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102

WEDNESDAY, MAY 24, 2000

Temporary Workers Exploited, Group Says

By KRISTIN DOWNEY GARMSLEY
Washington Post Staff Writer

A coalition of labor unions, civic activists and advocates for minority rights announced the formation of a nationwide organization yesterday to address what they allege is abusive and unfair treatment of a growing class of employees called "contingent workers."

The group, the National Alliance for Fair Employment, said it wants to call attention to what it sees as a growing dichotomy amid a booming economy. While highly paid "knowledge workers" enjoy stock options and other increasingly lavish perks, many lower-level workers categorized as "temporaries" face a future with little upward mobility and only slim chances of obtaining full health insurance and retirement benefits.

These contingent workers include adjunct professors teaching college classes but not receiving medical benefits; secretaries who

have worked for high-tech companies for years but are labeled contract workers, not employees; and day laborers employed by temporary-work agencies, some of which, they say, pay wages so low that they can't afford housing.

At a news conference, workers from around the country said they had been forced to accept temporary jobs for long periods of time, were unfairly denied benefits or suffered race and sex discrimination by staffing agencies.

"We're career employees but we are treated as if we are fly-by-night," said Larry Kaye, employed for 10 years as an adjunct professor at the University of Massachusetts at Boston. He was paid \$12,000 a year for teaching two classes a semester, while full professors taught three classes per semester, earned \$40,000 or more and got health benefits.

"You have very high pay for the elite and the lowest possible pay and attempts to deny benefits to the lowest workers," Kaye said.

Edward Lenz, senior vice president and general counsel of the American Staffing Association, which represents about 75 percent of temporary-staffing firms, said many people choose to work for staffing agencies because they

"We're career

employees but we

are treated as if we
are fly-by-night."

— Larry Kaye

prefer the independence. Most see it as a "foot in the door, a bridge to permanent employment," frequently with the firms where they have been working, he said. The tight labor market is giving workers more, not fewer, options, Lenz said.

Lenz said the new workers' group is principally backed by labor officials who are trying to use the issue to organize workers.

Even the size of the contingent work force is the subject of dispute. According to the new group, contingent employees make up 30 percent of the U.S. work force. The employers' group has said they make up, at most, 5 percent.

The workers' advocates say there is much legislative activity at the state level to address the issue. Rhode Island recently passed a law requiring staffing agencies to provide workers with written job descriptions, schedules and pay rates. In Rhode Island and North Carolina, new laws require comprehensive studies of non-standard work. Similar bills have been proposed in Massachusetts and Washington.

Chris Owens, assistant director for public policy at the AFL-CIO, said the group is focusing on state-level activity because "it builds momentum." It is "something of an uphill struggle" to get workers rights legislation passed by the Republican-controlled Congress, he added.

Ellen Bravo, executive director of 9to5, the National Association of Working Women, said the group uncovered discriminatory treatment by temporary-employment agencies in the Milwaukee area.

Bravo's group sent four pairs of job "testers" to apply for positions at 25 temp agencies in the area over the past year and a half. The group reported finding "both illegal and unfair practices" at almost two-thirds of the firms, including "specific instances of race discrimination" at 60 percent of them.

Tracy Jones, a former warehouse worker in Milwaukee, said she and other women were paid \$7.01 an hour by a temp agency while men doing the same job were paid \$8.13. When she asked about the discrepancy, she said, she was told that anyone "who was caught discussing wages would be fired."

Jones got a raise when she promoted to the U.S. Equal Employment Opportunity Commission, she said, but 10 days later she was fired.

Lenz called 9to5's reports "surprising" and said they "don't square" with low levels of complaints to the EEOC and other agencies. He said his group recently had a "cordial and constructive" meeting with EEOC head Ida Castro to discuss the allegations.

The Biggest Company Secret

Workers Challenge Employer Policies on Pay Confidentiality



Photograph by Jack Kustron for The New York Times (above); Corbis, illustration by The New York Times (bottom)

Mary Craig, a former assistant cook at the Main Street Terrace Care Center in Lancaster, Ohio, was dismissed in 1997 for violating her employer's policy on discussing pay with other workers. Many companies frown on employees talking about salaries and raises around the water cooler.

By MARY WILLIAMS WALSH

Four years ago when Mary Craig went to work as an assistant cook at an Ohio nursing home, her new boss made an odd demand: never discuss pay with the other help. Loose lips would cause hard feelings, the boss said.

Ms. Craig soon racked up a promotion, an Employee of the Month award, an outstanding year-end evaluation and written praise for her hard work and cooperative attitude. The nursing home, the Main Street Terrace Care Center in Lancaster, Ohio, also gave her a raise. Again, her boss told her not to discuss pay.

But Ms. Craig disobeyed those orders. The other kitchen helpers kept coming to her with their paycheck woes, and she was a sympathetic listener. One said that she was being shortchanged on overtime. Another said her hourly rate had been cut. A third woman, promised a raise when Ms. Craig was told about her own, compared notes two months later and discovered that only Ms. Craig had received an increase.

Would Ms. Craig help? "I said, 'Sure!'" Ms. Craig, now 52, recalled. She brought the complaints to the supervisor. Adjustments



were made to the others' paychecks. And soon, 10 days before Christmas 1997, Ms. Craig was fired.

The job market may be extraordinarily employee-friendly these days, but that does not necessarily mean you get to tell colleagues about your pay, perks and bonuses. Some managers still warn employees not to discuss pay, under penalty of dismissal. And every so often, one makes good on the threat.

Though no one seems to track how commonplace pay-confidentiality policies are, and though many employees prefer to keep their earnings secret in any case, complaints have come about in companies of all shapes and sizes. And now working-women's groups are attacking pay-secrecy rules, arguing that they perpetuate the gap between men's and women's earnings.

"Company policies that prohibit employees from discussing their salaries with co-workers keep them in the dark" about discriminatory discrepancies, said Gail S. Shaffer, chief executive of Business and Professional Women/USA, in testimony last month before the Senate Committee on

Continued on Page 19

11:00 AM
FRIDAY, JULY 28, 2001

Challenging Policies on Pay Confidentiality

Continued From First Business Page

Health, Education, Labor and Pensions.

She urged the senators to support legislation, proposed in both houses of Congress, that proponents say would bring attention and add muscle to laws that already make it illegal for employers to discriminate based on gender or to fire or reprimand employees for revealing their earnings.

The gap between men's and women's earnings has narrowed consistently since the Equal Pay Act became law in 1963, but it has not disappeared. Government data for 1999 show, for example, that male nurses earn 6 percent more than female nurses and male accountants earn 37 percent more than their female counterparts.

The reasons for such disparities have been debated for years, but pay-equity advocates believe that discrimination plays a part, often

hidden behind a veil of confidentiality. "We have consistently heard that many employers have rules against employees sharing salary information with each other," said Ellen J. Vargyas, legal counsel for the Equal Employment Opportunity Commission.

Ellen Bravo, co-director of 9 to 5, the National Association of Working Women, said her group has heard the same story through the hot line it runs for women with workplace problems.

The proposed bills would amend the 1963 statute, which currently prohibits pay differences based on sex for men and women doing similar work in the "same establishment." The amendments would allow for class-action lawsuits, with compensatory and punitive damages; eliminate the "same establishment" requirement; make it harder for employers to explain away wage differentials; direct the Labor Department to create guidelines for "comparable" jobs; and make it illegal to

fire or reprimand employees for talking about pay.

Yesterday, a much more limited bill was introduced by Senator James M. Jeffords, a Vermont Republican and chairman of the committee holding the hearings. It would prohibit employers from issuing oral or written pay-confidentiality orders and from firing workers who discuss their pay. But it does not address such contentious issues as punitive damages or comparable worth.

In fact, it is already illegal to forbid discussions of pay, under federal labor laws enacted in 1935. For 65 years, the administrative courts of the National Labor Relations Board have held in case after case that employees are free to reveal their wages to one another, and that people fired for doing so must be reinstated.

But with organized labor in a deep decline, few employees know about the labor laws any more. And a lot of employers erroneously assume the statutes do not apply to nonunion

employees.

For many managers, including those who do not formally make pay confidential, the thought of any new law that could set off a wave of freewheeling pay discussions is disturbing. There are many valid reasons, they say, for keeping pay under wraps.

"It would create morale problems if one person were allowed to boast about their huge merit bonus," said Sally J. Scott, a partner in the Chicago law firm of Franczek Sullivan, an employment law firm that represents management.

And a spokeswoman from the American Management Association, which tracks workplace practices, said it is not just managers who want to keep pay secret — so do many employees.

matters worse. Still, some take the plunge.

Last year, Tracy Jones of Milwaukee found work through a temporary employment agency, preparing furniture and appliances for shipping. One day, she overheard her male coworkers chatting about what good pay they were getting for such easy work, so she asked them what they made. She was shocked to learn they all were paid \$1.12 an hour more than she was, even though they all came from the same temp agency, MaxStaff Employment Services, and none had more seniority.

Ms. Jones, now 33, said she went to MaxStaff, and asked why she, the only woman, was being paid less than all the men. The supervisor told her that she was wrong, that no one was paid more than she was. When

she tried to talk other MaxStaff women into filing complaints, but without success. "They were encouraging me to do it, but they didn't want to do it themselves because they didn't want to get fired," she said.

Ms. Craig, the former nursing home cook, said she had much the same experience. "I tell you, there's not very many that'll fight back," she said. "They know no one else will hire them if they take a company to court."

Indeed, after the center fired Ms. Craig — giving her no reason for the termination — she started looking for a new job, and encountered applications asking if she had ever sued an employer. Ms. Craig said she answered truthfully and found a new job anyway.

9105 MEMBER

Susan J. Marks
Board of Directors Chair



Gerard A. Randall Jr.
Chief Executive Officer

August 14, 2000

State Senator Gary George, Co-chairperson
State Capitol
Joint Legislative Audit Committee
Wisconsin Legislative Audit Bureau
118S
P.O. Box 7882
Madison, WI 53707-7882

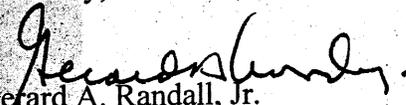
Dear Senator George:

I am enclosing for your information a copy of a letter sent to the Board of Directors of the Private Industry Council of Milwaukee County. The letter is in response to the Wisconsin Legislative Audit Bureau's recent audit of Maximus; specifically to the portion of the audit that contained comments related to the Private Industry Council.

As our response details, documented communication between the Department of Workforce Development/Division of Economic Support (the holder of the contract) and the PIC relieved the PIC of performing the type of program expenditure oversight that was noted as lacking in the Maximus audit. As is disclosed in the documents, though the PIC intended to include onsite cost allocations and allowable costs in the fiscal monitoring plan, the Division of Economic Support approved a monitoring plan that excluded those functions.

Please feel free to contact me directly if you have any questions or concerns regarding the documents contained in this response or if I can be of any assistance to you.

Sincerely,


Gerard A. Randall, Jr.
Chief Executive Officer

Attachment

Susan J. Marks
Board of Directors Chair

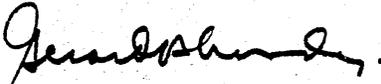


Gerard A. Randall Jr.
Chief Executive Officer

MEMORANDUM

DATE: August 14, 2000

TO: Members of the Private Industry Council Board of Directors

FROM: Gerard A. Randall, Jr. 

RE: Response to the Legislative Audit Bureau's Audit of Maximus

As you may be aware, a recent audit of Maximus, Inc. by the Wisconsin Legislative Audit Bureau (WLAB) raised the question of whether or not the Private Industry Council (PIC) provided appropriate services in overseeing program expenditures for the W-2 agency, Maximus. The WLAB report erred in its statements regarding the PIC. The PIC does not have the fiscal oversight responsibilities as reported by the Legislative Audit Bureau. The Department of Workforce Development/Division of Economic Support modified of the PIC's fiscal oversight responsibilities, as originally stated in the 1997 contract.

To support our position, Private Industry Council staff extracted from the W-2 contracts the PIC has with the state, state reports, and other documents and correspondence with the state, the specific responsibilities related to the oversight of program expenditures for the W-2 agencies. Our research confirms that the Division of Economic Support (DES), which holds the W-2 contracts with the PIC, did not allow the Private Industry Council to fulfill the provisions of the contracts that addressed oversight of program expenditures for the W-2 agencies. I appreciate the opportunity to make you aware of the instances and documents that specify the PIC's responsibilities.

In early November of 1997, the PIC met with the chief executive officers of the Milwaukee County W-2 agencies to discuss the fiscal monitoring plan developed by the PIC based on the PIC's contract with the State of Wisconsin. The agencies had received a draft of the PIC's fiscal monitoring plan prior to the meeting and, in turn, had developed an outline of how the agencies wanted the PIC to conduct fiscal monitoring. The agencies' document is included in this letter as

Attachment #1. The document did not include the PIC oversight of cost allocation monitoring or allowable cost monitoring, both of which were contained with the PIC's contract with the state.

On December 5, 1997, the PIC presented to the agencies a fiscal monitoring agreement, which included the provisions the PIC was responsible for in its' contract with the state: budget monitoring, cost allocation monitoring, allowable cost monitoring and technical assistance and support (see Attachment #2). This information was also supplied to DES as part of the PIC's monthly W-2 report.

On December 29, 1997, the PIC received a response to the fiscal monitoring plan from DES (see Attachment #3). In its response, DES's fiscal agent stated the PIC did not need to be involved in cost allocation or allowable cost monitoring. The DES fiscal agent stated: "I am not sure I see the purpose of quarterly monitoring of an agency's cost allocations or allowable costs, the cost allocation plans are approved here in the central office and adherence to them normally would fall under the scope of the annual single agency audit."

The response went on to further clarify what fiscal monitoring DES wanted to see: "Financial monitoring to ensure that expenditures are in compliance with W-2 budgets, and projection of future expenditures is, it appears to me, an appropriate activity which appears to be addressed here, but subjecting agencies to quarterly audits borders on harassment that I feel the agencies will resist." The PIC was then instructed to make changes to the monitoring plan and resubmit the plan.

An undated letter from the W-2 agency chief executive officers also states that cost allocation monitoring and allowable costs monitoring were to be performed by their independent auditors as per the agency contracts with State of Wisconsin (see Attachment #4).

Individuals from the PIC met on several occasions in February 1998 with individuals from DES, including then division administrator J. Jean Rodgers, to develop a monitoring plan. Two important actions came from those meetings. DES agreed that the PIC **would not be responsible** for certifications of allowable cost or cost allocation for the start-up and implementation contracts or, until an agreement on monitoring methodology was developed (see Attachment #5, paragraph two of cover letter).

It was also agreed that the PIC's revised plan would need to be examined and approved by DES. Based upon direction from DES in the December 1997 correspondence and the February 1998 meetings, the PIC did revise the fiscal monitoring plan and submit it for approval to DES in April 1998 (see Attachment #5). As instructed by DES, the revised plan did not include cost allocation monitoring or allowable cost monitoring (see Attachments #5, Fiscal Operations Monitoring section). DES approved the revised plan in August 1998.

During this time, the PIC did continue to monitor and report to the state those areas DES stated it would find appropriate: certification of budgeted expenditures and the 10% administration limit. Attachment #6 provides an example of this monitoring, which was reported to DES in monthly reports from the PIC.

In short, the PIC did understand the scope of work outlined in the contract and made every effort to carry out those responsibilities. However, when the PIC attempted to fulfill its obligations under the contract, it was instructed by DES not to execute the fiscal management portions of the contract that addressed agency cost allocation monitoring or allowable costs monitoring. In retrospect, it would have been more appropriate for the Department of Economic Support to seek a formal contract amendment from the PIC, rather than to rely on the correspondence from the DES's fiscal agent.

Our current W-2 contract, which is in effect from July 1, 1999 to December 31, 2001, with the state of Wisconsin, does not require the PIC to perform any fiscal monitoring of the W-2 agencies. Should any future directives from DES require contract changes, a formal contract amendment will be required.

I am providing copies of this letter to the Wisconsin Legislative Audit Bureau, the co-chairpersons of the Joint Legislative Audit Committee, County Executive F. Thomas Ament and Department of Workforce Development Secretary Dr. Linda Stewart. I am confident the Private Industry Council will continue to work closely with the state of Wisconsin, the Department of Workforce Development and the Division of Economic Support to insure full contract compliance from all parties.

Attachments

Copy: Paul Stuiber, Program Evaluation Director - Wisconsin Legislative Audit Bureau
State Senator Gary George
State Representative Carol Kelso
County Executive F. Thomas Ament
Dr. Linda Stewart

The W-2 agencies' notes of what they wanted the PIC to monitor.

PIC FISCAL MONITORING:

Monthly monitoring onsite is unnecessary, redundant and wasteful of time

THINGS TO MONITOR –

- Administration \$ in relation to the 10% limit of total contract expenditures
- The mix of Office Cost \$ compared to Benefit \$

MONITORING ACTIVITY –

- An initial site visit with the W-2 agency CFO may be helpful to acquaint the monitor with the organization and its systems;
- Quarterly site visits, if necessary, with the W-2 agency CFO to provide technical assistance and to relay any potential problems noted by the monitor as a result of other analysis.
- Other desk audit activity as the monitor may perform utilizing report information already filed with the State of Wisconsin through its CARS, CARES or other systems of reporting. This audit activity would be one source for the quarterly meetings or discussions with the W-2 agency CFO.

PIC's proposed fiscal monitoring
activities**m e m o r a n d u m**

Date: December 5, 1997

To: Fiscal Managers

From: Walter Goodwyn *WG*

Subject: Fiscal Monitoring Meeting Agreements

CC: Fiscal Contacts, Agency CEO's, Sharon Schulz, W-2 Team

This letter is meant to inform each agency of the agreements that were reached at the fiscal monitoring meeting held on November 6th, 1997 at the Private Industry Council. The following was agreed upon as it relates to allowable cost monitoring, cost allocation monitoring, budget monitoring, and benefits:

1. Budget monitoring will take place on a monthly basis by utilizing the information given on the CARS reports and benefits information received from Madison.
2. Onsite cost allocation monitoring will take place on a quarterly basis. Fiscal Analyst will meet with each agency's Fiscal Manager who will help the Analyst gain an understanding of the allocation methodology and demonstrate it's appropriateness.
3. Onsite allowable cost monitoring will take place on a quarterly basis. The Fiscal Analyst will meet separately with each agency's Fiscal Manager. Reports and/or records will be reviewed to confirm the agency's adherence the allowable cost policy stated in the Wisconsin Works Financial Management Manual.
4. On an as needed basis, Fiscal Analyst will provide technical assistance and support to the agencies as it relates to the benefits side of their budget.

Enclosure: Letter to Carolyn Hampton, Program Analyst who submitted it with her monthly report.

DES' reaction to PIC's monitoring proposal.

Schultz, Sharon

From: Wilson, Talmadge
Sent: Monday, December 29, 1997 11:40 AM
To: Schulz, Sharon
Subject: FW: PIC Monitoring Plan

Sharon, this Gordon response to Walter's monitoring plan. Please have him to make some changes and resubmit.

From: Bond, Gordon
To: Wilson, Talmadge
Cc: Wilkins, Alice
Subject: PIC Monitoring Plan
Date: Friday, December 26, 1997 11:21AM

Talmadge, I received the W-2 Monitoring Plan for the PIC from Alice & she asked me to review it and see if I find it adequate and to report back to you on my findings.

The document strikes me as not so much a plan to monitor the performance of the Milw agencies but an outline of a quarterly audit. I'm not sure I see the purpose of quarterly monitoring of an agency's cost allocations or allowable costs, the cost allocation plans are approved here in the central office and adherence to them normally would fall under the scope of the annual single agency audit. It seems a bit excessive to me to be subjected to quarterly audits in addition to the annual audit. Financial monitoring to ensure that expenditures are in compliance with W-2 budgets, and projection of future expenditures is, it appears to me, an appropriate activity which appears to be addressed here, but subjecting agencies to quarterly audits borders on harassment that I feel agencies will resist.

If you have any questions/comments please feel free to call me: 6-5762.
Thank You.

ATTACHMENT 4

The W-2 agencies' CEO's reaction to the PIC's monitoring proposal.

Walter Goodwyn
Private Industry Council of
Milwaukee County
101 W. Pleasant Street, Suite 201
Milwaukee, Wisconsin 53212

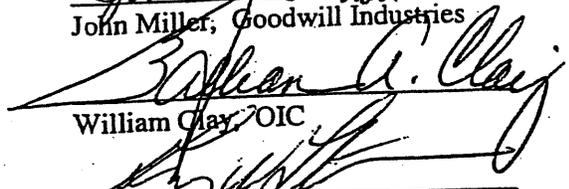
Dear Mr. Goodwyn:

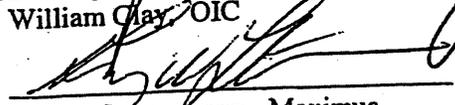
The purpose of this letter is to inform you that your memorandum of December 5, 1997 (copy attached) to our Fiscal Managers is inaccurate. For the record, the Fiscal Managers understood that agreement was reached in accordance with the "PIC FISCAL MONITORING" summary (attached) that was handed to you and discussed at the fiscal monitoring meeting held at the Private Industry Council on November 6th. These were the guidelines we gave them in response to the Fiscal Monitoring Plan that you initially circulated.

You will note discrepancies between the two documents in terms of what should be monitored as well as when monitoring is necessary. Onsite cost allocation monitoring (its methodology and appropriateness) and allowable cost monitoring will be performed by our independent auditors as agreed upon in our contracts with the State of Wisconsin. Quarterly site visits will take place if necessary. They may even take place more than quarterly if necessary. The request for technical assistance of the PIC by the W-2 agency would be an example of a situation that may make a site visit necessary. Demonstration of problems or concerns noted by the PIC as a result of its desk review and analysis of reports or information submitted to the State may be an example of the need to have a meeting as well.

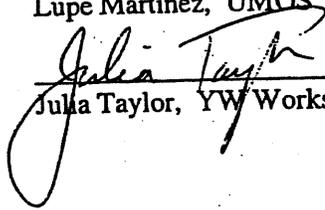
In the future, please circulate minutes of your formal meetings for comment and clarification before you rely on and reference your own interpretation of what happened and what was agreed to. This process assists in the prevention of misunderstandings and helps build trust in and credibility among meeting participants.


John Miller, Goodwill Industries


William Gray, OIC


George Leuterfmann, Maximus


Lupe Martinez, UMOS


Julia Taylor, YW Works, LLC

cc: Carolyn Hampton; Sharon Shulz; Ralph Holloman; Talmadge Wilson; Jean Rogers

PIC's memo to DES regarding PIC's fiscal monitoring and draft of fiscal monitoring plan.

Memorandum

DATE: April 9, 1998
TO: Talmadge Wilson
FROM: Walter Goodwyn *WGM*
RE: Madison Meetings
CC: Sharon Schulz, Jude Morse, Alice Wilkins

Talmadge, the purpose of this memo is to inform you on what has come out of the two meetings held on February 3, 1998 and February 18, 1998. The action items I recorded from the first meeting are as follows:

- The State (Jude Morse, Talmadge Wilson, and others) will review the monitoring plan and provide input at the February 18 meeting,
- We (Walter Goodwyn and Vince Lubenow) will propose procedures to certify allowable costs and develop a certification statement,
- We will separate the PIC monitoring guide into annual, quarterly and monthly procedures which will include procedures to determine if the agencies are doing monthly/quarterly reconciliation with CARS reports they receive,
- I (Walter) will work with Gordon Bond to determine if the agencies have a process in place that allows them to differentiate Start-up grant expenditures from Implementation grant expenditures. I will also work with Gordon regarding the appropriate closing of the start-up contracts.

We also agreed that for the start-up and implementation contracts for the months that have gone by (March 1, 1997- January 31, 1998) that the PIC will not be responsible for certifications of Allowable Cost or Cost Allocation until an agreed upon methodology and/or statement is developed. After this is done, it will be the responsibility of the PIC fiscal staff to certify these expenditures. Until that time, the PIC will certify budgeted expenditures and the 10% administration limit which are submitted on the CARS reports that the agencies send.

A second meeting was held on February 18, 1998 and during this meeting those present included Bill Goehring, Vince Lubenow, Walter Goodwyn, and Gordon Bond. Jude Morse stayed briefly and gave a commentary to us on the state's endorsement of some sort of "Light Touch" approach to monitoring the agencies but left saying that we should decide on an approach to monitoring, revise the plan appropriately, and bring this plan back to the State for **examination and approval**. It was decided that due to the magnitude of the dollars being allocated to the W-2 agencies as well as the need to look closer at expenditures that a more than a light touch approach should be implemented into the monitoring plan. This information was taken back to Jude Morse by Gordon Bond and she agreed that we should proceed with the approach (attached you will find the revised monitoring plan using the approved approach). Please get back to me with sign off and/or discussion so that I may proceed with monitoring.

PRIVATE INDUSTRY COUNCIL
OF MILWAUKEE COUNTY

CONTRACTOR FINANCIAL
MONITORING GUIDE

CONTRACTOR: _____

DATES OF MONITORING: _____

PRIVATE INDUSTRY COUNCIL OF MILWAUKEE COUNTY

CONTRACTOR FINANCIAL MONITORING GUIDE

(Revised __/__)

TABLE OF CONTENTS

	<u>Page</u>
OVERVIEW OF PIC OF MILWAUKEE CONTRACTOR MONITORING GUIDE	1
I. GENERAL CONTRACTOR ADMINISTRATION	
A. Policy Guidance	3
B. Oversight/Monitoring.....	4
C. Sub-Contract Management	5
D. Property Management	6
II. FISCAL OPERATIONS MONITORING	
A. Financial Reporting.....	7
B. Accounting Records.....	8
C. Internal Control	9
D. Budget Control.....	10
E. Cost Allocation	11
F. Cash Management.....	11
G. Compliance	12

OVERVIEW

PIC of MILWAUKEE CONTRACTOR FINANCIAL MONITORING GUIDE

This monitoring guide is the basic tool used by review staff to collect, organize, and evaluate financial data regarding W-2 service activities being delivered by various contractors. Data collected will be summarized in a written monitoring report about those activities with respect to three general criteria:

- ♦ Compliance
The services and activities are in compliance with federal requirements, the local plan of service, other state policy, contract requirements and applicable statutes and the Wisconsin Works (W-2) Financial Management Manual.
- ♦ Efficiency
All system components are well defined and well coordinated with a minimum of administrative and operational mechanisms (staff, facilities, and equipment)
- ♦ Effectiveness
The system functions to meet or exceed contracted performance standards and provide quality services that satisfy customers.

The design of this guide for contractor monitoring uses a "total system" concept that assumes two major subsystems of the service delivery systems. These two subsystems **General Contractor Administration** and **Fiscal Operations**. Each have several components that are examined in light of the three general criteria (above).

The **Fiscal Operations** monitoring is performed based upon the seven essential elements to an effective financial management system. The elements are: financial reporting, accounting records and source documentation, internal controls, budget control, allowable costs, cash management, and compliance.

The methods of examination and evaluation are the basis for the PIC of Milwaukee monitoring effort. This process involves:

- ♦ Document Review
The examination of contractor policy and operational documents to determine their existence, completeness and compliance.

- ♦ Interviews with Key Staff
Discussions with key staff to establish their level of understanding, to provide verbal descriptions of the design and function of delivered components, and to allow assessment of customer satisfaction and service quality.
- ♦ Transaction Examination
The examination of daily, weekly, or monthly transactions generated by each subsystem component to determine completeness, accuracy, source documentation, and compliance.

The components reviewed under each subsystem are identified in the table of contents. Each component is structured as follows:

- ♦ **Objectives:** The objectives of each subsection are described
- ♦ **Document, Interview, and Transaction:** The sources of information to be reviewed and evaluated.
- ♦ **Monitoring Procedures:** The review procedures and monitoring questions.

The procedure included in the guide will be performed as a part of the annual procedures, quarterly procedures, or monthly procedures and have been so designated in this guide.

I. GENERAL CONTRACTOR ADMINISTRATION

A. *Corporate Documents* ✓

Objectives:

- ◆ To determine that policy is established
- ◆ To determine that policy is documented
- ◆ To determine that policy is communicated

Document Review:

- ◆ Board Articles of Incorporation and Board By-Laws
- ◆ Board Composition and Recent Board Minutes
- ◆ Formal Audits and Procedures

Annual Procedures:

1. As necessary, obtain and review the current Articles of Incorporation, By-Laws, and d/b/a statements and any amendments to these documents and determine:

- a. Legal entity name
- b. Type of entity
- c. Year end
- d. Include appropriate documents with a summary in the permanent section of the files

2. Obtain and review a copy of the financial procedures manual.

3. Obtain and review a copy of the personnel manual.

4. Obtain and review a copy of the cost allocation plan.

5. Obtain and review a copy of the most recent audit.

<u>Initial</u>	<u>Date(s)</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Quarterly Procedures:

1. Obtain and review the minutes of Board meetings and/or subcommittee minutes and determine that resolutions have been passed and implemented which may affect financial operations during the contract period. Prepare a summary for the file.

_____	_____
-------	-------

Summarize any significant findings. _____

B. Oversight/Monitoring

Objectives:

- ◆ To determine that oversight/monitoring responsibilities are met.
- ◆ To determine that procedures are documented and comply with applicable laws, regulations, and policy.
- ◆ To determine that monitoring/evaluation activities support the system.

Document Review:

- ◆ Monitoring procedures
- ◆ Monitoring guide and schedule

Transaction Review:

- ◆ Monitoring reports
- ◆ Monitoring reports
- ◆ Correction Action Plans
- ◆ Audit reports

Annual Procedures:

	<u>Initial</u>	<u>Date(s)</u>
1. Review a copy of the contractor's monitoring guide and procedures and determine that:		
a. The guide provides for monitoring of all funded activities with external subcontractors.	_____	_____
b. The guide provides for both financial and operational compliance monitoring.	_____	_____
c. Procedures are documented	_____	_____
d. Procedures clearly define the contractor's overall monitoring and evaluation responsibilities.	_____	_____
2. Obtain and review a sample copy of a monitoring report for a subcontractor, and review the following:		
a. Does report equate with procedures?	_____	_____
b. Does report indicate that the guide was followed?	_____	_____
c. Do corrective action plans and resolution documents include all relevant report findings?	_____	_____
3. Determine whether the agency has required and obtained audit reports from subcontractors.	_____	_____
4. Examine audit reports for findings on questioned costs regarding W-2 funds.	_____	_____

Summarize any significant areas of noncompliance. _____

C. *Sub-Contract Management*

Objectives:

- ◆ To determine that grant and sub-contract management procedures are in place.
- ◆ To determine that procedures are documented and function to:
 1. control expenditures and activities
 2. limit liabilities
- ◆ To determine that sub-contracts comply with applicable laws, regulations, and policy.

Document Review:

- ◆ Sub-contract management procedures
- ◆ Sub-contract boilerplate
- ◆ Sample RFP packages
- ◆ Procurement package

Interview:

- ◆ Grants/contract manager or staff person in charge
- ◆ Contract specialist
- ◆ Technical staff

Transaction:

- ◆ Review executed contract

Annual Procedures:

	<u>Initial</u>	<u>Date(s)</u>
1. Obtain and review procurement plan. Is the plan complete and in compliance?	_____	_____
2. Obtain a copy of and review all boilerplates and agreements used in the contractor for subcontracting.	_____	_____
3. Obtain and review an RFP/procurement file for the following:		
a. Exclusions: any individual/organization prohibited from bidding.	_____	_____
b. File documents how service provider was chosen from among bidders.	_____	_____
c. The RFP contains sufficiently detailed specifications to generate responsive proposals.	_____	_____
d. File documents cost reasonableness.	_____	_____
e. The RFP indicates how, when, and where proposals are to be submitted.	_____	_____
f. The criteria against which proposal will be evaluated is clearly defined.	_____	_____
g. Award procedures are specified.	_____	_____
h. If sole source procurement exists was it documented and approved?	_____	_____
i. Agreement was fully and legally executed.	_____	_____

Summarize any significant areas of noncompliance. _____

D. Property Management

Objectives:

To determine that:

- ◆ Property management procedures are documented and comply with applicable federal, state and local laws, regulations and policies;
- ◆ Property management procedures adequately provide for property
 - acquisitions
 - accurate recording of physical inventory on a regular basis
 - disposals

Document Review:

- ◆ Property management procedures
- ◆ Records of procurement
- ◆ Property purchase/lease agreements
- ◆ Equipment purchase/lease agreements

Interview:

- ◆ Contractor property
- ◆ Management person

Transaction:

- ◆ Physical inventory records

Annual Procedures:

- | | <u>Initial</u> | <u>Date(s)</u> |
|---|----------------|----------------|
| 1. Obtain and review a copy of the contractor's property management procedures and determine if they: | | |
| a. Provide for the maintenance of property records | _____ | _____ |
| b. Specify procurement standards and methods | _____ | _____ |
| c. Provide for property identification | _____ | _____ |
| d. Provide for an annual physical inventory and update of contractor records | _____ | _____ |

Quarterly Procedures

- | | | |
|---|-------|-------|
| 1. Pull and review the documentation of a recent purchase of nonexpendable equipment. | | |
| a. Was it appropriately procured? | _____ | _____ |
| b. If required, was procurement reviewed and approved by DWD | _____ | _____ |

Summarize any areas of significant noncompliance. _____

II. FISCAL OPERATIONS MONITORING

Objectives:

To determine that:

- ◆ Books of account are auditable
- ◆ Administrative and internal accounting controls and adequate to safeguard program assets.
- ◆ The accounting system adequately accounts for program funds.
- ◆ Financial reports represent accrued program expenditures by established cost categories.
- ◆ Budgetary procedures are adequate to control expenditures.
- ◆ Cash balances are limited to cash needs.
- ◆ Fiscal Operations adhere to the W-2 Financial Management Manual.

Document Review:

- ◆ Accounting procedures manual
- ◆ Organizational chart
- ◆ Cost allocation plan
- ◆ Budget
- ◆ Prior audit/monitoring reports
- ◆ Books of original entry
- ◆ Source documents

Interview:

- ◆ Chief financial officer
- ◆ Accounting personnel
- ◆ Other principals

Transaction:

- ◆ Financial statement
- ◆ Trial balance

A. Financial Reporting

Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Quarterly Procedures:

	<u>Initial</u>	<u>Date(s)</u>
1. Obtain copy of most recent financial report and determine if:		
a. Totals reconcile to the general ledger	_____	_____
b. Totals include accrued expenditures	_____	_____
c. Costs are reported correctly in the cost categories?	_____	_____

Monthly Procedures:

1. Prepare the Wisconsin Works Implementation Contract Financial Schedule	_____	_____
---	-------	-------

Summarize any areas of significant noncompliance. _____

B. Accounting Records

Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subcontract award documents, etc.

Annual Procedures

	<u>Initial</u>	<u>Date(s)</u>
1. Review a copy of agency's personnel policies, job descriptions and organizational chart and determine whether they specify rules governing:		
a. Travel	_____	_____
b. Conflict of interest	_____	_____
c. Political and sectarian activities	_____	_____
d. Leave	_____	_____
e. Compensation plan (overtime and fringes)	_____	_____
f. Grievance procedures and process	_____	_____
g. Employee advances	_____	_____
h. Terms and conditions of employment	_____	_____
2. Review the agency's accounting procedures manual and determine that the following are adequately addressed:		
a. Lines of authority and segregation of duties.	_____	_____
b. Expense coding by:		
i. Grant/program year	_____	_____
ii. Funding source	_____	_____
iii. Cost category	_____	_____
c. Bank reconciliations	_____	_____
d. Ledger posting	_____	_____
e. Trial balances	_____	_____
f. Development of on-line accruals	_____	_____
g. Cost allocation	_____	_____
h. Budgetary control	_____	_____
i. Cash management	_____	_____
j. Cash receipts and disbursement procedures	_____	_____
k. Payroll	_____	_____

- | | <u>Initial</u> | <u>Date(s)</u> |
|--|----------------|----------------|
| 3. Review prior monitoring and audit reports and identify any compliance, accountability, or internal control weaknesses that may still exist. Comments: _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |

Quarterly Procedures

- | | <u>Initial</u> | <u>Date(s)</u> |
|---|----------------|----------------|
| 1. Using the Cash Disbursement Worksheet, pull a sample and review payments to subcontractors, vendors, and participants and verify the general ledger postings. Were they: | | |
| a. Approved prior to payment | _____ | _____ |
| b. Coded properly | _____ | _____ |
| c. Documentation supports payment (payee, amount, etc.) | _____ | _____ |
| d. Financial procedures followed | _____ | _____ |
| e. Expenditure appears reasonable and necessary | _____ | _____ |
| Summarize any significant areas of noncompliance. _____ | | |
| _____ | | |
| _____ | | |

C. Internal Controls

Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Annual Procedures

Using the following interview sheet, determine whether:

- | | <u>Initial</u> | <u>Date(s)</u> |
|---|----------------|----------------|
| 1. Cash receipts | | |
| a. Cash is properly controlled and deposited promptly | _____ | _____ |
| b. Funds are deposited in an interest bearing account | _____ | _____ |
| c. Bank accounts are federally insured with collateral security (>100k) | _____ | _____ |
| 2. Checks are: | | |
| a. Prenumbered and controlled | _____ | _____ |
| b. Adequately safeguarded | _____ | _____ |
| c. Voids are properly mutilated | _____ | _____ |
| d. Not approved in advance | _____ | _____ |
| e. Not written for cash | _____ | _____ |

Quarterly Procedures

Initial

Date(s)

1. Using the Payroll Worksheet, pull a sample to determine if:

- a. Timesheets distribute costs according to job description
- b. Timesheets are properly signed and approved
- c. Employee pay scale has been properly approved
- d. Check preparation and distribution are segregated

_____	_____
_____	_____
_____	_____
_____	_____

2. Bank reconciliation:

- a. Reconciled to general ledger
- b. Performed timely
- c. Performed by someone unrelated to cash function
- d. Unusual items and old outstanding checks are investigated promptly

_____	_____
_____	_____
_____	_____
_____	_____

Summarize any significant areas of noncompliance. _____

D. Budget Control

Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Monthly Procedures

Initial

Date(s)

1. Review the contractors monthly internal reports to determine whether:

- a. Budgets are properly established.
- b. Budget to actual comparisons are made monthly.

_____	_____
_____	_____

2. Prepare the Wisconsin Works Implementation Contract Financial Schedule.

_____	_____
-------	-------

3. Summarize any significant areas of noncompliance. _____

E. Cost Allocation

Applicable cost principles, agency program regulations, and the terms of grant and subgrant agreements shall be followed in determining the reasonableness, allowability, and allocability of costs.

Annual Procedures

1. Review the cost allocation plan and determine whether it clearly describes:

- a. Composition of costs
- b. Method of allocation
- c. Selection of base and why it is equitable
- d. All costs are included
- e. Grant allocation is reasonable in organizational design
- f. Plan is approved by DWD
- g. Is the basis for cost allocation determined (type: time sheets, time studies, participant based actual usage).

<u>Initial</u>	<u>Date(s)</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Quarterly Procedures

1. Test one month for appropriate allocation of costs.

Summarize any significant areas of noncompliance. _____

F. Cash Management

The cash management function of any organization is responsible for establishing and maintaining a set of policies and procedures with the dual purpose of ensuring that funds are available to cover payments made for program purposes, while also ensuring that neither state nor federal funds have been drawn unreasonably in advance of when they are needed to pay for program expenses.

Quarterly Procedures

- 1. Test cash balances for reasonableness
- 2. Review accounting for subcontractor advances

<u>Initial</u>	<u>Date(s)</u>
_____	_____
_____	_____

Summarize any significant areas of noncompliance. _____

G. Compliance

Agencies must comply with federal and state laws and regulations, local ordinances and other legal requirements.

Quarterly/Monthly Procedures

Initial

Date(s)

1. Review Cash Disbursement Worksheet, Payroll Tests, Implementation Contract Financial Schedule and previous monitoring sections.

2. Prepare monthly report to DWD.

Summarize any significant areas of noncompliance. _____

**PRIVATE INDUSTRY COUNCIL
OF MILWAUKEE COUNTY**

**FINANCIAL
MONITORING PLAN**

PRIVATE INDUSTRY COUNCIL OF MILWAUKEE COUNTY

FINANCIAL MONITORING PLAN

FINANCIAL MONITORING POLICY

The Private Industry Council of Milwaukee County (PIC of Milwaukee) will conduct financial monitoring of all appropriate W-2 agencies at least monthly. To ensure efficiency and continuing compliance of contractors, both desk top and on-site monitoring reviews will be conducted. At a minimum, monitoring activities will include:

- ◆ Review of compliance with applicable state and federal laws and regulations and the Wisconsin (W-2) Financial Management Manual;
- ◆ assurance of proper disbursement of , accounting for and reporting of funds; and
- ◆ evaluating contractor performance compared to budget.

On-site monitoring will be conducted on a quarterly basis to supplement desk top monitoring.

A program year monitoring schedule will be issued each year. The monitoring schedule will be updated in include new contracts taking effect after January 1 as new agreements are signed.

All on-site and desk top monitoring shall be completed if possible during the month following the month monitored. Instances of noncompliance shall be reported to Department of Workforce Development (DWD) within two (2) business days of discovery. PIC of Milwaukee will work with the noncomplying W-2 agency to develop a corrective action plan within five (5) business days of discovery and insure that the plan is implemented within ten (10) business days of DWD approval.

The PIC of Milwaukee will submit detailed monthly reports to DWD regarding information learned from monitoring activities.

FINANCIAL MONITORING SCOPE

To ensure efficiency and continuing compliance of contractors, both desk top and on-site monitoring reviews will be conducted.

Desktop Reviews

Desktop reviews will be completed monthly for each service provider. The reports will be forwarded for review and corrective action to the PIC of Milwaukee chief operating officer. If apparent compliance issues are raised by a desk top review, information will be transmitted to the contractor for appropriate action. This action may include meeting with the contractor, providing technical assistance, additional on-site monitoring and/or issuance of a formal report. The desk top review will indicate, at a minimum, the following:

- ◆ Budget vs. actual expense analysis
- ◆ Performance trends
- ◆ Problem areas

On-Site Monitoring

The on-site monitoring reviews will be performed quarterly. A monitoring guide consisting of applicable modules from the Wisconsin Works (W-2) Financial Management Manual will be used on-site. In addition to the techniques contained in the manual, the following monitoring methods may be used: interviews, records review and observation.

HIGH RISK SERVICE PROVIDERS

In the event PIC of Milwaukee has determined a service provider to be "high risk," additional on-site monitoring may be performed. Additional on-site monitoring of high-risk service providers shall be conducted at a mutually agreed upon time during the program year. Each on-site monitoring review shall include the items in the standard on-site guide, plus special attention to the condition(s) that caused the service provider to appear on the high-risk providers list.

MONITORS

Monitoring of PIC of Milwaukee service provider/subrecipients will be conducted by the fiscal analyst. The monitoring resolution team may include PIC of Milwaukee senior operations officers and other PIC of Milwaukee staff as necessary.

ENTRANCE AND EXIT CONFERENCE CRITERIA

The contractor/subrecipient will be notified by telephone 14 days prior to the visit to confirm the dates of the monitoring visit and to establish a time for the entrance conference. The contact will be followed by a written notification which contains the date, time and names of monitors, as well as a contact name and telephone number. A list of documents needed for the review will accompany the notification letter. During the entrance conference the monitors will inform the contractor of the items to be reviewed and the estimated time for review. The contractor will provide the monitors with access to the items requested.

A formal exit conference will be held at a time mutually established by the contractor and the monitors at the entrance conference. All items to be addressed at the exit conference will be discussed with the appropriate management staff prior to the exit conference.

MONITORING REPORT FORMAT / ISSUANCE TIME FRAMES

A written report will be completed within two (2) days after the exit conference has taken place. The report format will include an overview of the visit and the conditions of compliance and noncompliance identified during the exit conference. During the exit conference, the agency will have an opportunity to give input on the subject matter which will be included in the final report. The agency will also have an opportunity to give input after the preliminary report is sent to them two (2) days after the exit conference. This will ensure that before the final report is submitted that all parties agree with its contents. The noncompliance conditions will be identified together with a citation of the regulations or policy involved.

MONITORING RESOLUTION PROCEDURES / TIME FRAMES

The contractor must submit a written Corrective Action Plan to PIC of Milwaukee within five (5) days of the date of receipt of the monitoring report. Upon review of the plan, PIC of Milwaukee will determine if the plan is acceptable. The contractor will be notified after the receipt of the Corrective Action Plan approval if further action is required or if technical assistance is required.

May 1998 W-2 monthly report:
(May 1998 fiscal & monitoring
oversight statement)

- C. July 13, 1998, Carolyn R. Hampton attended a Child Care Payment System (CCPS) Notice Meeting. The purpose was to dialogue for common ground - exploration and modification of CCPS/CARES notices to meet the needs of Milwaukee County.
- D. July 16, 1998, Parker Rios attended the Child Care Payment System Meeting. The purpose was to plan for implementation of CCPS in Milwaukee County. Agenda items included: Status of Administrative and Contractual Issues in Milwaukee; Review of Milwaukee Conversion Plan; Interactive Voice Response (IV) System for Provider Attendance Reporting; and a Review of Milwaukee CCPS Implementation Plan.
- E. July 28, 1998, Sharon Schulz facilitated a Social Security Administration Meeting at the PIC. This was a follow-up meeting to review the policy regarding State-Only W-2 Payment for SSI applicants, and to develop a uniform SSI referral and application procedure for W-2 participants.
- F. July 28, 1998, Delores Parr and Parker Rios attended a meeting with state and regional DWD/DES staff to review and discuss MAXIMUS' response to the DWD Exception Report.
- G. Punitha Cloud, Data Analyst, has provided the following statistical information regarding W-2 participants in Milwaukee County:
- Gender Classification of W-2 Participants Across W-2 Agencies
 - Ethnic Background of W-2 Participants Across W-2 Agencies
 - Educational Attainment of W-2 Participants Across W-2 Agencies
 - Job Placement of W-2 Participants Across W-2 Agencies
- July 10, 1998, Delores Parr met with Jill Erickson of Milwaukee County DHS, Shane Tawr, and Beverly Ramsey from the DES training unit to discuss problems concerning the low rate of Learnfare referrals from the W-2 agencies, and to identify ways to help FEPs realize the importance of doing Learnfare referrals. A follow-up meeting with W-2 agency staff is scheduled for August 6, 1998.
 - Carolyn R. Hampton received a Community Service Job listing from Michael Poma, Milwaukee County Department of Human Services.

3. Financial and Management Oversight - 2.2.3

- A. Walter Goodwyn reports that for the month of May, all agencies except MAXIMUS were within budget. MAXIMUS was over by 9% on the office side.
- B. The W-2 Information and Referral Line contract was signed with MCADD.

Tommy G. Thompson
Governor

Linda Stewart, Ph.D.
Secretary



State of Wisconsin

Department of Workforce Development

OFFICE OF THE SECRETARY
201 East Washington Avenue
P.O. Box 7946
Madison, WI 53707-7946
Telephone: (608) 266-7552
Fax: (608) 266-1784
<http://www.dwd.state.wi.us/>
e-mail: DWDSEC@dwd.state.wi.us

TESTIMONY
JOINT LEGISLATIVE AUDIT COMMITTEE
ADMINISTRATION OF THE WISCONSIN WORKS PROGRAM
BY MAXIMUS, INC.

AUGUST 31, 2000

Introduction – Orlando Canto

Representative Kelso, Senator George, and members of the Committee, thank you for the opportunity to comment on the Legislative Audit Bureau's review of MAXIMUS' administration of the Wisconsin Works program in Milwaukee. My name is Orlando Canto. I am the Deputy Secretary of the Department of Workforce Development. With me today is Jennifer Noyes, the current Administrator of the Division of Economic Support.

Let me begin my comments by recognizing the significant investment of time and resources the Legislative Audit Bureau made in completing this review. We appreciate the information provided in the review and are currently using it to assist us in the efforts that we already had underway to ensure Wisconsin taxpayers and W-2 participants alike are not harmed by MAXIMUS' potential mishandling of funds.

And that is the main point that I would like to emphasize to you today: the Department had already taken significant steps—before the audit was ever completed and released by the Audit Bureau—to ensure any unallowable expenditures made by MAXIMUS are recouped. You have been provided with a chronology of the events reflecting these steps.

At this time, I would like to turn our presentation over to Jennifer, who will outline these steps for you and provide you with additional detail.

Detailed Information – Jennifer Noyes

Thank you. Our process began in January of this year, when the Department first requested the Department of Administration's Performance Evaluation Office complete a review of MAXIMUS' activities. This request was closely followed by receipt of MAXIMUS' single audit report, in which questioned costs were identified. These questioned costs included, for example:

- \$48,590 in computer purchases that were made in excess of authorized amounts;
- \$8,881 in staff time that was included on timecards that were not signed or were signed by an employee's spouse; and
- \$8,845 in unallowable travel costs;

Given that these findings were based on samples pulled from one month and for items greater than \$1,000 in value, the findings of the single audit served as a "tripwire" for us. That is, the information provided caused us enough concern to determine that a further, in-depth review of MAXIMUS was in order.

Ultimately, as the co-chairpersons of the Joint Committee on Finance were informed in May, the Department made the decision to hire Hoppe & Orendorff, S.C., to conduct a more comprehensive audit of MAXIMUS' finances. The specifications of the audit as developed by the Department are much more demanding than typically required. In particular, the audit is to determine total potential questioned costs from March 1, 1997 through

December 31, 1999. Unlike the single audit, invoices from every month of this time period will be reviewed.

Why Hoppe & Orendorff? Because it had demonstrated its ability to identify unallowable costs and had developed a working knowledge of MAXIMUS that would allow us to complete a more in-depth review in an expedited fashion. However, in order to be sure our specifications would be adequate to identify all unallowable costs, the specifications were reviewed by a third party—Williams Young, LLC—on behalf of the Department. I should note that the specifications did anticipate the need to incorporate and address any findings included in the Audit Bureau report. We believe our audit, which is currently underway, will be more than adequate to ensure all potential concerns are identified and addressed.

Pending completion of the audit, and again prior to the issuance of the Audit Bureau's report, I informed MAXIMUS:

- in May, that the Department would delay both the final calculation and any issuance to MAXIMUS of performance bonuses or funds available under Community Reinvestment under its September 1997 through December 1999 contract until audit issues are resolved.
- in June, that the Department would cease issuance of all payments to MAXIMUS under the current contract pending resolution of audit issues.

As a result, the Department is currently withholding the following payments from MAXIMUS:

• Community Reinvestment	\$ 503,245
• Unrestricted Profit	\$2,869,348
• Monthly administrative costs	\$2,563,457

The total amount held to date equals slightly less than \$6 million.

These funds will continue to be withheld until we reach full resolution of the process we have underway for ensuring MAXIMUS has appropriately expended funds under the contracts and all audit issues are resolved.

Of course, subsequent to our embarking on a course of action, the Audit Bureau completed and released its report. As an immediate result of the audit:

- MAXIMUS repaid the Department \$138,840 to cover the unallowable costs identified by the Audit Bureau and
- we modified the language of our audit specifications to more specifically incorporate and fully utilize the information provided to us in the Audit Bureau's report.

So, what happens next? The Department is currently engaged on a two-track process.

First, specific to the MAXIMUS situation:

- As recommended by the Audit Bureau, we are in the course of literally going through the \$415,247 in questioned costs identified by the Audit Bureau line by line with MAXIMUS. At this time, we anticipate that some of the costs questioned by the Audit Bureau will be unallowable and reimbursement for those costs will be made by MAXIMUS. However, we also anticipate some of the questioned costs will be justified.

- In addition, rather than addressing the situation in a "piecemeal" fashion, we will make a final decision related to funds owed to us by MAXIMUS, as well as MAXIMUS' overall management practices and our future relationship with it, after receipt of the more comprehensive independent

audit. As I said, the audit is currently underway and is due to be completed in about six weeks.

Second, in relation to the Department's overall monitoring efforts:

- We are using the findings of the report to provide us with guidance as to how to improve our fiscal monitoring of all W-2 agencies. Although it is common practice to conduct basic financial monitoring of contracts through the annual single audit process (which, as I noted, worked in this situation), this process relies on a sampling of invoices at the W-2 agency from one month. Therefore, we are reconsidering this strategy.

- In addition, regular expenditure reporting by the W-2 agency to DWD does not include submittal of actual invoices. Expenses are reported via category such as W-2 Work Activities, W-2 Education, and W-2 Family Preservation and Parenting Training. The Department does not see actual invoices such as those that were reviewed by the Legislative Audit Bureau and are detailed in it's report on MAXIMUS. Again, we are reconsidering this strategy.

- Finally, it is clear that responsibilities involving financial monitoring of the Milwaukee W-2 agencies by the Milwaukee Private Industry Council during the first contract were left unresolved. While review of this situation had been underway prior to the issuance of the report, the Audit Bureau's findings have given new urgency to the need for us to address the situation.

Conclusion – Orlando Canto

I would like to conclude by giving you my assurance that we have been and will continue to be responsive to the findings of the Audit Bureau's report. We are, as noted, using it to enhance the efforts we already had underway to address the MAXIMUS situation as well as to improve our overall oversight of W-2 agencies statewide.

However, I would like to stress to you our strong interest in ensuring that any decisions made in relation to MAXIMUS or any of the other W-2 agencies are based on sound, factual information. We are, essentially, in the middle of a fact-finding process. I do not believe it would be in any of our best interests to make unilateral changes that will result in limits on the flexibility necessary to the administration of the W-2 program, particularly in the Milwaukee area. We will therefore bring the strategy that we already had underway to closure before a final determination as to how to address the situation is made.

Thank you for this opportunity to address the Committee. We would be happy to answer any questions you may have.

ADMINISTRATION OF
WISCONSIN WORKS BY
MAXIMUS, INC.

Legislative Audit Bureau

August 31, 2000

Work In Other States

- ◆ 46 current and former staff worked on out-of-state projects
- ◆ 724 hours were inappropriately billed
- ◆ Maximus has reimbursed the State \$18,000 thus far and will reimburse an additional \$33,236 for this work
- ◆ Additional oversight is needed

Maxstaff

- ◆ Created in May 1998
- ◆ Spent \$489,000 in W-2 funds
 - 62 percent used to hire temporary staff
 - 23 percent was for commissions
 - 15 percent was for software, training, and client skill-assessment testing
- ◆ Discontinued operations in July 2000

Additional Issues

- ◆ Affirmative action and civil rights plans were due from all agencies in January 2000.
 - As of July 19, 2000:
 - 22 agencies had not submitted plans
 - 23 plans submitted by agencies had not been reviewed by the Department
- ◆ Maximus owed the State \$1.4 million in overestimated indirect costs

Unallowable Costs

- ◆ 42 transactions totaling \$138,840 in costs charged to W-2, including:
 - \$40,178 for an overpayment and late charge
 - \$30,006 in entertainment expenditures
 - \$15,741 in expenditures that benefited Maximus or its employees
 - \$12,026 in donations to various groups
 - \$35,054 for agency-sanctioned employee social events

Questioned Costs

- ◆ \$276,407 in expenditures that, in whole or in part, do not meet a standard of reasonableness, including:
 - \$195,745 in advertising
 - \$22,248 for restaurants and other food
 - \$23,976 for unknown items
 - \$9,170 for gift certificates
 - \$1,498 for flowers

PEGGY ROSENZWEIG



State Senator, 5th Senate District

July 28, 2000

Senator Gary George
Representative Carol Kelso
Co-Chairs
Joint Legislative Audit Committee
Wisconsin State Legislature
HAND-DELIVER

Dear Co-Chairs:

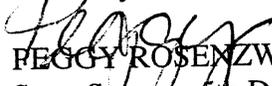
Today our committee received a profoundly disturbing report from the Legislative Audit Bureau detailing the administration of W-2 in Milwaukee County by Maximus, Inc. My reaction in reading the report ranged from disappointment to disbelief — particularly regarding what appears to be an acute lack of oversight in the appropriation of taxpayer money for private use. Therefore I'm writing to request a Legislative Audit Committee hearing as soon as possible so that the report and its implications can be given a proper public airing.

While the questioned costs and dollar amounts detailed in the report are certainly troubling, equally if not more troubling are the conditions that allowed such expenditures to proliferate for more than two years. The Audit Bureau's recommendations, such as periodic review of agency expenditures, are matters of common sense that shouldn't have required legislative intervention. I don't believe we can consider appropriate further action without additional input from Department of Workforce Development and Maximus officials, with auditors present.

The department's assertion that Maximus expenditures have been properly monitored and recouped independent of the Audit Bureau's activities is discordant with the substance of the Audit Bureau report, which details questionable expenditures dating back to March 1997. A public hearing will help us reconcile the department's actions with the Audit Bureau findings.

A prompt public hearing would be a decisive first step toward preventing further misuse of taxpayer funds. A hearing would also help preserve public trust in a W-2 program that has become a national model for reform. I urge you to schedule a hearing on the Maximus report at the committee's earliest convenience. As always, thanks for your kind attention and consideration.

Sincerely,


PEGGY ROSENZWEIG
State Senator, 5th District