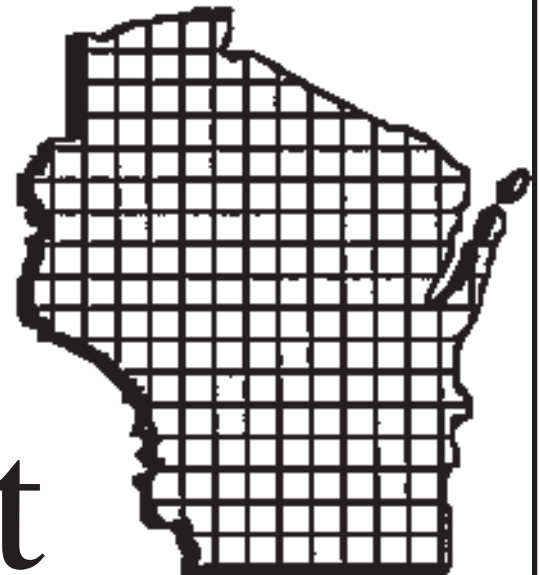


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Report



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**Five Ways to
Fix Wisconsin's
W-2 Program**

REPORT FROM THE SENIOR FELLOW:

Martin Luther King Jr. said, "Nothing in the world is more dangerous than sincere ignorance. . . ." As this report, *Five Ways to Fix Wisconsin's W-2*, reveals, Wisconsin's W-2 program is being administered under the misguided principle of "sincere ignorance" and it must be changed.

In 1997, Wisconsin replaced its decades-old welfare program with W-2, a program hailed by both conservatives and liberals. Governor Tommy Thompson and Wisconsin led the way in converting from a welfare program to a program based on work. As Wisconsin's W-2 population declined, President Clinton used Thompson's approach as the model to revamp the federal welfare program.

Now ten years old, W-2 is entering its adolescence and is in need of serious retooling. We asked David Dodenhoff, Ph.D., to review what works and what needs changing. Dr. Dodenhoff is a student of the W-2 program, having written several research papers on the topic. In this report, Dodenhoff underscores the program's flaws, but more importantly, recommends five tangible fixes.

An idea heard most often from advocates of the poor is that programs like W-2 should serve to eliminate poverty. Yet, decades of data at the state and federal level show this to be an unrealistic goal. Getting people into the first available job is the current orientation of W-2. Dodenhoff suggests that the program should be retooled to get people into jobs they are likely to stay with, even if it entails a longer job search.

Dodenhoff also explodes the myth that the W-2 program should emphasize that participants, especially those without a high school diploma, obtain a "terminal" degree. While this goal might lie comfortably on the ear, the hard data show this is often a waste of taxpayers' dollars and participants' time. Data show that in Milwaukee County, seventy to eighty-five percent of participants in this training show no improvement in literacy or improved math skills. Further, less than half of the participants who enter these "terminal" education programs complete them.

Finally, Dodenhoff makes special mention of the concept of competition among providers within Milwaukee County. While a competitive approach has been a cornerstone of the W-2 program, Dodenhoff notes that none of the Milwaukee providers has lived up to the state's standards of performance. In fact, the Milwaukee agencies are among the worst performers in the state. Even without detailing the series of embarrassing public incidents that have beset the W-2 program in Milwaukee, it is clear that Dodenhoff's suggestion to consolidate under a single provider should be taken seriously.

Clearly, the W-2 program cannot be continued as it is currently structured. Dr. King would be appalled at what "sincere ignorance" is doing to restrain the hopes and dreams of the W-2 population in Wisconsin.



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FIVE WAYS TO FIX WISCONSIN'S W-2 PROGRAM

DAVID DODENHOFF, PH.D.

	PAGE
EXECUTIVE SUMMARY	1
INTRODUCTION	3
FIX ONE: CLARIFY W-2'S PURPOSE	3
FIX TWO: GET SMARTER ABOUT W-2 EDUCATION AND TRAINING	6
FIX THREE: INSIST OF REAL WORK FOR EVERYONE WHO CAN WORK	10
FIX FOUR: IMPROVE PARTICIPANT MONITORING AND TRACKING	14
FIX FIVE: CREATE A SINGLE ADMINISTRATIVE REGION IN MILWAUKEE	16
CONCLUSION	18
NOTES	20

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EXECUTIVE SUMMARY

The Wisconsin Works program (W-2) recently entered its 10th year of operation. In its early years, the program was praised for its revolutionary approach to welfare. In subsequent years, attention has turned toward the performance of the program on a day-to-day and year-to-year basis. In this process, excitement over W-2 has waned considerably, and criticism has mounted — often justifiably. The discussion that follows focuses on five critical fixes necessary to help the W-2 program address some of its most significant challenges.

Fix One: Clarify W-2's Purpose

Advocates for the poor in Wisconsin believe that the chief purpose of W-2 should be the elimination, or at least sharp reduction, of poverty among W-2 clients. Yet, decades' worth of research on antipoverty programs — ranging from the War on Poverty initiatives in the 1960s to the New Hope Project in Milwaukee in the 1990s — have shown this to be an unrealistic, unreachable goal. Even if W-2 cannot solve the problem of poverty, however, it should do more than place clients in the first available job — which is the program's current approach. This report makes the following recommendations:

- *The state should revise its goal for W-2 to the following: To help clients find sustainable, desirable employment — quickly.*
- *All clients should be given up to 12 weeks to find a sustainable, desirable job, rather than being forced to accept the first available job.*
- *The most disadvantaged W-2 clients should have up to 18 months to prepare for private-sector employment, but should also be limited to 18 months' worth of program eligibility every 48 months. This will create a powerful incentive to use the 18-month period productively and wisely.*

Fix Two: Get Smarter About W-2 Education and Training

Wisconsin's Department of Workforce Development (DWD) strongly encourages training for one segment of the W-2 population — adult participants who lack a high school diploma or GED. In recent years, about three-quarters of this group has been assigned to basic education and training under W-2. Evaluation research has shown, however, that this approach is less effective at boosting earnings and employment than a strategy focused on up-front job placement. Accordingly, this report recommends that:

- *"Terminal" basic education and training under W-2 should cease immediately.*
- *No education or training activity should be available through a W-2 agency unless local employers or employer associations have either participated in its creation or affirmed its value.*
- *W-2 agencies should screen clients closely for success factors before referring them to education and training.*
- *The Department of Workforce Development should set time limits for classroom-based education and training.*

Fix Three: Insist on Real Work for Everyone Who Can Work

Somewhere between one-third to two-fifths of adults on W-2 are not engaged in any form of work. Furthermore, even those who do work under W-2 are putting in a comparatively small number of hours (fewer than 20 per week, in most cases). Accordingly, this report makes two recommendations:

- *The Department of Workforce Development should set an expectation that at least 75 percent of the W-2 caseload work — in subsidized or unsubsidized employment, or in a work experience or community service slot — at least 20 hours per week; and*
- *The Department of Workforce Development should establish work-focused performance measures on which contract right of first selection would be based.*

Fix Four: Improve Participant Monitoring and Tracking

A variety of anecdotal evidence suggests that the state and W-2 agencies do a poor job of tracking client participation in program activities. Without effective tracking mechanisms, the central contract of W-2 — work in exchange for benefits — becomes meaningless. Accordingly, this report makes the following recommendation:

- *The Department of Workforce Development should implement a case monitoring and documentation audit process, the results of which would be used to ensure that W-2 agencies are adequately monitoring the activities of all clients on their caseload. Agencies found to have deficiencies in their monitoring mechanisms would risk losing their W-2 contracts.*

Fix Five: Create a Single Administrative Region in Milwaukee

Under W-2, private companies have run the program in certain parts of the state — most prominently, in the five administrative regions in Milwaukee. Unfortunately, through a combination of incompetence and malfeasance, the Milwaukee agencies have mismanaged program funds and have fallen short of the state's performance expectations. Accordingly, this report recommends that:

- *The Department of Workforce Development should create a single administrative region in Milwaukee to be run by one private agency.*

This will ensure the maximum benefits of competition between current W-2 agencies, and the maximum consequences — contract loss — for poor service.

INTRODUCTION

The Wisconsin Works program (W-2), the culmination of former Governor Tommy Thompson's decade-long welfare reform campaign, recently entered its 10th year of operation. In its early years, the program was justifiably praised for its revolutionary approach to welfare — in fact, for its attempt to abolish the concept of welfare altogether. In subsequent years, however, attention has turned away from the novel ideas embodied in W-2 and toward the performance of the program on a day-to-day and year-to-year basis. As a result, excitement about the program has waned considerably, and criticism has mounted — often justifiably. The discussion that follows focuses on five critical fixes necessary to help the W-2 program address some of its most significant challenges.

FIX ONE: CLARIFY W-2'S PURPOSE

What do advocates for the poor want W-2 to accomplish?

The services W-2 provides to clients, and the expectations it sets for them, should reflect the state's ultimate goals for the program. If, for example, the goal of W-2 is to place clients in the first available job, that suggests one set of services and client expectations. If, on the other hand, the goal of the program is to deliver clients from poverty, that suggests a different approach altogether. Over the years, Wisconsin advocates for the poor have embraced this latter goal:

"I think the W-2 program in order to be defined as a success would lead the majority of families out of poverty, and make sure they stay off the program," said Charity Eleson, executive director for Wisconsin Children and Families.¹

"W-2 was a bad idea," said Kristin Settle, an analyst for the Institute for Wisconsin's Future, a Milwaukee policy and advocacy agency. "W-2 has not lived up to its primary objective of getting people out of poverty."²

In theory, there are only three ways that a government program can "get people out of poverty."

The first is relatively simple. Government can provide short-term financial support for generally competent, well-adjusted, readily employable individuals who have temporarily fallen upon hard times. W-2 already does this. It provides the short-term support needed to help the least disadvantaged get back on their feet and reestablish their self-sufficiency.

The second approach, for the more seriously disadvantaged, is to provide a direct cash payment or wage subsidy to them such that they achieve an income above the poverty line. Historically, the American public has rejected the direct payment approach. The public has, however, accepted the idea of wage subsidies — in the form of refundable tax credits — to help supplement a family's income from work. This approach, though, picks up where the W-2 program leaves off — that is, it applies only *after* the program has helped a person find a job.

That brings us to the third way a government program can, in theory, help lift families from poverty. That is by taking the poor, unemployed, or underemployed parent/head-of-household and shaping him or her into a job-seeker who is:

1. qualified for full-time, year-round work paying \$8 per hour or more;
2. capable of finding and securing that kind of work; and
3. capable of succeeding at that kind of work on a full-time, year-round basis until his or her children are old enough to support themselves.

This is what advocates for the poor mean when they talk about W-2 lifting people out of poverty.

Unfortunately, decades' worth of research on antipoverty programs — ranging from the War on Poverty initiatives in the 1960s to the New Hope Project in Milwaukee in the 1990s — have shown that even well-designed public policy and committed caseworkers cannot transform people in this way. They cannot serve as a rewind button or a magic wand. They cannot provide the education and work history that the client missed on the way to adulthood. They cannot deliver a spouse or partner who will contribute to the family's economic well-being and assist with parenting. They cannot wipe away the residue of low self-esteem, depression, substance abuse, domestic violence, health issues, an underdeveloped work ethic, or poor life skills.

What good public policy and conscientious caseworkers *can* do is improve participants' life chances at the margins. But they cannot and will not "deliver" the vast majority of clients from poverty. Accordingly, significant poverty reduction should not be a goal for the W-2 program.

What does the state want W-2 to accomplish?

The Department of Workforce Development has established a goal for the W-2 program that focuses on work rather than poverty: "The goal of Wisconsin Works (W-2) is to provide necessary and appropriate services to prepare individuals to work, and to obtain and maintain viable, self-sustaining employment, which will promote economic growth."³ Clearly, then, an essential part of W-2 is to prepare the unprepared to find and keep a job. Presumably, any job is better than no job, but the ideal job would be "viable" and "self-sustaining" — that is, would be lasting rather than temporary, and would allow the family to support itself without public assistance.

This basic framework, though, still leaves significant ambiguity. Should W-2 agencies place clients in the first available job, or should they encourage clients to hold out for a better job (with benefits, for example, and a higher starting wage)? Should they go one step further, and attempt to enhance clients' human capital so that they might be able to choose *among* better jobs?

In practice, the Department has made clear its preference that clients find work immediately, if possible:

W-2 agencies must reinforce a sense of expectation that W-2 participants will become a part of Wisconsin's workforce as quickly as possible. It is essential that this be communicated when a job seeker first applies for W-2. The (Department) is working on ensuring an up-front workforce attachment model.⁴

The W-2 program makes one significant exception, though, for clients who enter the program lacking a high school diploma or GED, or who possess one of those credentials but still lack basic skills. These individuals are referred to basic education programs and/or a diploma/GED track before being sent into the workforce. The state appears to want to ensure that all W-2 clients have the opportunity for at least some minimal educational preparation prior to looking for work.

In today's labor market, however, even a W-2 client who can earn a diploma or GED through the program is hardly guaranteed "viable, self-sustaining employment." The state appears to believe — correctly — that escaping poverty and dependency is a long-term process, not a *fait accompli* achieved with the first W-2 job placement. Furthermore, the state does not see W-2 on its own as a vehicle for ensuring client self-sufficiency:

The Department fully supports the goal of W-2 to assist low-income families in achieving economic self-sufficiency through employment. We do not believe, however, that W-2 was designed to be the *sole vehicle* for moving families out of poverty. With *ultimate* self-sufficiency as the goal, W-2 is a *key step* in a continuum of workforce development programs and services that help families become self-sufficient.⁵ (Emphasis added.)

Based on the foregoing, then, the state's overall goal for the W-2 program might be stated as follows:

The W-2 program seeks to move all participants into employment as quickly as possible. This is because employment provides the best chance for helping families achieve self-sufficiency over the long haul. For individuals with basic skills and a GED or diploma, finding work "as quickly as possible" means just that — as soon as they can find a job. For individuals who lack a GED or diploma, or who have one or the other but lack basic skills, "as quickly as possible" means as soon as they have been given a chance to acquire at least some basic education.

Discussion and recommendations

If W-2 cannot be expected to serve as an anti-poverty program, as advocates would like, can it at least do more than provide a means for quick job placement after minimal preparation, which is the state's current expectation for the program? It can, and it should:

The state should revise its goal for W-2 to the following: To help clients find sustainable, desirable employment — quickly.

"Sustainable employment" means the same thing for every client — a permanent job that he or she has a good chance of keeping. The definitions of "desirable employment" and "quickly," on the other hand, will depend on the

client. Speaking in general terms, desirable jobs are long-term rather than temporary, and offer full-time hours, pay a good wage, provide benefits, and have room for advancement. The rare W-2 client with a college degree should be able to get a *very* desirable job *very* quickly. The W-2 client who never finished eighth grade and has a substance abuse problem will have much less desirable jobs to pick from, and will take longer to find them.

All W-2 participants, though, should be given the time and resources to find a relatively desirable job, rather than taking the first position for which they qualify. Consider the difference, for example, between a job paying \$6.15 per hour and one paying \$8.15 per hour — both within the range of what is readily available in the entry-level labor market. Over the course of a year's worth of full-time work, the difference in income from the two positions would be \$4160. Or consider the difference between a \$6.15 job at 40 hours per week versus 25 hours — nearly \$5,000 .

Clearly, allowing clients to hold out for a good job — or at least a better job — can produce significant financial benefits. This strategy was followed by one of the most successful welfare-to-work programs ever operated — the Portland JOBS (Job Opportunities and Basic Skills) program. Portland JOBS encouraged clients to wait for jobs that were permanent rather than temporary, that offered a full-time work schedule, that had room for advancement, that paid higher-than-average wages, and/or that provided health benefits. Importantly, it also gave participants the time and flexibility to pursue such jobs. A client who located a half-time job at the minimum wage, for example, was told to keep looking, and continued to receive program benefits while he or she did so.⁶

If this same approach were applied to W-2, how much time should clients be given to find a desirable job?

All clients should be given a grace period for job search of up to 12 weeks.

Federal participation standards discourage more than 12 weeks' worth of job search per client per year. This is because: a) the new world of welfare emphasizes work, and job search is not work *per se*; and b) the federal government does not want recipients "parked" for month after month in unproductive job search activities. W-2 clients could, however, be given up to 12 weeks to search for a good job, and even pass on less desirable jobs without being penalized with a loss of benefits. This provision would be of primary benefit to the most job-ready W-2 clients — those with a high school diploma, a reasonably good work history, and a stable home life. These clients have the best chance of finding and keeping a better-than-average job, if given a chance. Giving them some extended time for job search makes sense, then, and still comports with the goal of helping participants find desirable, sustainable employment — quickly.

But what about W-2 clients who enter the program as much less attractive candidates for employment? Twelve weeks might not be enough time for them to find desirable work. For the most disadvantaged clients, 12 *months* might not be enough time. What to do with these less advantaged groups?

W-2 clients should have up to 18 months to prepare for private-sector employment, but should also be limited to 18 months' worth of program eligibility every 48 months.

In the interest of maximizing clients' chances of finding desirable, sustainable employment, W-2 agencies should be given up to 18 months to work with more disadvantaged clients without the expectation that these clients will accept the first available job. During this period the agency and the client can attempt to address specific educational or skill deficits, seek to get substance abuse issues under control, or try to find permanent solutions to long-standing issues with transportation, child care, living arrangements, debt management, and so on.

In exchange for dropping the insistence on up-front workforce attachment, however, the client would face a new time limit. Currently, W-2 clients are limited to 60 months' worth of program benefits over the course of a lifetime. The recommendation above would retain that 60-month lifetime limit, but would also create a limit of 18 months' worth of benefits during any four-year period. This is to ensure that W-2 agencies and clients use this time as judiciously as possible. It is unfair to both taxpayers and the working poor to excuse W-2 participants from an immediate work obligation, *unless* doing so holds out the hope of finding a better job with a greater chance of sustained employment, within an acceptably short time frame.

Conscientious caseworkers and clients would have to use the 18 months' worth of preparation wisely and productively, knowing that once those months are exhausted, the client could receive no benefits for two and a half years. There could, of course, be exceptions and exemptions for hardship cases. (These are already a feature of federal law and virtually every state's welfare program.) Furthermore, even a client who exhausted his or her 18 months' eligibility would not be abandoned by the state. Wisconsin has workforce development programs outside of W-2, a refundable tax credit for the working poor, and opportunities for health care, child care, and other work supports. All of these would be available to the former W-2 client.

What would *not* be available, however, is the cash grant and supportive services specific to W-2. An individual unable to parlay those into sustainable work after 18 months on W-2 is unlikely to do so if given another 18 months (or more). The state and private charities would have to find other ways of caring for families in these unfortunate circumstances.

FIX TWO: GET SMARTER ABOUT W-2 EDUCATION AND TRAINING

Education and training opportunities under W-2

Currently, despite its emphasis on work, W-2 allows for — and in some cases, effectively requires — clients to engage in education and training activities. The W-2 program manual specifies allowable education and training hours for participants in the two most common W-2 work tiers — W-2 Transitions, and Community Service Job (CSJ) placements. In the former case, clients are allowed to participate in up to 12 hours per week of education and training activities. In the latter, they may be assigned up to 10 hours of education and training per week. The remainder of the CSJ assignment is supposed to consist of unpaid part-time work, typically with a community agency or government office. In reality, some of these work assignments include education and training time in addition to the 10 hours specifically provided for under program rules.⁷ Furthermore, the weekly limits on training for both Transitions and CSJ placements can be exceeded in the case of short-term, intensive training opportunities. A W-2 client could, for example, be assigned to, say, 20 hours per week of education and training, as long as: a) the duration of that training was less than one year, b) the total training time did not exceed 516 hours, and c) the client was also assigned to some non-zero number of work hours.⁸

Wisconsin's Department of Workforce Development (DWD) strongly encourages training for one segment of the W-2 population — adult participants who lack a high school diploma or GED. W-2 agencies' success in engaging this population in education and training is one of the performance measures to which contract renewal is tied. Specifically, agencies are expected to place at least 65 percent of their clients who lack a diploma or equivalency into one of the following educational components: Adult Basic Education, English as a Second Language (ESL), GED, high school equivalency, literacy skills, or regular high school.⁹ Furthermore, even clients who *do* possess a diploma or GED can be assigned to an introductory education or training component if they lack basic skills.¹⁰

How much education and training take place under W-2?

The Department of Workforce Development does not regularly publish data on the percentage of clients assigned to education and training activities and the number of hours' worth of such activities that they complete. Information is available, however, from a previous study by the Wisconsin Policy Research Institute (WPRI), analysis by the Wisconsin Legislative Audit Bureau (LAB), and DWD performance reports on W-2 agencies.

The WPRI study, *Wisconsin Works: Only Work Should Pay*, contained data on education and training activities among adult W-2 participants during the period running from the first quarter of 2002 through the third quarter of 2003. The following figures indicate the percentage of W-2 clients with some education and training hours during each of those four quarters.

Second quarter, 2002:	57.9%
Third quarter, 2002:	55.2%
Fourth quarter, 2002:	55.2%
First quarter, 2003:	51.3% ¹¹

For this one-year period, the data indicate that a majority — though a declining one — of W-2 clients participated in education and training activities.

The Legislative Audit Bureau also produced a limited analysis of training under W-2 in the years 2002 and 2003. Looking at the three most common types of education and training — Adult Basic Education (ABE), job skills training, and General Educational Development (GED) — the LAB found the following percentage of clients in each activity.

(These figures cannot be added to determine the percentage of the total client pool participating in education and training. This is because the same client could have participated in more than one activity.)

The Legislative Audit Bureau also produced a limited analysis of training under W-2 in the years 2002 and 2003. Looking at the three most common types of education and training — Adult Basic Education (ABE), job skills training, and General Educational Development (GED) — the LAB found the following percentage of clients in each activity.

	ABE	Job Skills	GED
2002	38.7%	19.7%	13.6%
2003	36.9%	13.0%	8.6% ¹²

In the same publication, the Legislative Audit Bureau provided W-2 education and training data for the first six months of 2004. This analysis included a broader set of categories, however, than the LAB's examination of training data from 2002/2003. The results were as follows:

	ABE	Job Skills	GED/HSE	ESL	Tech College	Other
Jan – June 2004	32.3%	6.8%	7.2%	1.9%	1.9%	<.1% ¹³

(Again, clients may have participated in more than one activity.)

Finally, in its contract performance reports, the Department of Workforce Development provides data on the education and training activities of a subset of W-2 clients — those who lack a diploma or high school equivalency. In recent years, the proportion of such clients has hovered around 50 percent.¹⁴ Among this half of the caseload, roughly three-quarters participated in Adult Basic Education, English as a Second Language (ESL), GED, high school equivalency, literacy skills, or regular high school in 2004 and 2005.¹⁵

Results of education and training under welfare

In the labor market as a whole, greater education and increased job skills tend to translate into greater earnings. In thinking about how to help welfare clients move toward self-sufficiency, therefore, advocates for the welfare poor often stress education and training. The typical argument goes something like this:

More and more policy makers have come to understand that many W-2 participants would benefit from greater access to education and job training, which research has repeatedly shown to be a key ingredient in the formula for employment success.¹⁶

Or this:

The key to increasing the income of those leaving the (W-2) program, those who return, and those negatively affected by an economic downturn lies in increasing educational opportunities.¹⁷

Or this:

W-2 doesn't focus enough on job skills and useful educational services, which explains why the results the program produces, according to the Legislative Audit Bureau report, leave the vast majority of W-2 participants who get jobs living in poverty.¹⁸

Thus, we are told that if we wish to improve the job prospects and earnings of welfare clients — indeed, if we wish to deliver them from poverty — we must place more emphasis on education and training.

Though this is an intuitively plausible argument, it has not held up well under close examination. A research project known as the National Evaluation of Welfare-to-Work Strategies (NEWWS) set out to determine which of two approaches to welfare reform — labor force attachment (LFA) or human capital development (HCD) — was more effective in improving client employment and earnings. The first of these approaches, LFA, seeks to move welfare participants into a job as quickly as possible. The second approach delays job search in favor of basic educational activities — Adult Basic Education, high school equivalency or GED completion, English as a Second Language, and remedial reading and math skills training — in the hope that this will pay off in terms of a better job with a higher wage.

In the NEWWS study, clients in three separate sites were assigned at random to either an LFA track or an HCD track. This was intended as a pure test of which approach was more effective. The results for the two approaches were very similar, but to the extent they differed, the clients who were assigned to a labor force attachment track enjoyed somewhat *higher* levels of employment and earnings in the first five years following program participation. That bears repeating: over five years, the group that participated in the education-and-training track fared slightly *worse* than the group that was assigned to a work-first track.¹⁹

The NEWWS also produced data on just the subset of welfare clients who entered the programs without a high school diploma or GED. This is the group targeted for education and training under W-2. It is also the group that one

would expect to show the most benefit from a human capital development approach. The NEWWS study, however, found something different:

For people who had not graduated from high school, the results are clearer: Non-graduates in the LFA programs were more likely to work than their counterparts in the HCD programs. In all three sites the LFA group also had higher average earnings than the HCD group.²⁰

Again, even among the subset of clients that one would expect to benefit most from education and training, labor force attachment was more economically beneficial.

Though welfare advocates and program administrators might not like these findings, by now they are widely accepted.²¹ A few representative summaries of the literature, from researchers of diverse ideological leanings, illustrate the point:

- “Whether provided before or after employment, the type of skill upgrading that is provided and how it is provided are important determinants of much of how much it will pay off in the labor market. In particular, programs that provided primarily basic education, without strong links to job training and employment, have not had better results than job search-focused programs.”²²
- “Based on the prodigious findings pointing to the economic benefits of education for the general population, there are strong reasons to expect positive earnings impacts of education for welfare recipients. However, little evidence to date supports this premise.”²³
- “Despite the prevalence of low basic skills among welfare recipients, basic education-focused programs in the past have also failed to help recipients find higher-paying jobs than they would have on their own, and were not as consistently successful as job search in increasing employment rates and earnings.”²⁴

Oddly, the state seems to recognize the inherent limits of education and training in a welfare context, and yet continues to promote this approach. In 2004 and 2005, according to its own performance standards, the Department of Workforce Development expected just 45 percent of W-2 clients enrolled in basic education to show literacy or numeracy gains.²⁵ In fact, the results were much worse. In Milwaukee County, which is home to nearly 80 percent of W-2 clients, W-2 agencies reported literacy and numeracy gains ranging between 15 percent and 29 percent.²⁶ In other words, 70 percent to 85 percent of clients enrolled in adult basic education programs in Milwaukee showed no measurable improvement in their basic skills. The data are only slightly more encouraging in terms of degree or certificate attainment. In Milwaukee, between 41 percent and 49 percent of clients who began an education or training program actually finished it.²⁷ The majority, therefore, washed out at some point, wasting their own time and taxpayer dollars.

Welfare advocates would note that the foregoing discussion does not address more advanced kinds of training — vocational education and technical college courses, for example. Training of this kind, they would argue, can lead to meaningful earnings and employment gains. But this claim is grounded more in wishful thinking than real world experience. Vocational and technical education have not been popular components of welfare-to-work programs, and therefore have not been extensively evaluated for the welfare population. This is because:

- many welfare clients do not meet the educational and skill requirements to participate in them,
- such programs can be very expensive to operate,
- equity issues arise when government pays for training opportunities for the welfare poor that are not equally available to the working poor, and
- federal regulations discourage the use of vocational training programs in place of actual work activities.

Discussion and recommendations

Despite all of the foregoing, advocates continue to tout the transformational powers of human capital development programs for the welfare poor. Yet, education and training cannot deliver families from poverty. They cannot undo the effects of a lifetime of economic privation, limited education, single parenthood, spotty attachment to the workforce, and a host of other barriers and maladaptive behaviors that plague welfare families. They are not appropriate for individuals who wish to go straight to work, or who otherwise show little interest in or ability to take advantage of them. In any case, they are too expensive to make available to everyone. How and why they work (*when* they work) is not well understood. They are, therefore, hard to do well. They are even harder to do well on a tight budget,

within the confines of welfare time limits and federal regulations, and without creating major inequities with respect to the working poor.

If advocates for increased education and training can see a way out of this morass, they have an obligation to speak up. Identifying fair, affordable, time- and cost-effective approaches to human capital development for large portions of the welfare population would be an immensely valuable contribution to the discussion surrounding W-2. But continuing to make the case for increased education and training under W-2, while ignoring the empirical record and political and economic realities that clearly undermine that case, is an exercise in willful ignorance or simple grandstanding.

This is not to say that education and training under W-2 should be scrapped. There are, in fact, certain training pathways that make sense, with limited application: “supported work” for the most disadvantaged W-2 clients; Adult Basic Education or bridge training followed by and linked directly to short-term vocational training; and on-the-job training in the form of a fully subsidized “trial job,” with the participating employer committing to specific training objectives.²⁸ Based on the discussion above, however, any sensible W-2 training policy should be operated in accord with the following recommendations:

“Terminal” basic education and training under W-2 should cease immediately.

The policy of referring large numbers of clients to basic education and training activities before sending them out into the workforce makes little sense. The evaluation literature clearly demonstrates that basic education and training cost substantially more than a work-first approach, use up time on the welfare client’s clock, and produce results that are no better than immediate labor force attachment. Given a choice, then, between immediate job placement versus basic education and training followed by job placement, the state and W-2 agencies should pursue the former approach.

“Non-terminal” basic education and training should still be permitted in certain cases. If a client can complete basic training activities, qualify for more advanced training as a result, and then complete *that* training, the value of the more basic activities will not be lost. Furthermore, even terminal basic education and training may be permissible in extraordinary circumstances: when, for example, a client is already very close to obtaining a GED upon enrolling in W-2, or when a local employer has committed to hiring clients who complete a specific basic education curriculum.

No education or training activity should be available through a W-2 agency unless local employers or employer associations have either participated in its creation or affirmed its value.

As noted above, basic education and training have shown disappointing results in the context of welfare reform. More advanced kinds of training are not well understood in the welfare context, and in any case are discouraged by federal law. Accordingly, not a penny of taxpayer money nor a day of W-2 client time should be spent on client education and training programs unless they have been vouched for by local employers. W-2 agencies should invite such employers (or employer organizations) to assist with training development, or at the very least undertake periodic, informal reviews of the agencies’ (and their subcontractors’) training offerings. If employers cannot affirm that a particular training activity will improve a client’s employability in the local labor market, that activity should be terminated.

W-2 agencies should screen clients closely for success factors before referring them to education and training.

As noted above, for W-2 participants who lack a high school diploma, GED, and/or basic skills, many W-2 agencies — with the state’s encouragement — have adopted a policy of near-universal referral to basic education and training. Furthermore, clients who enter the program with more refined skills and/or a diploma or equivalency can be referred to more advanced vocational training. Unfortunately, failure to complete assigned training activities is a large-scale, persistent problem in welfare-to-work programs.²⁹ But when clients start a training program and do not complete it, they waste taxpayer money and precious time on their own welfare clock. Accordingly, rather than pursuing blanket education/training referrals for any particular category of W-2 clients, agencies need to screen for likely success factors.

The first cut on client screening will need to address motivational issues: a client’s desire to participate in education and training, and his or her willingness to defer employment until the training activities are completed. Beyond this, case workers will need to make educated guesses, based on experience, about a client’s chances for completing and benefiting from assigned activities. Research indicates, for example, that clients are more likely to finish basic education programs when they:

- enter the program with higher scores on tests of basic skills,
- were enrolled in education and training activities in the preceding twelve months, and
- are receiving welfare benefits for the first time.³⁰

Whatever specific screening factors are applied, the objective ought to be to focus limited training resources on a relatively small minority of W-2 clients — those with the greatest chance of benefiting from them. One should note that this is precisely the opposite of what the advocate community wants, which is greatly expanded training resources available to all W-2 clients. But the most likely result of that would be a substantial waste of client time and taxpayer money.

The Department of Workforce Development should set time limits for classroom-based education and training.

Just as there are time limits on participation in the W-2 program overall, and on participation within individual program components, the state and W-2 agencies need to establish limits on participation in individual training components. Set correctly, time limits will motivate clients to complete their credentials and ensure that no client languishes in an education and training program in which he or she is not making progress. Appropriate limits will depend on the training model and the client. Research has shown, for example, that math skills and the likelihood of GED receipt do not improve or increase meaningfully beyond six months of training. Literacy skill gains, on the other hand, may take more than a year to appear.³¹

FIX THREE: INSIST ON REAL WORK FOR EVERYONE WHO CAN WORK

The meaning of “work” under welfare reform

The “Fix Two” discussion of education and training should not divert us from an important fact: welfare in Wisconsin (and everywhere else) now involves work requirements. That phrase, however, means different things to different people. For some, “work requirements” mean that families on welfare cannot collect a check forever; eventually, they will have to leave the rolls and get a job. For others, “work requirements” mean that welfare is no longer a something-for-nothing proposition; anyone receiving a welfare check has to engage in productive activities in return. Strictly speaking, though, those activities need not involve literal work. Instead, they might include job search, for example, or educational activities. For yet others, “work requirements” mean that adults receiving a welfare check must do some kind of real work in return. This could be part-time, low-wage work for a private employer, supplemented by welfare, or it could be volunteer work in a community service job arranged by the welfare agency.

How much work is required?

In their rhetoric, at least, both Congress and the state of Wisconsin have embraced an interpretation of “work requirements” that strongly encourages actual work while on welfare. Earlier this year, Congress reauthorized the federal Temporary Assistance for Needy Families (TANF) program that provides much of the funding for W-2. Though W-2 has its own, state-specific rules and requirements, programs funded with TANF money also have to meet federal requirements. Under those requirements, 50 percent of adults in the single-parent caseload (that is, the caseload headed by only one parent — a mother or a father) generally must be engaged in at least 30 hours per week of work activities. At least 20 of those hours must come from the following list of “core activities”:

- unsubsidized employment,
- subsidized private sector employment,
- subsidized public sector employment,
- community service programs/unpaid work experience,
- on-the-job training,
- providing child care assistance to an individual in a community service program,
- job search and job readiness assistance, and
- vocational educational training.

The first six items in this list are more or less synonymous with “work.” Congress has not limited the number of hours or the amount of time participants may engage in them and still be counted toward the 20-hour requirement. Job search/job readiness and vocational educational training, on the other hand, are limited — to 12 weeks per year in the former case, and 12 months over the course of a participant’s lifetime in the latter. (There are also limits on the percentage of the caseload that can engage in vocational education activities and still be counted as work activity participants.)

After the basic 20-hour requirement is met, clients can make up the remaining 10 hours from the preceding list, or from the following list of “non-core activities”:

- job skills training directly related to employment;
- education directly related to a specific occupation, job, or job offer; and
- satisfactory school attendance at a secondary school or a course leading to a GED.

To summarize (and oversimplify somewhat), Congress requires that roughly half of the W-2 caseload be engaged in at least 30 hours’ worth of work activities per week. At least 20 of those hours must come in the form of activities that consist of different forms of actual work, whether paid or unpaid. Exceptions to this 20-hour requirement can be made — albeit temporary ones with specific time limits — for job search and job readiness activities, and for vocational training. The remaining 10 hours’ worth of participation can be made up from any of the 11 activities listed above.

How much work actually takes place under W-2?

As with education and training activities, the state does not routinely publish information on the amount and kind of work taking place under W-2. Again, though, other sources of information are available — albeit dated ones. A WPRI study, *Wisconsin Works: Only Work Should Pay*, contained data on work activities among adult W-2 participants during the period running from the first quarter of 2002 through the third quarter of 2003. The following figures indicate the percentage of W-2 clients engaged in at least some work activities — that is, one or more of the first six items in the core activities list above — and the percentage engaged *solely* in work activities.

	Some work activities	Only work activities ³²
Second quarter, 2002:	67.6%	23.1%
Third quarter, 2002:	67.1%	24.2%
Fourth quarter, 2002:	65.3%	22.4%
First quarter, 2003:	63.8%	27.3%

The first column indicates that although two-thirds of W-2 clients were engaged in some kind of actual work, roughly one-third were not working in exchange for their benefits. The second column indicates that only about one-quarter of W-2 clients were being paid for work and work alone.

The federal government also has published data on work participation rates for federal Fiscal Year 2004, which ran from October 1, 2003, through September 30, 2004. The following data indicate the percentage of non-disabled, adult W-2 work participants engaged in the first six core activities — the activities roughly synonymous with “work” — during that period.³³

Because some clients may have participated in more than one work activity, the percentages may not be added. Clearly, though, and consistent with the WPRI data presented above, a majority of W-2 clients were engaged in some form of work activity in the reported time period.

That a W-2 client was engaged in work does *not*, however, mean that he or she was working 30 hours per week, or even the

Unsubsidized employment:	7.6%
Subsidized employment:	0.0%
Community service:	5.5%
Work experience:	51.2%
On-the-job training:	0.0%
Providing child care:	0.0%

20 hours required for core activities. Unfortunately, the federal data make it difficult to determine what percentage of adults were achieving the 30-hour minimum, and what percentage were not. Data do exist, however, regarding the average number of hours of work per week for adults participating in unsubsidized employment, community service, and work experience, respectively.

Unsubsidized employment:	16.6 hours
Community service:	23.5 hours
Work experience:	15.3 hours ³⁴

These data indicate that a very small number of W-2 participants may have combined activities across two or three areas to achieve 20 or 30 hours' worth of work per week. Mathematically speaking, though, it is clear that the vast majority of W-2 participants with actual work hours were not achieving 20 hours per week of work activities, let alone 30.

To summarize, the most recent available data indicate that a majority of W-2 clients are engaged in work activities while on the W-2 caseload. At the same time, somewhere between one-third to two-fifths of adults on W-2 are not engaged in any form of work. Furthermore, even those who *do* work under W-2 are putting in a comparatively small number of hours (fewer than 20 per week, in most cases).

Discussion and recommendations

The team that produced the original W-2 proposal had a clear expectation that every able-bodied adult on welfare in Wisconsin would engage in productive work in exchange for his or her benefits. This reflected the emergence, in the 1990s, of the idea that welfare should entail reciprocal obligations. Specifically, in exchange for a monthly cash payment, food stamps, and health care, welfare recipients would be expected to participate in activities to improve themselves, the community, or both.

But why work activities, in particular? Why not intensive education and training? Why not parenting, which is work after all, and important work at that? First, in American society there is an expectation that able-bodied adults who lack independent means will support themselves through work — not education and training, not child-rearing, but work. There is no compelling reason not to extend this expectation to welfare parents (except those incapable of work). Second, a common characteristic of the welfare poor is highly inconsistent employment. Most welfare clients have a work history, but not one of sustained employment over long stretches of time. Part of the logic of work while on welfare, then, is to help acclimate clients to the realities of the work world — where one's livelihood depends on productive, daily labor. This is something that only work itself — not education and training, not child-rearing — can really do. Third, requiring work of the welfare poor is a matter of fairness toward the working poor. Were it not for work — often unpleasant, unrewarding work in undesirable locations and at odd hours — many members of the latter group would themselves be on the welfare rolls. (And some still are.) Requiring welfare clients to do actual work, then, is a way of honoring the efforts of the working poor who do not depend on welfare, and promoting broader cultural values.

With those principles in mind, the following are recommendations for an improved administration of work activities under W-2:

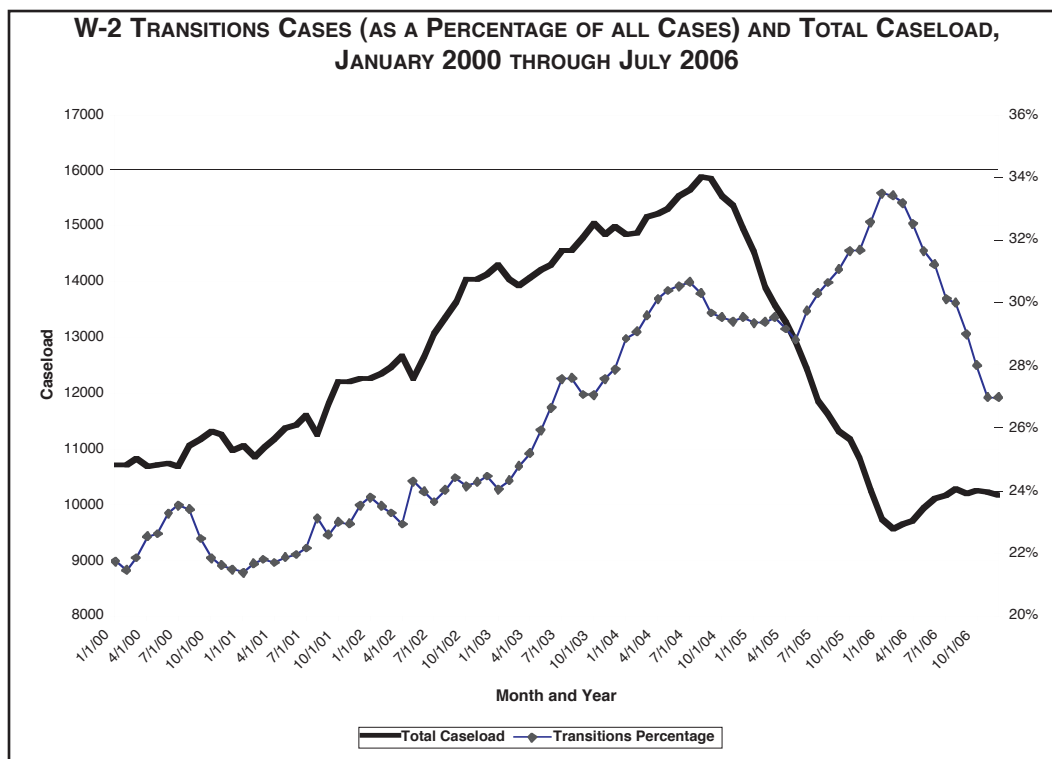
The Department of Workforce Development should set an expectation that at least 75 percent of the W-2 caseload work — in subsidized or unsubsidized employment, or in a work experience or community service slot — at least 20 hours per week.

This is consistent with the federal expectation of 20 hours per week in core activities. It also entails a meaningful, though manageable, commitment to work: in most cases, four hours per day, five days per week. Furthermore, the half-time work schedule would leave an additional 15 to 20 hours per week for education, training, and job search. For those for whom these activities were inappropriate, an additional 10 hours could be used for work.

Is it reasonable to expect this much work from W-2 clients? There are two ways to look at this question — in terms of fairness and practicality. Thinking about fairness, the maximum monthly cash grant under W-2 is \$673. A client assigned 20 hours' worth of work per week would be earning about \$8.40 per hour — not counting food stamps and health care. This is well over the minimum wage, and therefore seems reasonable. However, the client could also have additional hours of participation that, if included as compensable activities, would drive the hourly wage well below the minimum. There is no argument to be made, though, that education, training, and job search should receive the same compensation as actual work — or any compensation at all, for that matter.

As for practical considerations, around 70 percent of the W-2 caseload is currently assigned to a tier other than W-2 Transitions. For that 70 percent, then, the ability to work — though not necessarily in an unsubsidized, private-sector position, at least not right away — has been verified based on an initial screening. Furthermore, at least some of the W-2 Transitions caseload may be capable of work as well, given that Transitions cases may be assigned up to 28 hours per week of activities other than education and training. According to the W-2 manual, those activities may include “activities similar to a CSJ (Community Service Job) but with more supervision” and “volunteer activity.”³⁵ If even one-fifth of the Transitions caseload were able to do 20 hours’ worth of work per week — even simple, highly structured, closely supervised work — the state could achieve the 75 percent target.

There is reason to believe, however, that an even greater proportion of the Transitions caseload is capable of work. Over the past five and a half years, Transitions cases have increased from roughly 22 percent of the W-2 caseload to about 27 percent.³⁶



Because of the long-term increase in Transitions assignments, the Transitions tier is now the second largest placement category under W-2 (after “Case Management Follow-Up”). The increasing percentage of Transitions cases would make sense if the caseload were, for some reason, becoming increasingly populated with hard-to-serve clients over time. The Legislative Audit Bureau has found, however, that “the characteristics of the program’s participants have remained generally consistent since W-2 was implemented statewide in September 1997.”³⁷ This suggests that Transitions may have become something of a “parking lot” for challenging cases that nonetheless could be assigned to a higher tier. If this is true, the state should be able to achieve even higher work engagement rates than 75 percent.

The Department of Workforce Development should establish work-focused performance measures on which contract right of first selection would be based.

The current W-2 agency contract does not establish specific percentages of the caseload that must be working, or average weekly hours expected among clients who work. Such measures should be incorporated into the contract and included as criteria in decisions about contract renewal, right of first selection, and possibly even W-2 agencies’ funding from the state.

FIX FOUR: IMPROVE PARTICIPANT MONITORING AND TRACKING

How well are client activities monitored?

There are currently more than 10,000 open W-2 cases. For a moment, though, think about just one. Imagine a single mother on W-2, assigned to 15 hours per week of work in a community service job position, and an additional 10 hours of education time. If the client is not participating in these activities, she is making no progress toward a life without welfare. Furthermore, if she is not participating, there is supposed to be a consequence — a reduction in her family’s monthly benefit payment. If she is not participating, too, the W-2 agency responsible for her will have a harder time meeting the state’s performance benchmarks. If it does not meet those benchmarks, the agency can lose its contract to administer W-2. If she is not participating, the state as a whole will have a harder time meeting the federal government’s performance standards. If it does not meet those standards, the state can lose federal funds.

With so much at stake, client monitoring — that is, tracking and documenting client participation in assigned activities — takes on an extremely important role under W-2. Unfortunately, a variety of anecdotal evidence suggests that the state and W-2 agencies do a poor job of keeping tabs on at least some W-2 clients. Jason DeParle made note of this in his book *American Dream*, which explored welfare reform through the lives of three families living in inner-city Milwaukee. His account cast serious doubt on the adequacy of W-2 client monitoring, and on the integrity of the data going into, and therefore coming out of, the W-2 computer system, known as CARES:

Keith Garland, the Maximus manager of quality control, studied attendance at MaxAcademy, the agency’s signature effort.³⁸ More than three-quarters of the people assigned to the class never showed up for a single day. Out of a caseload of nearly fifteen hundred, Garland said, “We had maybe one hundred people doing something.” As for the rest: “We didn’t know what people were doing. We didn’t have a clue.”³⁹

In grading the agencies for contract renewal, the state’s sole source of information was the computer system, CARES. The state had no way to know whether the assignments in the computer were real, much less whether clients were doing them. . . . “It became a CARES game,” says Mona Garland, the former operations manager. “You just go in there and code them this, this, and this to make CARES look right. . . . They may not really be assigned to thirty hours, but you go into CARES and make it look like they’re assigned to thirty hours. The job-seeker may not even know.”⁴⁰

“CARES is a fantasyland” (quoting a W-2 caseworker).⁴¹

The Department of Workforce Development would no doubt respond that while there were problems with client monitoring in W-2’s early years — the years covered in DeParle’s book — those problems have been addressed. The available evidence, however, suggests otherwise. For example, in various audits over the years, the Wisconsin Legislative Audit Bureau (LAB) has repeatedly found problems with documentation on W-2 cases. The following are a handful of incidences cited in various LAB reports:

In April 2004, DWD began reviewing the information reported by W-2 agencies on participants who had completed a degree or certificate — such as a general educational development certificate, high school equivalency diploma, or technical college training — to determine whether the information supported the agencies’ claims. . . . DWD reviewed electronic case records for all 365 participants W-2 agencies claimed had obtained a degree or certificate from January through March 2004. It found that the records for 243 participants (66.6 percent) indicated the participants may not have obtained degrees or certificates.⁴²

We conducted a more thorough analysis of trial job wages by reviewing the electronic case files of 262 W-2 participants who, according to data provided by DWD, had held trial jobs from January 2001 through February 2004. . . . However, we found that the case files for 26 participants contained no information to indicate that the participants had actually held trial jobs, and the records for the other 236 participants were often incomplete.⁴³

We reviewed all 195 cases for which the W-2 agencies determined that participants had been sanctioned appropriately. . . . The accuracy of sanctions could not be determined in 48 cases because of incomplete or contradictory information in the case files.⁴⁴

During our prior two audits, we reported internal control concerns related to the counties' and W-2 agencies' compliance with DWD's case file documentation requirements (Findings WI-04-15 and WI-03-17). For example, during our FY 2003-04 audit, 11 of 30 TANF case files and 9 of 30 Child Care case files we selected for review were deficient in supporting one or more eligibility requirements or were not made available for our review. Of particular concern was a higher rate of noncompliance for cases in Milwaukee County, representing potentially serious internal control weakness.⁴⁵

[W]e were unable to determine whether sanctions were appropriate for an estimated 220 cases (15.4 percent), because incomplete or contradictory information in the CARES computer system made such a determination impossible. For example, data on placement type, participation history, and hours of non-participation were often insufficient to allow us to render a judgement (sic) on the appropriateness of the sanctions imposed.⁴⁶

Similarly, a 2005 report by the federal Government Accountability Office found Wisconsin to be among the states suffering from the following shortcomings in its systems for monitoring client work participation:

- **Lack of guidance on the type of documentation needed to support reported hours of work activities.** Without guidance, there is no assurance that the local staff collecting the data know what type of documentation is adequate to support hours reported or whether any documentation is required. The type of support needed would depend on the activity but could include pay stubs and time and attendance reports. Without guidance, staff at different locations are more likely to use different standards for what support is needed.
- **Guidance allows for reporting hours missed for good cause.** Some states have guidance specifying that when recipients are absent from a scheduled activity and the case worker determines that there is a good cause for the absence, the missed hours can be reported as worked. This results in hours that were not worked being reported to ACF as worked.
- **Insufficient monitoring to verify that hours were reported correctly.** Some states do not have a monitoring process in place to perform timely reviews to verify that hours were reported correctly. Without sufficient monitoring, states cannot be assured that local staff are reporting hours that are supportable and complete.⁴⁷

Discussion and recommendations

W-2 agencies and the Department of Workforce Development can, and do, produce reams of data on client activities. Complete, accurate, reliable data are necessary for the chain of accountability to work as it should, from client-caseworker interaction at the street level, all the way up to the intergovernmental relationship between DWD and the federal Department of Health and Human Services. If the data are incomplete, inaccurate, and unreliable, then all of the talk of performance and accountability is just that — talk.

The state should address the issue of data integrity in client monitoring by adopting a simple recommendation:

The Department of Workforce Development should implement a case monitoring and documentation audit process, the results of which would be used (among other criteria) in determining the right of first selection.

The idea here is simple. Once or twice per year, DWD auditors — or perhaps Legislative Audit Bureau staff — would pull a random sample of each W-2 agency's cases. For each case, the auditors would first determine the activities to which the case head had been assigned. Auditors would then check for appropriate documentation of client participation in the assigned activities. Finally, auditors would verify that the information recorded in the client's electronic CARES record comported with the documentation on client participation. A breakdown anywhere in the process — failure to assign activities to the client, lack of appropriate documentation on client participation in assigned activities, or lack of correspondence between that documentation and the client's electronic record — would constitute a finding of non-compliance. A sufficient number of such findings would result in a loss of the agency's right of first selection, and possible monetary penalties.

(NOTE: The federal government recently implemented a requirement that state welfare agencies adopt “a system for determining whether the hours they report toward the participation rates correspond to hours in which work-eligible individuals actually participate in work activities.”⁴⁸ This will be known as a Work Verification Plan, and is intended to ensure the integrity of states' reporting on work participation data. If properly implemented, this should address many of the concerns identified above. However, Wisconsin's Work Verification Plan needs to include an audit procedure of the kind recommended here.)

FIX FIVE: CREATE A SINGLE ADMINISTRATIVE REGION IN MILWAUKEE

W-2's revolutionary administrative structure

Under AFDC — the predecessor to Wisconsin Works — county social service agencies had sole responsibility for running welfare programs in Wisconsin. In the run-up to W-2, however, the state required county agencies to meet performance targets as a measure of their capacity to run the new program. The state targets included caseload reduction, job placement, and AFDC expenditures. Counties that met the state's standards in these areas (as most did) earned the right to remain as program administrator. Counties that failed to meet the standards were allowed to bid on the business, but had to compete for it against private vendors. As a result, private companies — some for-profit, some not-for-profit — ended up running W-2 in nine different counties.

One of those was Milwaukee County, which the state divided into six separate administrative regions. Five different agencies ended up administering the six Milwaukee regions when the program was launched. The distribution of agencies and regions was as follows:

Milwaukee Region 1: YW Works, a for-profit, limited liability company formed by the YWCA of Greater Milwaukee, a non-profit organization, and two for-profit companies, the Kaiser Group, Inc., and CNR Health, Inc;

Milwaukee Region 2: United Migrant Opportunity Services, Incorporated (UMOS), a not-for-profit, community-based organization;

Milwaukee Region 3: Opportunities Industrialization Center of Greater Milwaukee, Incorporated (OIC), a not-for-profit, community-based organization;

Milwaukee Regions 4, 5: Employment Solutions of Milwaukee, Incorporated, a non-profit subsidiary of Goodwill Industries of Southeastern Wisconsin, Incorporated, also a non-profit; and

Milwaukee Region 6: Maximus, Incorporated, a for-profit corporation based in Virginia.⁴⁹

What has gone wrong in Milwaukee⁵⁰

Today, UMOS, Maximus, and the YWCA remain as program administrators in Milwaukee. But the 10 years that have passed since the launch of the program have not been kind to the concept of welfare privatization. Problems began to appear in 2000, when Maximus, one of the for-profit agencies, was discovered to have improperly billed hundreds of thousands of dollars' worth of expenses to the W-2 program. These included costs for employee work on projects other than W-2, in states other than Wisconsin; expenditures for social functions and entertainment; and corporate memberships and donations. By the time all of the requisite audits were complete, Maximus ended up reimbursing the state for roughly \$500,000 in disallowed or questionable costs, and donating another \$500,000 for community services as a show of good-faith.

Just as the flap over Maximus' spending was dying down, a similar controversy erupted at Employment Solutions (ESI), the W-2 agency for Milwaukee Regions 4 and 5. Like Maximus, ESI had spent W-2 money on questionable and disallowed costs: meals, entertainment, social functions, credit card interest, and staff time devoted to projects other than W-2. The agency was forced to reimburse the state approximately \$350,000 immediately. Auditors believed that additional funds should be repaid for inappropriately billed staff time, but noted that ESI's records were inadequate to determine the precise amount. On this matter, the state and the agency ended up settling on additional reimbursements of \$135,000.

Part of the settlement, however, included ESI's agreement to drop out of the W-2 program. Unlike the financial improprieties at Maximus, the ones at ESI were accompanied by allegations (by employees) that some of the disallowed spending was intentional. This eventually triggered an FBI investigation of the company. The surest way for the Department of Workforce Development to put this public relations fiasco behind it was to insist that Employment Solutions stop serving as a W-2 agency in Milwaukee.

A third scandal, and the most sensational one, began to emerge in late 2003. In November of that year, a federal indictment was brought against then state Senator Gary George. Among other things, the indictment alleged that George had received \$270,000 in kickbacks from an attorney working for OIC, which was then one of the W-2 admin-

istrative agencies in Milwaukee.⁵¹ OIC sought to distance itself from the scandal, saying that any wrongdoing was attributable solely to attorney Mark Sostarich, who counted both the W-2 agency and Gary George among his clients.⁵² In the wake of the indictment, however, the Department of Workforce Development put OIC on probation. DWD hired a consultant to monitor OIC's finances on-site on a daily basis, and ordered a financial audit of the agency.⁵³ Though OIC claimed to welcome the scrutiny, Carl Gee, president and CEO of the agency, was soon indicted for actively participating in the kickback scheme.⁵⁴ Gee, who went to trial rather than pleading his case out, was convicted of conspiracy and sentenced to two years in prison. Gary George, for his part, was ultimately sentenced to four years in federal prison after a guilty plea.

The kickback scheme and resulting criminal convictions garnered significant headlines, but they were not the only OIC stories of note. In addition, in September 2004 the state insisted on significant changes in the agency's W-2 operations, noting that it had:

- failed to meet most of the state's performance standards for the program,
- improperly claimed W-2 reimbursements for some agency expenditures, and
- failed to pay some of its subcontractors within a reasonable time frame.⁵⁵

OIC was given 10 days to issue a plan to address these and other problems. The state was not satisfied with the agency's response, however, and began withholding funds and threatening to terminate OIC's contract:

"We are seriously looking at options for changing the OIC contract," JoAnna Richard, a top Workforce Development official, said in a prepared statement. "We are looking at a full range of options, from termination to changing regions or to changing the program management" at OIC, Richard said.⁵⁶

The downward spiral continued when the state Legislative Audit Bureau issued a report recommending that OIC repay the state more than \$325,000 in W-2 funds it had spent on questionable legal work (most of it done by the aforementioned Mr. Sostarich). The audit also uncovered another \$90,000, roughly, in questioned or unallowable costs, and identified several areas for further scrutiny.⁵⁷ (The Legislative Audit Bureau eventually put OIC's total for unallowable or questioned W-2 costs at \$514,505.⁵⁸) The state also reduced OIC's contracts not once but twice, reassigning its clients and a large chunk of its funding to other Milwaukee agencies.

This was not the end of the story, however. Fresh OIC financial scandals emerged in 2004, relating to a questionable \$45,000 cell phone purchase and mishandling of home weatherization program funds. Then, an independent audit commissioned by the state (but paid for by OIC) criticized the agency for sloppy bookkeeping, and uncovered hundreds of thousands of dollars' worth of additional, improper spending.⁵⁹ In the wake of these findings, OIC announced in February 2005 that it was closing its doors.

The situation in Milwaukee would be troubling enough if the private providers were guilty of nothing more than poor stewardship of taxpayer monies. They have also, however, suffered from serious performance issues. The state has established a variety of performance measures for W-2 that are used, among other things, to determine which agencies have performed well enough to earn automatic contract renewal. These measures include things like job placement, job retention, earnings gains, and degree or certificate attainment among W-2 clients. During the 2003/2004 contract cycle, W-2 agencies in 50 percent of the state's program regions performed well enough on these measures to earn a contract renewal. In the six Milwaukee regions, none did. Then in the 2004/2005 contract cycle, W-2 agencies in about 75 percent of the state's program regions earned a contract renewal. Again, none of the Milwaukee agencies did.⁶⁰ In fact, the Milwaukee agencies have been among the worst performers in recent years. In 2004/2005, nearly half of W-2 agencies met all 10 of the state's performance measures; none of the Milwaukee agencies did. About one third of W-2 agencies met eight of the state's performance measures; only one of the Milwaukee agencies was in this group. The other two Milwaukee agencies were among the roughly 20 percent who met seven or fewer of the state's performance measures.⁶¹

Discussion and recommendations

Introducing competition and privatization into the W-2 program was a bold, innovative, commendable experiment. In most of the state, it has worked relatively well. In Milwaukee, where the success or failure of W-2 hangs in the balance, it has been an embarrassment. The Milwaukee agencies have validated the worst fears of skeptics of privatization, and have left the advocates of public-private competition (including the author) red-faced.

The agencies' disappointing performance has had implications beyond the misuse of public funds and sometimes inadequate client service. It has also threatened support for the W-2 program as a whole by linking it to instances of scandal, waste, fraud, crime, and incompetence. Furthermore, the Milwaukee agencies have jeopardized the provision of consistent, reliable casework for the city's poor. In the past five years, W-2 participants have been shuffled from one provider to the next as various agencies have gone out of business or been pushed out of the program due to poor performance. (One part of the city has been served by a succession of three different W-2 agencies in the past five years.) Finally, the W-2 agencies in Milwaukee have forced DWD into a process of continual regulatory improvisation, trying to limit existing damage and forestall further embarrassment. The department has at various times insisted upon on-site financial monitors; a reduction of W-2 agency responsibilities coupled with an increase in the number of agencies operating in Milwaukee (to diminish the risk of another large-scale failure); limits on agency expenditures for promotions, telecommunications, executive compensation, bonuses, legal services, and rent; mandated supplemental audits; and state oversight of corporate governance issues (down to the level of regulating board meeting minutes).

Certainly, none of this was inevitable. At the same time, one must recognize the risks inherent in large-scale contracting for social services. Running a program like W-2 requires a combination of human expertise, knowledge, and technological sophistication that is not widely available. If a W-2 agency performs poorly, the state cannot simply find a replacement in the Yellow Pages. Furthermore, if a change from one vendor to another is necessary, this requires a difficult transition process. This appears to be why DWD continues to rely on contractors who have been embroiled in scandal or who have failed to meet state performance standards. These agencies have programmatic experience and human and technological capacity that are very hard to replace at this point in the life of W-2. Based on the record of the Milwaukee agencies, however, the state needs to fundamentally change the way the W-2 program is administered in Milwaukee:

The Department of Workforce Development should create a single administrative region in Milwaukee to be operated by a sole private vendor.

This recommendation is intended as a last-ditch effort to save managed competition and private administration of W-2 in Milwaukee. What would unification of the five Milwaukee regions accomplish? It would put the current Milwaukee agencies on notice that only one of them will be administering the program in the next contract round. This means that any financial malfeasance or performance shortcomings would likely be fatal to their chances of being the sole vendor in Milwaukee when the next contract begins (in 2010). Furthermore, each would know that by outperforming the others during the current contract, they would gain a leg up in their bid to be the sole Milwaukee vendor. Poor performers, in turn, would know that they would likely be facing the end of their involvement in the W-2 program — something that has not been a realistic threat to this point. Once a single Milwaukee vendor was chosen, that vendor, too, would know that poor performance would likely mean being forced out of the program altogether, and being replaced by one of its former competitors. Again, to this point in the life of W-2, that has not been a realistic threat.

If all of this does not improve the Milwaukee vendors' performance, nothing will. And what if, in fact, the Milwaukee vendors' performance does *not* improve? In that case, the experiment in welfare privatization in Milwaukee clearly will have failed, and the state will have to assume administrative responsibility for W-2 there.

CONCLUSION

Now in its 10th full year of operation, the W-2 program has lost some of its former luster. The early excitement over the program's novelty has given way to the criticism and frustration that inevitably arise when one tries to translate ideas into practice. The W-2 program, though, is now showing flaws in both ideas *and* practice.

The most important change needed is to reinstate the primacy of work under W-2. Every able-bodied, able-minded W-2 participant should be expected to work at least 20 hours per week. This should be seen as the central feature of the contract between taxpayers and W-2 clients. Part of that contract, too, should be stricter time limits on participation in program activities, as recommended above. Finally, the contract should include assurances from the state — backed by contract performance standards, and verified through audits — that client participation in work activities is being closely and accurately monitored.

Wisconsin Works participants also have a right to expect more from the program. In addition to a cash payment, W-2 should offer them a better chance to succeed. In part this means more time up-front to find a good job, rather than just any job. It also means an end to “terminal” basic education and training programs, which have not served welfare recipients well. Finally, it means a change in W-2 administration in Milwaukee, from a hodgepodge of private agencies to a single entity under the Department of Workforce Development.

NOTES

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3. State of Wisconsin Department of Workforce Development, "Wisconsin Works (W-2) Background, Philosophy, and Goals," available on-line at: <http://tinyurl.com/lbwcr>.
4. Department of Workforce Development, Division of Workforce Solutions, Administrator's Memo Number 04-16, July 14, 2004, available on-line at: <http://tinyurl.com/f3uym>.
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8. See: <http://tinyurl.com/myzuk>.
9. See "Basic Education Activities" in Appendix B to the 2006-2009 W-2 agency contract, available on-line at: <http://tinyurl.com/jveo3>.
10. David Dodenhoff, *Road to Nowhere: Education and Training Under Wisconsin Works*, Wisconsin Policy Institute Research Report, Volume 18, Number 3, April 2005, p. 2.
11. Dodenhoff, *Only Work Should Pay*, p. 3.
12. State of Wisconsin Legislative Audit Bureau, *An Evaluation: Wisconsin Works (W-2) Program*, Report 05-06, April 2005, p.28, available on-line at: <http://tinyurl.com/hw89p>.
13. *Ibid.*, p. 27.
14. See *Ibid.*, p. 21, and State of Wisconsin Legislative Audit Bureau, *An Evaluation: Wisconsin Works (W-2) Program*, Report 01-7, April 2001, p. 14, available on-line at: <http://tinyurl.com/qf5uf>.
15. Source: Author's calculation based on published caseload data (see <http://tinyurl.com/zr87b>) and 2004/2005 final performance standards results, available on-line at: <http://tinyurl.com/plgq3>.
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26. Source: Department of Workforce Development performance standard results, available on-line at: <http://tinyurl.com/plgq3>.
27. Ibid.
28. For more detailed discussion of these training options, see Dodenhoff, *Road to Nowhere*, pp. 19-21.
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