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☛ Details: Legislative Audit Bureau Letter Report (July 2005): Financial Management of Selected W-2 Agencies

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

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- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)

Letter Report

**Financial Management of
Selected W-2 Agencies**

July 2005



Legislative Audit Bureau

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Janice Mueller
State Auditor

July 20, 2005

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

Dear Senator Roessler and Representative Jeskewitz:

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

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

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

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

Sincerely,

Janice Mueller
State Auditor

JM/PS/ss

FINANCIAL MANAGEMENT OF SELECTED W-2 AGENCIES

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

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

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

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

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

Salaries of W-2 Agency Administrators

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

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

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

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

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

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

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

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

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

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

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

Review of Selected Transactions

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

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

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

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

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

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

Appendix 4 lists all costs that we questioned.

■ ■ ■ ■

Findings from 3 previous reviews

Appendix 1

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

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

¹ Identified in our February 2001 letter report.

² Identified in our July 2000 letter report.

³ Identified in our November 2004 letter report.

Appendix 2

Salaries of W-2 Agency Officials¹
2004

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

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

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

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

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

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

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

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

Appendix 3

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

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

Appendix 4

**Questioned Costs for United Migrant Opportunity Services, Inc.
and YW Works**
2002-2003 Contract Period

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





July 28, 2005

The Honorable Janice Mueller
State Auditor
State of Wisconsin Legislative Audit Bureau
22 East Mifflin Street – Suite 500
Madison, Wisconsin 53703

Dear Ms. Mueller:

MAXIMUS has enjoyed its strong partnership over the last decade with the State of Wisconsin. Through the Wisconsin Works program, we have been particularly pleased to have had the opportunity to work in the Milwaukee community serving thousands of citizens and helping them make the often difficult transition to self-sufficiency through gainful employment. As you know, we have staked our reputation on providing the highest quality services and comporting our business in the highest ethical manner.

As you know, MAXIMUS cooperated fully with your most recent review, as we have throughout our history working with the Legislative Audit Bureau. That said, we reviewed your recent letter audit and the resulting press coverage and felt compelled to write and give a sense of scale and context to any misperceptions that may have been created as a result of your review.

Our goal, as a Company, is to not merely meet the measures we are contractually obligated to meet, but to exceed those State performance measures and expectations. It is part of our management philosophy and a key message we convey to our employees that "what gets measured and rewarded, gets done." This message is not just words that are posted throughout all MAXIMUS facilities, it reflects a tangible commitment by the Company that has successfully motivated our employees in their mission of "Helping Government Serve the People" during the last 30 years.

The overall MAXIMUS employee compensation package for all staff is linked directly to the State's performance expectations. We extend the State's contractual performance expectations directly to our frontline staff, who work each day, face-to-face with job seekers. We believe this gives them a greater connection to the larger goals of the firm and the State, without forgetting that our real success is measured by the individual lives we change and improve.

Another key principle of our employee compensation package, not evidenced in your review, is that total compensation comprises both a fixed and variable component. Total compensation is set to reflect competitive market rates. An employee only earns their total compensation (base salary and performance bonus) when they perform at or above the standards set for their position, contract, and ultimately their customer. As a result, many of our base salaries in the Company are lower than our service competitors.

As your report notes, the performance-related compensation methodology for our 200+ employees has been identified in a written plan that has the advance approval of the Department of Workforce Development (DWD), and is an agreed-upon, limited investment of no more than 8% of our labor cost. This assures that our total average compensation is comparable to other agencies, while also providing a level of motivation and encouragement to the staff that is consistent with our reward and recognition philosophy. For this effort, over three years, the average bonus for each staff person who met or exceeded performance goals was \$148 for each month.

In addition, we believe the information contained within your audit needed a sense of context in order to compare compensation among W-2 agencies. MAXIMUS and its dedicated management team and staff have served a caseload of 6,000 at one time and in excess of 45,000 Wisconsin Works participants since 1997. This level of responsibility is much greater than any other provider within the State – public, private, or non-profit. As a consequence, you would naturally expect that our total variable compensation would be significantly greater than the next service provider noted in your report who served fewer than 100 cases in 2004.

The State's W-2 partnership with MAXIMUS has been proven a success and made a measurable difference in not just caseloads, but lives. We have a solid record of meeting job placement and case management goals that compares favorably against other providers in Milwaukee and throughout the State. In 2002-2003, MAXIMUS placed 47.7% of its caseload – a rate ranging from 16% to 28% higher than the other providers in Milwaukee. Most recently, in 2004-2005, MAXIMUS placed 49.4% of its caseload. This performance was 41% above the state benchmark of 35%, while our next nearest competitor achieved less than 1% above the state benchmark. Our performance was major determinant in reducing the caseload in the Northwest Milwaukee region by 38% compared to the previous provider's experience, when caseload had consistently increased to almost double in size.

To provide further context, we've estimated that our 2004-2005 performance above the state benchmark (i.e., over 3,900 Employment Episodes above the benchmark) has generated a benefit dollar savings to the state of over \$13.3 million. The relatively small investment in variable compensation that is the focus

of your audit mask the major savings in W-2 benefit costs that our performance-based management approach has delivered. At the same time the quality of our W-2 services (i.e., customer satisfaction as measured independently by DWD) have consistently ranked us above all other Milwaukee providers.

Finally, MAXIMUS prides itself on the full cooperation and transparency with which we have supported each and every audit conducted of the program. We are currently responding to the verbal request for additional information made by your staff related to this Letter Report and will provide details under separate cover.

In the end, it is our employees -- and the employees of all other providers -- who are impacted by the report issued by the Legislative Audit Bureau. We know that it is the efforts of MAXIMUS staff each day that will make a difference in the lives of disadvantaged individuals and families in Milwaukee. Our staff strive each day to deliver quality services to help our clients overcome barriers to self-sufficiency. When, and if, they actually receive a bonus, it means they have done their job well.

Sincerely,



Bruce L. Caswell
President, Human Services Group

cc:

The Honorable Carol A. Roessler, Senator and

Co-Chair of the Joint Legislative Audit Committee

✓ The Honorable Suzanne Jeskewitz, Representative and

Co-Chair of the Joint Legislative Audit Committee

The Honorable Bill Clingan, Administrator State of Wisconsin
Department of Workforce Development



Matthews, Pam

From: JeffReit@aol.com
Sent: Friday, July 29, 2005 8:40 PM
To: Rep.Jeskewitz
Subject: Re: Maximus bonus payments

Rep. Jeskewitz

Thank you for the prompt response. I will read the reports you provided and continue to follow this situation with Maximus.

Please don't let this issue fade away; this money is meant for those less fortunate than ourselves and I would hate to see it being wasted.

I have a real disdain for the reported arrogance of Mr. Stepaniak's refusal to provide information to our auditor. If we the taxpayers give him money I think we have a right to ensure that it is being used for the intended purpose.

I know you are busy and there is no need to reply to this mail. However, I would like to be kept informed of your findings.

Thank you, and keep up the good work!

Jeff





STATE OF WISCONSIN

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Janice Mueller
State Auditor

August 3, 2005

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

Dear Senator Roessler and Representative Jeskewitz:

Maximus, Inc., a private agency providing services to participants of the Wisconsin Works (W-2) program in Milwaukee, has responded to our requests for information on the number and amount of bonuses it paid to all staff from 2002 through 2004. This information had been requested in January 2005, but the data Maximus provided us were incomplete at the time we issued our July 2005 letter on the financial management of selected W-2 agencies. Using recently submitted data, we are now able to provide complete information on bonuses paid by W-2 agencies to their employees.

As noted in our prior audit reports, the practice of W-2 agencies providing their employees with bonuses had raised concerns. In November 2001, in response to prior audit recommendations, the Department of Workforce Development (DWD) instructed W-2 agencies on acceptable practices for paying employee bonuses with W-2 funds. DWD now approves agencies' employee bonus policies, and bonuses must be "necessary and reasonable" for administering the W-2 contract.

From 2002 through 2004, 12 of the 16 W-2 agencies we reviewed reported that they did not pay any bonuses with W-2 funds. Four agencies did:

- Based on the most recent data reported to us, Maximus used W-2 funds to pay bonuses totaling \$115,248 in 2002, \$187,462 in 2003, and \$391,816 in 2004.
- ACS State and Local Solutions, which administers the W-2 program in Waukesha County, used W-2 funds to pay a total of \$5,245 in bonuses to two employees in 2004.
- Opportunities Industrialization Center of Greater Milwaukee used W-2 funds to pay a total of \$2,460 in bonuses to three employees in 2003.

- Forward Service Corporation, a private agency that administers W-2 in a number of counties, used W-2 funds to pay one employee approximately \$75 in 2002, and another employee \$275 in 2003.

Maximus indicated that the compensation provided to all staff who work on the W-2 program is directly linked to performance standards established by DWD. In addition, Maximus noted that a fundamental principle of its compensation strategy is to stress performance by linking it directly to compensation. As a result, total compensation for its staff consists of a base salary, as well as a performance bonus component that is built into the overall compensation structure. Based on this strategy, Maximus pays monthly and quarterly bonuses to employees who meet performance measures. The following table summarizes the bonuses Maximus paid to its program staff and senior managers. Maximus reported that a total of 96.3 percent of these amounts were paid using W-2 funds.

Bonuses Paid to Maximus Employees¹

Year	Program Staff		Senior Managers		Total	
	Number	Amount	Number	Amount	Number	Amount
2002	129	\$114,676	1	\$ 5,000	130	\$119,676
2003	109	181,646	2	13,019	111	194,665
2004	178	383,379	4	23,491	182	406,870

¹ Of these amounts, 96.3 percent was paid using W-2 funds.

From 2002 to 2004, the total amount Maximus paid in bonuses increased by \$287,194, or by 240.0 percent. Among those who received bonuses in 2004, the amount paid to program staff ranged from \$45 to \$4,665 and the amount paid to senior managers ranged from \$3,291 to \$8,500.

Finally, Maximus' employee bonus compensation plan was approved by DWD. A copy of the plan provided to us by DWD clearly indicates that senior officials, who include the vice president, project director, and project managers, are not included in the compensation plan. Unless a separate bonus compensation plan for these individuals was submitted to DWD and approved, Maximus is not in compliance with its contract requirements under the W-2 program. We recommend DWD review the bonuses Maximus paid to its senior managers and determine if these payments are consistent with the requirements it has established for W-2 agencies, or if they should be repaid.

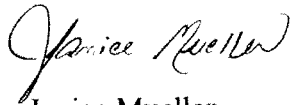
Senator Carol A. Roessler and Representative Suzanne Jeskewitz, Co-chairpersons

Page 3

August 3, 2005

I hope you find this information helpful. Please contact me if you have additional questions.

Sincerely,



Janice Mueller
State Auditor

JM/PS/bm

cc: Senator Robert Cowles
Senator Scott Fitzgerald
Senator Mark Miller
Senator Julie Lassa

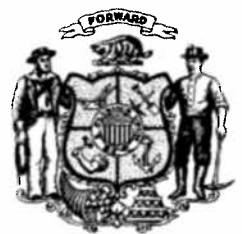
Representative Samantha Kerkman
Representative Dean Kaufert
Representative David Travis
Representative David Cullen

Ms. Roberta Gassman, Secretary
Department of Workforce Development

Mr. Jerry Stepaniak, Vice President for Workforce Services
Maximus



WISCONSIN STATE LEGISLATURE



Sue Jeskewitz

From: "Rep.Jeskewitz" <Rep.Jeskewitz@legis.state.wi.us>
To: "Frank Worachek" <fworachek@yahoo.com>
Sent: Wednesday, January 04, 2006 6:08 PM
Subject: RE: W-2 Concern

Dear Frank,

Thank you for your patience as I learned more details involving your concern regarding DWD's handling of the W-2 contract related to MCFI and PSI.

I certainly understand your position of frustration over MCFI's decision to not move forward with signing a contract with the State to serve W-2 clients. I can appreciate how that decision may affect you or fellow employees at Maximus.

However, after discussing this with DWD and reviewing documents I received from them, I don't see how DWD mishandled this situation. It appears to me that the decision to sign the contract rested with MCFI and they chose not to. The language in the contract that sparked their reason for not signing is not unique to MCFI as every other contract with every other agency contained the same language. After all the recent and well-publicized problems with OIC the Joint Legislative Audit Committee, of which I am a co-chair, told DWD to tighten up the contracts and provide more accountability and that was the catalyst for this new language.

If you believe after you review the attached documents that I am misunderstanding this situation and want to discuss this further, please give me a call at my home phone number, 251-9595, and I would be happy to talk with you. I am in and out all day and evening when I am not at the Capitol so if you get my machine, please leave me a message and I'll return your call.

Sue

From: Frank Worachek [mailto:fworachek@yahoo.com]
Sent: Thursday, December 29, 2005 8:47 PM
To: Rep.Jeskewitz
Subject: W-2 Concern

Dear Representative Jeskewitz:

My name is Frank Worachek. I reside at W143 N9831 Ridgewood Lane in Germantown, Wisconsin. My wife and I have lived in Germantown for the past 5 years. I have resided in the Menomonee Falls/Germantown area for a total of 19 years. I am also a member of Good Shepherd Catholic Church in Menomonee Falls.

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As a result of the Department of Workforce Development's decision, the Job Development & Placement Agency contract for the northwest region was awarded to Policy Studies, Inc., (PSI) headquartered out of Denver, Colorado. This agency has no job development experience specific to the W-2 target population and has no track record of proven placement results in the State of Wisconsin. PSI communicated to the Department of Workforce Development that they would partner with the YWCA which lost a W-2 contract during the last contract cycle due to poor performance but got back into the business when OIC closed their operations earlier this year.

As a Wisconsin resident, I am extremely disappointed with the integrity of the Department of Workforce Development and how they make decisions. This State agency communicated that they did not see a need to ask PSI to consider hiring potentially displaced workers due to MAXIMUS' for profit status. MAXIMUS employees are dedicated to their jobs and are extremely committed to assisting W-2 participants to become self-sufficient citizens. We are also taxpayers and do not deserve to be treated with such disdain. These decisions will possibly displace 50 employees and some of these individuals are the same people who were put out of work when OIC went out of business earlier this year.

As an employee with 17 years of senior management experience with Workforce Programs, I believe that it is a very sad day in State Government when the Department of Workforce Development is allowed to eliminate one of the best W-2 providers and replace program services with a new provider that has not performed in Wisconsin and has no proven track record of successful results. What will happen to the W-2 program participants that are in such dire need of high-level quality program services? I appreciate any assistance you could provide regarding to this matter.

Sincerely,

Frank Worachek
(262) 250-1035 (evening phone number)

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Sue Jeskewitz

From: "Matthews, Pam" <Pam.Matthews@legis.state.wi.us>
To: "Wanda Montgomery" <wjmnngtown@yahoo.com>
Sent: Wednesday, January 04, 2006 6:10 PM
Subject: RE: Concern

Dear Wanda,

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Sue

From: Wanda Montgomery [mailto:wjmnngtown@yahoo.com]
Sent: Wednesday, December 28, 2005 9:20 PM
To: Rep.Jeskewitz
Subject: Concern

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As a resident of the State I am very disappointed with the integrity of the Department of Workforce Development and how they make decisions. These decisions now, will probably put approximately 50 people out of work, and some of them could potentially be the same people who were displaced when OIC closed earlier this year.

I'm not sure if you can do anything about it, but I think it is a sad day in State Government, when we eliminate one of the best providers in lieu of someone who has not performed a day of service if Wisconsin. What's going to happen to the participants who need the services.



Sue Jeskewitz

From: "Matthews, Pam" <Pam.Matthews@legis.state.wi.us>
To: "Sue Home" <sjeskewitz@wi.rr.com>
Sent: Wednesday, January 04, 2006 8:31 AM
Subject: FW: W-2 Concern

Sue - I think I get the connection now between Maximus and the Milwaukee Center for Independence (MCFI). When DWD put the new contracts out for bid they did it in a more piecemeal manner than before. I think that Maximus did not bid on all the various portions of the new contracts and probably had some sort of understanding between them and MCFI to hire some of the Maximus people or sub-contract some of the work so they could keep those people on board. Now that MCFI is not in the picture it opens Maximus employees up for layoffs.

Still, not DWD's fault..

From: Frank Worachek [mailto:fworachek@yahoo.com]
Sent: Tuesday, January 03, 2006 7:55 PM
To: Matthews, Pam
Subject: RE: W-2 Concern

Dear Ms. Matthews:

I appreciate your prompt response to my email. At this time, the corporate office of MAXIMUS Inc., is determining what criteria will be used in determining staff layoffs. Therefore, I am unsure at this time whether my employment status will be affected.

It is my understanding that PSI will not give priority to MAXIMUS employees in filling vacant positions under the JDPa portion of the contract.

Sincerely,

Frank Worachek

"Matthews, Pam" <Pam.Matthews@legis.state.wi.us> wrote:

Dear Mr. Worachek,

I forgot to ask you something in my previous e-mail. Not that it matters, but Sue was wondering if this affects your position or job, or if there is a connection here she is not seeing.

Thanks,

Pam

From: Matthews, Pam
Sent: Tuesday, January 03, 2006 3:20 PM
To: 'Frank Worachek'
Subject: RE: W-2 Concern

Dear Mr. Worachek,

I was out of the office last week and I apologize for the delay in responding to your e-mail. After

discussing your e-mail with Rep. Jeskewitz I contacted DWD this morning and I requested some documentation that should help Rep. Jeskewitz understand this situation more fully.

Rep. Jeskewitz asked that I respond to you on her behalf that as soon as we receive this information and she has a chance to review it she will be in touch with you.

Sincerely,

Pamela B. Matthews
Research Assistant
Office of Representative Sue Jeskewitz
Madison: 608.266.3796
Toll free: 888.529.0024
pam.matthews@legis.state.wi.us

From: Frank Worachek [mailto:fworachek@yahoo.com]
Sent: Thursday, December 29, 2005 8:47 PM
To: Rep.Jeskewitz
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As a Wisconsin resident, I am extremely disappointed with the integrity of the Department of Workforce Development and how they make decisions. This State agency communicated that they did not see a need to ask PSI to consider hiring potentially displaced workers due to MAXIMUS' for profit status. MAXIMUS employees

are dedicated to their jobs and are extremely committed to assisting W-2 participants to become self-sufficient citizens. We are also taxpayers and do not deserve to be treated with such disdain. These decisions will possibly displace 50 employees and some of these individuals are the same people who were put out of work when OIC went out of business earlier this year.

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Sue Jeskewitz

From: "Matthews, Pam" <Pam.Matthews@legis.state.wi.us>
To: "Richard, JoAnna - DWD" <JoAnna.Richard@dwd.state.wi.us>
Cc: "Sue Jeskewitz" <sjjeskewitz@wi.rr.com>
Sent: Thursday, January 05, 2006 7:54 AM
Subject: FW: Concern

Joanna,

Sue responded to her constituent who worked for Maximus and she had quite different information than we heard from you. Sue will need to be able to respond to these new assertions so could you please take a look at these new comments and put them into context from the DWD's perspective?

Thanks,

Pam

Sent: Wednesday, January 04, 2006 6:55 PM
To: Matthews, Pam
Subject: RE: Concern

Rep. Jeskewitz:

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The part of this whole process that concerns me is that while DWD states that MCFI did not want to move forward, another agency (UMOS) also question the same contract language and DWD changed the language to accomodate their needs. It appears to be a different process for agencies. There is certainly some concern relative to the procurement process that has been implemented.

Also, DWD provided PSI with a contract on 12/28/05 without the same requirements that all agencies had to fulfill prior to then receiving a contract. PSI to date, has not complied with those terms, yet they have received a contract. DWD has stated that they provided the contract because they needed to make sure that clients would receive continued services. I think it would have been a better option to extend MAXIMUS contract and allow PSI to comply with the same requirements that all other agencies had to do. Right, now you have a new agency coming into the State with special treatment. How does that look for other companies in the State?

There were no documents attached. If you would like to send them I would appreciate it. Thanks for your follow-up on this issue.

Wanda J. Montgomery

"Matthews, Pam" <Pam.Matthews@legis.state.wi.us> wrote:

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Sent: Wednesday, December 28, 2005 9:20 PM
To: Rep.Jeskewitz
Subject: Concern

Good evening, Representative Jeskewitz

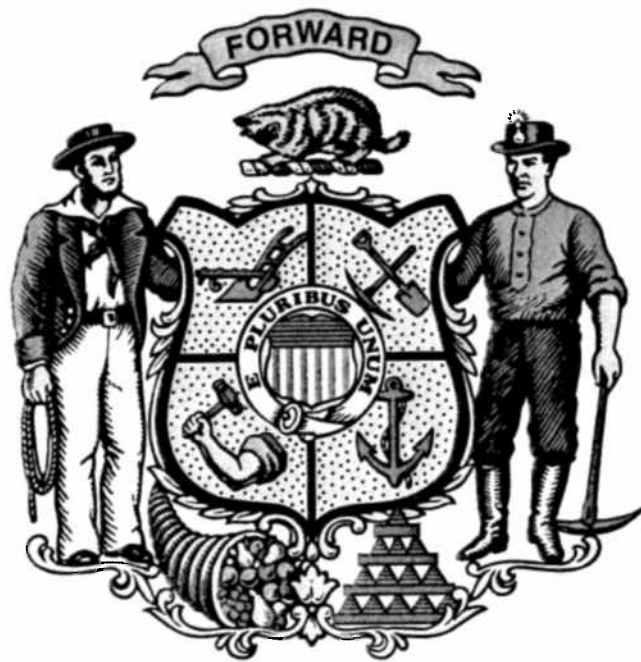
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Sue Jeskewitz

From: "Matthews, Pam" <Pam.Matthews@legis.state.wi.us>
To: "Sue Jeskewitz" <sjjeskewitz@wi.rr.com>
Sent: Thursday, January 05, 2006 8:04 AM
Subject: FW: Concern

FYI...

From: Richard, JoAnna - DWD
Sent: Thursday, January 05, 2006 7:57 AM
To: Matthews, Pam
Subject: RE: Concern

Pam,

This email is inaccurate and I will work with staff to provide you a thorough response. My understanding is that MCFI wanted us to make Maximus the prime contractor instead of MCFI and our staff (including civil servants and our legal counsel) unanimously recommended that we not do that since Maximus had never been a bidder and would be improper.

Jo

From: Matthews, Pam
Sent: Thursday, January 05, 2006 7:54 AM
To: Richard, JoAnna - DWD
Cc: Sue Jeskewitz
Subject: FW: Concern

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1/6/2006

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Original URL: <http://www.jsonline.com/news/metro/jul05/342440.asp>

Maximus bonuses hit \$700,000

W-2 agency balks at releasing details, state says

By **STEVE SCHULTZE**
sschultze@journalsentinel.com

Posted: July 20, 2005

Maximus Inc., the state's largest Wisconsin Works provider, gave some \$700,000 in bonuses to rank and file employees from 2002-'04 and paid for them in part with taxpayer money, according to a state audit report released Wednesday.

Senior Maximus officials also got an additional sum in bonuses paid partly with W-2 money. But the agency did not release those amounts to auditors, despite numerous requests over several months.

The report is silent on what portion of the bonuses was paid with public money and whether the bonuses complied with state and federal rules.

State policy allows W-2 bonuses only if they are "necessary and reasonable."

Maximus didn't release enough information for auditors to make a judgment on whether its bonuses were appropriate or not, said Paul Stuibler, the Audit Bureau official who supervised the report.

"We hope that Maximus will be providing that information at a later time," Stuibler said.

The state Department of Workforce Development will require Maximus to provide the information, said Rose Lynch, a department spokeswoman.

If it turns out that the Maximus bonuses do not meet state guidelines, the state may require Maximus to pay back the portion paid with public money, she said.

State Rep. Sue Jeskewitz (R-Menomonee Falls), co-chairwoman of the Legislature's Joint Audit Committee, said it was unacceptable for Maximus to fail to provide the bonus information.

She said she wanted to find out whether "performance measures" used to justify the bonuses were linked to cutting caseloads - something several W-2 agencies did in the past.

Jeskewitz said she was concerned that bonuses might have been based on prematurely "taking people off the W-2 rolls who really are not capable of going out into the work force."

Jerry Stepaniak, who heads the Milwaukee Maximus office, did not return phone calls.

Carol Golisch, another local Maximus official, said a preliminary version of the audit included some inaccuracies regarding Maximus. She did not provide specifics.

All W-2 agencies have been under a state directive since last year to put clients to work as soon as possible and substantially reduce caseloads. The move was prompted by a state budget squeeze and increases in the W-2 client rolls.

Archived
Coverage



Section: State
politics

Since June 2004, the number of families getting monthly W-2 payments has declined by 3,317 families to 9,224, a reduction of about 26%, according to state figures.

Employee bonuses with W-2 money were a major issue in the past with Employment Solutions Inc., a Goodwill subsidiary now out of business. Employment Solutions came under fire after earlier disclosures that it paid out some \$1.7 million in employee bonuses.

Maximus is the state's largest W-2 agency, with a 2004-'05 contract worth \$86.2 million. The other two Milwaukee W-2 agencies are United Migrant Opportunity Services, with a \$47.7 million contract for 2004-'05; and YW Works, with a \$12.7 million contract. The three Milwaukee County agencies account for about 80% of the state's W-2 caseload.

Three other agencies in the state paid out bonuses during the 2002-'04 period reviewed by auditors, but the amounts paid were small compared with the Maximus bonuses.

For example, Opportunities Industrialization Center of Greater Milwaukee paid three employees bonuses totaling \$2,460 in 2003, the report says. The state terminated OIC's W-2 contract in February and the firm went out of business, following reports of mispending hundreds of thousands of dollars in W-2 money and a criminal kickback scandal.

ACS State and Local Solutions, which administers W-2 in Waukesha County, paid a total of \$5,245 in bonuses to two employees in 2004, the report says. Forward Service Corporation, which administers W-2 in several counties, paid \$350 in bonuses to two employees.

The audit also found that Milwaukee's private Wisconsin Works agencies have paid significantly higher salaries for administrators than W-2 officials elsewhere in the state. The average pay for W-2 officials in Milwaukee County earning more than \$60,000 was \$89,346, compared with \$75,540 elsewhere in Wisconsin, the report says.

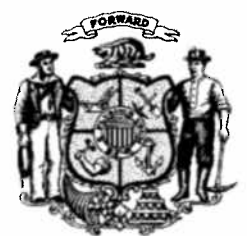
Maximus paid Stepaniak, its top official, \$145,455 last year, and United Migrant Opportunity Services paid CEO Lupe Martinez \$170,000, the report said. OIC paid two of its vice presidents \$151,278.

From the July 21, 2005, editions of the Milwaukee Journal Sentinel
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WISCONSIN STATE LEGISLATURE



Aug 3, 7:24 PM EDT

W-2 contractor gave 179 workers bonuses in 2004, company says

By RYAN J. FOLEY
Associated Press Writer

MADISON, Wis. (AP) -- The state's largest contractor for its welfare-to-work program used state tax dollars to award bonuses of more than \$2,000 to almost half its work force in 2004, including an \$8,500 bonus to a project director, the state auditor said Wednesday.

State Auditor Janice Mueller also said in a letter to lawmakers that the company, Maximus, Inc., may have awarded bonuses to senior executives that did not comply with its two-year, \$86 million contract with the state.

The Department of Workforce Development, which runs the W-2 program, could ask for a repayment for more than \$40,000 in bonuses paid to those officials over three years if they are not consistent with agency guidelines, Mueller said.

After an audit found excessive bonuses at some agencies, DWD told contractors in 2001 that they can award bonuses that are only "necessary and reasonable" and approved by the state in advance.

The disclosures come in the wake of a state audit last month that found Maximus paid more than \$687,000 between 2002 and 2004 on performance bonuses to workers and an undisclosed additional amount to executives.

Wednesday's follow-up audit found that Maximus' compensation plan approved by DWD specifically did not cover bonuses for senior officials. In 2004, those four executives received bonuses of \$8,500, \$6,000, \$5,700 and \$3,291.

DWD spokeswoman Rose Lynch said the agency just learned about the extra bonuses late Wednesday and was reviewing the matter. She said it's possible the agency could ask for repayment.

The Legislative Audit Bureau had asked the company for additional information on how many employees received raises and how much W-2 money was spent on them.

Maximus said it had awarded \$721,211 in bonuses during the three-year period, and 96 percent of the costs were paid by tax dollars. The company said it awarded bonuses to 183 employees in 2004 ranging from \$300 to \$8,500, according to company documents provided to state auditors.

The company only has about 200 W-2 employees, but awarded bonuses of more than \$2,000 to 97 of them in 2004, according to the company documents.

Bruce Caswell, the president of Maximus' human services group, said in a letter to auditors that the company rewards employees with monthly and quarterly bonuses for exceeding company and state standards. As a result, base salaries are often lower than the company's competitors, he said.

"When, and if, they actually receive a bonus, it means they have done their job well," he wrote in the letter.

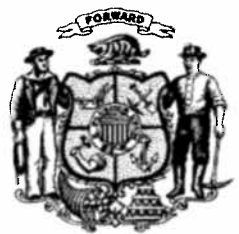
Caswell said the company had far exceeded the state's goals for placing W-2 participants in jobs, and had a bigger caseload than other contractors, serving more than 45,000 participants since the program's inception in 1997.

Still, lawmakers said when the audit came out July 20 they were concerned about the amount Maximus paid in bonuses and why they doubled in 2004 compared to two years earlier. Auditors said Maximus was the only W-2 contractor out of 17 they reviewed that used W-2 funds to award hefty bonuses.

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W-2 bonuses appear illegal

Maximus leaders got \$41,510 in tax funds

By STEVE SCHULTZE
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Posted: Aug. 3, 2005

Maximus Inc., the state's largest Wisconsin Works agency, used taxpayer funds to pay more than \$41,000 in bonuses to company executives from 2002 through 2004 - an apparent violation of state policy, auditors said Wednesday.

The company had received approval to pay bonuses to some workers, but not to executives, state Auditor Janice Mueller said in a letter to lawmakers.

Jerry Stepaniak, Maximus' top official in Milwaukee, was paid \$15,203 in bonuses over the three-year period. His base salary last year was \$145,455. Three other senior managers of the Virginia-based Maximus were paid a total of \$26,307 in bonuses over three years, according to material provided to auditors by the firm.

In total, Maximus paid more than \$721,000 in bonuses from 2002 through 2004, with more than 96% of that coming from W-2 money. The firm did have a state-approved bonus plan for its non-management workers.

The W-2 welfare reform program is funded by state and federal taxes.

Mueller told lawmakers that unless some separate approval for executive bonuses can be located, "Maximus is not in compliance with its contract requirements under the W-2 program."

Rose Lynch, a spokeswoman for the Department of Workforce Development, said the new information would be reviewed to determine whether Maximus should be ordered to repay the \$41,510 to the state.

In a letter to auditors, Stepaniak said that Maximus' corporate policy emphasizes performance-based pay. He said because of Maximus' larger caseload, "you would naturally expect that our total variable compensation (bonuses) would be significantly greater" than those of other W-2 agencies.

Maximus' current, two-year W-2 contract is worth \$86.2 million. The company has had as many as 6,000 clients in its caseload.

Stepaniak also wrote that Maximus' bonus payments were "a relatively small investment" compared with savings to the state based on the firm's success in placing clients in jobs. In 2004-'05, the firm has placed nearly half its clients, he said.


The firm met all of the state's performance standards under W-2 during the 2002-'03 contract period, according to an earlier state audit.

Rachael Rowland, Maximus' corporate spokeswoman, said the firm would do whatever the state required, including paying back the executive bonuses.

"We were under the impression we were in compliance," she said. "If we haven't filed the appropriate paperwork, we'll work with them. We don't want this to be an issue at all."


The criticism of Maximus comes as the firm is preparing to bid for a new, four-year W-2 contract to operate the program in

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the Milwaukee area.

The Maximus bonus plan filed with the state for non-management employees ties bonuses to the firm's success in placing W-2 clients in jobs or training. Some lawmakers have said such a reward system is a poor idea because it provides an incentive for dumping ill-prepared clients into the job market.

Auditors in January requested detailed bonus information in writing, but didn't receive the information until last month, said Paul Stuibler, who oversaw the audit report. The same information was requested orally even earlier, he said.

Rowland said the delay was caused by a miscommunication on what specific information auditors were seeking.

W-2 bonuses were controversial several years ago, when another firm disclosed that it had paid some \$1.7 million in bonuses.

That agency, Employment Solutions Inc., gave up its W-2 contract at the end of 2001 after heavy criticism for improper spending of W-2 funds.

From the Aug. 4, 2005, editions of the Milwaukee Journal Sentinel
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Maximus ordered to repay state for bonuses

Executives got \$35,400 in tax funds

By STEVE SCHULTZE
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Posted: Aug. 4, 2005

State officials Thursday ordered the largest Wisconsin Works welfare reform contractor to repay more than \$35,400 in bonuses given to executives from 2002 through 2004 with taxpayer money.

Those bonuses to top managers of Maximus Inc., were contrary to plans approved by the Department of Workforce Development, said Roberta Gassman, the department secretary.

Bonuses to top executives were not allowed because of their already high base salaries, she said.

"Bonuses to senior managers were never included, nor approved," she said.

In a letter to Maximus Vice President Jerry Stepaniak, the agency was ordered to repay \$35,400 within 10 working days.

Another \$6,107 bonus to a Maximus W-2 project director in 2003 was allowed because the firm's bonus plan didn't forbid paying bonuses for that job until 2004, Gassman said.

Also, some \$680,000 in bonuses to non-management staff at Maximus using W-2 money were not challenged by the state.


Maximus, which holds an \$86.2 million W-2 contract, has said its bonuses were justified because it has a larger caseload than other agencies and a corporate policy favoring bonuses as rewards for good performance.


But company officials have said they won't fight the state on the repayment order.

From the Aug. 5, 2005, editions of the Milwaukee Journal Sentinel
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