment of participants. Further, we found several instances of sanctions being inappropriately applied: at least 35 participants who were the custodial parents of infants were inappropriately sanctioned from July through December 2000 because of errors made by local W-2 agencies. Maximus and Employment Solutions issued the largest inappropriate sanctions to new mothers, representing more than one-third of these participants' full monthly benefit of \$673. DWD is in the process of attempting to identify other instances in which inappropriate sanctions were imposed and ensuring W-2 agencies issue supplemental payments to those affected.

Program participants and applicants can follow a fact-finding and appeal process if they wish to have their eligibility or benefit decisions reviewed. The majority of requests for findings of fact have been related to employment issues, such as disputes about participation in an assigned W-2 activity. We analyzed data for all fact-finding requests since they have been collected and found decisions by W-2 agencies were fairly evenly divided between those in favor of the petitioner and those in favor of the agency. Most fact-finding requests—approximately 90 percent—were made by Milwaukee County participants.

Both participants and W-2 agencies may appeal fact-finding decisions. We reviewed all cases that were appealed to the Department of Administration's Division of Hearings and Appeals. Through December 2000, 216 cases were appealed, and hearing officers decided in favor of the applicant or participant 69.9 percent of the time. The percentage of Milwaukee County cases found in favor of the participants was 78.7 percent, compared to 51.0 percent for the balance of the state. This may suggest that hearing officers believed fact-finding decisions have incorrectly favored the W-2 agencies more often in Milwaukee County than elsewhere in the state.

We reviewed selected aspects of local agency administration of the W-2 program, including how local agencies are planning for those participants who are approaching state and federally imposed time limits placed on the receipt of W-2 services. Two separate provisions limit the length of participation in W-2: a 24-month limit within each of the three types of job categories, and a 60-month lifetime limit on receipt of program benefits. Through June 2000, 1,551 W-2 participants were approaching the 24-month limit. Through November 2000, 68 were approaching the 60-month lifetime limit, which will be reached in September 2001 for those who have been in the program since its inception. Extensions may be granted to these time limits, but agencies varied widely in how frequently they requested them. Milwaukee County agencies with the largest caseloads have requested extensions to time limits less frequently than other W-2 agencies. W-2 agencies outside of Milwaukee County requested extensions for 53.6 percent of their participants. In contrast, Milwaukee County agencies requested extensions for 13.4 percent of their participants.

Developing strategies to increase incomes above the poverty level for former W-2 participants, addressing the needs of returning participants, and responding to a possible downturn in the economy will all be important to ensuring the future success of the W-2 program. However, there are other challenges facing DWD and the Legislature, including overseeing the complex administration of the program in Milwaukee County, which has the highest caseload and the greatest number of agencies administering services. While a private agency, the Private Industry Council (PIC) of Milwaukee County, has been paid \$5.7 million in program funds to provide monitoring and oversight services, the local W-2 agencies have generally been critical of its performance and, until recently, DWD provided it with little direction in fulfilling its responsibilities. The Governor's 2001-03 Biennial Budget Proposal includes \$500,000 annually to continue the PIC's role in W-2 monitoring and oversight, and an additional \$500,000 annually for unspecified oversight activities to be conducted by DWD or private contractors. The Legislature will need to determine the amount of funding it wishes to appropriate for monitoring and oversight responsibilities, and the role of DWD in ensuring effective use of these funds.

Several other issues will warrant legislative consideration, including:

- whether to modify proposed performance standards for the next contracts with W-2 agencies, which will run from January 2002 through December 2003, to best ensure bonuses are based on efforts to assist participants in attaining self-sustaining employment;

- whether the challenges posed by participants with barriers to employment, such as limited education or substance abuse problems, are being addressed adequately;
- how best to address the needs of participants who are nearing the time limits established for receipt of services;
- developing strategies to ensure all contract funds are spent appropriately;
- ensuring all participants are aware of and have access to other programs, such as Medical Assistance, the Food Stamp Program, subsidized child care, and other supportive services;
- determining whether to consolidate the contracts to administer the program in Milwaukee County to improve performance and provide administrative efficiencies; and
- how best to assist those who have entered the workforce but remain in poverty to become fully self-sufficient.

The W-2 program attempts to help participants achieve self-sufficiency through employment.

The Wisconsin Works program, more commonly known as W-2, was created by 1995 Wisconsin Act 289 to help participants achieve economic self-sufficiency through employment. It took effect statewide in September 1997. W-2 participants, who are primarily women with dependent children, are not entitled to cash benefits as they would have been under Aid to Families with Dependent Children (AFDC); instead, they earn wages or receive cash grants and other program services based on their employment status. The program also provides job-search and other employment assistance, education and training, and help in overcoming barriers to employment. Its participants are eligible to receive additional benefits through Medical Assistance, the Food Stamp Program, and the State's subsidized child care program. There is a 60-month lifetime limit on program benefits under both federal and state law.

W-2 and programs that preceded it have served as prototypes for welfare reform nationally; influenced development of the federal Temporary Assistance for Needy Families (TANF) program, which replaced AFDC; and received the 1999 Innovations in American Government Award from the Ford Foundation and the Kennedy School of Government at Harvard University. W-2 is administered at the state level by the Department of Workforce Development (DWD) and locally by public and private contractors, who spent a total of \$413.6 million in state and federal funds to implement the program from September 1997 through December 1999. Current W-2 contracts, which are effective through December 31, 2001, total \$369.3 million.

This report is the sixth and last in a series evaluating the W-2 program, as required by s. 49.141(2g)(a), Wis. Stats. The others include a review of first-year W-2 expenditures (report 99-3); a report on the administration of W-2 by Maximus, Inc., a private contractor in Milwaukee County; an evaluation of the Food Stamp Program (report 00-8); a report on Wisconsin Shares, the State's child care subsidy program (report 01-1); and a report on the administration of W-2 by Employment Solutions, Inc., and 15 other agencies.

As part of our final evaluation under the statutory requirement, we reviewed:

- available data on program participants, including trends in program participation;

- program expenditures under both the initial implementation contracts that ended in December 1999 and the current contracts that expire in December 2001, including the development of performance bonuses that are linked to meeting specific standards;
- both the provision and the effectiveness of services under the first W-2 contracts, including wages paid to W-2 participants and the extent to which former participants remain in poverty;
- management oversight of the program; and
- funding and policy issues affecting the program that will require consideration by the Legislature and DWD.

In conducting this evaluation, we analyzed program budgets, expenditures, and caseload reports and interviewed officials and staff of DWD and W-2 agencies that administer the program locally. We also made site visits to 17 W-2 agencies, including all 5 of the agencies that administer the program in Milwaukee County. In addition, we reviewed surveys conducted by DWD and the University of Wisconsin-Extension concerning the status of individuals who left W-2, and we analyzed data from 1999 state income tax returns filed by former W-2 participants.

Program Funding

Through FFY 2001-02, approximately \$317.0 million in federal block grant funds is available annually.

Before W-2 was implemented statewide in September 1997, the federal government replaced AFDC—which had served essentially the same population now served by W-2—with the TANF block grants that fund a significant portion of program costs. Under AFDC, Wisconsin had been reimbursed approximately 58 percent of program costs on a matching basis, with no limit on the amount of state expenditures eligible for reimbursement. In federal fiscal year (FFY) 1995-96, the last full year of AFDC, Wisconsin received \$217.0 million in federal funds to support AFDC and the Job Opportunities and Basic Skills program, an employment and job training program for AFDC recipients. TANF legislation provides the State with the potential to obtain approximately \$317.0 million in block grant funding for W-2 and other programs in each year of a six-year period that ends with FFY 2001-02. The other programs funded by TANF include child care subsidies; emergency assistance; and programs administered by the Department of Health and Family Services and other state agencies, such as Kinship Care, Head Start, child abuse and neglect prevention, and assistance for homeless persons.

Current GPR and federal funding for W-2 and other TANF-funded programs totals \$485.9 million.

To receive these federal funds, the State must document that it has maintained the level of support provided in FFY 1993-94 under AFDC and related programs. However, this maintenance of effort funding level can be reduced if minimum work participation rates are met. DWD estimates the requirement for FFY 2000-01 to be approximately \$168.9 million, which is funded primarily with general purpose revenue (GPR). This amount, combined with the \$317.0 million in federal funds available each year, results in available funding of approximately \$485.9 million for W-2 and other TANF-funded programs in FFY 2000-01.

Participant Eligibility and Characteristics

To receive cash benefits under W-2, applicants must meet two financial eligibility requirements:

- the family gross income must be at or below 115 percent of the federal poverty level, which is currently \$16,825 for a family of three; and
- the family must have assets at or below \$2,500, excluding the combined equity of vehicles valued at up to \$10,000 and one home that serves as the homestead.

In addition, the applicant must:

- be a custodial parent who is 18 years of age or older;
- be a United States citizen or a qualifying alien;
- have residence in Wisconsin;
- cooperate with efforts to establish paternity for any minor child and to obtain support or other payments or property to which the applicant and any minor child may have rights;
- have made a good-faith effort to obtain employment; and
- not receive either Supplemental Security Income (SSI), state supplemental payments, or Social Security Disability Income (SSDI).

Employment placements may be either subsidized or unsubsidized.

W-2 participants are assigned to either subsidized or unsubsidized placements, based upon their level of preparedness for employment. Subsidized placements include:

- transitional placements, which provide work practice and training for participants who are unable to perform independent, self-sustaining work or work associated with community service or trial jobs, and for which the monthly benefit is a cash grant of \$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 benefit is a cash grant of \$673; and
- trial jobs, which provide work experience and training and may become permanent, unsubsidized positions, and for which the participant earns 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.

In addition, custodial parents of infants are not required to work outside of the home until their infants are older than 12 weeks. They receive a monthly cash grant of \$673.

Participants are eligible for services through W-2 and other public assistance programs.

Participants in unsubsidized placements earn market wages and do not receive additional cash benefits. However, participants in both subsidized and unsubsidized placements are eligible to receive program 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. In addition, most participants are also eligible for services through other public assistance programs, including health care through Medical Assistance, food stamps, and subsidized child care through the Wisconsin Shares program.

In July 2000, 48.3 percent of W-2 participants had a high school education or more.

Since W-2 was created, the majority of participants have been women between 18 and 29 with limited education and an average of two children. As shown in Table 1, which profiles participants in July 2000, 39.0 percent of W-2 participants had a high school diploma or its equivalent, and 9.3 percent had some post-secondary education. Although most W-2 participants were also eligible for child care subsidies and services through Medical Assistance and the Food Stamp Program, the extent to which eligible participants received these

Table 1

Profile of W-2 Participants
July 2000

<u>Description</u>	<u>Number</u>	<u>Percentage of Total</u>	<u>Description</u>	<u>Number</u>	<u>Percentage of Total</u>
Age of Participants			Level of Education		
Under 18	2	< 0.1%	No formal education	114	1.1%
18 to 29	6,432	60.2	Grade 8 or less	386	3.6
30 to 49	4,126	38.6	Some high school	5,030	47.0
50 to 64	127	1.2	High school*	4,168	39.0
65 and Over	<u>0</u>	<u>0.0</u>	Some post-secondary	<u>989</u>	<u>9.3</u>
Total	10,687	100.0%	Total	10,687	100.0%
Gender of Participants			Household Status		
Female	10,312	96.5%	One parent	10,454	97.8%
Male	<u>375</u>	<u>3.5</u>	Two parents	167	1.6
Total	10,687	100.0%	Unknown	<u>66</u>	<u>0.6</u>
Ethnicity of Head of Assistance Group			Assistance Group Size		
African American	6,056	56.7%	1 person	46	0.4%
White	2,226	20.8	2 persons	3,882	36.3
Other	1,265	11.9	3 persons	3,205	30.0
Hispanic	879	8.2	4 or more persons	<u>3,554</u>	<u>33.3</u>
Asian	131	1.2	Total	10,687	100.0%
American Indian	<u>130</u>	<u>1.2</u>	Disability Status		
Total	10,687	100.0%	Reported disability	278	2.6%
Eligibility for Support Services**			No reported disability	<u>10,409</u>	<u>97.4</u>
Medical Assistance	10,419	97.5%	Total	10,687	100.0%
Food stamps	8,959	83.8			
Child care subsidy	5,096	47.7			

* Includes those who graduated from high school and those who have completed the equivalent of a high school education.

** For those individuals who requested their eligibility to be determined.

benefits is not known. However, nearly all W-2 participants are also enrolled in Medical Assistance.

Contracting with Local Providers

To implement W-2 on the local level, DWD entered into contracts with county social service agencies, private agencies, and tribes to provide services that include:

- an initial determination of each applicant's eligibility for W-2 and other assistance programs, along with an assessment of the type of W-2 placement through which each participant would best be served and other potential service needs;
- general employment-related services, such as assistance in searching for a job;
- education and training services, including adult basic education, job skills training, and related services; and
- additional assessment and counseling services, such as disability assessments, substance abuse counseling, and occupational counseling.

Contracts also cover the cash grants paid to participants assigned to community service and transitional placements, as well as to custodial parents of infants who are not required to work outside the home, wage subsidies for participants in trial jobs, and the agencies' administrative costs.

Five private agencies have contracted to administer W-2 in Milwaukee County.

In most counties, the social service agency has contracted with DWD to provide W-2 services. For those counties that did not meet performance standards or did not wish to become W-2 contractors, DWD developed a competitive process for awarding program implementation contracts. Milwaukee County, which has Wisconsin's largest public assistance caseload, did not meet eligibility standards related to the percentage of adult AFDC recipients working in unsubsidized employment and the percentage of adult AFDC recipients participating in the Job Opportunity and Basic Skills program, and chose not to compete with a number of private organizations for contract implementation. In 1997, DWD divided Milwaukee County into six regions to facilitate access to services and accepted bids to administer W-2 separately in each of the six regions. Five private agencies won those bids: Employment Solutions, Inc.; Maximus, Inc.; Opportunities Industrialization Center of Greater Milwaukee (OIC-GM); United Migrant Opportunity Services (UMOS); and YW Works.

DWD's start-up contracts with W-2 agencies included costs related to hiring and training staff, renting or purchasing facilities, developing a plan for moving participants from AFDC to W-2, developing procedures for resolving disputes between contractors and W-2 participants, and computer-related expenses. The start-up contracts were budgeted at \$34.1 million during the six months before W-2 was implemented statewide in September 1997. A total of \$31.3 million was spent on these activities through August 1998, the deadline for reporting allowable start-up expenditures.

The initial contract period was September 1997 through December 1999.

The initial implementation contracts covered the 28-month period from September 1997 through December 1999. During this period, a total of \$651.5 million was budgeted and \$413.6 million was spent by 75 contracted agencies, including:

- 58 county social service agencies;
- 13 private agencies, 4 of which were for-profit organizations, for administration of W-2 in Forest, Juneau, Kewaunee, Milwaukee, Oneida, Shawano, Vilas, Walworth, and Waukesha counties;
- 3 tribes—the Bad River and Lac du Flambeau bands of Chippewa and the Oneida Nation—that participated in the State's W-2 program; and
- 1 consortium of county social service agencies, for administration of W-2 in Grant, Green, Iowa, Lafayette, and Richland counties.

The current contract period is January 2000 through December 2001.

The current implementation contracts cover the 24-month period from January 2000 through December 2001. For this contract period, \$369.3 million has been budgeted. Through September 2000, \$121.4 million has been spent by 72 contracted agencies, including:

- 56 county social service agencies;
- 13 private agencies, 3 of which are for-profit organizations, for administration of W-2 in Florence, Forest, Juneau, Kewaunee, Milwaukee, Monroe, Oneida, Shawano, Vilas, Walworth, and Waukesha counties;
- 2 tribes—the Bad River Band of Chippewa and the Oneida Nation—that continued participating in the State's W-2 program; and

- 1 consortium of county social service agencies, for administration of W-2 in five counties—Grant, Green, Iowa, Lafayette, and Richland counties.

W-2 agencies provide services to participants directly through their own staff and by subcontracting with other organizations. DWD tracks expenditures for services by function but does not track expenditures based on who provided services. However, among the 17 W-2 agencies we visited during the course of our review, we determined that 13.2 percent of the \$337.2 million these agencies spent under initial implementation contracts was for participant services provided by subcontractors. Two agencies recorded no expenditures for subcontracted services: Price County, and Forward Service Corporation, which served Vilas County. In contrast, 56 percent of Monroe County’s \$1.3 million in total expenditures was for subcontracted services. Information on each of the 17 agencies’ program implementation efforts during the initial and current contract periods, including any expenditures for subcontracting, is included in agency profiles that are Appendix 1.

Types of Services Provided

In general, W-2 participants who are ready for unsubsidized employment receive fewer services than those who have more barriers to employment and who remain in the program for a longer period of time. However, the type and amount of services provided to participants varies from agency to agency. In addition, the W-2 services that participants receive may be supplemented by services they receive through other programs, such as Wisconsin’s Workforce Attachment and Advancement program, which provides training to allow advancement into higher-paying jobs and helps employers retain workers and upgrade their skills, and the Workforce Investment Act, which consolidated several federal job training programs in order to increase the employment, job retention, earnings, and occupational skills of program participants.

The largest percentage of participants received employment search services

As shown in Table 2, only employment search services were provided to more than half of all those served by W-2 agencies in 2000: a total of 21,497 individuals, or 61.0 percent of those enrolled in either W-2 or the Food Stamp Employment and Training (FSET) program, searched for employment with the assistance of a W-2 agency. This is a 12.1 percent increase over the number who participated in an employment search in 1999, but 5.1 percent fewer than had participated in 1998. In addition, 25.1 percent of W-2 and FSET participants received motivational training, a 15.5 percent increase over the number receiving this training in 1999, and 13.9 percent more than had received this training in 1998.

Table 2

Types of W-2 Services
2000

<u>Activity</u>	<u>Number</u> <u>Receiving Service*</u>	<u>Percentage</u> <u>Receiving Service</u>
General Employment Services		
Employment search	21,497	61.0%
Motivational training	8,841	25.1
Education and Training Services		
Adult basic education	11,142	31.6
High school equivalency	6,412	18.2
Job skills training	4,867	13.8
Parenting and life skills	3,655	10.4
English as a second language	886	2.5
Driver education	186	0.5
Technical college courses**	99	0.3
Other post-secondary education	5	<0.1
Additional Assessment and Counseling Services***		
Occupational assessment	3,990	11.3
Physical rehabilitation	3,896	11.1
Employment counseling	3,052	8.7
Disability assessment	2,771	7.9
Mental health counseling	2,129	6.0
Alcohol and other drug abuse counseling	899	2.6

* The number of individuals within each activity is unduplicated, although an individual may have participated in more than one activity.

** Began reporting this activity in March 2000.

*** Includes approved W-2 activities for increasing employability that may be paid for by other programs.

Contracts between DWD and the W-2 agencies require the agencies to provide services to FSET program participants, who may not be eligible for W-2 because they have no dependents but are required to work and attend training as a condition of receiving food stamp benefits. It should be noted that the needs of FSET and W-2 participants can be different.

For example, W-2 participants are more likely than FSET participants to:

- need additional training to become employable, largely because they often have less work experience;
- retain jobs for longer periods of time and change jobs less frequently;
- more actively engage in program activities and keep in contact with their caseworkers;
- have a formal education; and
- be interested in receiving job-related skills training or broad-based educational opportunities, rather than focused on finding immediate employment.

Education and training services were provided to smaller percentages of participants.

Educational services that were less directly related to employment, such as parenting and life skills or driver education training, were provided to a much smaller group of participants. In part, this is because W-2 agencies tend to focus on short-term training that is directly related to employment in order to satisfy federal TANF rules, which generally require any educational activities to contribute directly to a participant's employability. For example, as part of their participation requirements, individuals in community service jobs or transitional placements may be required to pursue high school equivalency degrees, enroll in technical college courses, or participate in adult basic education or English as a second language classes. In addition, participants in trial jobs or in unsubsidized positions may participate in such activities if a formal assessment determines they are in need of basic education and they wish to pursue it. However, only seven agencies provided technical college courses or other post-secondary education opportunities to more than 1 percent of their participants in 2000, and only Maximus enrolled more than 15 participants in these activities.

Some approved W-2 services are paid for by programs such as Medical Assistance.

Participants with personal barriers to employment, such as a disability or a substance abuse problem, are provided with additional assessment and counseling services, some of which may be approved as W-2 services but funded by other programs, such as Medical Assistance. Specialized assessment and counseling services such as substance abuse and mental health counseling, disability assessments, and physical rehabilitation services were provided to a relatively small group of program participants.

The mix of services provided by W-2 agencies varied greatly.

The mix of services provided by individual W-2 agencies also varied greatly. For example, Milwaukee agencies generally provided a greater percentage of their participants with adult basic education services, which seems appropriate given that the percentage of participants without a high school education was greater in Milwaukee County than in the balance of the state. As shown in Table 3, among the W-2 agencies with more than 350 participants in 2000, the percentage of participants receiving adult basic education services ranged from a low of 0.4 percent in Brown County to a high of 63.9 percent for OIC-GM. Similarly, while only 3.5 percent of participants were enrolled in high school equivalency programs in Kenosha County, and 18.2 percent were enrolled statewide, UMOS, which also serves Milwaukee County, provided high school equivalency training to 37.9 percent of its participants.

Relatively few W-2 participants received substance abuse and mental health counseling as part of approved W-2 activities.

Although far fewer participants received substance abuse and mental health counseling than educational services, there were still differences among agencies in the percentage of participants who received such counseling as part of approved W-2 activities. For example, 5.0 percent of participants in Dane County received substance abuse counseling funded by W-2 or another program, compared to less than 1 percent of participants in Brown, Kenosha, Racine, and Wood counties. Similarly, 12.2 percent of participants in Winnebago County received mental health counseling, compared to only 1.6 percent in Brown County. It is not possible to determine from available data whether such variation reflects differences in participants' needs, differences in assessment procedures, or funding decisions made by W-2 agencies.

It should also be noted that several W-2 agencies with fairly small caseloads were among the agencies with the largest percentage of participants enrolled in education and training activities statewide. For example:

- Fond du Lac County, with 247 participants, enrolled 28.3 percent in high school equivalency programs and 21.1 percent in job skills training;
- Marinette County, with 128 participants, enrolled 38.3 percent in job skills training and 28.1 in high school equivalency programs; and
- Marquette County, with 58 enrolled participants, assisted 81.0 percent in performing a job search, enrolled 50.0 percent in job skills training, and enrolled 41.4 percent in high school equivalency programs.

Appendices 2, 3, and 4 provide more detail on services provided to participants by each of the W-2 agencies statewide.

Table 3

**Percentage of Participants Receiving Selected W-2 Services by Agency
2000**

<u>W-2 Agency</u>	<u>Adult Basic Education</u>	<u>High School Equivalency</u>	<u>Job Skills Training</u>	<u>Substance Abuse Counseling</u>	<u>Mental Health Counseling</u>
Milwaukee					
Employment Solutions	53.3%	29.5%	15.8%	2.8%	5.4%
Maximus	37.2	18.3	13.8	3.3	5.3
OIC-GM	63.9	6.7	12.0	4.2	3.8
UMOS	20.3	37.9	14.2	2.0	6.6
YW Works	33.7	9.7	25.9	2.5	8.2
Balance of State					
Brown County	0.4	21.2	9.1	0.5	1.6
Dane County	21.8	13.2	13.8	5.0	8.6
Douglas County	3.6	7.1	16.3	1.6	9.8
Eau Claire County	4.1	8.2	11.2	2.5	1.9
Kenosha County	29.0	3.5	8.2	0.7	5.4
La Crosse County	4.5	11.1	1.3	1.8	3.3
Marathon County	5.1	22.9	2.9	1.9	6.4
Racine County	25.3	12.7	1.9	0.6	2.3
Rock County	4.0	22.7	19.8	1.3	6.7
Winnebago County	9.1	17.9	20.7	2.1	12.2
Wood County	1.6	16.6	4.1	0.3	6.3
Statewide	31.6	18.2	13.8	2.6	6.0

Trends in Program Participation

When W-2 began statewide in September 1997, it was expected that many recipients of AFDC benefits would not participate in W-2 or would participate only briefly, because they would quickly find employment on their own. DWD's initial program budget estimates were based on such assumptions. However, participation levels were still lower than had been anticipated, presumably because individuals who had been receiving AFDC benefits were already working, found jobs on their own, found other sources of support, or moved to other states.

W-2 caseloads declined much faster than had been projected.

As a result, initial caseload projections were much higher than actual program participation. For example, DWD’s budget estimates projected there would be approximately 50,100 participants statewide in September 1997. The actual number was 22,761, or 45.4 percent of the number anticipated. It included 22,341 AFDC cases that were still active and for which participants received cash benefits, as well as 420 new W-2 cases. When the initial W-2 implementation contracts ended in December 1999, there were only 11,170 program participants. All were W-2 cases, because AFDC had ended in March 1998.

As shown in Table 4, the average caseload declined 50.9 percent statewide from September 1997 to September 2000. In Milwaukee County, where approximately three-quarters of W-2 participants reside, it declined 47.8 percent. Appendix 5 shows changes in all W-2 agencies’ caseloads in September 1997 and September 2000.

Table 4

Number of W-2 Cases by Contractor Type
September 1997 and September 2000

<u>Contractor Type</u>	<u>September 1997*</u>	<u>September 2000</u>	<u>Percentage Reduction</u>
Tribal Agencies	115	37	67.8%
Private Agencies in Counties Other than Milwaukee	509	206	59.5
County Agencies	5,627	2,303	59.1
Private Agencies in Milwaukee County	16,425	8,578	47.8
Other**	<u>85</u>	<u>47</u>	44.7
All W-2 Agencies	22,761	11,171	50.9

* Includes AFDC cases that were being moved to the W-2 program.

** W-2 programs in Florence and Monroe counties were administered by county agencies in September 1997 and by private agencies in September 2000.

Approximately 30 percent of participants entered the program in unsubsidized placements.

It was expected that most W-2 participants would move from subsidized to unsubsidized placements. However, some participants never needed or took advantage of subsidized placements but sought only services to help them find or maintain employment. As shown in Table 5, we found that approximately 30 percent of participants who entered the program

Table 5

**Placements of W-2 Participants Who Entered the Program for the
First Time in Either July 1999 or July 2000***

<u>Placement Type</u>	<u>July 1999</u>		<u>July 2000</u>	
	<u>Number</u>	<u>Percentage of Total</u>	<u>Number</u>	<u>Percentage of Total</u>
Subsidized Placements				
Community service jobs	150	25.9%	145	22.5%
Custodial parents of infants	146	25.2	183	28.4
Transitional placements	114	19.7	121	18.8
Trial jobs	<u>0</u>	<u>0.0</u>	<u>1</u>	<u>0.1</u>
Subtotal	410	70.8	450	69.8
Unsubsidized Placements				
Case management for those judged ready to enter employment	67	11.5	86	13.3
Case management for those working	67	11.5	50	7.8
Case management follow-up	26	4.5	32	5.0
Case management for those who are pregnant	10	1.7	26	4.0
Case management for minor parents	<u>0</u>	<u>0.0</u>	<u>1</u>	<u>0.1</u>
Subtotal	<u>170</u>	<u>29.2</u>	<u>195</u>	<u>30.2</u>
Total	580	100.0%	645	100.0%

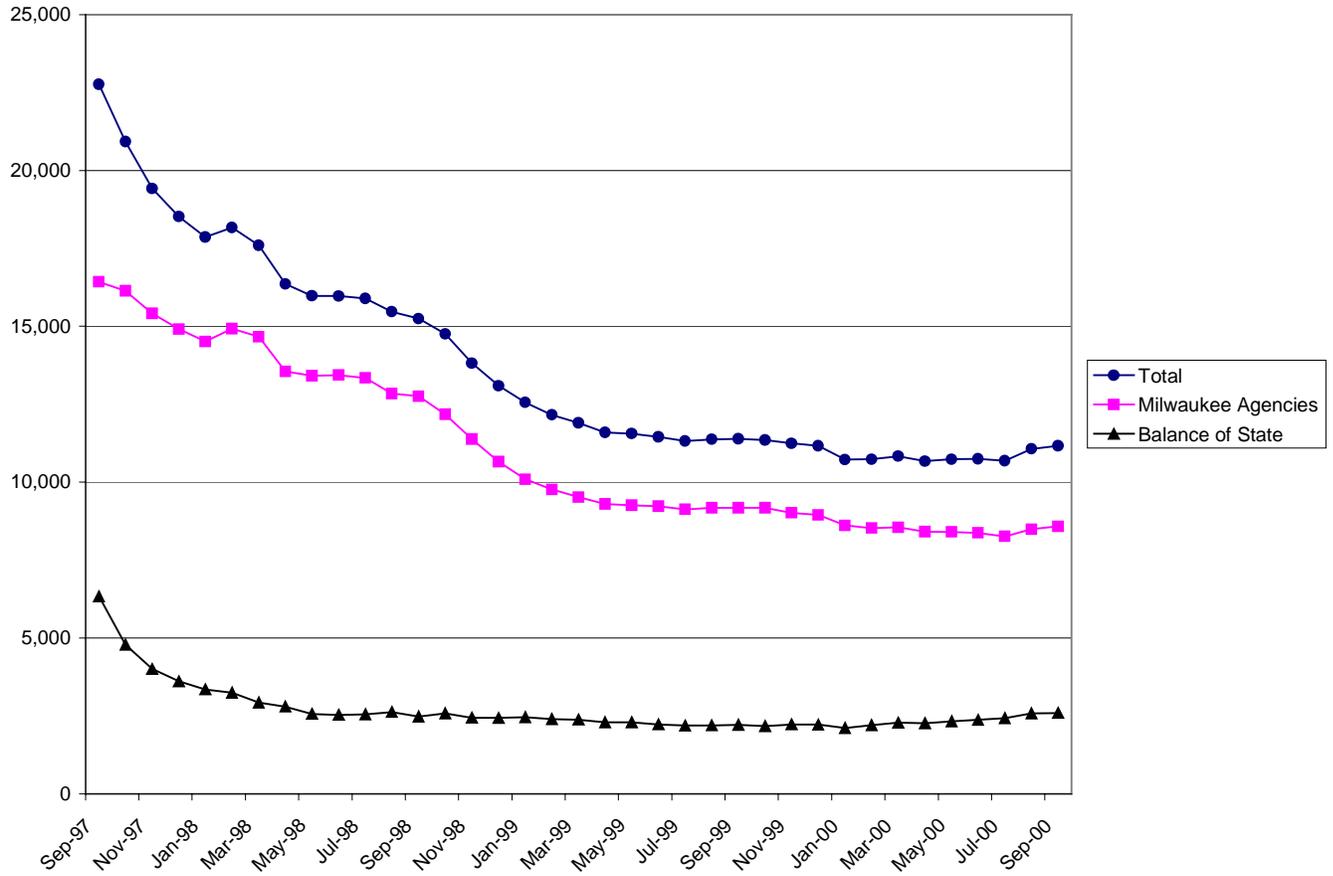
* Represents participants' placements at the end of the first month of program participation.

for the first time in July 1999 and July 2000 were in unsubsidized placements at the end of their first month.

As shown in Figure 1, the total caseload declined steadily through January 2000, then increased slightly through September 2000. Most of the decline reflects a precipitous reduction in the cash benefit caseload, which includes participants in community service jobs, transitional placements, and trial jobs, as well as custodial parents of infants.

Figure 1

W-2 Caseload
September 1997 through September 2000



The number of participants receiving only case management services has generally increased.

In contrast to the overall caseload, the non-cash benefit caseload—that is, participants in unsubsidized placements who either enrolled in the program to obtain services other than cash benefits or remained enrolled in order to keep receiving these services—has generally increased since the program began. From February through November 1999, the non-cash benefit caseload increased by 34.6 percent. Since then, the rate of increase has slowed. Table 6 shows trends in W-2 participation from January 1998 through September 2000.

Table 6

Change in Cash Benefit and Non-Cash Benefit Caseloads

<u>Month</u>	<u>Cash Benefit Caseload</u>	<u>Percentage Change</u>	<u>Non-Cash Benefit Caseload</u>	<u>Percentage Change</u>
January 1998	14,204	—	3,658	—
January 1999	9,032	-36.4%	3,523	-3.7%
January 2000	6,700	-25.8	4,022	14.2
September 2000	6,771	1.1	4,400	9.4

Program Expenditures

During the initial implementation period from September 1997 through December 1999, a total of \$237.9 million in funds that had been contracted for local program services and administration remained unspent, largely because of the unanticipated decline in the W-2 caseload. The initial implementation contracts called for the majority of the unspent funds to be returned to the W-2 agencies, which were required to spend some of these funds on services for low-income individuals but allowed to retain others as unrestricted “profits” that could be spent for a variety of purposes. Current contracts, which expire in December 2001, require W-2 agencies to meet performance benchmarks in order to receive any bonus funds. We reviewed expenditures under the initial implementation and current contract periods.

W-2 program costs totaled \$710.4 million through September 2000.

As shown in Table 7, local program implementation by W-2 agencies accounted for 93.6 percent of W-2 costs through September 2000. The unrestricted profits that were provided to all 75 of the counties, private agencies, and tribes under the initial implementation contracts accounted for \$65.1 million (9.2 percent) of the \$710.4 million in total costs. These costs also include an estimated \$45.6 million for state administration by DWD, which devoted approximately 57 full-time equivalent (FTE) positions to W-2 since 1997.

Table 7

W-2 Costs through September 2000
(in millions)

<u>Category</u>	<u>Program Costs</u>	<u>Percentage of Total</u>
Local Program Implementation by W-2 Agencies		
Initial implementation contracts	\$413.6	58.2%
Current contracts	121.4	17.1
Unrestricted profits	65.1	9.2
Start-up contracts	31.3	4.4
Additional W-2 services*	19.2	2.7
Community reinvestment funds	<u>14.2</u>	<u>2.0</u>
Subtotal	664.8	93.6
State Administration**	<u>45.6</u>	<u>6.4</u>
Total	\$710.4	100.0%

* Includes costs for services such as on-site child care at job centers, job access loans, emergency assistance, and funds for services provided to participants by the Milwaukee Area Technical College Learning Labs, which are included as addenda to the contracts of W-2 agencies.

** Estimated based on total TANF-related administrative costs.

Initial Contract Expenditures

As shown in Table 8, the five private agencies serving Milwaukee County spent 64.5 percent of the \$413.6 million in initial implementation contract costs. Appendix 6 lists contract amounts and expenditure information for each of the 75 original W-2 agencies.

Expenditures are categorized as either cash benefits, direct services, or administrative costs.

DWD classifies expenditures reported by local W-2 agencies as either cash benefits, direct services, or administrative costs. Direct services typically include the salaries and benefits of those providing services, as well as the actual costs of the services, including costs of:

- determining eligibility for W-2, food stamps, Medical Assistance, child care, and refugee cash assistance;

Table 8

Initial Implementation Contract Expenditures by Contractor Type
September 1997 through December 1999
(in millions)

<u>Contractor Type</u>	<u>Expenditures</u>	<u>Percentage of Total</u>
Private Agencies in Milwaukee County	\$266.9	64.5%
County Agencies	133.8	32.4
Private Agencies in Counties Other than Milwaukee	11.2	2.7
Tribal Agencies	<u>1.7</u>	<u>0.4</u>
All W-2 Agencies	\$413.6	100.0%

- providing job skills training and work activities, such as enrolling participants in W-2, providing orientation, assessing participants' skills and needs, providing counseling services, and assisting in job search activities;
- providing case management services;
- providing education and training services through FSET;
- providing educational activities, such as job testing, employee screenings, mentoring, job coaching, remedial education, and literacy training;
- providing transportation assistance and assisting families in meeting emergency needs through job access loans and other supports;
- providing other training, such as anger management, parenting, family nutrition, household management, and time management; and
- offering post-employment services, such as providing community resource referrals and information on eligibility for other programs.

As noted, cash benefit expenditures are for grants to participants in employment positions, wage subsidies to employers who hire W-2 participants in trial jobs, and grants to custodial parents of infants. Administrative expenditures include the costs of salaries and fringe benefits for staff who are not involved in direct program delivery, as well as office space, data processing, and other overhead costs.

50.2 percent of expenditures under the initial implementation contracts were for direct services.

As shown in Table 9, 50.2 percent of program expenditures under the initial implementation contracts were for direct services, while 40.6 percent were for cash benefits paid to participants and subsidies to employers, and 9.2 percent were for administrative expenditures. Appendix 7 lists initial implementation expenditures by type for each W-2 agency. It also includes expenditures for additional services that were not part of the original contracts but were included in contract addenda. It should be noted that payments for subsidized child care, which is available to W-2 participants and other low-income families, are funded through separate appropriations and have been reviewed in another recently released Legislative Audit Bureau evaluation (report 01-1).

Within the direct services category, \$109.6 million was spent on work activities for program participants. That amount represents 26.5 percent of initial implementation contract expenditures.

Within the cash benefits expenditure category, \$121.5 million was paid to W-2 participants in community service jobs. That amount represents 29.4 percent of initial implementation contract expenditures. Only \$0.4 million, or 0.1 percent of these expenditures, funded trial jobs because few trial jobs were created.

Local administrative costs accounted for 9.2 percent of W-2 agency expenditures under the initial contracts.

W-2 agencies' administrative costs of \$37.9 million accounted for 9.2 percent of initial implementation contract expenditures. The contracts required that the agencies spend no more than 10 percent of the total value of their contracts for administrative purposes, and only one agency exceeded this amount. Waushara County spent 10.1 percent on administration, or \$2,540 more than was available for reimbursement under its contract.

Table 9

Initial Implementation Contract Expenditures by Expenditure Type
September 1997 through December 1999

<u>Type of Expenditure</u>	<u>Expenditures</u>	<u>Percentage of Total Expenditures</u>
Direct Services		
Work activities	\$109,618,826	26.5%
Eligibility determination*	48,247,517	11.7
Case management	14,697,829	3.5
FSET services	12,447,082	3.0
Skills training	8,458,110	2.0
Post-employment services	7,795,046	1.9
Educational activities	<u>6,502,998</u>	<u>1.6</u>
Subtotal	207,767,408	50.2
Cash Benefits		
Community service jobs	\$121,481,539	29.4
Transitional placements	30,497,550	7.4
Custodial parents of infants	14,002,783	3.4
Sanctions**	1,530,140	0.3
Trial jobs	<u>420,062</u>	<u>0.1</u>
Subtotal	167,932,074	40.6
Local Administrative Costs	<u>37,896,667</u>	<u>9.2</u>
Total	\$413,596,149	100.0%

* Includes determining eligibility for W-2, Medical Assistance, the Food Stamp Program, subsidized child care, and refugee cash assistance.

** Except for Milwaukee County, sanctions of participants' grants were counted as expenditures and were charged against an agency's contract. Milwaukee County agencies were able to retain sanctioned funds.

Contractors retained unspent initial implementation funds as profits and for community reinvestment.

Unspent Contract Funds

Because the initial implementation contracts required counties, private agencies, and tribes to assume financial responsibility for any program costs that exceeded contract values, they included provisions for contractors to profit if any program funds were not spent. Contractors could earn both unrestricted profits, which could be spent in any way the contractors chose, and community reinvestment funds, which were restricted funds that are required to be spent on services for TANF-eligible individuals. When only 63.5 percent of the \$651.5 million budgeted under the initial implementation contracts was spent, all contractors became eligible to receive both unrestricted profits and community reinvestment funds.

Under the initial implementation contracts, unexpended funds that were 7 percent or less of the total contract value were to be paid as unrestricted profits. If unexpended funds exceeded 7 percent of the contract's value, those funds remaining after the initial profit was calculated were to be distributed as follows:

- 10 percent was to be paid as additional unrestricted profit to the contractor;
- 45 percent was to be reinvested in the community by the contractor, to fund services for eligible low-income individuals pursuant to a plan submitted by the contractor and approved by DWD; and
- 45 percent was to be retained by DWD for use in any manner it determined to be appropriate in accordance with the State's approved TANF plan.

For example, if a county, private agency, or tribe that entered into a contract for \$1.0 million spent only \$700,000, the \$300,000 in unspent funds would be 30 percent of the contract's value. The contractor would therefore be entitled to a profit of \$70,000, or 7 percent of the contract's value. This \$70,000 profit would then be deducted from unspent contract funds, and the contractor would be entitled to receive \$23,000 (10 percent of the remaining \$230,000) as profit and \$103,500 (45 percent of the remaining \$230,000) for community reinvestment. In total, the contractor would be entitled to receive \$93,000 in profits and \$103,500 in community reinvestment funds. DWD would retain the remaining \$103,500.

Under the initial implementation contracts, W-2 agencies' profits totaled \$65.1 million.

Unrestricted Profits – Under the initial implementation contracts, all 75 contracting counties, private agencies, and tribes earned profits. As shown in Table 10, unrestricted profits for all W-2 agencies amounted to \$65.1 million, or 10.0 percent of the value of all W-2 contracts statewide. Profits ranged from a high of \$9.5 million (earned by Employment Solutions, a private agency that served the largest number of participants in two regions in Milwaukee County) to a

Table 10

Range of Unrestricted Profits Earned
September 1997 through December 1999

	<u>Profit Amount</u>	<u>Percentage of Total Contract Amount</u>
Agencies with the Largest Profits		
Employment Solutions	\$ 9,452,143	8.4%
OIC-GM	4,622,816	8.1
Maximus	4,405,915	7.6
UMOS	4,332,206	8.5
Racine County	3,435,008	12.0
YW Works	3,415,466	8.5
Dane County	2,600,226	9.5
Rock County	2,553,725	12.5
Brown County	2,388,793	12.8
La Crosse County	1,665,872	13.4
Agencies with the Smallest Profits		
Crawford County	124,323	11.6
Door County	112,464	9.6
Forward Service (Vilas County)	102,134	9.9
Forward Service (Kewaunee County)	100,312	10.9
Marquette County	94,721	11.3
Iron County	83,213	12.5
Florence County	82,029	11.7
Bayfield County	66,703	8.5
Bad River Band of Chippewa	51,755	7.0
Pepin County	42,071	8.7
All W-2 Agencies	65,103,888	10.0

low of \$42,071 (earned by Pepin County, which served the second-fewest number of participants and had the smallest contract). Three other private agencies in Milwaukee County each earned more than \$4.0 million in profits: Maximus, OIC-GM, and UMOS. At \$3.4 million, Racine County earned the largest profits among county agencies. Information on the profits each W-2 agency earned under the initial implementation contracts is included in Appendix 6.

Although the initial implementation contracts allowed unrestricted profits to be used as each contractor wished, counties are required to disclose the disposition of their profits to the Legislature and the public, because their funds are public funds. In contrast, private agencies are not under an obligation to disclose the ways in which their profits were used.

As part of our site visits to 17 public and private agencies, we requested information on how each used its profits. We found that:

- Brown, Kenosha, Price, Rock, and Sawyer counties reported spending a total of \$6.3 million in unrestricted profits to offset county tax levies, or transferred profits to the county general fund.
- OIC-GM reported spending \$4.6 million in profits for activities that included purchasing a cellular phone business in the central city of Milwaukee, developing a food service program to provide meals to child care providers and after-school programs, and joining a collaboration to develop a computer technology academy to increase academic achievement and expand career opportunities for youth.
- Dane County reported spending \$1.3 million to provide housing services for low-income residents.
- YW Works reported spending \$1.1 million on a plastics processing company that will serve as a workplace skills training center, on a non-traditional employment and training program, and on a variety of other education and training activities and programs.
- Manitowoc County reported spending \$605,000 on alternate care expenses for children, to offset budget deficits resulting from shortfalls in other programs.

- Fond du Lac County reported spending \$465,000 to expand a range of services available to low-income families.
- Monroe County reported spending \$219,000 to enhance the county human services department's computer network.

The agency profiles (Appendix 1) also include information on the use of unrestricted profits under the initial implementation contracts.

Under the first contract, W-2 agencies received \$83.4 million in community reinvestment funds.

Community Reinvestment Funds – As shown in Table 11, W-2 agencies received a total of \$83.4 million for community reinvestment. These funds represent 12.8 percent of the value of all agencies' initial implementation contracts. However, compared to the other contractors, private agencies in Milwaukee County earned a substantially smaller percentage of community reinvestment funds because they spent a larger percentage of their contract funds. Racine and Rock counties earned the largest amount of community reinvestment funding, \$6.4 million and \$5.1 million, respectively.

Table 11

Community Reinvestment Funds Earned
Under Initial Implementation Contracts
(in millions)

<u>Contractor Type</u>	<u>Contract Amount</u>	<u>Community Reinvestment</u>	<u>Community Reinvestment Funds as a Percentage of Contract Amount</u>	<u>Percentage Spent through September 2000</u>
County Agencies	\$304.9	\$64.9	21.3%	16.9%
Private Agencies in Counties				
Other than Milwaukee	24.3	4.9	20.2	15.9
Tribal Agencies	3.4	0.7	20.6	0.0
Private Agencies in Milwaukee County	<u>318.9</u>	<u>12.9</u>	4.0	19.1
All W-2 Agencies	\$651.5	\$83.4	12.8	17.0

The amount of community reinvestment funds received by each agency is presented in Appendix 6. A total of \$83.4 million in community reinvestment funds was also made available to DWD under the initial implementation contracts. These funds were reallocated to other TANF-eligible programs during 1999-2001 biennial budget deliberations.

Community reinvestment funds must be used to provide services to families whose incomes are below 200 percent of the federal poverty level, which is currently \$29,260 annually for a family of three. Under federal law, the funds must also be spent for purposes consistent with the TANF legislation, such as encouraging the formation and maintenance of two-parent families. In October 1998, DWD issued the first of several memoranda that outlined the allowable uses of community reinvestment funds. These include assistance for food, utilities, household goods and personal care, and child care; assistance with finding a job; and funding for food pantries and clothing centers that enable low-income individuals to obtain necessities at little or no cost. DWD memoranda also indicate that community reinvestment funds may be used to supplement direct services budgets under the current implementation contracts; to provide transportation services, enrichment services to youth, and counseling activities not covered by Medical Assistance; and to expand services to address cultural and language barriers.

To receive community reinvestment funds, W-2 agencies were required to submit plans for DWD's approval detailing the types of activities they wish to fund and the types of individuals to be served. As of March 2001, 13 agencies were still working on obtaining plan approval from DWD.

In September 2000, W-2 agencies had spent 17 percent of the community reinvestment funds they received under the initial contracts.

As of September 2000, Marinette County had spent all of its reinvestment funds. Although it reported spending \$1.4 million, DWD reimbursed \$1.2 million, which was the actual amount of reinvestment funds earned. In contrast, 15 agencies had no reported expenditures by September 2000. Overall, W-2 agencies have spent \$14.2 million, or 17.0 percent of the community reinvestment funds they received under the initial implementation contracts. Based on our review of the plans submitted to DWD by the 17 agencies we visited:

- 11 agencies plan to spend a total of \$7.6 million to supplement funds for services to W-2 participants in the event that other contract funds are insufficient;
- 15 agencies plan to spend \$5.8 million on supportive services to families, including services to reduce out-of-home placements of children;
- 14 agencies plan to spend \$3.8 million to enhance employment training and job retention services;

- 12 agencies plan to spend \$3.2 million for emergency services, such as loans or grants for food, shelter, and utilities;
- 11 agencies plan to spend \$2.4 million on services for youth, such as after-school activities intended to reduce gang involvement, prevent youth alcohol and other drug abuse, assist children at risk of failing in or dropping out of school, and increase youth employment skills;
- 7 agencies plan to spend \$1.2 million on child care-related services, including funding on-site child care for W-2 participants and providing funds for start-up and expansion of child care centers;
- 5 agencies plan to spend \$532,000 for interpreter services and for coordination and outreach services to non-English speaking communities; and
- 6 agencies plan to spend \$442,000 for domestic abuse prevention and support services.

Milwaukee County will receive \$4.1 million in community reinvestment funds from two W-2 agencies.

In addition, Employment Solutions and OIC-GM have agreed to provide a portion of their community reinvestment funds, \$3.8 million and \$300,000, respectively, to Milwaukee County to fund activities such as:

- case management, non-medical therapy, and individual and family counseling;
- services for developmentally disabled infants, toddlers, and their families; and
- overnight shelters and services for the homeless.

The original deadline to spend all W-2 community reinvestment funds earned under the initial implementation contracts was December 31, 2001. This deadline was recently extended to June 30, 2002; however, all funds unspent by January 2002 will be reduced by 25 percent. DWD will reallocate these funds to those agencies that have exceeded their W-2 contract funds.

Appendix 8 provides information on the amount of community reinvestment funds spent by each W-2 agency through September 2000. The agency profiles in Appendix 1 provide more detail on how each of the 17 agencies we visited plans to spend its community reinvestment funds.

Current Contract Expenditures

Current W-2 contracts are for 43.3 percent less than the initial implementation contracts.

The current contracts for implementation of W-2 total \$369.3 million for the 24-month period from January 2000 through December 2001. This amount is 43.3 percent less than the value of the initial implementation contracts, in recognition of the \$237.9 million that was budgeted but not spent under those contracts, the continued decline in caseloads, and the shorter time period of the current implementation contracts.

As shown in Table 12, W-2 agencies spent \$121.4 million in the first nine months of the current contract implementation period. That total represents 32.9 percent of total current contract amounts. Appendix 9 lists the current contract amount, reported expenditures, and potential bonus and reinvestment amounts by W-2 contractor.

Table 12

Current Contract Amounts and Expenditures January 2000 through September 2000 (in millions)

<u>Contractor Type</u>	<u>Contract Amount</u>	<u>Expenditures through September 2000</u>	<u>Percentage of Total Contract Expended</u>
Private Agencies in Milwaukee County	\$253.1	\$ 82.1	32.4%
County Agencies	103.9	34.8	33.5
Private Agencies in Counties Other than Milwaukee	11.4	4.2	36.8
Tribal Agencies	<u>0.9</u>	<u>0.3</u>	33.3
All W-2 Agencies	\$369.3	\$121.4	32.9

Direct services account for 59.6 percent of current contract expenditures.

As shown in Table 13, direct services continue to be the largest expenditure category under the current implementation contracts. They represent 59.6 percent of current contract expenditures, compared to 50.2 percent under the initial implementation contracts. Cash benefits represent 30.5 percent of current contract expenditures, compared to 40.6 percent under the initial implementation contracts. The decline in cash benefits can be attributed to the decline in caseloads. Current contract expenditures include two direct service categories that were not

Table 13

Current Contract Expenditures by Category
January 2000 through September 2000

<u>Type of Expenditure</u>	<u>Expenditures</u>	<u>Percentage of Total Expenditures</u>
Direct Services		
Work activities	\$ 45,155,113	37.2%
Eligibility determination*	13,077,073	10.8
FSET services	4,910,599	4.1
Post-employment services	2,752,969	2.3
Educational activities	2,598,342	2.1
Skills training	2,298,177	1.9
Transportation	1,248,954	1.0
Case management	289,452	0.2
Non-cash assistance**	<u>19,283</u>	<u><0.1</u>
Subtotal	72,349,962	59.6
Cash Benefits		
Community service jobs	14,618,629	12.0
Transitional placements	11,735,196	9.7
Sanctions	5,395,950	4.4
Custodial parents of infants	5,190,753	4.3
Trial jobs	<u>89,697</u>	<u>0.1</u>
Subtotal	37,030,225	30.5
Local Administrative Costs	<u>11,981,391</u>	<u>9.9</u>
Total	\$121,361,578	100.0%

* Includes determining eligibility for W-2, Medical Assistance, the Food Stamp Program, subsidized child care, and refugee cash assistance.

** Includes food, clothing, shelter, utilities, household goods, and personal care items.

tracked separately under the initial implementation contracts: transportation, including bus tokens and van services, and non-cash assistance, including the direct provision of food, shelter, utilities, household goods, and personal care items. Finally, in contrast to the initial implementation contracts, which limited administrative costs to 10 percent of the contract amount, administrative costs under the current contracts cannot exceed 15 percent of expenditures. Appendix 10 lists each agency's current contract expenditures by type through

September 2000. It also includes expenditures for additional services that were not part of the original contracts but were included in contract addenda.

Performance Bonuses

Under the current contracts, bonuses are awarded based on performance rather than on the level of unspent funds.

In order to improve agency performance, and in response to concerns about the \$65.1 million in profits that W-2 agencies were paid under the initial implementation contracts, DWD developed performance standards for the current contract period that are intended to tie monetary incentives to performance rather than to the level of unspent funds.

Since January 2000, each W-2 agency's performance has been measured using seven criteria:

- the number of W-2 and FSET participants who enter into full- and part-time jobs lasting 30 days or more;
- the average wage rate attained by all participants served by the agency who have been placed in jobs, including both W-2 participants and individuals participating in the FSET program;
- the percentage of all participants who have entered employment and remain employed through a 30-day follow-through verification;
- the percentage of all participants who have entered employment and remain employed through a 180-day follow-through verification;
- the percentage of W-2 participants receiving an employment subsidy who are engaged in appropriate activities for at least 30 hours per week, and the percentage of FSET participants engaged in appropriate activities for at least 27 hours per week;
- the percentage of all participants attending basic educational activities to which they have been assigned; and
- the percentage of all participants who have employer-provided health insurance no later than 180 days after entering employment.

Currently, bonus payment levels are based on three levels of performance.

For each of these criteria, DWD has established three levels of performance that can be used in determining bonus payment levels under the current contracts: the base performance level, the first bonus level, and the second bonus level. If an agency achieves the base performance level for each of the seven mandatory performance measures, it will earn the “right of first selection,” which potentially allows it to be awarded the next W-2 contract without having to compete with other public and private organizations that may be interested in administering W-2 during the next contract period. In addition, it will earn a portion of the 3 percent restricted-use bonus for every standard it meets. Such bonuses may be used much like the community reinvestment funds earned under the initial contracts.

By demonstrating higher levels of performance, agencies can also earn unrestricted bonuses that may be used for any purpose. The first bonus level is equal to 2 percent of the agency’s contract amount. The second bonus level includes an additional 2 percent of the contract amount.

Appendix 11 provides detail on the three performance bonus levels for each of the seven criteria, as well as for two optional performance criteria. Under the optional criteria, agencies that would otherwise not meet one of seven mandatory performance standards may still earn second-level bonuses if they either: 1) contracted for direct services with at least one faith-based organization during at least seven of the eight quarters of the contract period; or 2) can show that 50 percent of participants who had been assigned to basic and job skills training activities have completed those activities successfully.

\$25.9 million is available for bonus payments under current contracts.

As shown in Table 14, the total of maximum bonus payments possible under the current contracts is \$25.9 million. That amount represents 7.0 percent of the total of all current contract amounts. In contrast, W-2 agencies earned profits and community reinvestment funds of \$148.5 million under the initial implementation contracts, representing 22.8 percent of the total of all initial implementation contract amounts.

Although bonuses will not be determined until the end of the current contract period in December 2001, DWD announced in March 2001 that all but two agencies—Bayfield and Menominee counties—were meeting or exceeding base level performance standards for restricted-use bonuses. Under current contracts, W-2 agencies that meet these standards are eligible for the right of first selection.

In addition, as of December 2000, 34 agencies were meeting the standards needed to obtain the maximum amount of unrestricted-use bonus funds at the first level, and 9 at the second level. If performance were to remain unchanged through the end of the current contract period, the agencies would earn a total of \$22.9 million, or 88.5 percent of the total available to them. Appendix 12 shows the level at which

Table 14

**Contract Amounts and Maximum Performance Bonuses
Available to W-2 Agencies**

<u>Contractor Type</u>	<u>Contract Amount</u>	<u>Restricted-Use Bonus</u>	<u>First Unrestricted-Use Bonus</u>	<u>Second Unrestricted-Use Bonus</u>	<u>Total Bonus Possible</u>
Private Agencies in Milwaukee County	\$253,170,283	\$ 7,595,109	\$5,063,405	\$5,063,405	\$17,721,919
County Agencies	103,876,637	3,116,300	2,077,533	2,077,533	7,271,366
Private Agencies in Counties Other than Milwaukee	11,387,237	341,616	227,745	227,745	797,106
Tribal Agencies	<u>880,286</u>	<u>26,409</u>	<u>17,606</u>	<u>17,606</u>	<u>61,621</u>
All W-2 Agencies	\$369,314,443	\$11,079,434	\$7,386,289	\$7,386,289	\$25,852,012

each agency met the seven mandatory standards through December 2000, as well as potential bonuses if performance remains unchanged through the remainder of the current contract period.

Concerns have been raised about giving agencies that misspent public funds an advantage in seeking future contracts.

In prior reports concerning our review of W-2 agencies' expenditures, we found that Maximus and Employment Solutions had inappropriately billed the State for numerous unallowable costs, including expenditures associated with pursuing out-of-state contracts, entertainment, unallowable staff benefits, and donations to other organizations. Some have raised concerns about DWD's actions in awarding Maximus and Employment Solutions the right of first selection for the 2002-03 W-2 contract period.

The opportunity to earn the right of first selection is provided in Wisconsin Statutes. However, statutes do not prescribe the manner in which this right is to be implemented in W-2 contracts. Because of the manner in which DWD included these provisions in its W-2 contracts, it is unclear what options, if any, DWD has under the current contract to deny the right of first selection to agencies that have met performance standards. However, to ensure that DWD has the authority to exercise meaningful discretion in awarding the right of first selection under future contracts, *we recommend the Department of Workforce Development proceed as it has proposed and include provisions in all future contracts that allow it to revoke the right of first selection for any agency that fails to comply with established rules and regulations, including those specified in its financial and policy management manuals.*

W-2's success in ensuring the economic self-sufficiency of participants has not yet been established.

W-2 has been successful in reducing public assistance caseloads and requiring participants to work. However, its success in ensuring the economic self-sufficiency of former participants has not yet been established. Former participants are likely to continue to receive assistance through programs such as Medical Assistance and the Food Stamp and Wisconsin Shares Child Care Subsidy programs, which may be essential to their maintaining employment. Decreased reliance on publicly funded subsidies may not, therefore, be an appropriate measure of the program's success. However, progress in achieving economic self-sufficiency can be documented by former participants' earnings, which are reflected in income tax data. Therefore, we analyzed the extent to which the income of participants who left the program in the first three months of 1998 was above the federal poverty level, as well as the extent to which former participants returned to the program for either cash assistance or other services.

Financial Status of Former Participants

During the first three months of 1998, 2,129 participants left W-2 for a variety of reasons, but primarily because they found employment. The last placement for 66.5 percent of these participants, some of whom never received a cash benefit, was case management for those employed or deemed ready for unsubsidized employment. We compared two measures of these former W-2 participants' financial status with the federal poverty level:

- average annual income; and
- average annual income including state and federal earned income tax credits (EITCs).

Wisconsin's EITC, which offsets low-income working families' tax liabilities and may provide them with tax refunds that can be used for any purpose, was created in 1989 to assist low-income working families in meeting living costs.

What to include in the measure of poverty is the subject of debate.

We did not include other, non-cash benefits in our analysis in order to present a more accurate picture of income based on employment. What to include in measures of poverty status is the subject of some debate, and there is currently no consensus on whether non-cash benefits should be included along with earnings and other cash income. For example, a DWD study that reviewed AFDC and W-2 cases closed

between September 1997 and September 1999 included the estimated value of food stamps, child care subsidies, and Medical Assistance benefits in income calculations. Because of the value of these publicly funded benefits, the study found 92 percent of the families whose cases had been closed to be above the poverty level, regardless of their reported earnings. However, some question whether a family whose income consists primarily of publicly funded program benefits can be considered self-sufficient.

The current federal definition of poverty includes only earnings that would be reported as income on tax returns, and not the value of tax credits or non-cash benefits such as food stamps, child care subsidies, and Medical Assistance benefits. However, we chose to include the effect of state and federal EITCs on former W-2 participants' income because the amounts of these credits can be substantial and because the tax refunds that can result may be used like cash income, for any purpose an individual chooses. It may also be appropriate to include any child support income received, but we were not able to determine whether former W-2 participants with earned income also received child support. DWD studies indicate that up to 30 percent of former participants received child support. For all participants, the value of child support averaged \$636 annually.

Among the former W-2 participants who left the program in the first three months of 1998, we found that 1,377 (64.7 percent) had filed 1999 Wisconsin income tax returns. Nine hundred (65.4 percent) of those who filed were required to do so because their incomes exceeded an established threshold based on their filing status; the remaining 477 (34.6 percent) were not required to file but did so to claim the state EITC available to working families. Those who did not file presumably were not required to do so based on their limited income, because they were no longer Wisconsin residents, because they became eligible for SSI, or because they were supported by a spouse or other adult in the household.

When tax credits were included, 46.7 percent of former participants were above the poverty level.

As shown in Table 15, the average income reported by former W-2 participants who filed 1999 tax returns was \$11,988. When only that income is considered, 33.8 percent of these filers are above the federal poverty level for their respective family size, while 66.2 percent are below it. However, the incomes of the majority of former W-2 participants who filed 1999 tax returns were increased by state and federal EITCs; 83.0 percent received the state credit. State credits provided an average benefit of \$415 for all of those filing tax returns, while combined state and federal credits averaged approximately \$2,320. If the value of these credits is included, 46.7 percent of former participants in our analysis had incomes above the federal poverty level. It should be noted that this figure does not take

Table 15

**Percentage of Former W-2 Participants Above the Poverty Level
1999**

<u>Filing Status</u>	<u>Number Filing Tax Returns</u>	<u>Average Annual Income</u>	<u>Percentage Above Poverty Level Based on Income</u>	<u>Average State and Federal EITC*</u>	<u>Percentage Above Poverty with EITC</u>
Married Filing Jointly	272	\$21,467	51.8%	\$1,942	60.3%
Head of Household	861	10,499	31.6	2,839	48.1
Single	240	6,663	21.3	926	26.7
Married Filing Separately	4	7,662	25.0	0	25.0
Total	1,377	11,988	33.8	2,320	46.7

* Each person's federal EITC was estimated based on state tax return information.

into account more than one-third of our original sample who did not file tax returns, and therefore is likely to overstate the percentage of former W-2 participants above the poverty level.

Not surprisingly, the group with the highest average income shown in Table 15 was married couples who filed jointly: 51.8 percent of this group—and 60.3 percent when tax credits are included—had incomes above the federal poverty level. However, we were not able to determine the extent to which this income could be attributed to earnings of the former W-2 participant and to what extent it was earned by a spouse.

As shown in Table 16, the highest average incomes were reported by former W-2 participants who had been in unsubsidized case management placements before leaving the program. These individuals were generally more likely to be above the poverty level than former participants who left from subsidized placements. This suggests that W-2 participants in unsubsidized placements may be more skilled, either when they enter the program or as a result of it, and therefore may be better able to compete for higher-paying jobs. The large percentage of former trial job participants whose incomes exceeded the poverty level when tax credits were included results from a change in the status of only five individuals, because there were few participants in trial job placements.

Table 16

**Average Income of Former W-2 Participants by Last Placement
1999**

<u>Placement Category</u>	<u>Number Filing Tax Returns</u>	<u>Average Annual Income</u>	<u>Percentage Above Poverty Level Based on Income</u>	<u>Average State and Federal EITC*</u>	<u>Percentage Above Poverty with EITC</u>
Trial Job	17	\$10,849	35.3%	\$2,708	64.7%
Case Management	1,139	12,390	34.9	1,190	48.0
Community Service Job	161	9,681	25.5	1,975	38.5
Transitional Placement	<u>60</u>	10,882	33.3	2,196	38.3
All Placements	1,377	11,988	33.8	2,320	46.7

* Each person's federal EITC was estimated based on state tax return information.

Table 17 provides information on the average incomes of former participants based on the W-2 agency that provided services. It includes those agencies from which at least 25 participants left during the first three months of 1998 and also filed 1999 tax returns.

The average annual income among former participants at these 17 agencies was \$12,533, and 35.2 percent, on average, were above the federal poverty level in 1999. Among two private and two county agencies, 40 percent or more of former participants were above the poverty level. When the value of tax credits is included, from 37.0 to 55.3 percent of former W-2 participants had incomes above the federal poverty level.

Additional information on the income and poverty status of former W-2 participants is provided by agency in Appendix 13. Data for 30 agencies with small numbers of former participants have been combined and labeled "balance of state" to protect individual privacy.

**Through July 2000,
26.1 percent of
participants in our
sample returned to the
program, most in a
subsidized placement.**

We also analyzed the extent to which former participants returned to the W-2 program. Among the 2,129 who left during the first three months of 1998, we found that 555 (26.1 percent) had their cases reopened at some point through July 2000. Of the 555 cases that were reopened, 409, or 73.7 percent, returned in a subsidized placement, while 146, or 26.3 percent, returned in an unsubsidized placement. Among all the cases that reopened:

- 100 cases (18.0 percent) were reopened by June 1998, or within three to six months of their initial closure;

Table 17

Average Income of Former W-2 Participants by W-2 Agency
1999

<u>W-2 Agency</u>	<u>Number of Participants Filing Tax Returns</u>	<u>Average Annual Income</u>	<u>Percentage of Families Above the Poverty Level Based on Income</u>	<u>Average State and Federal EITC*</u>	<u>Percentage of Families Above Poverty if EITC Is Included</u>
Maximus	123	\$12,979	42.3%	\$2,277	55.3%
Brown County	49	14,326	40.0	2,360	53.3
Employment Solutions	72	12,929	40.3	2,389	52.8
Fond du Lac County	33	12,733	32.0	2,557	52.0
Winnebago County	62	15,400	40.4	2,214	51.9
Racine County	82	11,394	38.6	2,557	50.0
Douglas County	68	11,284	37.9	2,283	50.0
UMOS	113	12,919	33.6	2,275	48.7
YW Works	35	11,926	31.4	2,200	48.6
Curtis & Associates, Inc. (Waukesha County)	72	12,748	34.3	2,370	47.8
Dane County	105	11,449	31.4	2,035	46.1
Eau Claire County	45	12,542	28.6	3,081	45.7
Marathon County	28	12,864	23.8	3,002	42.9
Rock County	31	9,724	17.9	2,341	42.9
Outagamie County	27	17,961	33.3	2,498	40.0
Kenosha County	37	9,537	25.0	2,171	40.0
OIC-GM	<u>27</u>	10,980	33.3	2,041	37.0
Total	1,009	12,533	35.2	2,336	49.1

* Each person's federal EITC was estimated based on state tax return information.

- 316 cases (56.9 percent) were reopened by December 1998, or within nine months to one year of initial closure; and
- 493 cases (88.8 percent) were reopened by December 1999, or within two years of initial closure.

We could not, however, determine whether those who filed 1999 tax returns subsequently returned to the program, because tax return information provided to us by the Department of Revenue did not disclose former participants' names or other identifying information.

Table 18 shows the extent to which participants returned to various W-2 agencies. The percentage of participants who returned to the program through July 2000 ranged from a high of 43.3 percent for OIC-GM, a private agency serving Milwaukee County, to a low of 7.7 percent for Sawyer County.

Table 18

Participants Returning to the W-2 Program by Agency

<u>W-2 Agency</u>	<u>Number Who Left in the First Three Months of 1998</u>	<u>Number Who Returned through July 2000</u>	<u>Percentage of Those Leaving Who Returned</u>
OIC-GM	60	26	43.3%
YW Works	77	33	42.9
Western Wisconsin Private Industry Council (Juneau County)	26	11	42.3
Fond du Lac County	39	15	38.5
Dane County	188	70	37.2
Kenosha County	71	25	35.2
Employment Solutions, Inc.	124	43	34.7
Rock County	59	19	32.2
UMOS	186	57	30.6
Maximus	186	56	30.1
Outagamie County	35	10	28.6
Menominee County	32	9	28.1
Racine County	104	24	23.1
Marathon County	39	8	20.5
Winnebago County	77	15	19.5
Eau Claire County	55	10	18.2
Wood County	22	4	18.2
Kaiser Group, Inc. (Walworth County)	23	4	17.4
Shawano County Job Center, Inc.	25	4	16.0
Curtis & Associates, Inc. (Waukesha County)	85	13	15.3
Sheboygan County	20	3	15.0
Douglas County	106	12	11.3
Sawyer County	26	2	7.7
Statewide Total	2,129	555	26.1

Returning Participants

To obtain a more complete picture of those who returned to the W-2 program, we analyzed available data on participants who returned for either cash assistance or other services. DWD officials indicate that the extent to which participants return is not necessarily a good measure of program success or failure, because W-2 is designed to both encourage employment and allow participants to return if additional services could assist them in achieving the long-term goal of economic self-sufficiency. Nonetheless, analyzing changes in the number of returning participants over time, the frequency with which they return, and the reasons for which they originally left can provide information that is useful in assessing program effectiveness and improving service delivery. Furthermore, an understanding of the characteristics of returnees may be useful in modifying the program to address new or special participant needs that present barriers to employment.

Both the number and the percentage of returning W-2 participants have increased.

Despite the significant decline in caseloads since W-2 was implemented statewide in September 1997, we found that the number of participants who have left and returned to the program has increased over time. The number of returning participants also represents an increasing percentage of the total caseload, as shown in Table 19.

Table 19

Participants Returning to the W-2 Program for Cash or Non-Cash Assistance

<u>Date</u>	<u>Number of Participants Who Had Returned*</u>	<u>Total Caseload</u>	<u>Returning Participants as a Percentage of Total Caseload</u>
July 1998	599	15,896	3.8%
July 1999	3,127	11,319	27.6
July 2000	4,108	10,690	38.4

* Includes all participants who had previously been enrolled, regardless of the month they returned to the program.

Milwaukee County has a greater percentage of returning participants than the balance of the state.

In July 2000, Milwaukee County accounted for 85.2 percent of all returning participants statewide. As shown in Table 20, returning participants had been 2.7 percent of all Milwaukee County participants in July 1998 but were 42.4 percent of all Milwaukee County participants by July 2000. In the rest of the state, returning participants increased from 9.7 to 25.0 percent of W-2 participants. The percentage of

returning participants increased 39.7 percentage points in Milwaukee County and 15.3 percentage points in the balance of the state during a period of economic growth. Therefore, there has been speculation that returning participants have unique characteristics that do not respond to program services as they are currently provided, or that some W-2 agencies fail to provide adequate services.

Table 20

First-Time and Returning Participants

	Percentage of Caseload <u>July 1998</u>	Percentage of Caseload <u>July 1999</u>	Percentage of Caseload <u>July 2000</u>
Milwaukee County			
First-time participants	97.3%	70.8%	57.6%
Returning participants	2.7	29.2	42.4
Balance of State			
First-time participants	90.3	79.1	75.0
Returning participants	9.7	20.9	25.0

Data on returning participants are not available for the private W-2 agencies contracted to serve Milwaukee County, but they are available for all other W-2 agencies and for Milwaukee County in aggregate. From these data, we found that the number of former participants who returned to the program more than once has also increased over time. As shown in Table 21, 96.5 percent of all former W-2 participants who returned to the program in July 1998 were returning for the first time. By July 1999, the percentage of former participants who were returning for the first time had declined to 86.1 percent of returnees statewide, and by July 2000 to 70.7 percent. Furthermore, by July 2000, 959 former W-2 participants statewide had had two previous case closures and were returning to the program for the third time.

Table 21

Previous Case Closures for Returning Participants

<u>Previous Closures</u>	<u>July 1998</u>		<u>July 1999</u>		<u>July 2000</u>	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
Milwaukee County						
One	358	99.2%	2,312	86.7%	2,460	70.2%
Two	3	0.8	331	12.4	836	23.9
Three	0	0.0	25	0.9	175	5.0
Four	0	0.0	0	0.0	27	0.8
Five	<u>0</u>	<u>0.0</u>	<u>0</u>	<u>0.0</u>	<u>3</u>	<u>0.1</u>
Subtotal	361	100.0%	2,668	100.0%	3,501	100.0%
Balance of State						
One	220	92.4%	381	83.0%	444	73.2%
Two	17	7.2	66	14.4	123	20.3
Three	1	0.4	10	2.2	33	5.4
Four	0	0.0	1	0.2	5	0.8
Five	<u>0</u>	<u>0.0</u>	<u>1</u>	<u>0.2</u>	<u>2</u>	<u>0.3</u>
Subtotal	238	100.0%	459	100.0%	607	100.0%
Statewide						
One	578	96.5%	2,693	86.1%	2,904	70.7%
Two	20	3.3	397	12.8	959	23.3
Three	1	0.2	35	1.1	208	5.1
Four	0	0.0	1	<0.1	32	0.8
Five	<u>0</u>	<u>0.0</u>	<u>1</u>	<u><0.1</u>	<u>5</u>	<u>0.1</u>
Total	599	100.0%	3,127	100.0%	4,108	100.0%

Information on change in the number of returning W-2 participants from July 1998 to July 2000 is provided in Appendix 14. Data are provided for the county agencies that are W-2 contractors, as well as for three tribes and six private agencies in counties other than Milwaukee County. Data are not available separately for each of the five private contractors in Milwaukee County but are shown in aggregate.

Because of limitations in data collected by DWD, we were unable to analyze why returning participants had originally left W-2. However, in a review of 29,077 cases that closed from September 1997 through September 1999, DWD found that:

- 75.9 percent of cases closed because of increases in participants' incomes, usually as a result of employment;
- 9.4 percent closed because participants chose to no longer participate;
- 7.9 percent closed because participants did not comply with program eligibility requirements;
- 4.3 percent closed because participants no longer met eligibility requirements for reasons other than income; and
- 2.5 percent closed for other reasons.

It is not known whether the characteristics of those who returned to the program, such as their level of education and whether they are more likely to have substance abuse or mental health problems, differ from those who did not return. Determining whether there are differences among participants and developing strategies to address them may be important to the future success of the program.

If W-2 is to be effective not only in reducing caseloads but also in helping participants to achieve self-sufficiency through employment, participants should comply with program requirements, and W-2 agencies should fairly address their concerns related to eligibility and their compliance with program requirements. To determine the extent to which these things were occurring, we examined available data on the sanctions, or fines, that are imposed to encourage participants receiving cash benefits to comply with program requirements, as well as efforts to address participant and applicant complaints. In addition, s. 49.141(2g)(a)1, Wis. Stats., directs us to review the wages of trial job participants.

Sanctions of Participant Benefits

Cash benefits may be sanctioned if participants miss work or fail to participate in a required activity without good cause.

To encourage compliance with program requirements, W-2 participants receiving cash benefits through community service jobs or transitional placements may be sanctioned \$5.15 per hour for each hour they miss work or fail to participate in a required activity without good cause. Additional sanctions may be imposed on participants who commit fraud in obtaining benefits or increasing the value of their benefits, or who intentionally violate other program requirements. However, trial job participants are not subject to hourly sanctions because they are paid by the employer, and custodial parents of infants are neither required to work outside the home until the infants are older than 12 weeks nor subject to sanctions. Statutes also do not provide for sanctioning of participants who are not in subsidized placements, and therefore not receiving cash grants.

W-2 agencies also may be “sanctioned.” W-2 contracts allow DWD to impose a penalty of up to \$5,000 for each failure of a W-2 agency to serve an applicant or participant. To date, DWD indicates it has been able to address concerns related to the agencies’ performance without imposing monetary penalties.

Only five W-2 agencies—the Bad River Band of Chippewa and Manitowoc, Marinette, Ozaukee, and Vernon counties—did not sanction program participants between October 1999 and December 2000. In reviewing available data, we found that the percentage of participants sanctioned is greater in Milwaukee County than elsewhere in the state, and average monthly sanction amounts are higher in Milwaukee County than elsewhere in the state. We also found some evidence of inappropriate sanctions.

The percentage of participants sanctioned in Milwaukee County has been consistently higher than in the balance of the state.

As shown in Table 22, the percentage of participants sanctioned has decreased from 31.4 percent of the statewide caseload in October 1999 to 21.1 percent in December 2000. However, in Milwaukee County, which has the highest percentage of long-time AFDC recipients in its W-2 population, the sanction rate has consistently been approximately 10 percentage points higher than in the balance of the state.

Table 22

Percentage of Participants Sanctioned

<u>Area of State</u>	<u>October 1999</u>	<u>May 2000</u>	<u>December 2000</u>
Milwaukee County	33.3%	28.4%	23.5%
Balance of State	20.3	17.2	13.2
Statewide Average	31.4	26.0	21.1

On average, 4.4 percent of participants have their entire monthly cash benefit sanctioned.

Although most agencies issue sanctions, there is significant variation in the percentage of participants they sanction, as well as in both the dollar amount and the percentage of average monthly benefit payments they sanction. For example, within Milwaukee County alone, the average percentage of participants sanctioned ranged from 17.8 percent for UMOS to 48.0 percent for YW Works, while the average sanction amount ranged from \$359 to \$295 for these same two agencies. In addition, during each month between March 2000 and December 2000, an average of 255 participants, or 4.4 percent of all participants statewide, were sanctioned for an amount equal to their entire monthly benefit.

We reviewed data on sanctions imposed by the 34 W-2 agencies with an average of at least 10 participants receiving cash benefits each month. As shown in Table 23, we found that 9 (26.5 percent) had issued sanctions to at least 20 percent of their participants receiving cash benefits. Conversely, 16 (47.1 percent) had issued sanctions to fewer than 10 percent. Among the agencies that sanctioned the highest percentage of their cash assistance caseload, YW Works—a private agency serving Milwaukee County—had the highest sanction rate.

Table 23

Percentage of Participants Sanctioned
October 1999 through December 2000

<u>W-2 Agency</u>	<u>Average Number of Participants Sanctioned per Month</u>	<u>Percentage of Cash Benefit Caseload Sanctioned</u>
YW Works	324	48.0%
Monroe County*	7	35.9
OIC-GM	350	34.1
Kenosha County	55	27.8
Outagamie County	10	25.4
Employment Solutions	479	25.1
Maximus	246	22.9
Eau Claire County	4	21.8
Dane County	65	21.6

* Monroe County participants were served by the Monroe County Department of Human Services from October through December 1999, and by Workforce Connections, Inc., during 2000.

Participants in community service jobs were more likely to be sanctioned than those in transitional placements. For example, in December 2000, 32.0 percent of participants in community service jobs were sanctioned, compared to 15.2 percent of those in transitional placements. However, as shown in Table 24, the average monthly sanction for both job types was greater in Milwaukee County than in the balance of the state, both as a dollar amount and as a percentage of the monthly benefit.

Table 24

Comparison of Average Monthly Sanction Amounts
March 2000 through December 2000

<u>Placement Category</u>	<u>Monthly Benefit</u>	<u>Milwaukee County</u>		<u>Balance of State</u>	
		<u>Average Monthly Sanction</u>	<u>Sanction as a Percentage of Monthly Benefit</u>	<u>Average Monthly Sanction</u>	<u>Sanction as a Percentage of Monthly Benefit</u>
Community Service Jobs*	\$673	\$383	56.9%	\$262	38.9%
Transitional Placements	628	278	44.3	201	32.0

* Represents benefits for those in full-time community service jobs.

As shown in Table 25, 4 of the 9 agencies that sanctioned at least 20 percent of their participants receiving cash benefits were also among the agencies that imposed the highest average monthly sanction since March 2000.

Table 25

Sanctions as a Percentage of Benefit Levels
March 2000 through December 2000

<u>W-2 Agency</u>	<u>Average Sanction Amount</u>	<u>Percentage of Benefit Sanctioned</u>
Menominee County	\$455	71.1%
Maximus	386	58.9
Employment Solutions	386	58.5
UMOS	355	54.4
Racine County	348	53.7
OIC-GM	326	51.7
Shawano County Job Center, Inc.	287	45.9
YW Works	289	45.1
Waupaca County	269	41.2
La Crosse County	259	41.0

W-2 was designed to allow individual W-2 agencies administrative flexibility to modify both the type of services they provide and the manner in which services are provided in response to local needs. However, the wide variation in the number and amount of sanctions has raised concerns about whether the benefit of increasing administrative flexibility has come at the expense of equitable treatment of participants. The wide variation in the number and amount of sanctions we have identified may be, in part, the result of the discretion W-2 agencies are permitted in sanctioning participants. Therefore, if the Legislature did not intend for such large variation in the number and amount of sanctions among agencies, it may wish to consider directing DWD to provide additional guidance to W-2 agencies in their use of sanctions.

From July through December 2000, at least 35 participants were inappropriately sanctioned.

We also found that sanctions have been applied inappropriately. From the available data, we could not determine how many participants in total have been inappropriately sanctioned or whether the inappropriate sanctions hampered participants' ability to obtain unsubsidized employment in a timely manner or to meet interim program objectives. However, we found that in the six-month period from July 2000 through December 2000, at least 35 W-2 participants who were the custodial parents of infants were inappropriately sanctioned because of errors made by W-2 agencies. As shown in Table 26, nine W-2 agencies issued inappropriate sanctions against the custodial parents of infants, which averaged \$128 per participant and represented 19 percent of the participants' monthly benefits. Maximus and Employment Solutions issued the largest inappropriate sanctions, which averaged more than one-third of participants' monthly benefits.

Employment Solutions, Kenosha County, Maximus, UMOS, and YW Works subsequently issued supplemental payments to correct some of the inappropriate sanctions against custodial parents of infants. In five cases, corrections were made within seven days of when participants' regular monthly benefit checks should have been issued. In the three other cases, the supplemental payments were issued later: at 13 days, 20 days, and 22 days of when the benefit checks should have been issued. To date, the remaining 27 inappropriate sanctions against custodial parent of infants have not been corrected. DWD is attempting to identify other instances of inappropriate sanctions, including sanctions of participants in unsubsidized placements.

Table 26

Inappropriate Sanctions of Custodial Parents of Infants
July 2000 through December 2000

<u>W-2 Agency</u>	<u>Number of Inappropriate Sanctions</u>	<u>Total Inappropriately Sanctioned</u>	<u>Average Amount Inappropriately Sanctioned</u>	<u>Average Amount Inappropriately Sanctioned as a Percentage of Monthly Benefit</u>
Maximus	4	\$1,253	\$313	46.5%
Employment Solutions	8	1,803	225	33.4
Kenosha County	2	228	114	16.9
UMOS	4	438	109	16.2
YW Works	13	715	55	8.2
Douglas County	1	21	21	3.1
Racine County	1	21	21	3.1
Fond du Lac County	1	10	10	1.5
Marathon County	<u>1</u>	<u>5</u>	5	0.7
Total	35	\$4,494	128	19.0

In order to ensure that the full extent of inappropriate sanctioning by W-2 agencies is known and remedied, and that actions are taken to ensure it will not happen in the future, *we recommend the Department of Workforce Development report to the Joint Legislative Audit Committee by September 1, 2001, on:*

- *the results of its review related to all inappropriate sanctions imposed since the start of the W-2 program, including the number of participants sanctioned, the amounts of the sanctions imposed, and the agencies that imposed the sanctions;*
- *its plans to compensate participants who have been inappropriately sanctioned;*
- *the procedures it will employ to prevent W-2 agencies from imposing inappropriate sanctions in the future; and*
- *how it plans to monitor W-2 agencies to ensure that inappropriate sanctions have not been imposed or have been appropriately remedied if they were imposed.*

Resolution of Participant Complaints

W-2 agencies issue findings of fact in response to participant complaints.

Section 49.152, Wis. Stats., allows program participants and applicants to request that W-2 agencies review their eligibility or benefits decisions through a fact-finding process, which is conducted by agency staff or independent parties with whom an agency contracts for this purpose. Fact-finding decisions may be appealed—at the request of the participant or the agency—to DWD. DWD maintains data on the findings of fact issued by W-2 agencies and has delegated its authority to decide appeals to the Department of Administration's Division of Hearings and Appeals.

DWD maintains summary information on the reasons findings of fact have been requested, as shown in Table 27. The vast majority of requests have been related to employment issues, such as whether it was reasonable to expect participation in an assigned W-2 activity. However, requests for findings of fact related to extensions of benefits, including a 24-month time limit placed on participation in each subsidized job category, may increase as participants spend more time in the program and reach time limits.

Table 27

Reasons for Fact-Finding Requests May 1999 through September 2000

<u>Reasons</u>	<u>Number of Requests</u>	<u>Percentage of Total</u>
Employment	1,150	83.8%
Child Care*	114	8.3
Job Access Loans	44	3.2
Extensions of Benefits	37	2.7
Emergency Assistance	<u>27</u>	<u>2.0</u>
Total	1,372	100.0%

* Includes individuals who were not in the W-2 program but who received child care subsidies.

We reviewed the disposition of requests for findings of fact from May 1999, the first month DWD began to centrally record this type of information, through September 2000, the most recent month data had been collected during our review. As shown in Table 28, 41.6 percent of

all requests were resolved through W-2 agency decisions. These decisions have been fairly evenly split in favor of the agency and the participant. Petitioners withdrew 35.6 percent of their requests, and the remaining requests were dismissed or resolved without a hearing or are pending further action.

Table 28

Disposition of Fact-Finding Requests
May 1999 through September 2000

<u>Disposition of Request</u>	<u>Number of Requests</u>	<u>Percentage of Total</u>
W-2 Agency Decision:		
In favor of the agency	279	20.3%
In favor of the petitioner	240	17.5
Split decision	<u>52</u>	<u>3.8</u>
Subtotal	571	41.6%
Withdrawn	489	35.6
Dismissed	225	16.4
Resolved	82	6.0
Pending Further Action	<u>5</u>	<u>0.4</u>
Total	1,372	100.0%

Approximately 90 percent of fact-finding requests were made by Milwaukee County participants.

While W-2 participants in Milwaukee County have represented no more than 81 percent of the statewide caseload at any point since the program's inception, approximately 90 percent of the 1,372 requests for findings of fact were made by Milwaukee County participants. More than half of the remaining 134 requests came from individuals in one of six counties: Racine (26 cases), Kenosha (19 cases), Brown (13 cases), Dane (12 cases), Winnebago (8 cases), and Outagamie (7 cases).

Statutes permit appeal of a W-2 agency's fact-finding decision when an applicant or participant petitions within 21 days of the date the decision is mailed. Statutes also require review of a fact-finding decision related to denial of an application based solely on a determination of financial ineligibility when an applicant or participant petitions within 21 days of the date the decision was mailed. W-2 agencies may appeal fact-finding decisions at any time.

**Through December 2000,
the Division of Hearings
and Appeals decided
216 appeals.**

From September 1997 through December 2000, 216 appeals of W-2 agencies' findings of fact were decided by the Division of Hearings and Appeals. The primary issues that were appealed involved:

- sanction of benefits (66 cases);
- employment placement (21 cases);
- timeliness of the fact-finding request (16 cases);
- child care (9 cases);
- termination of benefits (7 cases);
- case closure or delay in providing benefits (7 cases); and
- eligibility for benefits (6 cases).

**Through 2000,
69.9 percent of appeals
were decided in favor of
participants.**

As shown in Table 29, 69.9 percent of appeals were resolved in favor of the applicant or participant, whereas 26.9 percent were decided in favor of the W-2 agency. The percentage of Milwaukee County cases found in favor of the participant was 78.7 percent, compared to 51.0 percent for the balance of the state. This may suggest that hearing officers believed initial fact-finding decisions incorrectly favored the W-2 agencies more often in Milwaukee County than elsewhere in the state.

Table 29

Decisions Issued by the Division of Hearings and Appeals
September 1997 through December 2000

<u>Disposition of Appeal</u>	<u>Number of Appeals</u>	<u>Percentage of Total</u>
Ruling in Favor of Applicant/Participant	151	69.9%
Ruling in Favor of the W-2 Agency	58	26.9
Withdrawn by Complainant	<u>7</u>	<u>3.2</u>
Total	216	100.0%

As shown in Table 30, for those agencies that issued at least five fact-finding decisions through September 2000, 14.1 percent of the decisions were appealed. The greatest number of appeals came from Milwaukee County, where both the caseload and the number of fact-finding requests were significantly larger than elsewhere in the state. However, among all the agencies shown, the appeal rate varied significantly from the statewide average of 14.1 percent. In three counties outside of Milwaukee, 40 percent or more of W-2 agencies' findings of fact were appealed. Within Milwaukee County, the rates of appeal were highest for UMOS and YW Works. In contrast, OIC-GM, which issued 370 fact-finding decisions, had a rate of appeal that was 10.0 percentage points lower than the statewide average. The generally lower rates in Milwaukee County may indicate that W-2 agencies there more often issue fact-finding decisions that are acceptable to complainants.

Finally, we reviewed the outcomes of fact-finding appeals. In Milwaukee County, the percentage of cases resolved in favor of the applicant or participant ranged from a high of 91.7 percent for UMOS to a low of 65.4 percent for Maximus. For the appeals of fact-finding decisions outside of Milwaukee County, decisions were more equally split: 51.0 percent favored the applicant or participant, and 49.0 percent favored the agency. The difference in outcomes between Milwaukee County and the rest of the state may warrant closer monitoring by DWD, especially because the five private agencies in Milwaukee County serve the majority of the W-2 population.

Trial Job Wages

**Through July 2000,
an estimated
711 participants had
been placed in trial jobs.**

The use of trial jobs, which are subsidized positions that provide work experience and training and may become permanent, unsubsidized positions, has been lower than many had anticipated before the start of W-2. Through July 2000, an estimated 711 participants had been placed in trial jobs at which they earn not less than the state or federal minimum wage for each hour worked, and the employer receives no more than \$300 per month for each participant who works full-time.

The main reasons W-2 agencies have cited for the infrequent use of trial jobs include:

- an unemployment rate that was so low the agencies did not need to use trial jobs as an incentive for private companies to hire W-2 participants;

Table 30

Number of Appeals as a Percentage of Fact-Finding Decisions*
May 1999 through September 2000

<u>Agency</u>	<u>Number of Fact-Finding Decisions</u>	<u>Number of Appeals</u>	<u>Appeals as a Percentage of Fact-Finding Decisions</u>
Milwaukee Agencies			
UMOS	73	24	32.9%
YW Works	97	27	27.8
Maximus	170	26	15.3
Employment Solutions	528	71	13.4
OIC-GM	<u>370</u>	<u>15</u>	4.1
Subtotal Milwaukee Agencies	1,238	163	13.2
Other W-2 Agencies			
Kenosha County	19	9	47.4%
Dane County	12	5	41.7
Rock County	5	2	40.0
Brown County	13	3	23.1
Racine County	26	5	19.2
Winnebago County	8	1	12.5
Outagamie County	7	0	0.0
Iowa County	<u>5</u>	<u>0</u>	0.0
Subtotal Other Agencies	<u>95</u>	<u>25</u>	26.3
Total	1,333	188	14.1

* For agencies that issued at least five fact-finding decisions.

- apprehension among some employers about the amount of administrative work involved and the limitations trial jobs could place on their ability to dismiss participants who were not performing satisfactorily; and
- some employers' concerns about hiring trial job participants given past experiences with earlier on-the-job training programs.

DWD has not centrally maintained complete data on trial job participants.

DWD has not centrally maintained complete data on trial job participants, and all information concerning their wages and placement histories had to be collected manually from electronic case files. We analyzed data for 200 W-2 participants who held trial jobs during 1999. Among these, 130 participants (65.0 percent) completed their trial jobs, and 127 (63.5 percent) subsequently obtained unsubsidized employment. DWD officials believe that in most instances the unsubsidized jobs were the same positions participants had held as trial jobs. One of the three participants who did not obtain unsubsidized employment after completing a trial job was laid off, and no information was available for the other two.

There appears to be a strong relationship between trial job completion and the ability to obtain unsubsidized employment.

Of the 70 participants who did not complete a trial job, none obtained unsubsidized employment. This suggests a strong relationship between trial job completion and the ability to obtain unsubsidized employment.

Information on wages received in trial jobs and after participants had moved into unsubsidized employment was available for only 125 participants. None of the participants in trial jobs for whom wage data were available was paid less than the minimum wage of \$5.15 per hour. One was paid the minimum wage, but 124 were paid more. The highest trial job wage paid was \$10.85 per hour.

In unsubsidized employment, the 125 participants who completed their trial jobs earned hourly wages that ranged from a low of \$5.15 to a high of \$12.00. The average unsubsidized wage was \$7.71 per hour, which represents an average annual salary \$16,037 for full-time employment. Full-time employment at this wage would have placed a family of three above the 1999 poverty level of \$13,880. However, the number of participants working full-time cannot be determined from the information DWD maintains.

Table 31 shows the range of wages earned by trial job participants. Hourly earnings increased when 57 of the 125 participants for whom data were available moved from a trial job to unsubsidized employment. The increase averaged \$0.92 per hour (13.0 percent) and ranged from a low of \$0.16 per hour to a high of \$3.50 per hour.

Table 31

**Trial Job and Unsubsidized Wages of Selected Trial Job Participants
1999**

<u>Hourly Wage</u>	Participants in Trial Jobs		Participants in Unsubsidized Employment	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
\$6.00 or less	15	12.0%	6	4.8%
\$6.01 to \$7.00	47	37.6	34	27.2
\$7.01 to \$8.00	35	28.0	42	33.6
\$8.01 to \$9.00	23	18.4	27	21.6
\$9.01 to \$10.00	4	3.2	12	9.6
\$10.01 to \$11.00	1	0.8	3	2.4
Greater than \$11.00	<u>0</u>	<u>0.0</u>	<u>1</u>	<u>0.8</u>
Total	125	100.0%	125	100.0%

DWD officials indicate that data concerning trial jobs are limited because the small number of W-2 participants in trial jobs made other data needs a higher priority. Nevertheless, the available data suggest that trial jobs may be an effective component of the W-2 program. In addition, if the economy slows, trial jobs may be needed to encourage private companies to provide job placements for W-2 participants. Therefore, we recommend the Department of Workforce Development:

- begin to collect and analyze data on the wages of all trial jobs participants;
- ensure that these individuals are being paid at least the minimum wage, as required by statute; and
- determine the wages paid to all former trial job participants when they first enter unsubsidized employment.

Measuring Performance and Providing Oversight

Assessing W-2 agencies' performance and ensuring adequate oversight of agencies' activities are essential to a program as large and decentralized as W-2. Two of the main strategies DWD has used to accomplish these objectives are the establishment of benchmarks for payment of performance bonuses and contracting with the Private Industry Council (PIC) of Milwaukee County to provide oversight of the five private W-2 agencies in Milwaukee County. Although both of these efforts were undertaken to provide programmatic accountability, the extent to which the goals of these initiatives have been accomplished is unclear, and changes may be needed.

Performance Standards

DWD officials indicate that the next W-2 contract, which will run from January 2002 through December 2003, will include \$11.1 million for restricted-use bonuses and \$12.5 million for unrestricted-use bonuses. These amounts are not delineated in the Governor's 2001-03 Biennial Budget Proposal. As noted, the current implementation contracts include standards that are intended to tie monetary incentives to performance and address the concerns of W-2 agencies. DWD modified the current performance standards in its proposal for the 2002-03 contract.

Before the current performance measures were adopted, they were modified in response to agencies' concerns.

The current performance standards address several concerns of W-2 agencies. For example:

- to ensure that agencies with small caseloads would not be adversely affected by the outcome of a single W-2 participant's case, DWD provided for a one-case credit to be applied in certain instances;
- individuals who were assigned to an educational activity but did not attend within one month of their assignment were not included in determining an agency's performance;
- to avoid penalizing agencies when participants transfer from one W-2 agency to another, individuals who received no services before they transferred to another agency are not counted;

- participants who apply and are approved for SSI benefits are not counted when determining the percentage of participants who entered employment, because these individuals are not expected to work; and
- W-2 agencies having no participants will be considered to have met the performance criteria for the restricted bonus, but will not be eligible to receive an unrestricted bonus.

Statutes require DWD to award future bonuses based on six areas of performance.

DWD has proposed modifications to the performance standards for the next W-2 contracts. The proposed modifications reflect the requirement in s. 49.143(3g), Wis. Stats., that any bonus paid after January 1, 2002, be based on six areas of performance:

- success in placing participants in unsubsidized employment;
- the extent to which unsubsidized employment placement is full-time or part-time;
- job retention of former participants;
- wages and benefits earned by former participants;
- appropriate implementation of W-2; and
- customer satisfaction.

In addition, statutes prohibit DWD from basing performance payments on caseload decreases or reduced spending that is not related directly to placement of participants in unsubsidized employment.

DWD has proposed modifying current performance standards for the 2002-03 contract.

Several of the proposed modifications to performance standards differ from the current standards. For example:

- The current standards allow a bonus payment if participants are employed 30 days after placement and another payment if participants are employed 180 days after placement. The proposed modification would allow a bonus only if both 30-day and 180-day job retention criteria are met.
- A current optional standard related to basic skills or job skills training is proposed as a required standard.

- The current average wage rate has been proposed to be changed so that 50 percent of participants will be required to demonstrate an average monthly wage gain if the agency is to meet the standard.

New measures of performance have also been proposed. For example:

- to demonstrate that agencies deliver effective services, maximum caseload ratios are established and staff must meet training requirements;
- to measure customer satisfaction, participants will be asked to rate agency performance in areas such as available programs and services and assistance provided to participants by staff; and
- to ensure agencies are financially accountable, agencies may have no audit findings as determined by DWD or any audit performed by the Legislative Audit Bureau and cannot be or have been subject to any corrective action plan for noncompliance.

Three of DWD's proposed modifications to performance standards address, in part, concerns raised by the Co-chairs of the Joint Legislative Audit Committee in a May 1999 letter to DWD's Secretary. First, a modified wage rate standard would reflect recent changes in an individual's earnings, rather than compare them to the 1998 average wage rate as the current standard does. Second, the modified job retention standard related to 30 and 180 days of employment would require at least 75 percent of participants in unsubsidized positions to remain employed after 30 days and at least 50 percent to remain employed after 180 days for a job retention bonus to be paid. Finally, a modified standard related to participation in educational activities would award two bonuses, one when participants are assigned to basic educational activities, as the current standard does, and a second if participants successfully complete their assigned educational activities.

Weighting all criteria equally may not be the best approach to measure performance.

However, additional modifications may be appropriate. For example, the May 1999 letter also suggested that DWD consider a standard of self-sufficiency that bases performance bonuses on, for example, increasing by a specified percentage the number of participants placed in unsubsidized jobs whose incomes are above the federal poverty level. In addition, the letter indicated that weighting the performance bonus criteria equally may not be the most appropriate strategy. Specifically, to ensure performance bonuses are based on efforts to assist participants in attaining meaningful, self-sustaining employment, participants should be able to locate, acquire, and remain employed in jobs that provide wages and benefits sufficient to discontinue their receipt of public

assistance benefits. Consequently, it may be more appropriate for some standards, such as the number of participants placed in jobs, to be weighted more heavily than others. These issues are not directly addressed by the proposed standards.

Finally, the proposal for the 2002-03 contract period indicates that in order to be considered for the right of first selection for the next contract, which will likely run from January 2004 through December 2005, an agency must meet the base level of each standard. However, bonus funds will only be awarded if higher levels of performance are achieved.

To ensure DWD requires W-2 agencies to meet relevant performance standards in order to receive any bonus funds that may be included under future contracts, and to further ensure that the standards developed are directly linked with the W-2 program's overall, long-term goal of enabling participants to become self-sufficient, we recommend the Department of Workforce Development report to the Joint Legislative Audit Committee by May 31, 2001, on:

- the extent to which it will incorporate all of the modifications suggested by the Co-chairs of the Joint Legislative Audit Committee into the next W-2 contract's performance standards;
- its rationale for not incorporating any of the suggested modifications it may choose not to adopt; and
- whether standards that better measure the extent to which those in unsubsidized jobs are successful in attaining self-sufficiency will be developed and implemented.

Milwaukee County Oversight

Since January 1997, DWD has contracted with the PIC in Milwaukee to provide monitoring and oversight.

The seven regional offices that manage DWD's contracts with local agencies also provide technical assistance and perform oversight of contracted agencies. Staff in the 17 W-2 agencies we visited were generally pleased with the guidance and oversight the regional offices provide. Because the majority of W-2 cases are in Milwaukee County, there was a perceived need for additional oversight there. Since January 1997, DWD has contracted with the Private Industry Council of Milwaukee County for a total of \$7.5 million for oversight and coordination services. Through December 2000, the PIC has been paid a total of \$5.7 million to provide services, which have included:

- monitoring W-2 agencies' compliance with the provisions of their contracts;
- providing technical assistance; and
- assisting in the coordination of W-2 services among the five Milwaukee County W-2 agencies.

However, DWD has provided the PIC with little direction in fulfilling its responsibilities, and until recently its attempts to review or correct apparent deficiencies in the PIC's performance have been limited.

Assessing Contract Performance

Under contracts in effect since January 1997, the PIC's monitoring responsibilities have included ensuring that W-2 participants in Milwaukee County are appropriately served and ensuring that funds are appropriately spent. For example, the PIC is responsible for:

- reviewing all fact-finding proceedings conducted by the agencies and helping to correct procedural deficiencies;
- ensuring that the agencies take appropriate action to assist participants approaching the 24-month time limit placed on employment in each subsidized category;
- reviewing all agency requests for extension of the 24-month time limit for receipt of cash assistance, and making recommendations to DWD;
- ensuring that work performed in community service jobs and transitional placements is consistent with participants' employability plans; and
- through June 1999, providing financial oversight through reviews of cost allocation plans, the appropriateness of agency expenditures, and whether agencies are within their budget allocations.

The PIC has not met all of its contractual obligations.

Since January 1998, the PIC has provided DWD with monthly reports detailing the activities it has performed to meet its contractual obligations. A review of the reports indicates that some of its obligations have not been met. For example:

- Between July 1999 and August 2000, the PIC reported reviewing approximately 2,100 of the 2,885 cases it was required to review that were approaching the 24-month time limit. The PIC met its monthly review requirement in only 3 of 14 months it was required to conduct the reviews; however, PIC staff indicate that they were authorized by DWD's Milwaukee Regional Office to review fewer than the required number of cases for 3 of the 11 months in which they did not meet the requirement.
- Between June 1999 and August 2000, the PIC reported visiting only five work sites, although its contracts required monthly site visits.
- Between January 1998 and August 2000, the PIC reported reviewing more than 1,500 fact-finding requests in Milwaukee County. For many of these, it made specific recommendations to agencies regarding improvement of service delivery. However, it is unknown whether the W-2 agencies implemented any of these recommendations because no systematic follow-up procedures had been established.

In addition, although contract language requires the PIC to review all agency requests for extensions of the 24-month time limit for participation in subsidized employment positions, both PIC and DWD staff indicate this has not occurred because it is not necessary under the review process that has developed. DWD staff indicate that the existing process—under which W-2 agencies forward extension requests directly to DWD's regional office for approval without review by the PIC—is more efficient and allows agencies to develop a better understanding of the documentation needed to support extension requests before finalizing them.

W-2 agencies have resisted some of the PIC's oversight responsibilities.

A primary area of concern is the extent to which the PIC was responsible for performing the financial oversight required under its monitoring contracts between January 1997 and July 1999. The PIC did perform required budget monitoring by comparing agency expenditure reports with monthly budgets to ensure that expenditures were within budgeted amounts. However, PIC staff indicate more extensive financial monitoring, such as reviewing whether agency expenditures were appropriate, was not performed as a result of resistance from the W-2 agencies and subsequent DWD guidance directing it not to exercise these financial oversight responsibilities. Based on a lack of documentation regarding any agreements that were reached, DWD

officials indicated they were not in a position to clarify past decisions. However, the current contract with the PIC, which began in July 1999, contains no financial monitoring responsibilities. It is possible that some of the inappropriate W-2 expenditures made by Maximus and Employment Solutions, which we identified in reports released in July 2000 and February 2001, could have been avoided or addressed more quickly if DWD had more quickly resolved the PIC's monitoring responsibilities.

PIC staff currently provide technical assistance to W-2 agencies in three primary ways:

- providing caseload-related data and reports;
- assisting in the development of local policies; and
- clarifying W-2 policies and procedures.

The PIC has reported that it provided caseload reports, participant demographic information, or other data to W-2 agencies in approximately 130 instances since January 1998. Since July 1999, the PIC has substantially increased its efforts in this area by working more closely with W-2 agency staff on specific data requests. In addition, it is responding to an increasing number of agency requests for information regarding caseload figures and other computerized reports. The PIC has also provided assistance in developing local policies, such as a fraud referral policy and the current policy governing inter-region case transfers.

Finally, the PIC has responsibility to coordinate its own activities with those of the five W-2 agencies in Milwaukee County. In the past, the PIC has coordinated community and media relations among the W-2 agencies, employer contacts and job fairs for the agencies, and administration and promotion of the seven job centers in which the W-2 agencies are located. Although provisions citing specific coordination activities have been removed from the current contract, the PIC retains responsibility for general coordination of the W-2 agencies according to written parameters that were to have been agreed upon by DWD and the PIC. However, no such parameters have been developed, and the PIC continues to coordinate activities largely as it had under previous contracts, by attending meetings with DWD, W-2 agencies, community-based organizations, and other interested parties.

Between January 1998 and June 1999, the PIC reported attending approximately 440 meetings to gather and provide information about topics such as W-2 operations, welfare-to-work, child abuse prevention, and BadgerCare. The PIC has been less active in this role since July 1999, attending only about 120 such meetings. This decrease is

likely due to a decrease in funding for coordination activities, as well as a reduced need for coordination among the W-2 agencies as their experience with the program increased.

The PIC reported coordinating nine job fairs between January 1998 and August 2000.

The PIC appears to have been most successful at coordinating activities that fall into its traditional areas of expertise, such as creating additional contacts with employers by organizing job fairs. The PIC reported coordinating nine job fairs between January 1998 and August 2000 and conducting employer and participant follow-up activities, such as determining the number of participants who found employment, for each. In addition, the PIC plays an important role in operating the Client Assistance for Re-employment and Economic Support (CARES) computer network by providing W-2 agency access to the CARES system and by performing server maintenance.

Improving Oversight of PIC Activities

Until recently, DWD did not regularly review the PIC's reports or provide guidance.

Although the PIC has provided DWD with monthly reports detailing how it has carried out its contractual obligations since January 1998, DWD has not regularly reviewed the reports or required apparent deficiencies to be corrected, and the limited guidance DWD has provided to the PIC has been confusing at times. For example, DWD approved all 12 plans the PIC submitted for carrying out its contractual responsibilities, even though a number of the plans do not appear to provide much more detail than the contract language itself did.

DWD also provided conflicting guidance on how the PIC was to implement the financial oversight provisions of its contract. It was not until 15 months after the contract term began that DWD was able to clarify that the PIC was not required to contract with an independent accounting firm for additional oversight of the W-2 agencies, and even after this issue was resolved PIC staff remained unclear about whether DWD intended them to follow through with the other financial oversight provisions of the contract.

In October 2000, DWD completed a review to determine whether the PIC had complied with the terms of its contracts and whether the continuation of its current contract was justified. After examining the monthly reports from January 2000 through July 2000, DWD concluded in an internal memorandum that the PIC had not met the terms of its contract by performing all tasks assigned to it. For example, DWD found:

- the required number of fact-finding cases, child care cases, and work sites had not been reviewed;

- the number of case reviews was insufficient, and these reviews did not include sufficient analysis, were not timely, and were not shared with the W-2 agencies;
- the PIC's monthly reimbursement claims did not correspond to activities performed; and
- little is known of the effectiveness of the PIC's work.

In addition, DWD surveyed the Milwaukee County W-2 agencies to assess the PIC's provision of technical assistance. Agencies were generally critical of the PIC and indicated it:

- is rarely used for technical assistance;
- is not always effective in providing technical assistance; and
- is usually the last contact an agency might make for technical assistance.

PIC officials have expressed concern that DWD did not share all specific findings of its review with them. Nevertheless, W-2 agencies in Milwaukee County have been apprehensive of the PIC's role since it first began to review their activities in 1997. Given that part of the PIC's role is to provide oversight, it is possible that the W-2 agencies' view of the PIC is to some extent influenced by the PIC's oversight responsibilities.

The Governor's 2001-03 Biennial Budget Proposal includes \$500,000 annually to continue the PIC's oversight role.

DWD has proposed a number of remedies for the deficiencies identified, such as auditing the PIC and changing the format of the monthly PIC reports to reflect contract requirements. DWD's review of the PIC's activities and its plan to require changes should enhance the PIC's performance and improve the quality of information available on W-2 agencies in Milwaukee County. Although DWD's budget request did not include any funding to continue the PIC's role in W-2 monitoring and oversight, the Governor's 2001-03 Biennial Budget Proposal includes funding for the PIC totaling \$1.0 million over the biennium, representing a 50 percent reduction from current funding levels. It should be noted that the Governor has also proposed spending an additional \$500,000 annually for oversight of all W-2 agencies, although the exact nature of the oversight activities is not specified in the 2001-03 Biennial Budget Proposal. Therefore, the Legislature will need to determine the amount of funding it wishes to appropriate for all monitoring and oversight responsibilities and the role of DWD in ensuring effective use of these funds.

Future Considerations

The Legislature and DWD have a number of issues to address in the future.

Since W-2 took effect statewide in September 1997 it has had great success in reducing cash assistance caseloads, and it appears to have had some success in helping participants achieve self-sufficiency through employment. However, returning participants represent a growing percentage of the caseload. Local W-2 agencies have raised concerns about current and future contract funding, and they anticipate serving participants with significant barriers to employment. Issues affecting the future of the W-2 program that the Legislature and DWD may wish to consider include:

- whether the challenges posed by participants with multiple or severe barriers to employment are being adequately addressed;
- how best to address the needs of participants who are nearing the time limits established for receipt of services;
- how best to assist individuals who have entered the workforce but remain in poverty in becoming fully self-sufficient; and
- whether to consolidate its contracts to administer the program in Milwaukee County.

DWD notes that it has undertaken a number of initiatives to address emerging issues and integrate efforts to provide W-2 and other services to program participants. For example, in March 2001, DWD released three reports it had contracted for on the changing nature of the W-2 caseload, ways to enhance job retention and advancement, and how best to meet the needs of participants with multiple barriers to employment. Two additional reports on integrating non-custodial parents into the family and breaking the cycle of dependency on public assistance have yet to be released. In addition, in February 2001, DWD consolidated two of its divisions to better address a number of issues, including meeting the future needs of W-2 participants.

Assessing Barriers to Employment

Those with barriers to employment were expected to remain in the program longer than others.

Several months after the implementation of W-2, when reductions to cash assistance caseloads began to be noted, some local agency officials began to anticipate difficulty in serving individuals who were likely to remain in the program. It was expected that participants with prior job experience, higher levels of education, and fewer barriers to employment such as disabilities and mental health or substance abuse problems would find unsubsidized jobs and leave the program before those with more significant barriers to employment. That group was expected to be more likely to remain in the program for longer periods and to begin to constitute a substantial portion of the W-2 caseload.

Although the W-2 population is increasingly composed of returning participants, available data do not suggest that the current caseload consists only of those with higher-than-expected barriers to employment. In fact, the limited data available suggest that, on average, current W-2 participants may have fewer barriers to employment than those who participated in prior years.

As shown in Table 32, trends indicate that the average educational level attained by participants has increased over time, while the extent to which participants, their dependents, or other members of their households have disabilities has remained fairly steady or has declined. The percentage of participants who were high school graduates or who had completed high school equivalency requirements increased slightly, from 45.9 percent in January 1998 to 48.3 percent in July 2000. During the same period, the percentage of participants who either had disabilities or had household members with disabilities declined from 5.9 percent to 5.1 percent. For these data, participants are considered to have a disability if a physician's examination or other professional assessment determines that they have a physical or mental condition that impairs one or more major life functions. In general, other individuals within the household are determined to have a disability if they qualify for SSI or SSDI, or if they receive any other federal payments based on a disability.

The available data do not suggest that those in the program have substantial barriers to employment.

Because information on the specific services provided to W-2 participants was not collected until 2000, it is not possible to determine whether there has been an increase in the number of participants who receive services for significant barriers to employment. However, data from 2000 do not suggest that a large percentage of the existing caseload has such barriers. As noted, only 7.9 percent of participants were provided with disability assessments, 6.0 with mental health counseling, and 2.6 percent with alcohol and other drug abuse (AODA) counseling in 2000.

Table 32

Trends in Educational Attainment and Disability

	January <u>1998</u>	July <u>1998</u>	January <u>1999</u>	July <u>1999</u>	January <u>2000</u>	July <u>2000</u>
Educational Attainment						
High school diploma or equivalent	36.2%	34.5%	34.5%	34.5%	35.4%	39.0%
Post high school work	<u>9.7</u>	<u>8.8</u>	<u>8.7</u>	<u>8.9</u>	<u>9.3</u>	<u>9.3</u>
Total high school or equivalent	45.9%	43.3%	43.2%	43.4%	44.7%	48.3%
Those Having a Disability						
All individuals in the household	5.9%	5.9%	5.7%	5.5%	5.2%	5.1%
Participant	2.8	1.7	2.2	2.6	2.5	2.6
Other adults in the household	17.7	18.3	17.6	18.4	17.5	16.3
Children in the household	5.4	5.6	5.5	5.0	4.6	4.6

Nevertheless, a number of W-2 agencies indicate these data do not provide an accurate picture of what they believe are significant changes in the needs of the participants they serve. Some agency officials contend that as many as one-third of their current W-2 participants have disabilities, AODA problems, mental health concerns, or other potential problems or concerns that create substantial barriers to employment but are not accurately reflected in the data DWD maintains. According to these agency officials, the data collection and management system DWD uses was not designed to capture this type of information, and some local agency staff do not enter all relevant information—such as information concerning domestic abuse—on DWD’s system because of privacy concerns. Staff in local agencies also maintain that both the severity of the problems participants exhibit and the extent to which participants are faced with multiple barriers to employment are increasing, making addressing their needs more costly and labor-intensive.

Current administrative practices may not adequately document barriers to employment.

Although DWD has begun compiling data from individual case files on the barriers to employment faced by those participants for whom an extension of the 24-month time limit has been requested, similar data on all W-2 participants remain unavailable. Without adequate information, it is not possible to determine either the extent to which the current W-2 population is affected by substantial barriers to employment or the extent to which those who require specialized services, such as mental health and AODA counseling, are actually receiving them. A better understanding of the prevalence and severity of these problems is

important to determining the range of services participants need and the level of funds required to address them. Individual staff may have knowledge of a specific participant's situation, but if these problems are not documented, there is no way to determine whether the W-2 agency has made appropriate referrals or provided adequate services. In addition, without this information neither DWD nor W-2 agencies can make informed decisions regarding requests for extension of program services. Therefore, we recommend the Department of Workforce Development revise its data collection procedures to ensure that:

- the type and severity of barriers to employment faced by individual participants are more completely documented; and
- these data are regularly compiled and reviewed by DWD staff.

Addressing the Needs of Participants Nearing Eligibility Limits

Most participants nearing program eligibility limits are in Milwaukee County.

The earliest date at which any W-2 participant could exhaust the 60-month lifetime limit on program services is September 2001, when 68 individuals could potentially do so. There is also a 24-month statutory limit to participation in each subsidized W-2 employment position. Through June 2000, that limit was approached by 1,551 participants. More than 90 percent of those approaching both time limits reside in Milwaukee County.

Responses to program eligibility limits raise questions about equity and dependency.

W-2 agencies are authorized to seek extensions of both the 60-month and the 24-month limit under conditions specified in federal law or state statutes. Variation in the extent to which extensions have been requested has raised concerns about whether program participants are being treated inequitably because of the flexibility W-2 agencies are allowed in providing services, as well as whether some agencies' efforts to obtain extensions may undermine the program goal of helping participants to achieve self-sufficiency through employment.

Under both federal and state law, the 60-month lifetime limit applies to full or partial months—which do not have to be consecutive—in which an individual W-2 participant or any other adult in the participant's household:

- participates in a subsidized W-2 employment position (trial job, community service job, or W-2 transitional placement);

- is subject to a sanction of benefits for noncompliance with W-2 program rules and regulations;
- has actively participated in the former Job Opportunities and Basic Skills Program since October 1, 1996; and
- has received benefits that were funded by TANF dollars in Wisconsin or any other state.

Both federal and state law allow extensions under some conditions.

Federal law allows assistance beyond the 60-month lifetime limit for up to 20 percent of a state's average monthly caseload, if those families have a hardship or include members who have been battered or subject to extreme cruelty. The State also allows program eligibility to be extended beyond 60 months, based on circumstances such as:

- an inability to work because of personal disability or incapacitation;
- a need for the participant to provide care to another member of the W-2 assistance group whose health and well-being would be significantly affected without the participant's assistance;
- low achievement ability, learning disability, emotional problems, or family problems of such severity that they prevent the participant from obtaining or retaining unsubsidized employment but are insufficient to meet SSI or SSDI requirements; and
- an inability to find unsubsidized employment that pays at least the minimum wage because of local labor market conditions.

68 participants have received cash benefits in each month since 1996.

The most recent data available during the course of our audit indicate that as of November 2000, the number of individuals who used a substantial percentage of their lifetime 60-month limit was fairly small. Through November 2000, 68 of 39,916 individuals (0.2 percent) received benefits in each month since October 1996 and had the fewest number of months of eligibility left within their lifetime limits. DWD compiles data on all participants who have received benefits for 46 months or more, which indicate that through November 2000, 279 individuals had done so. Of these 279 individuals, 267 (95.7 percent) resided in Milwaukee County.

Under the 24-month statutory limit, participants are limited to 24 months—which need not be consecutive—in each of the three categories of subsidized employment available through W-2: that is, a participant is eligible to be employed for no more than 24 months in a community service job, 24 months in a transitional placement, and 24 months in a trial job, unless an extension is granted by DWD or by a W-2 agency with the approval of DWD. Participants are notified that they are approaching the 24-month limit when they have reached 21 months in any position type. At that time, the W-2 agency responsible for providing services is expected to focus more intensively on finding options to address the participant's situation. If a participant has made all appropriate efforts to find unsubsidized employment and has been unable to do so because of local market conditions, an extension may be requested.

As shown in Table 33, 56.2 percent of the 1,551 W-2 participants who were approaching the 24-month time limit in a subsidized position at the end of June 2000 left the program. The 40.6 percent who continued to receive program services either were granted extensions to remain in the same position, moved to different subsidized positions, left subsidized employment but remained in the program to receive case management services, or received other program services.

A number of concerns have been raised about the granting of extensions to W-2 participants approaching program time limits. Questions have been raised about whether all participants are treated equitably when W-2 agencies exercise the flexibility the program allows them to experiment with different approaches to address local needs. There is concern, for example, that private W-2 agencies and those administered by county governments request extensions to the 24-month eligibility limit at different rates.

Table 33

**Dispositions of Cases Approaching 24-Month Time Limit
Through June 2000**

<u>Disposition</u>	<u>Number of Cases</u>	<u>Percentage of Total</u>
Program Participation Continued		
Participant moved to a different subsidized position category	244	15.7%
Extension requested for current subsidized position	209	13.5
Participant left subsidized employment and entered case management	169	10.9
Participant received other program services	<u>7</u>	<u>0.5</u>
Subtotal	629	40.6%
Program Participation Ended		
Participant obtained employment and left W-2	379	24.4%
Participant chose not to participate or declined additional services	269	17.3
Participant determined ineligible for continued participation	113	7.3
Participant determined to be ready for employment	61	3.9
Participant began receiving SSI, SSDI, or caretaker supplement and was thus ineligible for W-2	44	2.8
Other	<u>7</u>	<u>0.5</u>
Subtotal	873	56.2%
Unknown	<u>49</u>	<u>3.2</u>
Total	1,551	100.0%

As shown in Table 34, the five private agencies in Milwaukee County requested extensions less frequently than W-2 agencies in the balance of the state, most of which were county agencies. Outside of Milwaukee County, W-2 agencies requested extensions for 53.6 percent of their 153 participants who were approaching the program's 24-month limit to employment in a subsidized position category. In contrast, the five private agencies in Milwaukee County requested extensions for 13.4 percent of their 1,398 participants approaching the 24-month limit. Among the five private agencies, extensions were also requested at different rates, ranging from 8.1 to 31.3 percent of the agency caseload.

Table 34

**Extensions Requested by W-2 Agencies
Through June 2000**

<u>W-2 Agency</u>	<u>Number of Participants Approaching the 24-Month Limit</u>	<u>Number of Extensions Requested</u>	<u>Percentage of Participants for Whom Extensions Were Requested</u>
Milwaukee			
YW Works	99	31	31.3%
UMOS	215	56	26.0
Maximus	226	24	10.6
OIC-GM	354	35	9.9
Employment Solutions	<u>504</u>	<u>41</u>	8.1
Subtotal	1,398	187	13.4
Balance of State	<u>153</u>	<u>82</u>	53.6
Total	1,551	269	17.3

Some argue that private agencies request fewer extensions because private agencies are more successful in addressing participants' needs, and have therefore found extensions unnecessary. Others suggest that the lower percentage of extensions requested by W-2 agencies in Milwaukee County does not indicate better performance, but rather that the Milwaukee County agencies may be moving participants from one subsidized position category to another or determining that they are ready to move from subsidized employment to a case management services placement based on the time limit rather than on their progress

in developing skills necessary to become self-sufficient through employment.

There is also concern related to the 60-month limit among those who fear that broad use of extensions may undermine the program's goal of reducing welfare dependency and promoting self-sufficiency. Current law allows DWD flexibility in determining the length of any extensions granted, and no time limits have been specified.

Over the next several years, it is unclear how many individuals will be placed in the position of seeking extensions to their 60-month limit on lifetime eligibility. Although fewer than 225 participants are likely to be affected by this limit by the end of 2001, the manner in which the initial cases are addressed will establish the pattern for how others are dealt with. Therefore, *we recommend the Department of Workforce Development report to the Joint Legislative Audit Committee by September 1, 2001, on:*

- *the number of participants for whom W-2 agencies have requested, or by the end of 2001 are likely to request, extensions to the 60-month time limit, as well as the W-2 agencies currently serving these participants;*
- *the characteristics of participants, or the specific circumstances they face, that have led to the requests for extensions;*
- *how individual W-2 agencies plan to assess and respond to these requests; and*
- *the procedures the Department will use in determining which requests for extensions it plans to review and whether it intends to provide guidance or set specific parameters for the length of time for which extensions will be granted.*

Considering Future Program Modifications

Future challenges include increasing participants' incomes and reducing the number who return.

Although W-2 has been successful at encouraging employment and reducing cash assistance caseloads, a substantial percentage of those who are employed remain in poverty, and publicly financed programs such as Medical Assistance and the Food Stamp and Wisconsin Shares Child Care Subsidy programs remain essential to supporting former participants in unsubsidized employment. In the future, challenges for Wisconsin's welfare reform efforts will likely include enhancing the incomes of program participants to make them truly self-sufficient,

while at the same time working to reduce the number of former participants who return to the program.

Meeting these challenges will require a number of policy and administrative questions to be answered. First, DWD will need to assess whether sufficient steps have been taken to address access to services that can reduce the need for cash assistance, including whether W-2 participants, former participants, and other low-income individuals:

- are aware that they may continue to qualify for receipt of food stamps and, as required by federal law, are encouraged to apply for these benefits, which was discussed in a previous Audit Bureau report (report 00-8);
- are aware of and have access to health programs for low-income families, such as Medical Assistance, BadgerCare, and the Birth to 3 program; and
- are aware of and have access to Kinship Care, energy assistance programs, and other local programs available to provide support and counseling.

Second, the Legislature will need to determine the level and type of funds available to support low-income families who are striving to achieve self-sufficiency, including:

- whether future contracts should continue to provide incentives such as community reinvestment and performance bonus funds to W-2 agencies, or whether these resources would be better used to fund state initiatives that more directly address the movement of former W-2 participants out of poverty;
- whether W-2 contractors who misspend public funds should be financially penalized for their actions;
- how to address the substantial increase in child care funding costs that will result if subsidies for low-income working families are maintained at current levels, which was discussed in a previous Audit Bureau report (report 01-1); and

- how best to work with Wisconsin's congressional delegation to ensure that the reauthorization of the TANF legislation, which is expected by 2002, provides adequate flexibility and funding to address Wisconsin's changing welfare reform needs.

Finally, DWD and the Legislature will need to determine how potential obstacles to future program success can be overcome, including:

- how best to encourage non-custodial parents in low-income families to become more involved in the well-being of their children;
- whether more guidance should be provided to W-2 agencies in sanctioning participants for noncompliance with program rules;
- whether more attention should be given to determining what types of services are most effective in facilitating movement of former W-2 participants out of poverty, and thereby reducing their reliance on other types of public assistance;
- whether more attention should be given to understanding the reasons a growing number of participants are returning to the W-2 program;
- whether the current focus of W-2 agencies on assisting participants in finding jobs based on their existing skills, rather than providing more vocational and other training that may assist them in obtaining higher-paying jobs, is the most appropriate approach, or whether with more training, fewer participants would return to the program; and
- how best to serve the large number of individuals who could potentially be eligible to return to the program in the event of an economic downturn.

Program changes may be needed to accomplish W-2's long-term goals.

The manner in which these issues are addressed will likely determine the form W-2 takes in the future, as well as how the State believes its limited resources can best be invested to further the goals of the program. Changes will likely be needed if the program is to accomplish its next challenge of assisting a greater percentage of former participants to find and retain employment that allows them to raise themselves out of poverty.

In addition, consideration could be given to whether consolidation of contracts in Milwaukee County would result in greater effectiveness and lower costs. In September 1997, there were 16,425 W-2 participants in Milwaukee County. By September 2000, that number had fallen to 8,578, or by 47.8 percent. Consequently, five contractors may no longer be needed to adequately serve the remaining participants. Moreover, reducing the number of contractors in Milwaukee County may improve services and reduce costs by:

- creating competition for the right to provide program services;
- reducing the disruption of services by eliminating the need for some participants who move within the county to seek services from different administrative agencies;
- reducing administrative costs by, for example, reducing the number of administrators and other managers needed for program administration; and
- improving oversight of contractor spending, which has become an issue given examples of inappropriate spending that occurred with two of the five Milwaukee contractors during the program's initial implementation period.
