



Legislative Fiscal Bureau

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May 21, 2001

Joint Committee on Finance

Paper #1044

Temporary Assistance for Needy Families (TANF)

W-2 Financial Oversight (DWD -- Economic Support and Child Care)

[LFB 2001-03 Budget Summary: Page 737, #8 and Page 744, #26]

CURRENT LAW

For the 1999-01 biennium, the Milwaukee Private Industry Council (PIC) has been provided \$1,000,000 annually for providing oversight and coordination services to the Wisconsin Works (W-2) contractors in Milwaukee County. The PIC is responsible for: (a) monitoring W-2 agencies' compliance with the provisions in their contracts; (b) providing technical assistance; and (c) assisting in the coordination of W-2 services among the five Milwaukee County W-2 agencies. Oversight of non-Milwaukee County W-2 contractors is currently performed by state staff using funds for state administration. The total budgeted in 2000-01 for state administration of all TANF-funded programs was \$27.5 million, a portion of which is used for financial oversight.

GOVERNOR

Decrease the amount of funding to the Milwaukee PIC by \$500,000 annually for a total allocation of \$500,000 annually and provide new funding for statewide financial oversight of \$500,000 annually.

DISCUSSION POINTS

Milwaukee Private Industry Council

1. DWD contracts with the Milwaukee PIC for financial oversight and coordination of the W-2 agencies in Milwaukee County. For the 1999-01 biennium, the PIC has been provided

\$1,000,000 annually. DWD has contracted with the PIC for these services since January, 1997, for a total of \$7,500,000 since that time. Some of the PIC's responsibilities include: (a) reviewing all fact-finding proceedings conducted by agencies and helping to correct procedural deficiencies; (b) ensuring that agencies take appropriate action to assist participants approaching the 24-month time limit placed on employment in each subsidized category; (c) reviewing all agency requests for extension of the 24-month time limit for receipt of cash assistance and making recommendations to DWD; (d) ensuring the work performed in community service jobs and transitional placements is consistent with the participant's employability plans; and (e) providing financial oversight through reviews of cost allocation plans, the appropriateness of agency expenditures and whether agencies are within their budget allocations.

2. In its audit of the W-2 program, the Legislative Audit Bureau assessed the Milwaukee PIC's performance and found that the PIC was not meeting all of its contractual obligations. Findings by the Audit Bureau include: (a) the PIC met its requirement to review cases approaching the 24-month time limit in only three of 14 months it was required to conduct reviews but the PIC and DWD counter that the PIC's review was not necessary under the review process that was developed by DWD; (b) between June, 1999, and August, 2000, the PIC reporting visiting only five work sites, although its contracts required monthly site visits; and (c) between January, 1998, and August, 2000, the PIC reviewed more than 1,500 fact-finding requests for Milwaukee County, but there was no systemic follow-up to determine if W-2 agencies implemented the PIC's recommendations. The Audit Bureau also found that while the PIC did perform some budget monitoring, it did not review whether agency expenditures were appropriate because W-2 agencies were resistant to this review and DWD directed the PIC not to exercise these responsibilities. The PIC's current contract, which began in July, 1999, does not contain any financial monitoring responsibilities. The Audit Bureau suggests that some of the unallowable and questioned costs charged by Milwaukee W-2 agencies to the 1997-1999 W-2 contracts could have been avoided if the PIC had been more diligent in its financial oversight.

3. The Audit Bureau also found that DWD did not regularly reviewed the PIC's work until recently. In October, 2000, DWD completed a review to determine whether the PIC had complied with the terms of its contract and whether continuation of the current contract was justified. DWD examined monthly reports from January, 2000, through July, 2000, and concluded that the PIC had not met the terms of the contract by performing all assigned tasks. DWD found: (a) the required number of fact-finding cases, child care cases and work sites had not been reviewed; (b) the number of case reviews was insufficient and these reviews did not include sufficient analysis, were not timely and were not shared with the W-2 agencies; (c) the PIC's monthly reimbursement claims did not correspond to activities; and (d) little is known regarding the effectiveness of the PIC's work. DWD also found that the Milwaukee W-2 agencies were generally critical of the PIC and indicated that it is rarely used for technical assistance, is not always effective in providing technical assistance and is usually the last contact an agency might make for technical assistance.

4. DWD has proposed a number of remedies for the deficiencies identified, including auditing the PIC and changing the format of the monthly PIC reports to reflect contract requirements.

Statewide Financial Oversight

5. As part of its 2001-03 budget request, DWD recommended deleting the \$1,000,000 annual allocation for the PIC and instead recommended that \$1,000,000 be allocated annually for 12.0 FTE to provide financial oversight of W-2 agencies in Milwaukee County. The Governor's proposed budget would reduce the amount of funding for the PIC by \$500,000 annually and would instead allocate \$500,000 annually for other financial oversight. Although not specified in the bill, the administration indicates that the new funds could be used statewide to augment overall oversight activities. No additional positions were provided for this function, so DWD would be required to utilize existing staff or contract out this function. DWD has not decided whether it would utilize existing state staff or contract out this function.

6. DWD currently utilizes state staff for financial oversight of W-2 agencies. While DWD is not able to determine how much funding or how many FTEs are specifically dedicated to financial oversight functions, staff involved in financial oversight include field support staff, auditing and contracting staff, finance staff, and staff that support expenditure tracking computer programs. The total allocation for state administration of all components of the TANF program was \$27.5 million in 2000-01 (including W-2, child care, food stamp employment and training (FSET) program, and other TANF-funded programs). For the W-2 program specifically, the amount spent on state administration for the period of January, 2000, through September, 2000, was approximately \$6.8 million. This amount includes all state administration activities, not just financial oversight.

7. DWD has been engaged in a financial monitoring and oversight improvement project and the additional \$500,000 recommended in the Governor's budgeted would be used to continue these efforts. The goal of the project is to assure that the W-2 program is administered with strict adherence to appropriate financial standards. The primary focus of the project is to design and implement systems and processes that are proactive to prevent audit findings or allegations of financial misconduct. These activities include more clearly communicating policies and expectations, increasing the number of training and technical assistance opportunities, enhancing the monitoring and oversight done to assess compliance and following up on compliance issues. Specific strategies include: (a) conducting a comprehensive review of all financial policies and procedures for W-2 agencies to ensure expectations of prudent fiscal management are clearly outlined; (b) updating the financial management manual to provide more specificity on the definition of allowable costs; (c) hosting fiscal roundtables across the state to ensure all W-2 agencies know what expenditures are appropriate and to clarify expectations; (d) developing additional requirements for certain expenditures that would need prior approval by the Department; (e) reviewing and monitoring agencies for appropriateness of expenditures before audits; and (f) expansion of audit requirements to sample a specified number of financial transactions and conduct additional testing in the event questioned costs or disallowances are identified.

8. Based on the PIC's past performance as documented by the Legislative Audit Bureau's audit of the W-2 program, it could be argued that no additional funding should be allocated to the PIC and that the PIC's \$500,000 annual allocation should instead be provided to DWD for additional financial oversight. Under this option, total new funding allocated to DWD for financial

oversight would be \$1,000,000 annually. Providing additional funds for financial oversight could help address concerns that enhanced financial oversight of W-2 agencies is necessary in light of audit findings that some agencies misused funds during the initial contract period, which ran from September, 1997, to December, 1999.

9. However, the administration states that the Governor wanted to retain a role for the PIC in financial oversight of the Milwaukee W-2 agencies while simultaneously providing resources for statewide oversight efforts. To retain a role for the PIC, funding could continue to be provided, either at the level recommended by the Governor, or at a lower level.

10. Another option would be to eliminate or decrease funding for the PIC and not allocate savings to statewide oversight because DWD already has administrative staff that can perform financial oversight functions and has not decided whether it will use state staff or contractors to perform this function. However, DWD may have limited ability to perform additional financial oversight without new funds since the Governor proposed cutting TANF administration by \$1,000,000 annually to reflect efficiencies gained from the merger of DWD's Division of Workforce Excellence and Division of Economic Support.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to: (a) decrease funding for the Milwaukee Private Industry Council by \$500,000 FED annually for an allocation of \$500,000 annually; and (b) provide \$500,000 FED annually for financial oversight of the W-2 program.

2. Eliminate funding for the Milwaukee Private Industry Council and provide additional funding for statewide financial oversight of \$500,000 FED annually, resulting in a statewide financial oversight allocation of \$1,000,000 annually.

3. Decrease funding for the Milwaukee Private Industry Council by some other amount and use the savings to increase funding for statewide financial oversight.

4. Eliminate funding for the Milwaukee Private Industry Council.

<u>Alternative 4</u>	<u>FED</u>
2001-03 FUNDING (Change to Bill)	- \$1,000,000

5. Maintain current law and continue to provide \$1,000,000 annually for the Milwaukee Private Industry Council. Under this option, no new funds would be provided for statewide oversight.

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