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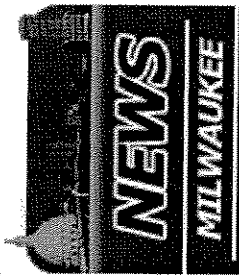
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George pleads not guilty to 3 new charges

New lawyer working on ex-state senator's case

By **GRAEME ZIELINSKI**
gzielinski@journal sentinel.com

Posted: Jan. 15, 2004

Former state Sen. Gary George pleaded not guilty Thursday in federal court to the three new corruption charges against him while a new lawyer made an appearance on George's behalf for the first time.

Alex Flynn, who has previously defended figures from the state Senate caucus scandal, entered the pleas on George's behalf before U.S. Magistrate Judge Patricia J. Gorence in Milwaukee.

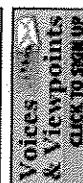
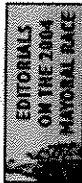
George was again released on his own recognizance.

The new charges, handed down by a federal grand jury Jan. 7, allege bid rigging, money

Gary George From the Archives

- New charges: George pleads not guilty (1/15/04)
- Grand jury: George gets 3 new charges (1/6/04)
- Bills: George unable to pay lawyer (12/31/03)
- In court: Ethics Board

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laundering and a kickback scheme involving state Senate money.

George's original two-count indictment, issued Nov. 19, accused him of taking money from a Milwaukee construction executive in exchange for state building contracts, and taking kickbacks from a lawyer paid by a social services agency and a central city children's club. He has also pleaded not guilty to those charges.

If convicted of all five counts, George could serve up to 50 years in prison.

His original lawyer, Madison criminal defender Bruce Rosen, dropped out of the case, citing George's inability to pay.

Flynn, who gave notice Monday that he was being retained, has had a few headline-making clients before but never has handled a case of this magnitude. In the mid-1990s, he defended one of the protesters at an abortion clinic who was charged under federal clinic-access laws.

Flynn's brother, Matt, is a former chairman of the state Democratic Party, chairman of Gov. Jim Doyle's judicial advisory commission and a former candidate for both the U.S. Senate and the House of Representatives.

At Thursday's hearing, Gorence delayed a scheduling hearing until next week, allowing Alex Flynn the chance to review what he said were more than 11,000 pages of material gathered by the government in its prosecution of George.

- wants charges against George (12/12)
- Contractor: Unnamed man in George case ID'd (11/21/03)
- Doyle: Orders probe of George dealings (11/21/03)
- Kickbacks: George indicted on U.S. charges (11/20/03)
- Probe: FBI inspects records in George inquiry (10/29/03)
- Spiwak & Bice: OIC leader reveals inquiry involving George (10/27/03)
- Downfall: George lost touch with constituents, observers say (10/22/03)
- Recall: Voters give George the boot (10/21/03)

On the Web

- Web site: U.S. District Court, Eastern District of Wisconsin
- Web site: Wisconsin Ethics Board

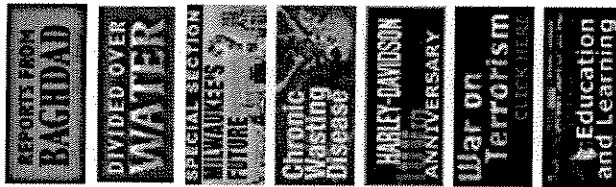
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Although Gorence has relaxed some deadlines for George's defense, she also has declined his lawyers' request to assign the case a "complex" designation, a legal maneuver that would have automatically allowed more time for George.

The once-powerful Milwaukee Democrat was first elected in 1980 and served until he was replaced in a recall election in October.

U.S. District Judge Rudolph T. Randa, who will take over for Gorence once the case goes to trial, will likely set the trial date.

George's next hearing will be Thursday.

Neither Flynn nor George would comment after the hearing and were trailed out of the Milwaukee federal courthouse by a gaggle of news cameras.



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Milwaukee Journal Sentinel January 25, 2004



SPIVAK & BICE

When the cash ran out, George copped a plea

Throughout the Capitol and City Hall, there was one question on the minds of insiders at the end of last week:

Whose head did former Sen. **Gary George** hand over to the feds on a silver platter as part of his plea deal?

Some were guessing it had to be a high-ranking pol, someone who once schemed with the one-time powerful finance committee chairman. Others were looking at the businessmen who helped George maintain his upscale lifestyle, including living in a Grafton home while representing a poor Milwaukee district.

"A lot of people have got to be sweating," said one local pol on Friday.

Sure enough.

But that may be premature. U.S. Attorney **Steve Biskupic** doesn't have anyone in the cross-hairs — for now.

Those with an inside track into the George matter said the ex-senator's decision to cooperate with federal probes does not mean that federal prosecutors and the FBI are waiting for George to give them the final details so Biskupic can put another notch in his belt.

Rather, sources say, George was driven to cop a plea with the feds on Thursday for another very important reason.

"He didn't have the money" to fight all the charges, said one George ally. Remember, George had to drop Madison superstar lawyer **Bruce Rosen**, who, sources said, would have likely rung up a legal tab in the \$200,000 range.

The Milwaukee Democrat pleaded guilty to one count of accepting \$270,000 in kickbacks from the Opportunities Industrialization Center, a social welfare organization that he helped obtain government contracts. Biskupic will recommend no more than \$250,000 in fines and up to five years behind bars, roughly half the time that he likely would have faced had he gone to trial and lost.

As part of the deal, prosecutors will drop four charges, including money laundering and theft of federal funds by rigging construction bids for a \$7 million Police Athletic League youth center.

Insiders say the plea deal came together quickly toward the end of last week.

The two sides were driven together by a number of factors.

Biskupic, who has scored several high-profile victories of late, was eager to lock up his biggest catch. George, who has beaten down many past attempts to throw him in jail, couldn't afford the defense needed to have a fighting chance of winning.

"He's essentially serving a sentence right now," said a second George fan. "If you've got to go, you might as well start now."

It would surprise no one if George, after talking to authorities, rats someone out. This is a guy who's been at the center of power in Madison for more than two decades, meaning he *must* know where most of the bodies are buried. Additionally, George has always played on the edges and is known for long remembering those who have crossed him.

At the same time, a lawyer with experience as a prosecutor said George can't really offer up any bigger political names. He is, the source said, near the top of the food chain.

If George were to attempt to flip some Wisconsin business bigwigs, they would have the bucks needed to put up a spirited defense. More important, though, the former legislative leader would bring a load of baggage to the stand if he were called on to testify — baggage that a defense attorney would use to make jurors question his credibility.

"Whatever these dirty deals are," said one insider, "they're going to involve him, too."

Milwaukee Journal Sentinel January 23, 2004

George pleads guilty to fraud

Four other counts dismissed; ex-senator to cooperate in probe

By **GRAEME ZIELINSKI**
gzzielinski@journalsentinel.com

In a voice almost lost in the cavernous federal courtroom, former state Sen. Gary R. George said something Thursday that he's never said to a judge.

"Guilty."

George, whose long political career was marked by investigations, challenges and charges that he had successfully repelled, pleaded guilty Thursday to a single count of conspiracy, part of a deal that requires his ongoing cooperation with federal investigators.

The Milwaukee Democrat was facing a five-count indictment that implicated him in schemes that stretched back years and all the way to the Virgin Islands. Prosecutors said it involved hundreds of thousands of dollars in kickback money and payola, as well as a plan to launder some of the money.

Federal prosecutors dismissed four other counts against George as part of the agreement.

In pleading guilty, George, 49, acknowledged his role in a



DALE GULDAN / DGULDAN@JOURNALSENTINEL.COM

Former state Sen. Gary George, who will be sentenced May 14, leaves the courthouse Thursday.

GEORGE'S DEAL

He pleads guilty to:

■ A single count of **conspiracy to accept kickbacks** of legal fees paid by the Opportunities Industrialization Center of Greater Milwaukee Inc., a social welfare organization. Payments to George amounted to \$270,000, according to the indictment.

Four other counts are dismissed:

■ **Conspiracy to accept kickbacks** of legal fees paid by the Milwaukee Police Athletic League.

■ **Theft of federal funds** through the rigging of bids for the construction of the Milwaukee Police Athletic League building.

■ **Accepting kickbacks** of legal fees paid by the state to attorney Mark Sostarich, for his work on George's behalf in a federal lawsuit about redistricting.

■ **Money laundering**, for transactions involving money Milwaukee businessman John Bowles paid to a Virgin Islands television station that was passed through to an account controlled by George, in exchange for state construction contracts.

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Milwaukee Journal Sentinel January 23, 2004*...cont. from prev. page*

fraud in which Mark E. Sostarich, a longtime ally and former state Democratic Party chairman, gave George a portion of legal fees paid to Sostarich with government funds by the Opportunities Industrialization Center of Greater Milwaukee Inc., a social services agency that administers W-2 money and has deep ties to George.

The original indictment said that George realized about \$270,000 in ill-gotten gains from that swindle.

U.S. Attorney Steven M. Biskupic recommended that George get a maximum of five years in prison and a fine of no more than \$250,000. George had faced as much as 50 years in jail if convicted on all counts.

Chief U.S. District Judge Rudolph T. Randa, who is not bound by the sentencing recommendation, accepted George's plea and set sentencing for May 14.

What does he know?

With George's conviction comes a new question: What information does he have to give, and who should be afraid?

Biskupic declined to elaborate.

"There is a cooperative agreement, and we intend to pursue the cooperation," he said.

But others were already speculating.

"My guess is as a result of this plea agreement there are some people sweating," said Jay Heck, executive director of Common Cause in Wisconsin, a government watchdog group.

"The question is would Gary George be able to shed any light on any other senators or legislators or anybody in the East Wing" of the Capitol, where the governor's office is located, Heck said.

A former federal prosecutor in Milwaukee, however, said it seemed more likely that Biskupic cut the plea deal partly as a matter of expedience, to avoid having to take the George case to trial.

It would be unusual for a public official to have information about some other official's corrupt practice, said Steve Liccione, an assistant U.S. attorney from 1983 to 1996 now in private practice.

But prosecutors might be seeking information about other deals involving George and special interests seeking state largess, Liccione said.

He predicted that George would likely serve something close to the full five-year recommended sentence.

Sostarich, 50, agreed to cooperate early on and is scheduled to plead guilty Jan. 30 to mail fraud related to other George kickbacks. He should not expect a long prison term, said his lawyer, Stephen Glynn.

"The real question in my mind is whether anyone else is going to be charged in this stuff," Glynn said.

Ethics reforms pending

Assuming George actually does go to prison, he would be the first state lawmaker to do so for a crime committed while in office in a half-century, Heck said.

A few Wisconsin lawmakers have served jail time, but none has gone to prison since Rep. Harold Gade did in 1952 for embezzlement, Heck said.

He urged lawmakers to quickly pass reforms to help clear the tarnish on the Legislature created by the charges against George and five other legislators accused of misconduct in office in unrelated cases.

One measure would combine the state Ethics and Elections boards into a single agency with heightened enforcement powers. A second would revise

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Milwaukee Journal Sentinel January 23, 2004

...cont. from prev. page

state laws governing campaign donations, aimed at limiting influence of special interests.

State Senate Minority Leader Jon Erpenbach (D-Middleton) said the reforms are "something we should have done a long time ago."

Erpenbach said he believed the George case was an "extremely isolated" instance of serious corruption involving a lawmaker.

Senate Majority Leader Mary Panzer (R-West Bend) and Sen. Mike Ellis (R-Nee-nah), a former majority leader, didn't return calls seeking comment Thursday.

Richard Porter, chairman of the board of directors of OIC, said even though George admitted taking kickbacks of money OIC paid to Sostarich, "there are no new facts that suggest any impropriety by OIC."

The agency has won more than a quarter-billion dollars in welfare reform funds in state contracts.

Though the federal charges are by far the most serious trouble George has faced, he's been the focus of a series of state and federal investigations. He paid fines for civil ethics violations in 1989 and

1990 and was the subject of a federal probe in the early 1990s, after a currency exchange he founded closed amid allegations that he'd improperly siphoned out cash.

When the current indictment was handed down in November, and shortly after he had lost a recall election for a seat he held since first being elected in 1980, George claimed his innocence and vowed a stout defense.

But soon it became clear that many people long involved with George would likely testify against him, under various degrees of pressure from the government.

On Thursday, George looked anything but defiant at what was scheduled to be a routine scheduling hearing.

There, Biskupic dropped a bombshell about the plea agreement, and another hearing was set for 90 minutes later.

At the second hearing, George gave soft-spoken "Yes, your honor" and "No, your honor" answers, as Randa asked him routine questions about his guilty plea. George's wife sat at the back of the courtroom.

Biskupic told the judge he

could prove that George "mis-used his office as state senator," and provided some new details, including that yet another friend and legislative aide, Dan Rossmiller, was prepared to testify that George had his office workers do his personal work on state time.

And, for the first time, Milwaukee businessman John Bowles was identified on the record as the man who paid George tens of thousands of dollars, through a Virgin Islands CBS television affiliate that George and his family control, in exchange for state construction contracts.

Other possible charges

After he was convicted, George, dressed in a black suit and a red tie, turned and gave a look of resignation to his attorney, Alex Flynn. George stared straight ahead when asked questions by a reporter outside the courtroom. Flynn also declined to comment. Dogged by a television camera operator as he left the federal courthouse, he ducked into the Pfister Hotel.

George still faces charges related to an Ethics Board referral that allege, among other things, that state workers ille-

gally conducted work on his failed gubernatorial campaign while on state time.

Dane County District Attorney Brian Blanchard, to whom that case has been referred, said he had spoken with Biskupic about Thursday's plea

agreement. Blanchard would offer no comment on whether a plea agreement for the Ethics Board referral was in the works.

Steve Schultze of the Journal Sentinel staff contributed to this report.

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A MEMBER OF THE NATIONAL ASSOCIATION OF CHILD ADVOCATES

January 26, 2004

Senator Carol Roessler, Co-chair
Joint Legislative Audit Committee
P.O. Box 7882, State Capitol
Madison, WI 53707-7882

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee
P.O. Box 8952, State Capitol
Madison, WI 53708-8952

Re: Proposed Audit of the Wisconsin Works (W-2) Program

Dear Senator Roessler and Representative Jeskewitz:

The Council wishes to support Senator Darling's request for an audit of W-2. We agree that since it has been nearly three years since the last comprehensive audit it is time for another look at how the program is working.

Senator Darling requests that the audit focus on a number of very important issues. In addition, we believe the audit should address the following issues:

1. **The program's success in achieving economic self-sufficiency for participants.** In the April, 2001 study the Audit Bureau looked at those who left the program soon after it was implemented, examining among other things their **employment rates, income levels, and rates and characteristics of those who return to the program.** It found the success of these early leavers was mixed. Similar results were obtained in a recent report of applicants for W-2 in Milwaukee County by the Chapin Hall Center for Children at the University of Chicago. Policy makers need to know how more recent leavers are doing – in Milwaukee and statewide – now that the program has been operating for six years, in order to inform future policy decisions.
2. **Participant characteristics now as compared to early in the program.** The 2001 Audit presented a profile of W-2 participants as of July, one and one-half years after the program began. (See Table 1, at page 15.) There seems to be a general belief that a higher percentage of those left on the caseload have substantial barriers to employment. In order to determine whether new approaches to assist participants are needed, it is important to determine how much participant characteristics have changed.

3. **Types and amounts of program services received by W-2 participants.** The Audit showed that few participants received specialized assessments and counseling services for a variety of personal barriers to employment, and there was great difference among agencies. Now that the Department requires that all agencies use a standard Barrier Screening Tool, with follow-up, formal assessments where necessary, more participants should receive assessments. It is important to determine whether more services are also being provided, especially given reports of high numbers of participants with substantial barriers to employment. Additionally, auditors commented on the very few participants receiving technical college or other post-secondary education, and this issue should be looked at, as well.
4. **The number of participants determined "job ready," what their characteristics are (e.g. employment history, educational level, and family health), and what happens to them.** In this placement, applicants without employment are denied cash assistance and told that they must look for work. Their cases may be reviewed after 30 days for possible placement in a W-2 work program, but it is unclear whether most applicants know about this or what happens if they do return. Statutory authority for this placement has never been clear, and the use of the "job ready" category has been a highly controversial since the program began.
5. **Sanction policies, including percentages of participants sanctioned, reductions in benefits due to sanctions, any disparate treatment of minority populations or those with disabilities, prevalence of improper sanctions, and variances in application of sanctions among agencies.** The 2001 Audit showed a high degree of variance between agencies in both the percentage of participants sanctioned and average amounts of monthly benefit reductions. Several agencies averaged between 1/3 and 1/2 of their participants in sanction status monthly, and benefit amounts were often reduced below 50% of the full amount. More recently, the Audit Bureau found some evidence of racial disparities in the application of sanctions. Others have claimed a disproportionate number of sanctions for people with disabilities, which would be consistent with national studies. An examination of sanction policy is essential to determine how well W-2 is succeeding in its purpose -- to provide basic support for all low-income families who qualify on an equitable basis, while they work their way toward self-sufficiency.
6. **Resolution of participant complaints.** The 2001 Audit reported on the number of requests for review at both the local agency fact-finding level and the state Division of Hearings and Appeal (DHA). It summarized the reasons for the requests for review, dispositions at the fact-finding level, the percentage of fact-finding decisions that were appealed and the high percentage of decisions that were reversed upon appeal to the DHA.

Once again, there was great variety between W-2 agencies, indicating in Milwaukee, in particular, fact-finding decisions are incorrectly favoring the W-2 agencies more than in other areas of the state. There has always been substantial support for exchanging the formal, fact-finding step for an informal local review process and placing the formal hearing with DHA, as is done with food stamps and medical assistance. The Department of Workforce Development supported this change in its November 2002 Biennial Budget Request, and Milwaukee County W-2 agencies are on record as supporting this, as well. But aside from examining complaint procedures with an eye toward reform, as with sanction policy the adequacy and fairness of the complaint review process is critical to the program's mission.

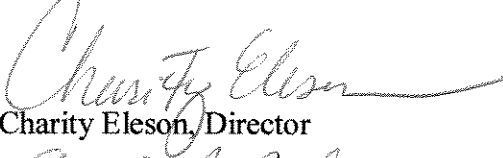
7. **How time limits are affecting program services to families.** At the time of the 2001 Audit, little information was available on the effect of time limits on participants' ability to become self-sufficient. None had reached the federal five-year limit and only 1,551 had reached the 24-month limit in a subsidized employment position. More information about the number of and reasons for extensions, as well as the characteristics of those whose cases close should be available by now, as well as statistics to indicate how much agencies vary in their treatment of participants reaching time limits.
8. **The well-being of children and families who have left the program.** Many now agree that the success of a welfare program is measured less by the number that leave the program than by how families fare after they leave. In that context, it is important to measure not only a families' employment and income characteristics, but other measures of economic hardship and parent and child well-being. The Chapin Hall study, referred to earlier, measured a number of these characteristics of families who had applied for W-2 in Milwaukee County. Similar questions should be asked of families who experienced the W-2 program in other parts of the state, as well as those who have been off the program for a longer period of time.

The authors of the 2001 Audit suggested some issues that the legislature and DWD might wish to consider, following the results of its evaluation, including,

- Whether the challenges posed by the participants with multiple or severe barriers to employment are being adequately addressed;
- How best to address the needs of participants who are nearing the time limits established for receipt of services;
- How best to assist individuals who have entered the workforce but remain in poverty in becoming fully self-sufficient.

We would suggest that requesting the Audit Bureau to address the eight issues we suggest above, in addition to those requested by Senator Darling, will help to answer the important questions posed by the Audit Bureau in their earlier report.

Respectfully submitted,



Charity Eelson, Director



Carol W. Medaris, Senior Staff Attorney

Asbjornson, Karen

Send to Sam & Sue

From: Halbur, Jennifer
Sent: Tuesday, January 27, 2004 12:24 PM
To: Asbjornson, Karen
Subject: FW: Questions for proposed W-2 Audit



W-2 Audit
questions-2004.doc CR inbox

-----Original Message-----

From: Carol Medaris [mailto:cmedaris@wccf.org]
Sent: Monday, January 26, 2004 5:58 PM
To: Sen.Roessler@legis.state.wi.us; Rep.Jeskewitz@legis.state.wi.us
Subject: Questions for proposed W-2 Audit

Dear Senator Roessler and Representative Jeskewitz: Please find attached a letter regarding suggested issues for the W-2 Audit. I will follow this with a hard copy by mail, but I know that you are due to meet on the 28th and I wanted to be sure that you had this in hand by that time. Thank you very much for your consideration.

Carol W. Medaris
Senior Staff Attorney
Wisconsin Council on Children and Families



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agreed

agreed

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*Short term
money*

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*Criteria
to determine
Assess*

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agreed

X

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- How best to address the needs of participants who are nearing the time limits established for receipt of services;
- How best to assist individuals who have entered the workforce but remain in poverty in becoming fully self-sufficient.

We would suggest that requesting the Audit Bureau to address the eight issues we suggest above, in addition to those requested by Senator Darling, will help to answer the important questions posed by the Audit Bureau in their earlier report.

Respectfully submitted,

Charity Eleson, Director

Carol W. Medaris, Senior Staff Attorney



WISCONSIN STATE LEGISLATURE

Joint Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

February 4, 2004

Ms. Roberta Gassman, Secretary
Department of Workforce Development
201 East Washington Avenue, Room A400
Madison, Wisconsin 53707

Dear Ms. Gassman:

The Joint Legislative Audit Committee will hold a public hearing on Wednesday, February 11, 2004 at 11:00 a.m. in Room 411 South of the State Capitol. At this hearing, the Committee will consider a proposed audit of the Wisconsin Works (W-2) program.

As this proposed audit relates to the activities of your Department, we ask you to be present at the hearing to offer comments on the proposed audit and to respond to questions from committee members.

Please contact Ms. Pamela Matthews (Representative Jeskewitz's office) at 266-3796 to confirm participation in the hearing. Should you have any questions about the hearing, please contact us.

Sincerely,

Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

Enclosure

cc: Janice Mueller
State Auditor



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

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

DATE: February 5, 2004

TO: Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee

FROM: Janice Mueller *Janice Mueller*
State Auditor

SUBJECT: Proposed Audit of the Wisconsin Works (W-2) Program—Background
Information

At your request, we have gathered some background information the Joint Legislative Audit Committee may find useful in considering requests from Senator Darling regarding administration of the W-2 program and from Senator Panzer asking for a related audit of state funds provided to Opportunities Industrialization Center of Greater Milwaukee (OIC-GM), a W-2 agency serving Milwaukee County residents.

The W-2 program was created by 1995 Wisconsin Act 289 to help participants achieve economic self-sufficiency through employment. W-2 participants, who are primarily women with dependent children, are not automatically entitled to cash benefits as they would have been under Aid to Families with Dependent Children. Instead, they earn wages or receive cash grants and other program services based on their employment status. The program is administered at the state level by the Department of Workforce Development (DWD) and, for the two-year contract period beginning January 1, 2004, by 69 local agencies.

In fiscal year (FY) 2003-04, the budget for W-2 services provided by local agencies is \$145.2 million, which includes \$21.2 million to fund administrative costs. Program funding is provided by state general purpose revenue and federal Temporary Assistance for Needy Families block grant funds. In November 2003, a total of 14,857 individuals participated in the W-2 program statewide.

The total number of W-2 participants receiving cash assistance increased from 6,810 in November 1999 to 11,552 in November 2003. Participants placed in community service jobs and those who stay at home caring for infants until the infants are 12 weeks old receive \$673 per month. Participants in transitional placements, which provide work and training for participants who are unable to perform independent, self-sustaining work or work associated with community service jobs, receive \$628 per month.

The Legislative Audit Bureau completed a comprehensive review of the W-2 program in April 2001. Since that time, W-2 caseloads have grown, especially among those receiving cash benefits. In addition, the number of local administrative agencies has declined, including in

Milwaukee County, where the number of administrative agencies has been reduced from five to three. Concerns about the program have been raised based on rising caseloads, changes in local program administration, and questions about the extent to which deficiencies identified in prior legislative audits have been addressed. In addition, concerns have been raised about reported financial irregularities related to expenditures made by OIC-GM, one of the largest providers of W-2 services in the state.

An audit of the W-2 program could include:

- a review of state and local W-2 agency administrative costs, including the level and appropriateness of these expenditures;
- a review of W-2 agencies' spending of state and federal funds, including funds provided to these agencies apart from the W-2 program;
- an analysis of participant caseloads, including the extent to which the program has been successful in limiting cash assistance caseloads by helping former participants to maintain their employment;
- an analysis of the cost and effectiveness of training and other services provided to participants identified as having the greatest barriers to employment, including the types and amounts of services received by W-2 participants;
- a review of program sanctions, including corrective action DWD has taken with W-2 agencies and the extent to which DWD has been successful in reducing the inappropriate sanctioning of W-2 participants;
- an analysis of the effects of time limits placed on participants' receipt of cash assistance; and
- an assessment of DWD's progress in implementing the Legislative Audit Bureau's prior recommendations to improve program management, including improving oversight of contractor spending.

If you have any additional questions regarding this request, please contact me.

JM/PS/bm

cc: Senator Robert Cowles
Senator Albert Darling
Senator Jeffrey Plale
Senator Julie Lassa

Representative Samantha Kerkman
Representative Dean Kaufert
Representative David Cullen
Representative Mark Pocan

Senator Mary Panzer

Roberta Gassman, Secretary
Department of Workforce Development

February 6, 2004

FEB 05 2004



Senator Carol Roessler
Co-Chair, Joint Legislative Audit Committee
Room 8 South, State Capitol

Representative Suzanne Jeskewitz
Co-Chair, Joint Legislative Audit Committee
Room 314 North, State Capitol

Dear Senator Roessler and Representative Jeskewitz:

As you prepare to debate the proposed audit of the Wisconsin Works (W-2) program, please consider expanding its scope beyond those items identified in Senator Darling's December 29, 2003 letter. Like you and Sen. Darling, I believe the Legislature should seek a follow up to previous W-2 audits and direct the Audit Bureau to address those items Sen. Darling identified. However, I also believe the \$100 million structural deficit in W-2, funding decisions by the Department of Workforce Development and implementation challenges facing W-2 agencies require an examination of additional aspects of the program. A more comprehensive review will provide a complete picture of the status of W-2, along with valuable insight for making improvements, if necessary.

The following are additional issues I recommend including in an audit request:

- An analysis of contract expenditures that quantifies the different costs incurred by W-2 agencies, including general administration, supportive services, staffing associated with the provision of direct services, and cash benefits.
- An analysis of the extent to which the following variables – and any others identified by the Audit Bureau - have affected recent caseload increases: new cases, cases returning due to loss of employment, cases returning due to other factors and participants remaining on the case load for longer periods of time. To the extent possible, the affect of modifications to program practices and policies on each of these variables should be addressed.
- An analysis of the process through which program participants are engaged in work and work related activities, including the variety and nature of activities to which W-2 participants are assigned in each of the program tiers and the extent to which program participants complete assigned education/training. To the extent possible, the level of contract expenditures associated with these activities should also be determined.

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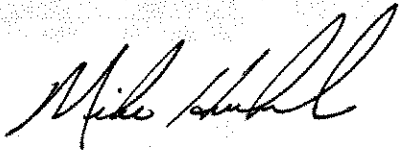
Senator Carol Roessler
Representative Suzanne Jeskewitz
February 6, 2004
Page 2

- An analysis of the W-2 contractor selection process and the use of performance standards to influence program outcomes, including whether modifications to either are needed.
- An analysis of W-2 coordination with other programs intended to promote self-sufficiency and support working families, including Workforce Investment Act (WIA) programs, Food Stamp Employment and Training (FSET), childcare, Medical Assistance (MA), BadgerCare, Supplemental Security Income (SSI), and child support.

In order to understand, analyze and possibly improve W-2, the Legislature must have the full story about how different program elements work together. Examining the issues I have suggested will provide a more complete picture of the services and techniques DWD and local providers are using to help W-2 participants become self sufficient and more importantly, how effective they are.

Thank you for your time and attention to this matter. Please contact me if I can answer questions or provide additional information.

Sincerely,



Mike Huebsch
State Representative

c: Senator Alberta Darling

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LOCAL NEWS

Posted Jan. 27, 2004

Panel overrides Doyle's W-2 veto

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MADISON — The Legislature's budget committee voted Monday to override the governor's veto that would have allowed state money to help pay the private sector salaries of Wisconsin welfare recipients.

State Rep. Mike Huebsch, R-West Salem, a Joint Finance Committee member, said the governor's proposal would have weakened the Wisconsin Works program by focusing on government handouts for welfare recipients, rather than helping them be more self-sufficient as they try to move into the private sector.

Still, he said he was working with administration officials to improve other work programs within the W-2 program to enhance job opportunities for welfare recipients.

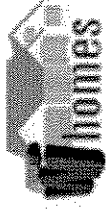
The Joint Finance Committee voted 12-4 to override the veto, one more vote than needed.

The vote eliminates Gov. Jim Doyle's so-called transitional jobs initiative within W-2. The full Legislature does not have to vote on the override.

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The Republican-controlled committee voted last month to eliminate money earmarked for pilot jobs programs in Milwaukee and Fond du Lac counties.

The committee's vote will instead allow the \$15.7 million to be used for other W-2 costs.

W-2 was one of the first and most aggressive programs of its kind in the nation, ending guaranteed cash assistance for poor families and requiring recipients to work in exchange for benefits.

A provision in Doyle's budget would have allowed W-2 participants to work for six months for private employers subsidized by state government.

Participants would have been able to cut in half the number of hours they are required to work to receive further educational training, while still getting almost all their pay.

Participants, who would have been paid minimum wage, would then have qualified for up to \$4,000 in federal tax credits.

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FEB 10 2004
State Senator
GWENDOLYNNE MOORE



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E-Mail: sen.moore@legis.wisconsin.gov

Member: Joint Finance Committee
Board Member: Wisconsin Housing and
Economic Development Authority

February 10, 2004

Representative Suzanne Jeskewitz
Senator Carol Roessler
Co-Chairs of the Joint Committee on Audit
Madison, WI
Hand Deliver

Dear Co-Chairs Suzanne Jeskewitz and Carol Roessler,

At the February 11, 2004, meeting of the Joint Committee on Audit, members will consider the request of Senator Alberta Darling to conduct another audit of the Wisconsin Works (W-2) program. As the Committee deliberates, I urge you to expand the scope of the audit to include a review of the Department of Health and Family Services's administration of child welfare services in Milwaukee County.

As a member of the Joint Committee on Finance, I authored an amendment to the 1999-2001 state budget that requested that the Legislative Audit Bureau


"conduct a review of DHFS administration of child welfare services in Milwaukee County. This motion would request the Audit Bureau to report its findings to the Joint Committee on Audit by January 1, 2003." (see attached Motion #295).

My amendment received the unanimous, and bi-partisan, support of the Joint Committee of Finance. Despite this legislative directive, the Joint Committee on Audit has yet to approve a request for the non-partisan Legislative Audit Bureau to initiate a review of child welfare services in Milwaukee.

According to recent news stories, as reported by Mary Zahn in the **Milwaukee Journal Sentinel**, Wisconsin has been notified that its foster care system has failed a federal review. The Executive Director of the Wisconsin Council on Children and Family services pointed out, in the February 9, 2004, story, *"There are real risks here for kids, but also real risks for the state in terms of funding losses. The feds are not going to be issuing any new dollars to deal with this."* According to reports, the state could potentially face \$1.4 million in penalties if the deficiencies are not remedied.

The state of Wisconsin cannot sustain further financial losses because of its inability to comply with federal regulations in regard to children placed in foster care. Today, in a letter to the Co-Chairs of the Joint Committee on Finance, the Director of the Legislative Fiscal Bureau released the agency's estimates that, by June 30, 2005, the general fund balance will be -\$32.2 million, \$218.6 million below the level projected when the biennial budget was signed. Moreover, the state faces significant deficits in its Medicaid program. Therefore, the Joint Committee on Audit should initiate a review of the administration of child welfare services in Milwaukee County, pursuant to Motion #295.

Sincerely,

A handwritten signature in cursive script, reading "Gwendolynne Moore". The signature is written in black ink and is positioned above the printed name.

Gwendolynne Moore
State Senator
4th District

cc: State Auditor Jan Mueller
Senator Alberta Darling
DHFS Secretary Helene Nelson

Senator Moore

HEALTH AND FAMILY SERVICES
[LFB Paper #530]

LAB Review of Milwaukee Child Welfare Administration

Motion:

Move to request the Joint Committee on Audit to request the Legislative Audit Bureau to review the Department's administration of child welfare services in Milwaukee County. Request that the Audit Bureau review the following issues: (a) the use of private agencies in the provision of child welfare services; (b) the provision of services to children in out-of-home care, including case management services and services provided to the children's family; (c) safety services provided to children placed in their home; and (d) the use of termination of parental rights and adoption as a permanency plan goal for children in out-of-home care. Request that the Audit Bureau report its finding to the Joint Committee on Audit by January 1, 2003.

Note:

This motion would request the Joint Committee on Audit to request the Legislative Audit Bureau to conduct a review of DHFS administration of child welfare services in Milwaukee County. This motion would request the Audit Bureau to report its finding to the Joint Committee on Audit by January 1, 2003.

Alberta Darling

Wisconsin State Senator

Co-Chair, Joint Committee on Finance

FOR IMMEDIATE RELEASE

For More Information, Contact
February 11, 2004

Senator Alberta Darling
608-266-5830

DARLING REQUEST FOR W-2 AUDIT IS APPROVED

MADISON . . . Wisconsin's W-2 program will receive another thorough, non-partisan evaluation after the Joint Legislative Audit Committee gave its approval today to the audit request made by state Senator Alberta Darling (R-River Hills).

"Since W-2 was created almost a decade ago, citizens and legislators have looked to the Audit Bureau to give them accurate reports on the successes and failures of this groundbreaking program," said Darling. "Participants, observers and legislators have raised enough legitimate concerns over the past year that I was spurred to request another quality assessment."

Today's unanimous committee approval of Darling's request will give the Legislative Audit Bureau several areas in which to focus on, including:

- State and local administrative costs, including a review of the level and appropriateness of expenditures
- Program sanctions, including the extent to which DWD has been successful in reducing the inappropriate sanctioning of W-2 participants
- Trends in participant caseloads, including the extent to which DWD has been successful limiting cash assistance caseloads by assisting former participants to maintain employment

"Wisconsin has long been a national leader in innovative welfare reform," said Darling.

"However, based on the recent develops and the fact that reliable financial information on the W-2 program is now outdated and it's time to take another snapshot of the program."

It has been almost three years since the LAB has evaluated the W-2 program. During that time, the program has undergone a number of significant changes and growth spurts, especially in Milwaukee County. Recent studies and subsequent media accounts detailed alleged fiscal mismanagement and questioned the program's effectiveness.

###



**Remarks to the Joint Legislative Audit Committee
Secretary Roberta Gassman
Wisconsin Department of Workforce Development
February 11, 2004**

Good morning, Co-chairs Roessler and Jeskewitz and members of the committee. I thank you for the opportunity to appear before you today to discuss the proposed audit of the Wisconsin Works (W-2) program.

BACKGROUND

I believe that the W-2 program, administered by DWD, is one of Wisconsin's most important programs. Together I know we share the goal of operating a program which most cost-effectively and fairly connects low income people with work and related services for lives of economic self-sufficiency.

Although DWD has made many improvements to the W-2 program, as with any new major program, we are sure that this initiative could be even more successful and we would welcome the opportunity to work with you on a potential future audit.

The W-2 program and successfully connecting low-income people to work are high priorities for Governor Doyle, me and the Department of Workforce Development. We believe that W-2 has met many of the goals under which the program was originally designed and we, as a state, can be proud of its successes. We also believe there are some areas of the W-2 program that could be made even more successful, or that, perhaps, have not reached initial, expected outcomes. A thorough, independent assessment of the program could provide insights into those areas that may need change or improvement. We welcome feedback on the W-2 program and would provide all records, staff and necessary other resources needed to successfully complete an audit of the program.

I am pleased to report that since the Committee's last audit of W-2 in 2001, the Department of Workforce Development has made a number of improvements to the program. These include:

- Implementing the Barrier Screening Tool to help identify potential barriers to participation in W-2 activities early on in participants' entry into the program;
- Conducting a sanctions study to ensure that participants are equitably treated;
- Creating enhanced performance standards for the 2004-2005 W-2 contract period; and,
- Increasing our financial monitoring of the agencies administering the program.

However, further analysis could be helpful as we work to ensure the most effective program possible.

4. AN ANALYSIS OF THE COST AND EFFECTIVENESS OF TRAINING AND OTHER SERVICES PROVIDED TO PARTICIPANTS IDENTIFIED AS HAVING THE GREATEST BARRIERS TO EMPLOYMENT, INCLUDING THE TYPES AND AMOUNTS OF SERVICES RECEIVED BY W-2 PARTICIPANTS

We recognize that some individuals have more barriers to overcome than others and that they will need more intensive case services. From the beginning, W-2 has operated on the principle that all of our participants can participate at some level. The diverse level of educational activities that participants are involved in including English as a Second Language, basic education, literacy, and job skills training, show the flexibility of the program in serving the needs of participants. We continue to believe that even our participants facing the most barriers can improve their lives by participating in activities such as basic education, parenting skills, and work experience.

DWD has also made significant changes in the way we are measuring W-2 agency and participant success. The performance standards are outcome based, measuring the success of the W-2 participants involved in the program. The performance standards:

- Require that W-2 participants are properly assessed by W-2 agencies;
- Measure the unsubsidized employment, job retention and earnings increase of participants;
- Measure the success of W-2 participants who are in educational activities, including job skills training (over 2/3 of W-2 participants without a high school diploma/equivalent are involved in educational activities);
- Measure the customer satisfaction of participants with the W-2 agency via an independent survey.

5. A REVIEW OF PROGRAM SANCTIONS, INCLUDING THE EXTENT TO WHICH DWD HAS BEEN SUCCESSFUL IN REDUCING THE INAPPROPRIATE SANCTIONING OF W-2 PARTICIPANTS

Inappropriate sanctioning, in some cases, is the result of participants being assigned to activities that they have difficulty completing due to their employment barriers. Since 2001, DWD has taken steps to ensure that employment barriers are identified and needs are addressed early in an individual's participation:

Screening and Assessment

- DWD has placed greater emphasis on the importance of assessing participant barriers. Through the W-2 contracts, performance standards, and policy we have required our agencies to refer participants with serious employment barriers to a professional for formal assessment. A formal assessment can determine the need for medical treatment, counseling, or other types of community services and ensure that participants have the necessary accommodations to successfully engage in W-2 work, training, and education.
- We have implemented the Barrier Screening Tool to assist workers in identifying participant employment barriers that might otherwise remain hidden, such as domestic violence, substance abuse and mental health conditions. The caseworker uses the results of the screening process to refer individuals who are at-risk of significant

- Allocation of costs when non-eligible program participants are served by the W-2 agency.
- Compliance with DWS requirements including:
 - Caps on funding, such as administrative cost caps;
 - Accuracy and timeliness of expenditure reports;
 - Prior approval for information technology purchases;
 - Subcontract approval; and,
 - Procurement requirements.
- DWD regional staff review monthly expenditure reports to ensure compliance with state, federal, DWD, and W-2 RFP requirements, policies and procedures.
- The trigger for regular monitoring is monthly receipt of W-2 agency expenditure reports. Intensive monitoring or technical assistance is warranted if expenditures reported by the W-2 agencies appear excessive for the period report, if funds appear to be insufficient for the known agency caseload size, or if they include requests to purchase unusual items or services.
- The intent of this monitoring is to confirm that W-2 agencies are requesting reimbursement properly, that the percentage of administration costs is appropriate, and to note any changes in or unusual spending patterns for the W-2 program.
- An on-site review is conducted in each W-2 agency within the W-2 contract period. Fiscal components of on-site reviews include:
 - Internal controls;
 - Contract assurances;
 - Cost allocation;
 - Depreciation schedules;
 - W-2 employee bonuses;
 - Indirect cost plans;
 - Consistency with the W-2 plan;
 - Procurement;
 - Compliance with prior approval processes; and,
 - Consistency between the level of program services and fiscal claims.

POSSIBLE STEPS AHEAD

I hope that this update is helpful to your deliberations.

I do believe that an LAB audit could be particularly helpful in the area of the fourth subject you raised, the cost and effectiveness of training services, particularly in relation to Wisconsin's currently hard-hit economy. Here LAB's focus could assist us with our future budget and allocation decisions as we work to meet the needs of participants.

Since 2001, Wisconsin has undergone a rapid increase in our unemployment rate. In parts of Milwaukee the unemployment rate is double or triple the statewide average. Determining how the availability of employment opportunities has affected our caseloads and how W-2 agencies have confronted this situation and adjusted their program will be instructive to us and other agencies that are struggling with placing participants in unsubsidized employment.

7.

BUILT^{to} LAST

Why-Skills Matter for Long-Run
Success in Welfare Reform

by Karin Martinson and Julie Strawn

Revised April 2003

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ACKNOWLEDGMENTS

The authors would like to thank those whose financial support made this report possible: The National Institute for Literacy, the Charles Stewart Mott Foundation, the Ford Foundation, the George Gund Foundation, the MacArthur Foundation, the Moriah Fund, the Joyce Foundation, the Public Welfare Foundation, the Open Society Institute, the Packard Foundation, and an anonymous donor. We would also like to thank Gayle Hamilton and David Butler of the Manpower Demonstration Research Corporation for their help in interpreting the NEWWS data. Garrett Murphy of the National Adult Education Professional Development Consortium (NAEPDC) and Mark Greenberg of the Center for Law and Social Policy reviewed drafts and provided helpful comments.

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ABOUT THE AUTHORS

Karin Martinson is a consultant based in Washington, D.C. She has a wide range of experience as both a researcher and a policy analyst on many issues related to low-income families, including welfare reform, employment and training programs, and program operations and service delivery.

Julie Strawn is a Senior Policy Analyst who works on workforce development and welfare reform issues with the Center for Law and Social Policy. She focuses in particular on job advancement and access to postsecondary education for low-income adults.

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EXECUTIVE SUMMARY

Federal welfare funding, through the Temporary Assistance for Needy Families (TANF) block grant, gives states unprecedented flexibility to help low-income parents move into employment. While states are generally given broad authority to craft their own approaches for meeting the goals of the legislation, the law discourages states from allowing welfare recipients to participate in education and training programs. Specifically, the law limits the extent to which education activities count toward federal work participation requirements, effectively restricting full-time education and training to 12 months and capping it at no more than 30 percent of TANF participants.

These TANF restrictions on education and training are at odds with recent research findings:

- ✧ **SKILLS ARE STRONGLY LINKED TO SUCCESS IN THE LABOR MARKET.** Basic skills and educational credentials matter generally for success in the labor market, and welfare recipients often have low skills that hinder their efforts to find and keep employment and earn enough to support their families.
- ✧ **THE MOST SUCCESSFUL WELFARE-TO-WORK PROGRAMS INCLUDE EDUCATION AND TRAINING AS WELL AS OTHER SERVICES.** Research unequivocally shows that the most successful welfare-to-work programs focus on employment but make substantial use of education and training as well as job search and other employment services. Focusing on just job search or basic education is not nearly as successful, especially over the long term.
- ✧ **JOB TRAINING AND POSTSECONDARY EDUCATION CAN LEAD TO HIGHER EARNINGS IN THE LONG RUN.** Helping low-income parents increase their skills through job training and other postsecondary education pays off in the labor market. Even those with lower skills can benefit from job training, if adult basic education programs provide a substantial number of weekly instructional hours, close attention is paid to quality, and basic education is linked to job training and to employment.

Moving through basic education and job training can take a substantial amount of time—more than a year on average—yet pays off much more than basic education alone.

FEDERAL TANF POLICIES

As Congress considers legislation in 2003 to reauthorize the TANF block grant, the decisions it makes concerning access to education and training are likely to have a profound impact on the long-term success of welfare reform. Some important steps can be taken to increase access to and successful participation in high-quality education and training:

- ✧ **EASE SOME OF THE CURRENT RESTRICTIONS ON COUNTING EDUCATION AND TRAINING PARTICIPATION TOWARD FEDERAL WORK REQUIREMENTS.** States cannot achieve successful, long-term employment outcomes if they are discouraged from allowing TANF recipients to upgrade skills as part of a comprehensive employment program.
- ✧ **ALLOW SUFFICIENT TIME FOR WELFARE RECIPIENTS TO MOVE THROUGH BOTH ADULT BASIC EDUCATION AND JOB TRAINING TO OBTAIN OCCUPATIONAL CERTIFICATES.** While it can take longer on average to complete both basic education and training than the current 12 months that such activities count toward TANF work rates, it is a worthwhile investment. The economic payoff is much larger than basic education or job search activities alone.
- ✧ **MAKE IT EASIER TO BALANCE WORK, FAMILY, AND SCHOOL BY KEEPING THE OVERALL REQUIRED HOURS OF PARTICIPATION AT A REASONABLE LEVEL.** The U.S. Department of Education finds that the more hours postsecondary students work, the larger the negative impact on their grades and ability to stay in school.
- ✧ **OFFER INCENTIVES TO STATES TO PROVIDE SUPPORT SERVICES AND WORK-STUDY POSITIONS TO LOW-INCOME PARENTS WHO ARE STUDENTS.** States should be encouraged to provide services and job opportunities through TANF that better enable low-income workers to balance work, school, and family. Congress should also examine in its reauthorization of the Higher Education Act how federal financial aid policies can better support low-income workers in school.

- ✧ **ENCOURAGE STATES TO PROVIDE JOB RETENTION AND ADVANCEMENT SERVICES, AND PROVIDE FEDERAL GRANTS TO BUILD TRAINING PROGRAM CAPACITY IN PARTNERSHIP WITH EMPLOYERS.** Employment retention and advancement should be part of TANF's goals, and federal grants should be given to spur the creation of public-private partnerships that help unemployed and low-income workers upgrade their skills, especially at the worksite and during work hours.

STATE AND LOCAL TANF POLICIES

States and localities can use the flexibility in TANF to improve access to and quality of employment-related basic education, English as a second language (ESL) classes, and job training services not only for welfare recipients but for other low-income workers as well. States and localities can take the following steps:

- ✧ **ESTABLISH CLEAR LINKS BETWEEN BASIC EDUCATION, ESL, AND JOB TRAINING.** This can be done through funding and performance measure mechanisms that reward programs for facilitating transitions and creating "bridge" programs that quickly prepare adults to enter job training.
- ✧ **MAINTAIN A CLOSE CONNECTION BETWEEN EDUCATION AND TRAINING AND EMPLOYMENT.** Education and training should be followed quickly with strong job search and job development efforts. Obtaining better quality jobs should be a key focus throughout education, training, and job search services.
- ✧ **PROVIDE INTENSIVE SERVICES AND CLOSELY MONITOR PROGRESS.** Programs should offer a substantial amount of instruction each week so that individuals can complete them quickly. Monitor progress closely and reassess and possibly reassign those who are not participating successfully.
- ✧ **ESTABLISH TRAINING OPTIONS FOR THOSE WITH LOW SKILLS.** Expand the capacity of programs to provide occupational training to those with low basic skills and/or limited English who may not gain access to existing programs. In particular, more programs are needed that combine adult basic education and English language services with occupational training.

4 BUILT to LAST: Why Skills Matter for Long-Run Success in Welfare Reform

I WELFARE RECIPIENTS, SKILLS, AND EMPLOYMENT

In general, basic skills and educational credentials are critical for labor market success, particularly if individuals are to find higher quality jobs and experience substantial earnings growth. While many welfare recipients have found jobs under TANF, their annual earnings are typically low and grow modestly over time, in large part because their low skill levels and lack of educational credentials consign them to low-wage jobs. Further, those with low educational attainment and low skills are more likely than other recipients to remain on welfare and unemployed or to return to welfare after finding and then losing a job.

- ✧ There is a strong demand for cognitive skills by employers, even in entry-level jobs. In contrast, many welfare recipients lack both the skills and credentials needed for success in the labor market.

Many jobs in today's labor market require a certain level of skills, credentials, or both. A survey of over 3,000 employers about entry-level jobs available to workers without a college degree found that most jobs require the performance of one or more cognitive tasks, such as reading and writing paragraphs, dealing with customers, doing arithmetic, and using computers.¹ Most employers in this study required credentials, such as high school diplomas and general work experience, and some also required previous job training. Another study found that those with the skill levels of a typical high school dropout will qualify for just 10 percent of all new jobs between 2000 and 2010, while those with the skill levels of a typical high school graduate will qualify for only 22 percent of these new jobs.²

The skills that employers want stand in stark contrast to the actual skills and credentials of parents receiving welfare. Low basic skills are one of the most com-

mon barriers to employment faced by welfare recipients.³ One national study found that 60 percent of all welfare recipients, and 81 percent of recipients without recent work experience, have low basic skills, compared to 30 percent of full-time workers.⁴ Another national survey, conducted before TANF was enacted, found that nearly two-thirds of welfare recipients scored in the bottom fourth of all women their age on a basic skills test called the Armed Forces Qualifying Test. Half of those parents—one-third of all welfare recipients—had basic skills lower than 90 percent of other women their age.⁵

The educational attainment of mothers on cash assistance also remains well below average. Government data indicate that 45 percent of the mothers who received TANF in 1999 had completed high school or received a GED.⁶ In comparison, 87 percent of all American women 18 to 54 years of age had completed high school or received a GED.⁷ In addition, some of those welfare recipients with a high school diploma have low basic skills despite their credential. A national study found that welfare recipients have substantially lower skills than other adults with the same level of formal education.⁸

✕ Not surprisingly, given their low skills and educational levels, welfare recipients generally fare poorly in the labor market. Many who have left welfare are working at low-wage jobs with limited benefits.

While many welfare recipients left welfare for work under the 1996 welfare law, most of these individuals are not faring well in the labor market. One study with a nationally representative sample found that those who left TANF for work in 1999 had a median wage of \$7.15 per hour.⁹ Moreover, individuals who leave welfare for work are unlikely to receive employer-provided health care coverage or paid sick or vacation leave. In the same study, only about one-third of employers offered health insurance. About 52 percent of those who left welfare in 1999 had incomes below the poverty level. Many of these individuals are poor because their hourly wages are low and because they are not working full-time and year-round.¹⁰ Studies from individual states have reached similar findings.¹¹

A closer examination of the jobs held by current and former welfare recipients makes it clear why their earnings are so low. One study analyzed the type of employment obtained by individuals who left welfare for work from 1995 to 1997. More than 40 percent of the jobs were in service occupations and 17 percent were in administrative or clerical positions, traditionally low-paying fields that require only minimal skills. While wages are generally higher in managerial, professional, or machine operator fields, fewer than one-quarter of TANF recipients managed to find jobs in these better paying occupations.¹²

For some recipients, a lack of credentials and low basic skills contribute to chronic unemployment. Several studies have shown that individuals with high school diplomas are more likely to leave TANF for work,¹³ while those with the lowest skills have the least connection to the labor market. One pre-TANF study found that women with extremely low basic skills (lower than 90 percent of women their age) were more likely to be disconnected entirely from the workforce. Forty-four percent of women with extremely low basic skills had not worked for most of the two-year period studied, compared with just 15 percent of those with moderately low skills. In contrast, less than 10 percent of higher skilled women were out of the labor market that long.¹⁴

- ✕ **Welfare recipients experience little wage growth over time. Wage growth is restricted because those with low skills face limited opportunities for upward mobility.**

Research conducted prior to TANF found that parents receiving welfare who enter employment experience high rates of job loss with little wage growth. Earnings grow, but this growth is due principally to working more hours or weeks in a year rather than to earning significantly higher wages.¹⁵ Recent studies of individuals who leave welfare provide little information concerning employment retention and advancement; the studies with some longitudinal data typically suggest some earnings growth over time, but median earnings for adults who have left assistance remain very low—about \$10,000 annually.¹⁶ A national study that tracked young women for 10 years after leaving welfare sheds some light on prospects for long-term earnings growth—it found that while earnings increased significantly in the first five years, they plateaued after that, averaging only about \$13,000 in the tenth year after leaving welfare.¹⁷

Many former welfare recipients and other low-wage workers do move up the job ladder, but education credentials and skills, rather than experience, are increasingly the most important determinant of wages.¹⁸ One national study of young welfare recipients found that each year of schooling beyond high school increased wages by about 7 percent; other studies find a similar link between postsecondary education and wages.¹⁹ Overall, the more education a woman acquires, the more she earns: 1999 Census data show women with an associate degree earn more than twice as much as those without a high school diploma (about \$24,000 annually compared to about \$11,000) and 37 percent more than those with only a high school diploma (who earn about \$17,000).²⁰ And since the late 1970s, workers without a college degree have had fewer opportunities for wage increases than those with a degree.²¹ A recent national study found that,

among women who stay with the same employer, those without a high school diploma see annual wage increases of less than 1 percent (0.7 percent); those with a high school diploma about twice that (1.4 percent); while the wages of those with a college degree grow at five times the rate of those without a high school diploma (3.6 percent annually).²²

Higher basic skills are also linked to higher wages over time. One pre-TANF study found that those with basic skills test scores in the top three-fourths of all scores earned about 8 percent more per hour in the fourth and fifth years after leaving TANF than those with scores in the bottom fourth.²³ Other studies find a similar link between skills and wage growth.²⁴ Few studies specifically address whether welfare recipients with low skills and limited education have difficulty advancing in the job market based on work experience alone. Preliminary evidence suggests, however, that while many low-wage workers advance in the labor market, the ones who remain in jobs with little or no earnings growth for long periods of time tend to be less educated and disproportionately female, features shared by the welfare population as a whole.²⁵

The limited occupational mobility of low-skilled women may partly reflect the types of jobs these women hold.²⁶ Occupations offering workers without some college education the greatest wage potential, such as machinist, equipment repairer, and truck driver, tend to be held by men.²⁷ While sales and administrative/clerical jobs can be better paying for those who work their way up to supervisory positions, only a small portion of these jobs are supervisory—so few can expect to attain such positions. In general, unless low-educated females work in nontraditional jobs or pursue postsecondary education and training, their upward mobility is quite limited.²⁸

Research also suggests that welfare recipients have stronger earnings potential if they start at jobs with higher wages.²⁹ In one pre-TANF study, the average wages of former welfare recipients in the top fourth of the wage distribution grew significantly over five years, even after controlling for skills, education credentials, work history, type of jobs, and personal factors. By contrast, the average wages of those in the bottom fourth did not increase at all.³⁰ Other studies have found that recipients with higher wages initially were more likely to stay employed and work more over a five-year period.³¹ However, one study looking at lower skilled workers more generally did not find lower rates of wage growth at the bottom of the wage distribution.³²

- ✧ **Three at-risk groups**—those individuals who remain on welfare and unemployed, those who leave TANF without finding work, and those who leave TANF but return to the rolls—have low education and skill levels.

Because caseloads have declined dramatically since the enactment of TANF, concerns have been raised that the group still receiving welfare may be more disadvantaged and face more difficult challenges in moving to work. When several studies found few differences between those remaining on the rolls after TANF as compared to those on the rolls before the law took effect,³³ some concluded that more disadvantaged families, with low education and skill levels, are finding jobs at the same rate as those with higher skill levels.

A closer look at the data, however, shows that focusing only on the characteristics of those receiving welfare masks the troubling experiences of those with low education and skill levels. There are two reasons for this. First, primarily because of increased earned income disregards under TANF, which allow more individuals to combine welfare payments and job earnings, some of the more educated and skilled individuals stay on welfare when they are working.³⁴ Several studies have found that those on welfare and working are similar to women who are off welfare and working.³⁵ Second, some families with more severe barriers are unable to meet work requirements and comply with other rules and mandates and are sanctioned off the rolls.³⁶ This means some disadvantaged families are leaving the rolls without finding employment.

What is more important to look at, then, is who is working or not, regardless of welfare status. Individuals who are struggling to enter and stay in the workforce are concentrated in three groups:

- ✧ **ON TANF AND NOT WORKING.** Those families who remain on the rolls and are not working have predominantly low education and skill levels. Several studies have found that TANF recipients who are *not* working have significantly lower education levels than those who are working—even though both are on welfare.³⁷ For example, one study of welfare recipients in Michigan found that among those on welfare and *not* working, 46 percent did not have a high school diploma, compared to 32 percent of those on welfare and working. Thirty-three percent had low skill levels, compared to 14 percent of those on welfare and working.³⁸

- ✕ **OFF TANF AND NOT WORKING.** Due to sanctions and other reasons, not all families who leave TANF are working—and this group also has low education and skill levels. For example, one study in Illinois found that 66 percent of those who left welfare with a job had a high school diploma, while only 52 percent of those who left TANF without a job had one.³⁹ Several other studies have found that individuals who leave welfare without finding employment face many of the same barriers as those who remain on TANF and are not working, including low education and skill levels.⁴⁰
- ✕ **RETURNING FORMER RECIPIENTS.** A third group is welfare recipients who find employment initially, but then lose their jobs and return to welfare. Studies have consistently found that about one-fifth of those who leave TANF return to cash assistance.⁴¹ The group returning to welfare appears to be a particularly disadvantaged group, with low education levels, while those with higher education levels are more likely to stay employed. For example, in one national study of those who left welfare and returned, 38 percent had less than a high school education compared to 27 percent of those who were working and off TANF.⁴²

There are also early warning signs that individuals leaving welfare more recently may find it more difficult to succeed in the labor market than those who left earlier. A study in Wisconsin, one of the first states to implement welfare reform, finds that a cohort who left welfare during 1997 had lower earnings than those who left in 1995, an outcome attributed to the lower education levels of this second group.⁴³

Overall, basic skills and credentials are critical for employment and particularly for advancing to higher paying jobs. There are also indications that individuals who are not working (both on and off TANF) and those who return to the welfare rolls will face difficulties finding lasting employment, in large part due to their low education and skill levels. Because welfare recipients have low skills, if they are to find jobs, move to better jobs, and move out of poverty, strategies to upgrade basic and job skills will be required.

2 WHICH WELFARE-TO-WORK STRATEGIES WORK BEST?

The previous chapter highlights the importance of increasing skills and educational attainment if welfare recipients are to ultimately succeed in the labor market. Employment services for welfare recipients have been evaluated extensively using random-assignment methodology,⁴⁴ and these studies provide important lessons on how to most effectively provide these services.

- ✧ The most successful welfare-to-work programs—those that increased employment and earnings on a sustained basis—are those that provide a range of services, including job search but also education and training. Recipients typically participated in just one activity at a time.

Evaluations of numerous welfare-to-work programs have consistently shown that a “mixed strategy”—one that provides education and training as part of a program whose central focus is employment—has been the most effective in increasing employment and earnings, reducing welfare receipt, and sustaining that success over time.⁴⁵ The latest and most comprehensive evaluation in this area is the National Evaluation of Welfare-to-Work Strategies (NEWWS), which studied 11 sites in the mid-to-late 1990s using a random-assignment research design.⁴⁶

One of the sites in the NEWWS evaluation—Portland, Oregon—produced employment and earnings impacts that are among the largest ever seen in welfare-to-work programs. As discussed below, the program focused on employment, especially in higher paying jobs with benefits, and provided a range of services that included education and training. The first activity varied for each individual depending on her circumstances, and recipients generally only participated in one activity at a time.

The program resulted in a 21 percent increase in employment, a 25 percent increase in earnings, and a 22 percent reduction in the time spent on welfare compared to control group members.⁴⁷ These impacts far surpassed the other NEWWS sites as well as results from other evaluations, for both high school graduates and non-graduates. The Portland program also resulted in the largest improvements in job quality—program enrollees experienced a 13 percent increase in hourly wages and a 19 percent increase in employer-provided health insurance—and was one of only four sites in NEWWS that had any impacts in this area.⁴⁸ Finally, it was also one of the few sites in the evaluation that increased employment stability, with a 14 percent increase in the proportion employed in all four quarters of the last year of the study.⁴⁹

Other evaluations have shown that programs that provide a range of services—primarily education, training, and job search—produce the best results. Most notably, the Riverside, California, GAIN program, which operated in the late 1980s, had a strong employment focus but also allowed participation in education activities (60 percent participated in education or training) and produced impacts similar to Portland.⁵⁰ In addition, both the San Diego SWIM program and the Baltimore Options program, which also operated in the 1980s, produced substantial earnings impacts through job search as well as education and training.⁵¹ Except for the San Diego SWIM program, these mixed-service programs have made either limited or no use of unpaid work experience or community service activities (where individuals work in unpaid public or non-profit positions in exchange for their cash grant).

- * The Portland program substantially increased participation in education and training programs—particularly job training and other post-secondary activities—and strongly emphasized job quality while maintaining a clear employment focus.

What made the Portland program so effective? Several features of the Portland program appear to have contributed to its impressive outcomes.

PROGRAM ACTIVITIES INCLUDED EDUCATION, TRAINING, LIFE SKILLS, AND JOB SEARCH. In Portland, those who were most work-ready received help in finding good jobs—ones that paid more than minimum wage, had benefits, and were full-time—while those with less education and work experience typically participated in life skills, education and training, and job search activities.⁵² Overall, the Portland program produced a 23 percent increase in the use of edu-

cation and training compared to the control group. For those with a high school diploma, the program primarily increased participation in postsecondary education and training. Over half of this group attended a community, two-year, or four-year college at some point in the five years after entering the program—a 66 percent increase as compared to a control group. For those without a high school diploma, the program increased the use of both basic education and job training. GED preparation classes were offered to those who staff thought had a good chance of attaining a GED certificate relatively quickly, and, as discussed below, some of these individuals went on to additional education and training programs after receiving their GEDs. It should be noted that while education and training were common activities, job search was also used extensively—the program resulted in an 84 percent increase in participation in this activity. Overall, the program was very balanced in its use of job search and education and training—over five years of follow-up in Portland, 68 percent participated in education or training and a similar share (65 percent) participated in job search.⁵³

TAILORED SERVICES. The program did not use a “one-size-fits-all” approach but rather tailored services to individual needs and circumstances. While some enrollees attended job search activities (as in other typical job search-focused programs), others were initially assigned to education or training. Subsequent activities were also individually tailored, although those who completed the life skills program were most likely to participate in education and training; job search was common for those who completed education and training. Further, there was no standard hourly participation requirement; while staff worked intensively with recipients to help them participate as much as possible, expectations for hourly participation were tailored to each individual.⁵⁴

EMPHASIS ON JOB QUALITY. There was a strong emphasis on finding high-quality jobs. In a departure from other typical job search-focused programs, job search participants in Portland were counseled to wait for a good job, as opposed to taking the first job offered. Education and training was also encouraged as a means of enhancing employability—specifically as a means of obtaining jobs with higher wages and benefits. The focus on job quality was reflected in program performance standards that encouraged staff to promote higher paying jobs. The performance standards included a target for the average placement wage, which was always much higher than the state minimum wage (for example, in 1994, Oregon’s minimum wage was \$4.75 per hour and the placement wage target was \$6.00 per hour).⁵⁵

- ✕ The Portland program performed better than programs primarily focused on job search—impacts were larger and longer-lasting, persisting even five years later.

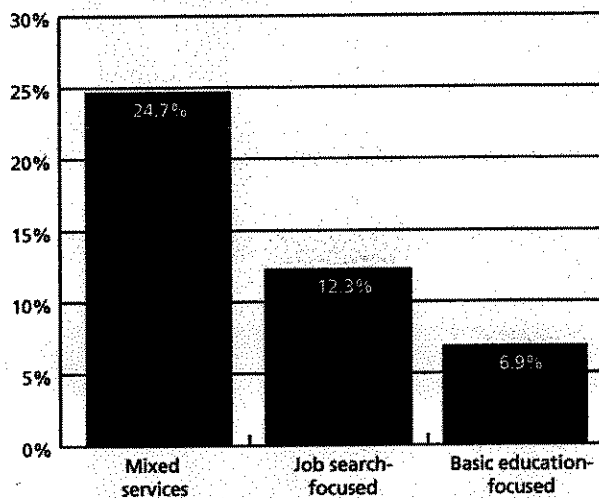
Mixed-service programs that include education and training have consistently outperformed job search-focused programs, which primarily provide job search assistance. The recent NEWWS evaluation included several sites that focused

exclusively on employment and, unlike the Portland program, did not provide a mix of services. These job search-focused programs increased employment and earnings and reduced welfare payments, but by substantially less than the Portland program. Earnings gains in job search-focused programs evaluated ranged from 8 to 17 percent (\$1,500 to \$2,500), and the reduction in months on welfare ranged from 8 to 14 percent.⁵⁶ (Portland participants experienced a 25 percent increase in earnings and a 22 percent reduction in the time spent on welfare.) (See Figure 1.)

Another striking difference between Portland and the job search-focused programs in the NEWWS evaluation is that

FIGURE 1

Average Increase in Earnings Over Five Years for Three Welfare-to-Work Strategies



Source: Hamilton, G., Freedman, S., Gennetian, L., Michalopoulos, C., Walter, J., Adams-Ciardullo, D., et al. (2001). *How effective are different welfare-to-work approaches? Five-year adult and child impacts for eleven programs*. Washington, DC: U.S. Department of Health and Human Services, Administration for Children and Families and Office of the Assistant Secretary for Planning and Evaluation; and U.S. Department of Education. Available at www.mdrc.org.

Portland continued to produce unusually large earnings impacts in the fourth and fifth years of follow-up, while impacts in most of the job search-focused sites in the NEWWS evaluation disappeared over the long run.⁵⁷ This is because job search-focused programs achieve their results by helping people work more, rather than by helping them prepare for better jobs or helping them keep jobs longer. Consequently, the impact of these programs tends to be largest in the first year or two and then diminish over time, as many program members lose the jobs they find initially and do not earn more while employed. At the same time, many of the welfare recipients assigned to the control group (which did not

receive program services) eventually found on their own the same kinds of jobs as recipients enrolled in the program.⁵⁸ In contrast, the initial investments in education and training made in Portland appeared to pay off over time, as individuals found higher paying jobs and stayed employed.

Past evaluations have shown a similar result, with mixed-service programs producing longer lasting impacts than those that provided only job search assistance.⁵⁹ For example, the earnings impacts in the Baltimore Options program also grew over time and did not diminish like many of the other programs evaluated. This result was attributed to the fact that the program helped individuals find higher paying jobs than they would have without its services.⁶⁰ In addition, Portland and other mixed-service programs have performed far better than programs offering primarily work experience—these programs have resulted in minimal gains in employment and earnings.⁶¹

- ✕ The Portland program performed better than programs that were primarily focused on adult basic education (rather than job training or postsecondary education).

Basic education—GED preparation programs, adult basic education programs for those below an eighth grade level, and ESL programs—has been the most common activity in welfare-to-work programs that emphasizes skill development, primarily because of the low skills of welfare recipients. Most of these basic education-focused welfare-to-work programs operated prior to the implementation of TANF when there was less of an overall focus on employment in these programs. Basic education-focused programs that were evaluated before TANF typically did not have strong links to employment or to job training.

A review of welfare-to-work evaluations shows that earnings gains from these basic education-focused programs have been limited, with few performing better than mixed-service or job search-focused interventions.⁶² For example, in the NEWWS evaluation, effects were smaller for the basic education-focused programs than for the job search-focused programs, with earnings gains in the basic education programs ranging from about 4 to 13 percent (\$800 to \$2,000) and reductions in the time spent on welfare ranging from 4 to 14 percent. In addition, the basic education-focused programs did not improve job quality and were more expensive to operate. And, as with most job-search focused programs, their impacts disappeared over the long run.⁶³

Evaluations of basic education-focused welfare-to-work programs show that they did increase the number of welfare recipients who got an education credential (in

most cases a GED, but some high school diplomas as well).⁶⁴ However, a majority of basic education participants did not earn a GED. In addition, few of the programs evaluated increased education test scores. Just two of 12 sites that measured education gains for program enrollees found impacts on test scores.⁶⁵

The Portland program, which produced substantially larger employment and earnings impacts than basic education-focused programs, also increased participation in basic education and receipt of GEDs for high school non-graduates. However, basic education services in Portland were provided intensively within a program that emphasized employment and job quality. Importantly, as discussed in the next chapter, individuals in basic education often participated in other services before or after, particularly job training, life skills, and job search activities.

3 WHEN DOES EDUCATION AND TRAINING PAY OFF?

There is a growing body of evidence pointing to the importance of job training and other postsecondary education in producing earnings gains and improving job quality for welfare recipients. Even those without high school diplomas can benefit if basic education is closely linked to job training.

- ✧ Job training and other postsecondary education can produce substantial employment and earnings gains, even for those with lower skills, if basic education and training are closely linked.

The mixed-strategy program in Portland, which dramatically increased earnings and job quality, increased the proportion of non-graduates who obtained a high school diploma or GED *and* a second education or training credential (usually a trade license or certificate)—a result no other evaluated program has achieved. While the other education-focused sites in NEWWS did produce impacts on the receipt of GEDs or high school diplomas for non-graduates, none had an impact on receiving a trade license or certificate or on receiving a GED and another credential. None of the job search-focused programs had impacts on the receipt of any credential.⁶⁶ In addition, the three NEWWS sites that most increased hourly pay for non-graduates after two years of follow-up—Portland as well as Columbus, Ohio, and Detroit, Michigan—also boosted participation in job training or other postsecondary services for this group.⁶⁷

The NEWWS evaluation also showed significant economic returns of job training or other postsecondary education for those without a high school diploma in a study of outcomes in three sites other than Portland.⁶⁸ This non-experimental analysis of the NEWWS data found that non-graduates in basic education activities had substantially larger increases in longer term earnings and self-sufficiency