

095515

~~2.08.04~~



REPORT TO THE CONGRESS

72-0137



13
11

Problems In Accomplishing
Objectives Of The Work
Incentive Program (WIN) B-164037(3)

Department of Labor
Department of Health, Education,
and Welfare

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

SEPT. 24, 1971

~~700774~~ 095515



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(3)

To the President of the Senate and the
Speaker of the House of Representatives

This report presents our findings on problems in accomplishing the objectives of the Work Incentive Program (WIN). The program is administered by the Departments of Labor and Health, Education, and Welfare.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of the report are being sent to the Director, Office of Management and Budget; the Secretary of Labor; and the Secretary of Health, Education, and Welfare.

A handwritten signature in cursive script, appearing to read "James P. Beardsley".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROBLEMS IN ACCOMPLISHING
OBJECTIVES OF THE WORK INCENTIVE
PROGRAM (WIN)
Department of Labor
Department of Health, Education,
and Welfare B-164031(3)

D I G E S T

WHY THE REVIEW WAS MADE

The Work Incentive Program (WIN) was designed to provide recipients of welfare under the Aid to Families with Dependent Children (AFDC) program with training and services necessary to move them from welfare dependency to employment at a living wage.

The General Accounting Office (GAO) reviewed WIN because of the program's cost--\$328 million appropriated for the first 4 years--and because of widespread concern over AFDC welfare rolls. As of June 1970 the AFDC rolls had soared to 2.2 million adults who were receiving \$391.2 million a month.

FINDINGS AND CONCLUSIONS

Results of WIN operations

WIN has achieved some success in training and placing AFDC recipients in jobs, which has resulted in savings in welfare payments in some cases. The complete results of the program cannot be determined readily, however, because of significant shortcomings in the management information system for WIN. Complete, accurate, and meaningful information was not generally available on program costs, benefits, or operations.

Because of its limited size in relation to the soaring AFDC rolls, WIN does not appear to have had any significant impact on reducing welfare payments. The success of WIN is determined largely by the state of the economy and the availability of jobs for its enrollees. WIN is not basically a job-creation program and, during periods of high unemployment, encounters great difficulty in finding permanent employment for the enrollees. (See p. 10.)

SEPT. 24, 1971

Problems in program design

WIN and AFDC need to be changed if the overall objective of encouraging AFDC family heads to seek employment is to be realized. Conditions in Denver, Colorado, and Los Angeles, California, illustrate what is wrong.

Fathers frequently lose money by going to work because their AFDC payments are discontinued when they obtain full-time employment, regardless of their wages. Mothers, on the other hand, continue to receive AFDC payments following their employment, and payments are reduced only after certain income levels have been reached.

The immediate cutoff of welfare payments to AFDC families with working fathers is unrealistic and tends to discourage fathers from seeking employment. GAO believes that family income should be the primary criterion for establishing AFDC eligibility, irrespective of whether the family head is male or female. (See p. 24.)

AFDC payments to mothers are not reduced fairly after they become employed. In Los Angeles a mother with three children may continue to receive payments, plus food stamps and free medical and dental care for herself and her children, until her earnings exceed \$12,888 a year. (Medical and dental care may continue even beyond this point if the family is medically needy.) In Denver a similar family may continue to receive benefits until the mother's income reaches \$9,000 a year. (See p. 28.)

The effectiveness of sanctions applied against persons who refuse to participate in WIN or to accept employment, without good cause, appears questionable. Local officials have been hesitant to apply the sanctions because such application is administratively time consuming and penalizes the entire family, not just the uncooperative individual. (See p. 32.)

Funding restrictions have severely limited implementation of the special work projects. The projects were provided by the law to subsidize employment for AFDC recipients who are considered not suitable for training or who cannot be placed in competitive employment. (See p. 35.)

RECOMMENDATIONS OR SUGGESTIONS

1 The Department of Labor should improve the management information system for WIN so that it will provide accurate and complete data on program operations, costs, and benefits.

Data should be developed consistently both on a nationwide basis and on individual projects and should be used for managing and evaluating the effectiveness of WIN operations and for developing estimates of appropriation needs. (See p. 20.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Assistant Secretary of Labor for Administration advised GAO that the Department of Labor considered the report a fair and objective appraisal of some of the major problems confronting WIN. He said that, although WIN activities in Los Angeles and Denver were not necessarily typical, the Department's experience showed that the problems faced by these cities were universal, to varying degrees.

The Assistant Secretary described actions being considered by the Department for improving the management information system for WIN and stated that the proposed Family Assistance Plan/Opportunities for Families Program (H.R. 1, 92d Cong., 2d sess.) if enacted, would correct the four major problem areas cited by GAO for consideration by the Congress. (See pp. 20 and 23.)

The Assistant Secretary also informed GAO that the WIN sponsors in both California and Colorado had indicated their general agreement with the report, although Colorado had offered no comments on the section of the report dealing with program design. (See p. 23.)

The Assistant Secretary, Comptroller, Department of Health, Education, and Welfare (HEW), also informed GAO that HEW was in general agreement with GAO's conclusions and recommendations and stated that the welfare reform provisions of the proposed legislation would correct many of the deficiencies cited by GAO. (See pp. 20 and 23.)

The State welfare agencies in California and Colorado also agreed generally with GAO's conclusions. (See p. 23.)

In August 1971 California enacted legislation designed to deal with the problem of continuing AFDC benefits to employed mothers with high earnings. California also took action in August 1971 to make more State money available for special work projects. Since these actions will not be effective until October 1971, GAO is unable to evaluate their results at this time.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Since the designs of WIN and the AFDC program cannot be dealt with effectively by administrative action alone, GAO believes that the Congress, during its current deliberations on welfare reform, may wish to consider

- making family income and family needs the principal criteria upon which AFDC eligibility determinations are based, irrespective of whether the family head is male or female or whether employment accepted by heads of families is full time or part time (see p. 28);
- adjusting the welfare cutoff provisions with respect to both dollar payments and related supplemental benefits (see p. 32);
- examining the present penalty provision of WIN and enacting legislation which would strengthen work incentive and work requirements (see p. 35); and
- amending the Social Security Act to permit the use of regular WIN funds to subsidize the wages of enrollees in special work projects (see p. 41).

C o n t e n t s

		<u>Page</u>
DIGEST		1
CHAPTER		
1	INTRODUCTION	5
	Scope of review	6
	Origin of WIN	6
	Funding	7
	Operation of WIN	7
2	RESULTS OF WIN OPERATIONS	10
	Summary of program operations	10
	Needed improvements in WIN management information system	15
	Conclusions	20
	Recommendation to the Secretary of Labor	20
	Agency comments	20
3	PROBLEMS IN PROGRAM DESIGN	22
	Agency comments	23
	Disincentive for AFDC fathers to seek employment	24
	Conclusions	27
	Matter for consideration by the Congress	28
	Welfare payments to working AFDC mothers are not reduced in a realistic manner after employment	28
	Conclusions	31
	Matter for consideration by the Congress	32
	Questionable effectiveness of existing sanctions against AFDC recipients who refuse employment	32
	Conclusions	34
	Matter for consideration by the Congress	35
	Limited implementation of special work projects phase of WIN	35
	Conclusions	41
	Matter for consideration by the Congress	41

APPENDIX

Page

I	Letter dated July 8, 1971, from Assistant Secretary for Administration, Department of Labor, to the General Accounting Office	45
II	Letter dated August 18, 1971, from Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, to the General Accounting Office	51
III	Principal officials of the Departments of Labor and Health, Education, and Welfare responsible for the administration of activities discussed in this report	55

ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
WIN	Work Incentive Program

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

PROBLEMS IN ACCOMPLISHING
OBJECTIVES OF THE WORK INCENTIVE
PROGRAM (WIN)
Department of Labor
Department of Health, Education,
and Welfare B-164031(3)

D I G E S T

WHY THE REVIEW WAS MADE

The Work Incentive Program (WIN) was designed to provide recipients of welfare under the Aid to Families with Dependent Children (AFDC) program with training and services necessary to move them from welfare dependency to employment at a living wage.

The General Accounting Office (GAO) reviewed WIN because of the program's cost--\$328 million appropriated for the first 4 years--and because of widespread concern over AFDC welfare rolls. As of June 1970 the AFDC rolls had soared to 2.2 million adults who were receiving \$391.2 million a month.

FINDINGS AND CONCLUSIONS

Results of WIN operations

WIN has achieved some success in training and placing AFDC recipients in jobs, which has resulted in savings in welfare payments in some cases. The complete results of the program cannot be determined readily, however, because of significant shortcomings in the management information system for WIN. Complete, accurate, and meaningful information was not generally available on program costs, benefits, or operations.

Because of its limited size in relation to the soaring AFDC rolls, WIN does not appear to have had any significant impact on reducing welfare payments. The success of WIN is determined largely by the state of the economy and the availability of jobs for its enrollees. WIN is not basically a job-creation program and, during periods of high unemployment, encounters great difficulty in finding permanent employment for the enrollees. (See p. 10.)

Problems in program design

WIN and AFDC need to be changed if the overall objective of encouraging AFDC family heads to seek employment is to be realized. Conditions in Denver, Colorado, and Los Angeles, California, illustrate what is wrong.

Fathers frequently lose money by going to work because their AFDC payments are discontinued when they obtain full-time employment, regardless of their wages. Mothers, on the other hand, continue to receive AFDC payments following their employment, and payments are reduced only after certain income levels have been reached.

The immediate cutoff of welfare payments to AFDC families with working fathers is unrealistic and tends to discourage fathers from seeking employment. GAO believes that family income should be the primary criterion for establishing AFDC eligibility, irrespective of whether the family head is male or female. (See p. 24.)

AFDC payments to mothers are not reduced fairly after they become employed. In Los Angeles a mother with three children may continue to receive payments, plus food stamps and free medical and dental care for herself and her children, until her earnings exceed \$12,888 a year. (Medical and dental care may continue even beyond this point if the family is medically needy.) In Denver a similar family may continue to receive benefits until the mother's income reaches \$9,000 a year. (See p. 28.)

The effectiveness of sanctions applied against persons who refuse to participate in WIN or to accept employment, without good cause, appears questionable. Local officials have been hesitant to apply the sanctions because such application is administratively time consuming and penalizes the entire family, not just the uncooperative individual. (See p. 32.)

Funding restrictions have severely limited implementation of the special work projects. The projects were provided by the law to subsidize employment for AFDC recipients who are considered not suitable for training or who cannot be placed in competitive employment. (See p. 35.)

RECOMMENDATIONS OR SUGGESTIONS

The Department of Labor should improve the management information system for WIN so that it will provide accurate and complete data on program operations, costs, and benefits.

Data should be developed consistently both on a nationwide basis and on individual projects and should be used for managing and evaluating the effectiveness of WIN operations and for developing estimates of appropriation needs. (See p. 20.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Assistant Secretary of Labor for Administration advised GAO that the Department of Labor considered the report a fair and objective appraisal of some of the major problems confronting WIN. He said that, although WIN activities in Los Angeles and Denver were not necessarily typical, the Department's experience showed that the problems faced by these cities were universal, to varying degrees.

The Assistant Secretary described actions being considered by the Department for improving the management information system for WIN and stated that the proposed Family Assistance Plan/Opportunities for Families Program (H.R. 1, 92d Cong., 2d sess.) if enacted, would correct the four major problem areas cited by GAO for consideration by the Congress. (See pp. 20 and 23.)

The Assistant Secretary also informed GAO that the WIN sponsors in both California and Colorado had indicated their general agreement with the report, although Colorado had offered no comments on the section of the report dealing with program design. (See p. 23.)

The Assistant Secretary, Comptroller, Department of Health, Education, and Welfare (HEW), also informed GAO that HEW was in general agreement with GAO's conclusions and recommendations and stated that the welfare reform provisions of the proposed legislation would correct many of the deficiencies cited by GAO. (See pp. 20 and 23.)

The State welfare agencies in California and Colorado also agreed generally with GAO's conclusions. (See p. 23.)

In August 1971 California enacted legislation designed to deal with the problem of continuing AFDC benefits to employed mothers with high earnings. California also took action in August 1971 to make more State money available for special work projects. Since these actions will not be effective until October 1971, GAO is unable to evaluate their results at this time.

MATTERS FOR CONSIDERATION BY THE CONGRESS

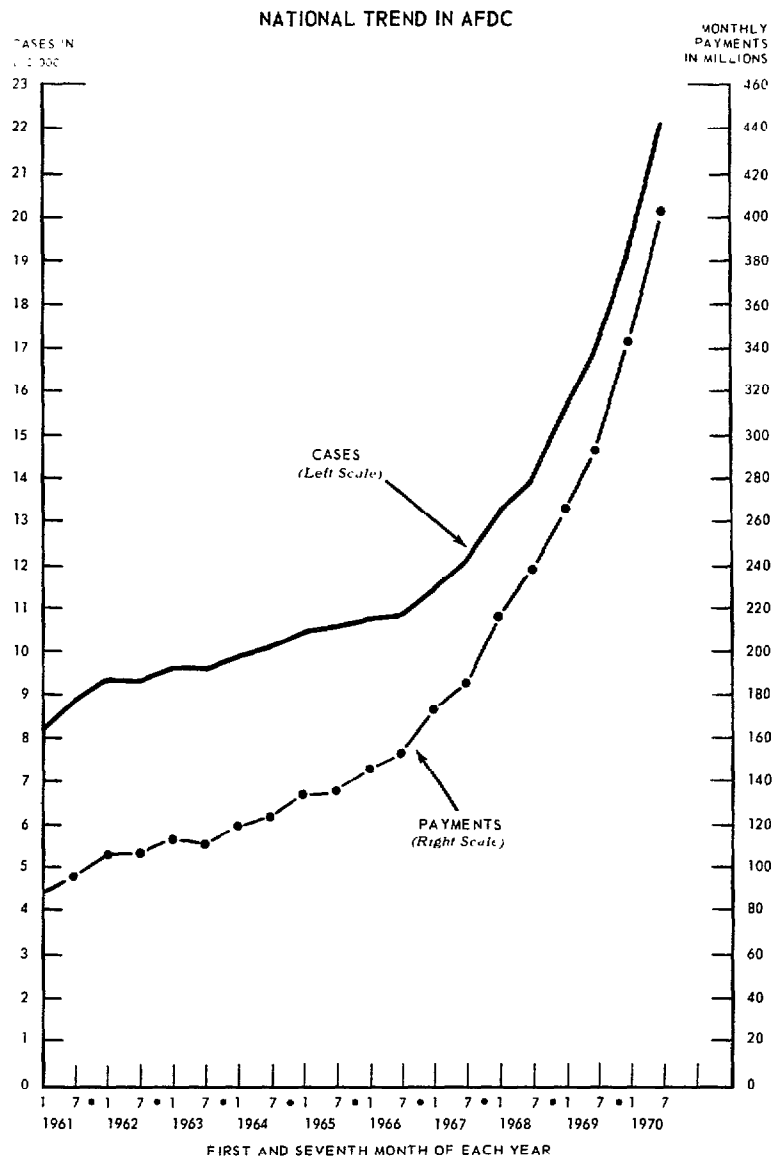
Since the designs of WIN and the AFDC program cannot be dealt with effectively by administrative action alone, GAO believes that the Congress, during its current deliberations on welfare reform, may wish to consider

- making family income and family needs the principal criteria upon which AFDC eligibility determinations are based, irrespective of whether the family head is male or female or whether employment accepted by heads of families is full time or part time (see p. 28);
- adjusting the welfare cutoff provisions with respect to both dollar payments and related supplemental benefits (see p. 32);
- examining the present penalty provision of WIN and enacting legislation which would strengthen work incentive and work requirements (see p. 35); and
- amending the Social Security Act to permit the use of regular WIN funds to subsidize the wages of enrollees in special work projects (see p. 41).

CHAPTER 1

INTRODUCTION

The Work Incentive Program, authorized by title II of the Social Security Amendments of 1967 (42 U.S.C. 630), is designed to provide certain recipients of assistance under the Aid to Families with Dependent Children program with training opportunities and with such supportive services as are necessary to move them from welfare dependency to economic self-sufficiency through meaningful jobs. WIN represents an attempt to mitigate the very costly effects of growing AFDC rolls. Trends in AFDC are illustrated in the following graph.



WIN is administered at the Federal level jointly by the Department of Labor and HEW. In each State the State employment service, under contract with the Department of Labor, is the prime manpower sponsor for WIN. State and local welfare agencies are responsible, pursuant to HEW guidelines, for referring all appropriate AFDC recipients to nearby State employment service offices for enrollment in WIN and for providing welfare supportive services.

SCOPE OF REVIEW

We reviewed certain aspects of WIN operations at the national headquarters offices of the Department of Labor and HEW and at local WIN and AFDC offices in Denver and Los Angeles for the period from the program's inception in July 1968 through June 30, 1970.

Our review was directed to three basic objectives: (1) to determine whether a satisfactory management information system had been developed for WIN, which would provide the Congress and program managers with reasonably complete accurate and meaningful data on program operations, program costs, and program benefits, (2) to evaluate the principal design characteristics of the program, and (3) to evaluate program administration.

The results of our review under the first two objectives are presented in this report; our findings concerning program administration, which are less significant, are being reported on separately to the Department of Labor and to HEW.

ORIGIN OF WIN

WIN is the successor program to the Community Work and Training program which was started in 1962 and was discontinued on June 30, 1968, and the work experience and training program which was started in 1964 and was discontinued on June 30, 1969. The former program was authorized by the 1962 amendments to the Social Security Act (42 U.S.C. 609), and the latter was authorized by title V of the Economic Opportunity Act of 1964 (42 U.S.C. 2921).

Experience under these two earlier programs indicated that providing effective assistance to welfare recipients would require a much greater effort than was possible under these programs, and therefore a new work training program was authorized under the Social Security Amendments of 1967. The new program, WIN, is designed especially for AFDC recipients, to provide all the services and opportunities necessary to move recipients of AFDC from welfare dependency to stable

employment at a living wage. WIN provides a comprehensive program of training, education, work experience, child care, and other supportive assistance.

FUNDING

From WIN's inception through June 30, 1971, Federal funds appropriated for WIN totaled \$327.7 million. The Social Security Act limits Federal participation in WIN program costs to 80 percent. The remainder must be provided by the States and may be in cash or in kind, including, but not limited to, plant, equipment, and services.

The allocation of Federal funds to the States is based on several factors, including the States' abilities to provide matching funds or services amounting to 20 percent of the total costs. Other factors include the States' AFDC case loads, sizes and locations of the work experience and training programs replaced by WIN, the States' capacities to expand operations, the States' WIN performances during previous years, and the States' amounts of carry-forward funds from prior fiscal years.

The Federal monies appropriated for WIN since its inception are shown below by year and by Federal agency. The amounts do not include the appropriations for AFDC benefits and services to WIN enrollees.

<u>Fiscal year</u>	Department of <u>Labor</u>	<u>HEW</u>	<u>Total</u>
	(000 omitted)		
1968	\$ 9,000	\$ 1,000	\$ 10,000
1969	105,500	12,000	117,500
1970	85,140	16,860	102,000
1971	<u>60,000</u>	<u>38,000</u>	<u>98,000</u>
Total	<u>\$259,640</u>	<u>\$67,860</u>	<u>\$327,500</u>

OPERATION OF WIN

The operation of WIN starts with the local welfare agency where the AFDC population is screened to identify those individuals who seem appropriate for enrollment in WIN. These persons are referred to the local office of the State employment service.

HEW regulations (45 CFR 220.35) require the prompt referral to the State employment service by the welfare agencies

of each appropriate individual, aged 16 or over, who is receiving AFDC or who lives in the same household as an AFDC recipient and whose needs are taken into account in determining the AFDC payment. Within the framework of the HEW regulations, the State welfare agencies are responsible for defining the types of persons who are considered to be appropriate for referral to WIN.

HEW regulations require that the States' definitions of types of persons appropriate for referral must include unemployed fathers and dependent youths, aged 16 and over, who are not substantially full-time in school, at work, or in training and for whom there are no educational plans under consideration for implementation within 3 months. HEW regulations state also that the welfare agency must refer to the State employment service any other individual considered in determining the AFDC assistance payment who, on a voluntary basis, requests referral to the employment service, unless the agency determines that such participation will be detrimental to the welfare of the person or the family.

After a person is referred to the local State employment service, WIN officials are required to determine whether the person referred should be enrolled. If the person is accepted for enrollment, arrangements are made to provide him with testing, counseling, orientation, basic education, work experience, vocational training, on-the-job training, and/or job-placement services. If education, work experience, and/or training are needed to make the enrollee employable, these services are supposed to be completed in about 1 year.

If an enrollee obtains a job, the first 90 to 180 days of employment constitute the "job entry period" during which he remains enrolled in WIN. During this period supportive follow-up services, such as counseling, medical care, and additional education, are provided as required. An enrollee who successfully completes the job-entry period is terminated from WIN and is considered a success for WIN reporting purposes.

If the enrollee loses or leaves a job during the job-entry period and does not obtain another one, WIN personnel try to get him to return to WIN training. If these attempts fail, the enrollee is terminated from WIN and his case is considered unsuccessful for reporting purposes. The overall objective of WIN is to help each enrollee to obtain and retain employment.

The process by which an enrollee is to achieve his employment goal is described in an "employability plan." This plan, developed by the employment service, specifies the

education, training, and other services that the person needs to enable him to achieve his employment goal.

WIN personnel who provide services directly to the enrollee and who decide what outside services he needs (usually education and/or vocational training) are organized into teams consisting generally of five members. Each team member specializes in a different type of service for the same group of enrollees.

WIN's services to its enrollees are categorized according to their employability--category I services are for individuals who are to be immediately placed into employment, category II services are for individuals who are not job-ready and for whom training is a prerequisite to regular employment, and category III provides subsidized employment in special work projects with public or nonprofit private organizations for enrollees who cannot benefit from training offered in category II or for whom jobs in the open market cannot be found. WIN legislation provides that category II services not last more than an average of 1 year.

As of October 1970 special work projects of a significant size had been established in only one State, West Virginia, although the Department of Labor was attempting to establish similar projects in other States.

CHAPTER 2

RESULTS OF WIN OPERATIONS

Although WIN appears to have achieved some success in training and placing AFDC recipients in jobs during its first 2 years of operation, which has resulted in savings in welfare payments in individual cases, the complete results of WIN cannot be determined readily because of significant shortcomings in the management information system for WIN. Complete, accurate, and meaningful information is not generally available on program costs, benefits, or operations.

Because of its limited size in relation to the soaring AFDC rolls and because of other reasons, WIN does not appear to have had any significant impact on reducing AFDC payments. The success of WIN is governed in significant measure by the state of the economy and by the availability of jobs for the persons trained through WIN. WIN is not basically a job-creation program and, during periods of high unemployment, encounters great difficulty in finding permanent employment for its enrollees.

During the first 2 years of WIN operations, information reported by HEW showed that the national AFDC case load increased by 761,000 cases--from 1,397,000 cases in July 1968 to 2,158,000 cases in June 1970. During the same period total monthly AFDC payments increased by \$153.7 million--from \$237.5 million in July 1968 to \$391.2 million in June 1970. The number of adults receiving AFDC increased during this period by 793,000--from 1,407,000 to 2,200,000.

SUMMARY OF PROGRAM OPERATIONS

Presented below is a summary of the results of WIN operations, as reported by HEW and the Department of Labor, for the period from program inception through June 30, 1970.

Information is presented both on a nationwide basis and on individual projects in Los Angeles County and Denver County. Following the summary are our comments on the shortcomings of this information and our recommendations for improvements in the overall management information system.

Nationwide operations

The total federally funded costs of WIN, as reported by the Department of Labor and HEW, for the first 2 years of operations were as follows.

	<u>Fiscal year</u>		
	<u>1969</u>	<u>1970</u>	<u>Total</u>
	----- (000 omitted) -----		
Costs funded by the Department of Labor:			
On-the-job training	\$ 791	\$ 604	\$ 1,395
Institutional training	21,740	59,715	81,455
Work experience and orientation	5,037	8,268	13,305
Work projects	55	283	338
Employability planning, job placement, and follow-up	3,428	8,838	12,266
Program direction and evaluation	<u>2,105</u>	<u>5,219</u>	<u>7,324</u>
Total	<u>33,156</u>	<u>82,927</u>	<u>116,083</u>
Costs funded by HEW:			
Child care	<u>4,218</u>	<u>18,443</u>	<u>22,661</u>
Total costs	<u>\$37,374</u>	<u>\$101,370</u>	<u>\$138,744</u>

The results of WIN's operations, as reported to the Department of Labor by the State WIN sponsors from inception through June 30, 1970, are summarized below.

AFDC recipients enrolled in WIN		173,257
Terminations from WIN:		
Obtained jobs	15,071	
Quit without good cause	15,654	
Quit for good cause	<u>47,977</u>	<u>78,702</u>
Enrollees at June 30, 1970		<u>94,555</u>

Of the 78,702 persons who had terminated from WIN, 15,071, or 19 percent, had obtained jobs.

Savings resulting from WIN's elimination or reduction of AFDC payments, as reported to the Department of Labor by the State WIN sponsors, are summarized below.

	<u>Year ended</u> <u>June 30, 1970</u>	<u>Inception</u> <u>through</u> <u>June 30, 1970</u>
Cases in which AFDC pay- ments were:		
Terminated	17,572	21,770
Reduced	<u>8,934</u>	<u>10,316</u>
Total	<u><u>26,506</u></u>	<u><u>32,086</u></u>
One month's dollar savings from:		
Terminations of AFDC pay- ments	\$1,734,726	\$2,266,497
Reductions in AFDC pay- ments	<u>681,300</u>	<u>751,018</u>
Total monthly savings	<u><u>\$2,416,026</u></u>	<u><u>\$3,017,515</u></u>

The dollar amounts shown above were the aggregate of 1 month's savings applicable to all WIN participants whose AFDC payments had been reduced or eliminated. Subsequent months' savings are not included, and no official estimates have been made of the total cumulative welfare savings attributable to WIN.

WIN operations in Los Angeles

From June 1968 to June 1970, the AFDC case load in Los Angeles County increased by 86 percent--from 75,956 cases in June 1968 to 141,437 cases in June 1970. During this same period monthly AFDC payments increased by 105 percent--from \$14.3 million in June 1968 to \$29.3 million in June 1970. During fiscal year 1970

- the AFDC case load increased by 39,000 cases;
- WIN-Los Angeles was budgeted for 6,200 program slots (maximum authorized enrollment);
- WIN-Los Angeles reported that 6,432 enrollees had terminated from the program, of whom about 20 percent were reported to have obtained jobs;
- 1,149 AFDC cases were reported as closed, or the AFDC payments had been reduced, following participation in WIN; and
- the unemployment rate increased from 4 to 5.5 percent.

Because of its limited success rate (20 percent) and limited size (6,200 slots), WIN-Los Angeles has not had a significant impact on the AFDC case load in Los Angeles County.

The growth of AFDC in Los Angeles County and the success of WIN-Los Angeles were relatable, in significant part, to conditions within the local economy. During much of the period of WIN's operations, there has been a slowdown in the Los Angeles economy and an increase in the unemployment rate from 4.2 percent in December 1969 to 7.3 percent in December 1970. The economic slowdown and rising unemployment have been attributed primarily to the cutbacks in defense, aerospace, and related industries.

Because program costs for WIN-Los Angeles for fiscal years 1969 and 1970 had not been compiled by the State employment service in the manner prescribed by the Department of Labor, we developed estimates on the basis of information available from the State employment service. We estimated that the Federal (Department of Labor and HEW) costs of WIN-Los Angeles totaled \$9,890,960, or \$1,595 a slot, for fiscal year 1970. Estimated Federal costs of WIN-Los Angeles from its inception in September 1968 through June 30, 1970, totaled \$14,282,700.

The Department of Labor and HEW require that unemployed fathers receiving AFDC payments be referred to WIN within 30 days after being granted the welfare payments and that they be given preference in filling WIN slot openings. Because of these requirements, most of the persons enrolled during the first months of WIN operations in Los Angeles were unemployed fathers. This situation also occurred in fiscal year 1970 because of the large backlog of people awaiting enrollment and the limited slot openings available.

WIN operations in Denver

From June 1968 to June 1970, the AFDC case load in Denver County for family heads increased by about 34 percent--from 6,342 cases in June 1968 to 8,505 cases in June 1970. During the same period the monthly AFDC payments increased by about 28 percent--from \$1,110,000 in June 1968 to \$1,426,000 in June 1970. During fiscal year 1970

--the AFDC case load in Denver increased by 1,700 cases;

--WIN-Denver was funded for 800 program slots (maximum authorized enrollment);

--WIN-Denver reported 673 enrollees terminated from the program, of whom about 26 percent were reported to have had jobs at the time of termination; and

--218 AFDC cases were reported as closed, or welfare payments had been reduced, following participation in WIN.

Although WIN has not had a substantial impact on the overall AFDC case load in Denver or on the number of female-headed AFDC families, the number of father-headed AFDC families decreased from 440 in September 1968, when WIN was instituted, to 405 in June 1970. Also the rate of terminations from AFDC because of employment of the fathers increased from 42 percent during the 18-month period immediately preceding WIN's inception in Denver to 55 percent during the first 18 months of WIN's existence.

In accordance with Department of Labor and HEW requirements, WIN-Denver has given enrollment priority to AFDC unemployed fathers. As a result, most of the enrollees in the first 3 months of the program were men. In Denver, however, no backlog of persons awaiting enrollment in WIN has occurred and about two thirds of the enrollees since the first 3 months have been women.

WIN's success in reducing Denver's father-headed AFDC case load is related directly to the large proportion of the AFDC fathers who have enrolled in WIN. As of June 30, 1970, 260 of the 405 father heads of AFDC families (64 percent) were enrolled in WIN, while only 452 of the 8,237 female heads of AFDC families (5.5 percent) were enrolled.

We believe that the success of WIN-Denver has been attributable, at least in part, to metropolitan Denver's diversified economy. Denver metropolitan nonagricultural employment for 1970 was distributed as follows.

	<u>Percent</u>
Wholesale and retail	24.6
Government	19.2
Service and miscellaneous	18.4
Manufacturing	17.9
Transportation and public utility	7.4
Contract construction and mining	6.4
Finance	<u>6.1</u>
	<u><u>100.0</u></u>

Particularly noteworthy has been the growth and stability of employment in the metropolitan area over a period of about 10 years. In January 1960 total employment was reported to be 367,800, but it grew to 515,100 by March 1970. During this same period the unemployment rate has ranged from a low of 2.9 percent for 1969 to 4.2 percent for 1963. For the first 18 months of WIN operations in Denver, unemployment remained at an average of 2.9 percent. In December 1970 the unemployment rate was 3.9 percent.

The Federal costs recorded by the State employment service and the local welfare agency for WIN-Denver from its inception in September 1968 through June 30, 1970, totaled \$1,047,050, which constitutes about 74 percent of the total costs.

NEEDED IMPROVEMENTS IN WIN MANAGEMENT INFORMATION SYSTEM

Substantial improvements are needed in the management information system used by the Department of Labor and HEW for WIN, to provide reasonably complete and accurate data on program operations to program managers and to the Congress. Our comments below concern the limitations of data available on program costs, enrollee terminations, and program benefits.

Program costs

Costs of operating the WIN program have not been compiled and reported accurately by the Department of Labor. Two significant shortcomings are (1) the omission from program cost reports of costs paid by State and local welfare agencies from Federal, State, and local AFDC funds and (2) the failure of some States to report WIN costs on the accrued-expenditure basis required by the Department of Labor. An accrued expenditure occurs when goods or services are delivered to the State employment service or a WIN enrollee.

A significant part of the cost of the WIN program consists of payments to enrollees for training-related expenses, such as transportation, child care, and incidentals. The Federal share of child-care expenses is paid with WIN funds, but the other training-related expenses are paid from welfare service funds supplied to the local welfare agencies by State and local governments and by HEW's AFDC program. The State and local welfare agencies have not been required by HEW to identify such costs applicable to the WIN program or to record and report on them separately, except for child care.

We estimated that the WIN-related costs which local welfare agencies had paid, but had not reported in the WIN cost

reports, amounted to about 16 percent of the total recorded WIN costs (Federal and non-Federal) in Denver and about 26 percent in Los Angeles. Because these costs have not been considered by the Department of Labor, the reported costs of WIN are significantly understated.

With regard to the accounting basis for reporting WIN costs, Department of Labor instructions require each State WIN sponsor to report both the total and the Federal share of their WIN-accrued expenditures each month. We noted that the California State employment service had been reporting as the Department of Labor's share of monthly WIN costs the Federal share of the State's disbursements for WIN instead of accrued expenditures.

The Federal share of the costs of the State employment service shown in the regular State-wide financial reports totaled about \$17.2 million for fiscal years 1969 and 1970; however, the State employment service developed estimates indicating that the Department of Labor's share of State-wide WIN costs, on an accrued-expenditure basis, for this period was about \$27.9 million.

The Department of Labor's share of accrued expenditures reported for WIN-Los Angeles operations totaled about \$5.1 million through June 30, 1970. On the basis of the State's estimate of its accrued expenditures, however, we estimated that the accrued expenditures for WIN-Los Angeles were about \$9.3 million through June 30, 1970.

WIN-Denver program costs were reported as of June 30, 1970, in accordance with Department of Labor instructions. Prior to that date, however, the monthly statements submitted for WIN-Denver operations had not been reported consistently on an accrual basis.

So that both the program managers and the Congress will be fully informed as to the cost of operating WIN, we believe that cost reports on WIN should show all Federal, State, and local expenditures for the program, including those paid from Federal AFDC funds, and should be prepared consistently on an accrual basis.

Terminations from WIN

Our tests in Denver and Los Angeles have shown that improvements are needed in the quality and type of information being accumulated on terminees from WIN. In certain instances reasons for enrollees' terminations were not recorded on a sufficiently definitive or accurate basis to permit meaningful

analysis. The form prescribed by the Department of Labor and used by WIN-Denver and WIN-Los Angeles for recording termination information did not always show clearly the circumstances causing the termination, and, in a number of instances, the reasons recorded on the form did not coincide with reasons shown in the enrollees' case files.

Department of Labor regulations require that each time an enrollee terminates from WIN, an Individual Termination Record be prepared. The form provides a choice of reasons for showing the cause of the termination, the terminatee's wages if he is employed, and a summary of the WIN components in which he has participated. The form lists a number of possible reason-categories for indicating the cause of the termination plus an "other" category for terminations where the cause is for some reason other than those listed.

Of all WIN-Denver terminations reported through March 31, 1970, 23 percent (167 terminations) were described as other on the Individual Termination Record. Analysis of the terminations showed that many could have been classified more accurately in one of the reason-categories provided for on the Individual Termination Record and that, in many other instances, more explicit and definitive reason-categories were needed on the Individual Termination Record to properly inform program managers as to the reasons for the terminations.

In Los Angeles our examination of a random sample of 100 Individual Termination Records (of 589 terminations of March 1969 enrollees between March 1969 and March 1970) showed that 20 percent had reasons shown on the Individual Termination Record that were inconsistent with information in the case files.

In commenting on the inconsistencies in the reasons for termination, the chief of California's WIN program stated that the Department of Labor's definitions of the reason-categories for termination were inadequate and confusing to field staff. He stated also that a reason-category was needed for volunteers for WIN who subsequently withdrew.

We believe that the Department of Labor needs to reexamine the format of the Individual Termination Record and to ensure that it provides for reasonably definitive data on the reasons for WIN terminations. The Department should also reemphasize to the States the need to prepare this record carefully and accurately.

Welfare savings and other accomplishments

Savings in AFDC payments that have resulted from WIN enrollees' obtaining jobs are not computed in a manner which permits a realistic comparison of this program benefit with program costs. Also there is not always a relationship between this benefit as reported and the operations of WIN.

Savings in AFDC payments following AFDC recipients' participation in WIN are summarized and reported to Department of Labor headquarters on the WIN Monthly Program Activity Summary for each WIN project. The number of cases in which the AFDC payments have been eliminated or reduced are also reported on the Monthly Program Activity Summary. Savings are not reported for an employed WIN participant until he has completed the job-entry period and is terminated from the program.

The Department of Labor requires that only 1 month's welfare savings be computed for each WIN terminnee whose AFDC payments have been reduced or eliminated and reported to Department headquarters. Since no projection is made of total savings, the amounts reported are of limited value either in assessing the benefits of WIN or in comparing the benefits with program costs.

In computing savings in AFDC payments for a 1-month period, the payments for 2 different months are considered, one payment before the WIN enrollee has obtained a job and one after he has obtained a job. Department of Labor instructions do not specify which 2 months should be used in making this computation, and, in WIN-Los Angeles and WIN-Denver, there has been considerable variation as to which 2 months have been used.

In Denver the payment for the month in which the person enrolled in WIN is compared with the payment for the month in which his job-entry period is completed. There is frequently a time lag of 1 year or more between these 2 months. This time lag permits the AFDC payments to be affected by events not related to WIN participation and results in inaccurate savings being reported. In Los Angeles the above method was used at times, but no single method was used consistently.

WIN personnel, instead of obtaining the actual amounts from the welfare agency, sometimes estimated the amounts of the AFDC payments. As a result of these disparities, the monthly savings in AFDC payments reported by the State employment services for Los Angeles and Denver were neither accurate nor consistent for the two areas.

Department of Labor officials agreed that savings in AFDC payments for a 1-month period, even if accurately determined, were of limited usefulness in assessing overall benefits under WIN. They stated that projecting the monthly welfare savings, and possibly other benefits, into the future to determine overall program benefits would present problems. They stated, however, that, if such projection could be made, it would result in more useful management information.

Another shortcoming in present procedures for reporting savings in AFDC payments is the Department of Labor's presumption that all reductions and eliminations of AFDC payments following a recipient's participation in WIN are related to the operation of the program. This presumption is not always realistic. For example, female AFDC family heads who become ineligible for AFDC payments because they get married or because their youngest child becomes 18 years old would be included on the WIN Monthly Program Activity Summary as cases in which the welfare payment was eliminated.

We believe that benefits should not be claimed for WIN where such benefits are not clearly the result of the program.

To better assess the results of WIN, we compared the average WIN-Denver costs through June 1970 with the average savings in AFDC payments for employed WIN enrollees. Our comparison assumed that AFDC payments would remain constant and that the employed enrollees' wages would remain the same after their terminations.

As of June 30, 1970, 218 WIN-Denver enrollees had completed the job-entry period and had been reported as successful terminees and 105 enrollees were in the job-entry period. On the basis of WIN-Denver experience to that date, we estimated that, of the 105 enrollees, 58 would complete the job-entry period successfully.

If there were 276 successful WIN terminees (218 plus 58) as of June 30, 1970, the total program costs allocable to all WIN-Denver terminees and the 105 enrollees in the job-entry period would have been \$985,000 and the average cost for each successful terminnee would have been \$3,569.

We determined that the actual reductions in AFDC payments attributable to the employment of 59 of the 218 WIN terminees at June 30, 1970, were equivalent to an average monthly reduction of \$230 for each father and \$93 for each mother. Based on these reductions in AFDC payments and an average cost for each successful termination of \$3,569, the total costs would be recoverable in about 16 months for each successful AFDC father and in about 38 months for each successful AFDC mother.

Data was not available at the time of our review on how long the successful WIN terminees retained their jobs or whether the savings in AFDC payments continued long enough to allow the WIN program costs to be fully recovered. Records showed, however, that 84 percent of all employed WIN terminees through March 31, 1970, were under 45 years of age, indicating a potential for long-term employment.

Conclusions

Data which has been compiled to date on WIN appears to us to be generally insufficient either for management purposes or for evaluating program effectiveness.

Substantial efforts need to be made by the Department of Labor to improve the management information system for WIN. Reasonably complete and accurate operating data on costs, benefits, and results of program operations are essential to provide the basis for considering such matters as desirable levels of funding, relative effectiveness of approaches to the employment problems of the poor, and returns of benefits for costs incurred.

Recommendation to the Secretary of Labor

We recommend that the Secretary of Labor improve the management information system for WIN so that it will provide accurate and complete data on program operations, costs, and benefits. We recommend also that such data be developed consistently both on a nationwide basis and on individual projects and be used for managing and evaluating the effectiveness of WIN operations and for developing estimates of appropriation needs.

Agency comments

In his letter of July 8, 1971 (see app. I), the Assistant Secretary of Labor for Administration informed us that the Department agreed that an effective information system was a critical element in the improvement of program management and performance and that cost reporting for WIN did not satisfy informational needs. He stated, however, that, if the enactment of the Family Assistance Plan (in the form of H.R. 1 as passed by the House of Representatives) appeared imminent, redesign of the WIN cost-reporting system should be deferred in favor of incorporating the system improvements that we suggested into the new Family Assistance Plan/Opportunities for Families Program information system.

With regard to the reporting of enrollees' status, the Assistant Secretary described certain steps which had been taken to improve the timeliness and accuracy of project status reporting after our review. He indicated, however, that further improvement might be required in the Individual Termination Record and in reporting savings in AFDC payments attributable to WIN.

The Assistant Secretary stated that instructions for completing reports on welfare savings would be reviewed; that the reporting of welfare savings as part of a general project status might not be adequate; and that an examination would be made of alternative possibilities for gathering this type of information, including follow-up and evaluation studies. He stated also that, although the Department had attempted to identify welfare savings on program reports, there was no guarantee that local welfare agencies would supply this information to local employment offices because the agencies, in many cases, were so overburdened and understaffed that they did not have time to develop extra data.

The State employment service agencies of California and Colorado both expressed general agreement with GAO's findings regarding the need for substantial improvements in the WIN management information system.

In his letter of August 18, 1971, commenting on a draft of this report (see app. II) the Assistant Secretary, Comptroller, HEW, noted that House bill 1, which would establish the Family Assistance Plan/Opportunities for Families Program, would require the Secretary of Labor to conduct continuous evaluation and research on the effectiveness of the program.

CHAPTER 3

PROBLEMS IN PROGRAM DESIGN

The designs of WIN and the AFDC program need to be changed in certain respects if the overall objective of providing realistic encouragement and opportunities to AFDC family heads to seek employment is to be realized. Under present laws and implementing regulations, the following conditions were evident in Denver and Los Angeles.

- Welfare payments to AFDC fathers were discontinued immediately after the fathers had obtained employment (35 hours a week or over), regardless of wages earned; such persons frequently incurred a loss of income by accepting low-paying jobs. AFDC mothers, on the other hand, continued to receive AFDC payments following their employment, and the payments were reduced only after certain income levels had been reached.

We believe that the cutoff of welfare payments to AFDC fathers immediately after they obtain employment of 35 hours a week or more, regardless of the amount of their wages, is unrealistic; that it results in a disincentive for AFDC fathers to seek employment; and that family income should be the primary criterion for establishing AFDC eligibility, irrespective of whether the family head is a father or a mother.

- Welfare payments to AFDC mothers were not reduced in a realistic manner after they had become employed. In Los Angeles an AFDC mother with three children may continue to receive welfare payments, plus such supplementary benefits as food stamps and free medical and dental care for herself and her children, until her earnings exceed \$12,888 a year. Medical and dental care may continue even beyond this point in Los Angeles if the families are medically needy.

In Denver this same type of family could continue to receive AFDC payments and benefits until the mother's income reached \$9,000 a year. We believe that more realistic cutoff points need to be established both for AFDC payments and for supplementary benefits.

- The effectiveness of sanctions provided in the Social Security Act and applied against persons who refused to participate in WIN or to accept employment, without good cause, appeared questionable.
- Funding restrictions imposed by the legislation authorizing WIN severely limited the implementation of the special work projects provided for in the law.

In August 1971 California enacted legislation designed to deal with the problem of continuing AFDC benefits to employed mothers with high earnings. California also took action in August 1971 to make more State money available for special work projects. Since these actions will not be effective until October 1971, we are unable to evaluate their results at this time.

Agency comments

In commenting on this section of our report (see app. I), the Assistant Secretary of Labor for Administration agreed with us that problems in the basic design of WIN could not be dealt with effectively by administrative action alone. He offered various comments on how House bill 1 would affect the four major areas discussed in this report.

The Assistant Secretary of Labor stated that the California employment service agency agreed that the disparity in welfare payments to men and women was a disincentive to men and provided an overlong stay on welfare for the women and that California would recommend Federal legislation that provided a realistic cutoff point as to the length of time a person remained on the AFDC rolls after employment.

The Assistant Secretary of Labor stated also that the California employment service agency agreed that sanctions, as mandated and administered, had not been an effective means to either motivate enrollees to remain in the program or remove families from the welfare rolls when an enrollee refused to participate. California's county welfare departments, he stated, found the sanctions cumbersome and time consuming for their limited staffs and imposed them on very few enrollees terminated from WIN without good cause.

The State of Colorado employment service agency did not comment on this section of the report.

In commenting on this part of our report (see app. II), the Assistant Secretary, Comptroller, HEW, stated that HEW was in general agreement with our conclusions and recommendations and that the welfare reform provisions of House bill 1 would correct many of the deficiencies that we cited in the design of the AFDC program.

The executive director of the State welfare agency for Colorado stated that our report was objective and had outlined the constraints on WIN which led to less than generally desired results.

The California State welfare agency was basically in agreement with our findings but noted that making family income the primary criterion for determining AFDC eligibility, although theoretically sound, might result in adding cases to the AFDC roles. The agency is opposed to such changes when they add cases to the AFDC roles. The agency supports our other conclusions, which regarded changes in sanction procedures, Federal subsidy of special work-project salaries, and AFDC cutoff provisions.

DISINCENTIVE FOR AFDC FATHERS TO SEEK EMPLOYMENT

The Social Security Act (42 U.S.C. 607(b)) provides that AFDC payments may be provided, at the option of each State, to families in which the father has been unemployed for at least 30 days. California and Colorado are among the 23 States which have elected to provide AFDC payments to such families. This provision has the effect of stopping a family's AFDC payments if the father becomes employed.

Under HEW regulations (35 CFR 233.100), the States may prescribe the exact point at which employment occurs, but it may not be less than 30 hours a week or more than 35 hours a week. California and Colorado have chosen 35 hours a week. If a father works only part-time and is therefore not considered to be employed, his family's AFDC payment is reduced on the same basis as a female-headed family's. (See page 28.)

Our comparison of the total family income realized by average-size AFDC families in Los Angeles and Denver before and after the fathers accepted employment of 35 hours a week or more showed that, when the fathers accepted employment, the families sustained a loss averaging \$54 to \$65 a month.

This loss of income was attributable to the fact that the number of hours worked by the fathers, rather than family income or need, was the determining factor for establishing AFDC eligibility.

Our specific findings in Los Angeles and Denver were as follows.

Los Angeles

At the time of our review, in Los Angeles County the typical AFDC family, headed by an unemployed father, included both parents and four children. According to the local welfare agency, this type of family was entitled to monthly welfare benefits of \$447, consisting of cash (\$282), food stamps (\$80), and medical and dental care (\$85).

As shown below, a typical father must earn \$626 a month (\$3.61 an hour, or \$7,512 a year), to realize net income equal to the value of the welfare benefits that he may receive without working. Work-related expenses are based on allowances established by the local welfare agency.

	<u>Monthly</u>
Gross wages from employment at \$3.61 an hour	\$626
Less payroll deductions	<u>74</u>
Net take-home pay	552
Less work-related expenses:	
Standard allowance for incidentals	\$25.00
Transportation allowance	<u>80.00</u>
	<u>105</u>
Net income equivalent to welfare benefits	<u>\$447</u>

We selected as a sample group the 980 people enrolled in WIN-Los Angeles during March 1969 and ascertained for those who obtained employment through March 31, 1970, the effects on the group's average family income. We found that the employed fathers in the group earned an average gross of \$3.15 an hour in a 40-hour workweek (\$546 a month, or \$6,549 a year) during June 1970. The average net income after payroll

deductions of \$59 and work-related expenses of \$105 was \$382, or \$65 a month less than the value of welfare benefits that the family would have received had the father not entered into full-time employment.

Presented below is an actual case which further illustrates the economic loss and the disincentive for AFDC fathers to become employed full time.

A father, aged 33, with six dependents, including a wife, began receiving AFDC payments in California in February 1969. His family's AFDC payment was \$318 a month and the family was entitled to benefits in the form of food stamps worth \$90 a month and medical and dental care worth an additional \$90 a month--a total entitlement to welfare benefits of \$498 a month.

The father was enrolled in WIN in March 1969 and became employed in September 1969 at a salary of \$500 a month. His net monthly income, after payroll deductions of \$37 and deductions of \$105 for work-related expenses, amounted to \$358, or \$140 a month less than the value of his AFDC benefits which were discontinued. His participation in WIN was terminated in March 1970. In June 1970, 9 months after he began working, his salary was still \$500 a month and his net income was still \$358 a month.

The average loss in income of \$65 a month resulting from the acceptance of full-time work was much greater than the loss of \$19 a month that a typical father could incur as a sanction for refusing, without good cause, to participate in WIN or to accept employment. (See p. 32 for discussion of sanctions.)

HEW regional officials agreed that there was an inequity to male AFDC family heads who obtained full-time employment.

Denver

In Denver County the typical AFDC family, headed by an unemployed father, included both parents and three children. Such a family was entitled to monthly welfare benefits of \$407, consisting of cash (\$285), food stamps (\$70), and medical care (\$52).

As shown below the father of a typical AFDC family in Denver had to earn a gross wage of \$2.84 an hour (\$492 a month, or \$5,904 a year) to realize net income equal to the value of the welfare benefits that he received without working.

Gross wages from employment at \$2.84 an hour	\$492
Less payroll deductions	<u>55</u>
Net take-home pay	437
Less work-related expenses:	
Allowance for transportation and incidentals	<u>30</u>
Net income equivalent to welfare benefits	<u><u>\$407</u></u>

Our review of a random sample of 72 of the 226 AFDC fathers who had obtained full-time employment through March 31, 1970, showed that the average gross wage for employed male WIN participants was \$2.48 an hour (\$430 a month, or \$5,160 a year). Average net income after payroll deductions of \$38 and work-related expenses of \$39 was \$353, or \$54 a month less than the value of welfare benefits. The loss in income of \$54 a month by accepting full-time employment was slightly more than the loss of \$50 a month that the typical male would incur as a sanction for refusing, without good cause, to participate in WIN or to accept employment. (See page 33.)

Officials of the local welfare agency in Denver stated that AFDC fathers should be provided an income supplement to prevent their incurring a financial loss by obtaining full-time employment.

Conclusions

It is not consistent with the overall objectives of WIN and the AFDC program that AFDC families should incur an economic loss when the father terminates his family's welfare dependency through employment. This condition produces not only an inequity to the family but also a disincentive for family heads to either seek or accept full-time work.

More equitable rules apply to fathers taking only part-time employment and to mothers who are heads of AFDC families. (See p. 28.) When these persons accept employment, the AFDC payments are reduced on a graduated basis related to the amount of employment income earned. Thus, by taking into

consideration both welfare payments and employment income, they are assured certain minimum levels of family income. These rules also should be applicable to fathers of AFDC families accepting full-time employment.

We believe that, as the eligibility requirements for AFDC benefits are governed by title II of the Social Security Act and cannot be effectively dealt with by administrative action, this matter of equitable eligibility requirements merits the attention of the Congress.

Matter for consideration by the Congress

In its current deliberations on welfare reform or in its continuing reviews of Social Security legislation, the Congress may wish to consider making family income and family needs the principal criteria upon which AFDC eligibility determinations are based, irrespective of whether the family head is male or female or whether employment accepted by heads of family is full time or part time.

WELFARE PAYMENTS TO WORKING AFDC MOTHERS
ARE NOT REDUCED IN A REALISTIC MANNER
AFTER EMPLOYMENT

The Social Security Act, as amended (42 U.S.C. 602(a)), as it applies to employed females heading AFDC families, provides that, in computing AFDC payments, the first \$30 a month of the mothers' gross earnings and one third of the remainder should be disregarded and that work-related expenses should be considered. HEW regulations provide that work-related expenses are those expenses reasonably attributable to the earning of income. The expenses typically include such items as child care, transportation, and incidentals, and the amount to be allowed generally is determined by the local welfare agencies. These exclusions of income in computing AFDC payments are intended to encourage AFDC recipients to obtain work.

Our review of the application of these provisions to AFDC mothers in Los Angeles and Denver showed that they served their intended purposes of providing a substantial economic incentive to accept employment. At the same time, however, the provisions resulted in continuing supplemental welfare payments which afforded some recipients a level of income higher than that of persons not on welfare and raised a question as to the reasonableness of and need for providing such continuing benefits.

We have found, for example, that a typical AFDC mother in Los Angeles can earn up to \$579 a month (\$6,948 a year) before any reduction is made in her welfare payments and up to \$1,074 a month (\$12,888 a year) before her welfare payments are terminated. She may still qualify for medical and dental benefits after achieving this income level under California's program for the medically needy. In Denver a typical AFDC mother can earn up to \$207 a month (\$2,484 a year) before any reduction is made in her monthly welfare payment, and she can earn up to \$750 a month (\$9,000 a year) before her welfare payment is terminated.

The average yearly earnings of all employed persons in the Los Angeles area during 1969 was about \$8,000 and in Denver about \$7,100 according to information compiled by the Department of Commerce. Data on average family income in these areas is not available from the Department of Commerce.

The main reason for the difference in welfare cutoff points in Los Angeles and Denver is that determinations by State and local welfare agencies vary as to family needs and the allowances for work-related expenses.

At the time of our review, the typical AFDC family headed by a female in Los Angeles County consisted of a mother and three children. A family of this size was entitled to monthly welfare benefits worth \$348 (\$4,176 a year), consisting of AFDC payments, (\$221), a food stamp bonus (\$70), and medical and dental care (\$57).

We selected a sample group of working mothers from the 980 persons enrolled in WIN-Los Angeles during March 1969, who subsequently obtained employment, to determine the effect, if any, of their employment on the amount of their AFDC payment. The earnings history of this group showed that in June 1970 these employed mothers were earning an average of \$433 a month (\$5,198 a year). The typical mother at this level of earnings continued to receive her full AFDC benefits, giving her a total monthly earnings and AFDC payments of \$654 (\$7,848 a year), a food stamp bonus of \$24 a month, and medical and dental care worth \$57 a month.

Following is an illustration of how the amount of supplemental AFDC payment would be determined for this typical female family head upon becoming employed; the determination is based on the assumption that two of the children require child-care service while the mother is working.

	<u>Monthly</u>
AFDC standard "needs" amount (note a)	<u>\$285</u>
AFDC payment	<u>\$221</u>
Gross wages from employment at \$2.50 an hour	\$433
Less payroll deductions	<u>54</u>
Net take-home pay	379
Less income exclusions and work- related expenses:	
Exclusion (\$30 plus one third of the remainder of gross wages)	\$164
Standard allowance for food and incidentals	25
Transportation, including car maintenance	80
Child care	<u>107</u>
Total	<u>376</u>
Net pay for computation of supplemental welfare pay	<u>\$ 3</u>
Supplemental welfare pay (the amount by which the standard needs amount exceeds net take-home pay less exclusions, except that payment may not be greater than the AFDC payment)	<u>\$221</u>

a

The standard "needs" amount is established by the State welfare agency as the amount needed by a family to obtain the basic necessities of life. Limitations on State and local funding prevent the standard needs amount's being paid in Los Angeles.

The total economic value of employment income and welfare benefits received by the family in the foregoing illustration is equivalent to monthly gross earnings of \$735 (\$8,820 a year), consisting of wages of \$433 and welfare benefits of \$302 (\$3,624 a year)--AFDC payment of \$221, a food stamp bonus of \$24, and free medical and dental care of \$57. The mother increased her income, as a result of working, by \$121 a month, considering her work-related expenses of \$266 a month.

Presented below is an actual case in Los Angeles which further illustrates the effects of economic work incentives on female heads of AFDC families:

A woman, aged 23, with one dependent daughter applied for AFDC assistance in September 1968, which was granted. Her total AFDC benefits amounted to \$239 a month, consisting of an AFDC payment of \$148, \$41 in food stamps, and \$50 in medical and dental care. She enrolled in WIN-Los Angeles in March 1969 and became employed in July 1969 at a salary of \$500 a month. After she became employed, her AFDC benefits were reduced to \$218 a month--the food stamp bonus was reduced to \$20. Thus her gross monthly income totaled \$718 a month. The woman's participation in WIN was terminated in November 1969. In June 1970 her salary was \$600 a month, an increase of \$100 over a 1-year period. In September 1970 she still was receiving AFDC benefits of \$218 a month. Thus she had a gross income of \$818 a month from employment and AFDC benefits, or a net income of \$469 a month after deducting \$139 for payroll deductions and \$210 for work-related expenses, including child care, as allowed by the local welfare agency.

The AFDC payment was not reduced in this case because, after deducting from the \$600 gross earnings the work incentive (income exclusion) of \$220, work-related expenses of \$210, and payroll deductions of \$139 only \$31 remained to meet the family's needs of \$208--the amount determined by the State welfare agency. The unmet needs were \$177, but the welfare agency could pay only \$148.

Conclusions

The provisions of the Social Security Act, as administered by State and local welfare agencies, have permitted working AFDC mothers to receive continuing welfare payments beyond the point at which they have achieved income parity, with persons not on welfare. This situation raises a question as to

the need for providing the continuing welfare assistance required under the presently prescribed procedures as well as a question of equity in relation to persons not on welfare.

Although we recognize the need for providing financial incentives to AFDC mothers who seek employment, we believe that such incentives should be limited to ensuring a reasonable level of income to be determined by the individual States on the basis of existing economic conditions. A readjustment of the statutory provisions governing the computation of welfare payments to working AFDC mothers is desirable for establishing a realistic cutoff point at which welfare payments to working mothers should be terminated.

Matter for consideration by the Congress

Because females heading AFDC families may now receive AFDC benefits well beyond the point at which they achieve income parity with persons who are not eligible for welfare, the Congress may wish to consider adjusting the welfare cutoff provisions with respect to both dollar payments and related supplemental benefits.

QUESTIONABLE EFFECTIVENESS OF EXISTING SANCTIONS AGAINST AFDC RECIPIENTS WHO REFUSE EMPLOYMENT

On the basis of our observations in Los Angeles and Denver Counties, we believe that the effectiveness of the existing sanctions provided for in title II of the Social Security Amendments of 1967 and applied against AFDC recipients who refuse to accept employment without good cause appears questionable. Local officials have been hesitant to apply these sanctions because their application is administratively time consuming and because the sanctions penalize an entire AFDC family and not just an uncooperative individual.

The Social Security Act (42 U.S.C. 601 and 602) requires that, before receiving Federal funds for AFDC, a State must submit and have approved by the Secretary of HEW, a plan which provides that, if a person referred to WIN by a local welfare agency refuses, without good cause, to participate in WIN or to accept employment in which he is able to engage, that person's needs shall not be taken into consideration in determining the needs of the family. The State plan must provide also that aid for the dependent children in the family be paid to another individual who is interested in or concerned with the

welfare of the children or be paid directly to persons furnishing food, living accommodations, or other goods or services to the children. The plan must provide further that the refusing person's needs be included for a period of 60 days after he refuses WIN participation or employment, if during that period he accepts counseling aimed at persuading him to participate in WIN. During the 60-day period, the family's needs are to be met by payments to someone other than the refusing person. In California and Colorado sanctions are considered to be applicable only to fathers.

Sanctions prescribed by WIN legislation are in two parts. One part is an economic sanction in that the local welfare agency terminates the father's share of the family's AFDC payment. In Los Angeles, however, elimination of the father's share of the AFDC payment results in a reduction of only \$19 a month. In Denver the elimination of the father's share of the AFDC payment results in a reduction of about \$50 a month in a typical case, because the payment varies proportionately for most family expense categories as family members are added to or deleted from the computation.

The second part of the sanctions involves so-called vendor payments, under which about half of a family's AFDC payment is withheld by the welfare agency to pay certain family expenses directly. This part of the sanction provides assurance that the family's needs are met and also serves as a mild economic sanction in that the amount of money controlled by the family is reduced.

Los Angeles

At the time of our field review, there were 10 local WIN offices in Los Angeles County. In the 5 offices where we reviewed the use of sanctions, we found that 329 AFDC fathers had refused to participate in WIN. We selected 107 of these 329 AFDC fathers to ascertain what sanctions had been applied. In 55 cases the father's share of the family welfare payment (\$19) had been discontinued (in 10 of these cases, part of the family's AFDC payment was being made via payments to vendors); in 24 cases sanctions were not considered applicable; and in 28 cases the local agencies' records were not clear as to what had happened.

Although the threat of punitive actions may help persuade some fathers to participate in WIN or to accept employment, who otherwise might not have done so, we found that, of the

55 fathers whose share of the AFDC payment had been discontinued, only four had reentered the program. The punitive actions in the remaining 51, or 93 percent, of the cases were apparently ineffective in getting the fathers back into the program.

Local welfare agency representatives advised us that it was difficult to arrange for vendor payments. The most common use of this part of the sanctions was the payment of a welfare recipient's rent directly to his landlord; but, because this arrangement resulted in the landlord's receiving the rent one month after it was due, it was generally unacceptable to most landlords. As for terminating the father's share of the welfare payment, local welfare agency representatives stated that they were reluctant to do so because it resulted in a hardship to the children by forcing the family to live on a lower income, although the family's needs remained the same if the father continued to live at home.

Denver

Through July 1970 no AFDC payments had been reduced in Denver, although as of March 1, 1970, 94 males had refused to participate in WIN. Direct vendor payments had been arranged for six of their families up to July 1970.

Officials of the Denver Department of Welfare told us that they did not favor the application of penalties to AFDC recipients because such action would:

- Impose financial hardship on the family by forcing a reduction in living standards.
- Create family tension and bring pressure on the father to leave the family unit.
- Not necessarily stimulate the father's willingness to participate in WIN because money alone does not always motivate AFDC recipients.
- Create additional, tedious, and costly clerical work for the local welfare agency in the case of vendor payments.

Conclusions

Our reviews in Los Angeles and Denver have revealed significant problems in the application of the legislative provisions which seek to penalize AFDC fathers who refuse,

without good cause, to participate in WIN or to accept employment. The local welfare agencies in the two cities have been reluctant to apply such penalties and have advanced some valid reasons against their enforcement.

The reduction of the family's monthly welfare payments by only about \$19, as applied by the Los Angeles welfare agency, has not been of sufficient magnitude to motivate noncooperating fathers. Larger welfare reductions (such as the reduction by \$50 a month by the Denver welfare agency) would penalize the entire family in situations where the father continued to live with the family or might cause a breakup of the family unit. Also the threatened loss of welfare benefits for noncooperation must be balanced against the loss of income suffered when a father accepts full-time employment, which, as set forth in our preceding discussion (see p. 24), has averaged \$65 in Los Angeles and \$54 in Denver.

The additional sanction of making direct payments to vendors, rather than making the entire AFDC payment to a family, requires additional administrative effort on the part of the local welfare agency and depends on the cooperation of the vendor, which cannot always be readily obtained.

These problems encountered in Los Angeles and Denver can be expected to exist, in varying degrees, in other communities throughout the country and raise a question as to the effectiveness of the sanctions provided in the legislation.

Matter for consideration by the Congress

In its deliberations on proposed reforms of the existing welfare system, the Congress may wish to consider the experience gained under the present penalty provision of WIN and to explore the feasibility of enacting legislation which would strengthen work incentive and work requirements.

LIMITED IMPLEMENTATION OF SPECIAL- WORK-PROJECTS PHASE OF WIN

The special work projects phase of WIN has been implemented in only a limited number of localities and not on a nationwide basis. Special work projects provide subsidized employment with public or nonprofit private employers for AFDC recipients who are not considered suitable for training or who cannot be placed in competitive employment.

The lag in implementing special work projects has been caused primarily by a funding problem. The authorizing legislation limits the use of WIN funds for this phase of WIN to administrative expenses. The additional funds needed for wage subsidies must be provided from Federal, State, and local AFDC funds or from other State and local sources. Neither California nor Colorado has indicated a willingness to supply such funds. This has resulted in certain persons--who normally would have been assigned to special work projects--being assigned to regular training component for which they are not well suited.

As of June 30, 1970, special work projects were under way in only four States at seven WIN projects. At that time neither California nor Colorado had any persons enrolled in special work projects, although California previously had undertaken a small pilot project in San Luis Obispo County, California, which was terminated during June 1970. Officials in California and Colorado told us that special work projects generally had not been implemented in these States because the funding arrangements which were required could not be accomplished readily and were undesirable.

Regarding the types of programs to be carried out in WIN, the Social Security Act (42 U.S.C. 632), states:

"(b) Such programs shall include, but shall not be limited to, (1) a program placing as many individuals as is possible in employment, and utilizing on-the-job training positions for others, (2) a program of institutional and work experience training for those individuals for whom such training is likely to lead to regular employment, and (3) a program of special work projects for individuals for whom a job in the regular economy cannot be found." (Underscoring supplied.)

These different programs are referred to as categories I, II, and III, respectively. Categories I and II are for enrollees who either are job-ready or can be made job-ready with an average of about 1 year of work experience, education, training, and counseling; category III is for enrollees who are not job-ready and cannot be made job-ready with an average of about 1 year of such assistance. The objective in each case is to enable an AFDC recipient to obtain full-time employment and to be self-supporting.

Enrollees in special work projects are paid regular wages by public or nonprofit private employers. The employers are reimbursed by the State at an agreed-upon percentage of

the wages paid. The employee's gross wages are determined by the employer but must be at least equal to the minimum wage. Negotiations with employers regarding the percentage of wages that they are to be reimbursed are conducted by WIN personnel. The State of California permits a maximum reimbursement of 45 percent; Colorado has no limitation.

The Social Security Act provides for the creation in each State of a wage-subsidy pool from which employers are paid for keeping category III WIN enrollees employed. The act provides also that the welfare agency pay into the pool, from AFDC funds, the lesser of the family's basic AFDC payment or 80 percent of the enrollee's gross wages.

The Social Security Act requires that the family of a participant in a special work project receive a minimum net pay, after deducting all work-related expenses, that is at least equal to the AFDC payment which the family would otherwise have received plus 20 percent of the participant's gross wages for working in the project. If the actual net pay is less than this prescribed minimum, the local welfare agency is required to pay the family a supplement in the amount of the difference.

As shown in the following illustration, a local welfare agency would have to pay the amount of the AFDC payment into the wage-subsidy pool and, in the typical case, would also have to pay the family a supplement. (This example is based on the typical composition of a male-headed AFDC family in Los Angeles and on work-related expense allowances and the hourly wage of \$2.42 for a pilot special work project in San Luis Obispo County, California.)

	<u>Monthly</u>
AFDC welfare payment	<u>\$282</u>
Gross wages from special work project at \$2.42 an hour	\$420
Less payroll deductions	<u>27</u>
Net take-home pay	393
Less work-related expenses	<u>136</u>
Net pay for computation of welfare supplement	257
Minimum pay--the amount of the AFDC payment plus 20 percent of gross wages	<u>366</u>
Supplemental AFDC payment--the amount by which the minimum pay exceeds net pay	109
AFDC payment to the wage subsidy pool--the amount of the AFDC payment or 80 percent of gross wages (\$336), whichever is less	<u>282</u>
Total payment from AFDC funds by local welfare agency	<u>\$391</u>

As shown in the above illustration, the effect of funding arrangements required by the Social Security Act is that it is more costly for the head of an AFDC family to be enrolled in a special work project than to maintain the family on AFDC.

Los Angeles

California law, as applied in Los Angeles County, limits the total payment from AFDC funds in each case to the amount of the regular AFDC payment to the family. Under this policy the supplemental AFDC payment to the family of the participant in a special work project is deducted from the AFDC payment into the wage-subsidy pool. Because this policy provides inadequate income to the wage-subsidy pool, it causes a deficit in the pool, as illustrated below.

	<u>Monthly</u>
AFDC welfare payment	<u>\$282</u>
Gross wages from special work project at \$2.42 an hour	\$420
Less payroll deductions	<u>27</u>
Net take-home pay	393
Less work-related expenses	<u>136</u>
Net pay for computation of welfare supplement	257
Minimum pay--the amount of the AFDC payment plus 20 percent of gross wages	<u>366</u>
Supplemental AFDC payment--the amount by which the minimum pay exceeds net pay	<u>109</u>
AFDC payment to the wage subsidy pool--the AFDC payment less the supplemental payment, or 80 percent of gross wages (\$336), whichever is less	173
Wage subsidy due to employer--maximum allowable is 45 percent of gross wages (see p.)	<u>189</u>
Deficit in wage-subsidy pool	<u>\$ 16</u>

The deficit would be decreased if wages were increased; but, until the wages reach \$3.29 an hour, there would continue to be a deficit in the pool. It seemed unlikely to us that employment could be found for any appreciable number of AFDC recipients in special work projects that would pay as much as \$3.29 an hour. For instance, the average starting wage paid to former WIN-Los Angeles enrollees in program categories I and II was about \$2.65 an hour for men. Also WIN-Los Angeles officials advised us that the maximum 45-percent subsidy rate made it very difficult to interest eligible employers in Los Angeles in sponsoring special work projects.

Denver

Colorado has not established a policy of limiting total payments from AFDC funds to the amount of the regular AFDC payment to a family. State welfare agency officials in Colorado have expressed deep concern, however, over the possibility that AFDC costs would be higher if the heads of families were enrolled in special work projects than if they remained on AFDC and did not work.

Although our review showed that a deficit in the wage-subsidy pool would be very unlikely in Denver, the director of employment of the Colorado Department of Labor and Employment stated that he believed that he would be solely responsible for any deficits which might occur if special work projects were implemented. The director stated further that he would not accept this responsibility and that special work projects would not be implemented in Colorado under the current funding requirements.

Although special work projects were not implemented in Colorado, we were told by the Colorado State WIN Coordinator that the City and County of Denver Parks and Recreation Department would be willing to pay 50 percent of the wages of AFDC recipients employed in special work projects if suitable transportation to the work sites could be arranged for them. Other public organizations also expressed a positive interest in employing AFDC recipients in such projects.

In our discussions with various officials directly responsible for the Denver AFDC and WIN operations, we were advised repeatedly of the need for special work projects to assist AFDC recipients not qualified for regular competitive employment. WIN officials also advised us that there were a number of AFDC recipients enrolled in program category II who would probably be assigned to special work projects if they were available. WIN officials advised us further that these persons require a disproportionately large amount of category II services in the form of extensive counseling and lengthy periods of basic education and that it was unlikely that these services would be successful.

The director of the Denver Department of Welfare indicated that he strongly favored the establishment of special work projects and emphasized the following potential benefits.

- Accomplishment of necessary public works projects.
- Development of positive work habits.
- Stimulating the participant, in some instances, to exercise his initiative in locating more satisfactory work.

Conclusions

Most State and local agencies have not implemented the special-work-projects phase of WIN, which is intended to provide subsidized employment to those AFDC recipients who are not qualified for regular WIN training and job-placement programs. Our inquiries in the States of California and Colorado revealed that such projects were not undertaken in those States mainly because of funding problems; the law and regulations limited the funds available from Federal sources--only AFDC assistance funds were available for this program--and State and local agencies were not able or willing to provide the required non-Federal funding.

Because there was an absence of special work projects, some WIN participants were enrolled in regular training for which they were not suited. These enrollees generally require a disproportionate share of WIN resources in the form of extensive counseling and lengthy periods of basic education, although they apparently are not able to benefit significantly from these services. The resources used in attempting to train persons who are not suited for training could be more effectively applied to special work projects designed to furnish employment to such persons. To permit such use of WIN appropriated funds, however, a change in the authorizing legislation of WIN would be necessary.

Matter for consideration of the Congress

To overcome existing funding problems and to facilitate the implementation of special work projects contemplated in the legislation authorizing the WIN program, the Congress may wish to consider amending the applicable provision of the Social Security Act to permit the use of funds appropriated for regular WIN training activities for subsidizing wages payable to WIN participants enrolled in special work projects.

The proposed Family Assistance Plan/Opportunities for Families Program which would be established by House Bill 1, as it passed the House of Representatives on June 22, 1971, would eliminate this problem by allowing a direct Federal reimbursement to the employer.

APPENDIXES

U.S. DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION
WASHINGTON, D.C. 20210



JUL 8 1971

Mr. Henry Eschwege
Associate Director
Civil Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have reviewed the draft General Accounting Office report entitled "Problems in Accomplishing Objectives of Work Incentive (WIN) Program."

This report has been thoroughly analyzed and is considered a fair and objective appraisal of some of the major problems confronting the WIN program. While the study was limited to Los Angeles, California and Denver, Colorado, not necessarily typical WIN projects, program experience has shown that the problems outlined here are universal to varying degrees.

Internal studies conducted by the Department have produced substantially the same conclusions as those reached by the GAO. The thrust of this report, the program problems cited, the major recommendations and most of the secondary recommendations are consistent with those reported by Auerbach Associates in their evaluations of the WIN Program and by Analytic Systems, Incorporated in the analysis of the WIN Termination Data. These reports included the same areas of study as the GAO report. We endorsed the findings and recommendations presented by these two technical assistance contractors to the Department.

This GAO report was directed to findings and recommendations in two general areas: the management information system and the program design. The following are the Department's comments in which we also take cognizance of the comments of the two State employment security agencies where the GAO conducted their review.

1. The Management Information System

GAO points out that complete, accurate and meaningful information was generally not available on program costs, program benefits, or program

- 2 -

operations. GAO recommends that the Secretary of Labor should improve the management information system for WIN.

The Department of Labor in cooperation with HEW has specific responsibility in the development, implementation, and operation of the WIN management information system. We feel that it is appropriate for GAO to have given this area specific attention, for an effective information system is a critical element in the improvement of program management and performance.

The first segment of the discussion of the system dealt with the problems involved with cost reporting. It is the joint responsibility of the Department and HEW to compile the complete cost of the program. At the present time, the Department compiles on an accrued expenditure basis the DOL's cost of operating the WIN program and reports this information to HEW.

We are concerned with and aware of the problems encountered in this area. Cost reporting in WIN has not satisfied information needs. The cost reporting areas which the GAO report cited, particularly costs at the project level, have been de-emphasized by the Department. Steps need to be taken to insure the retention of project level WIN cost data either through the extant financial report system or by including cost information in monthly project status reporting. As the GAO report points out, this type of information is essential to effective program management at all levels. We further feel that efforts should be made to improve the availability of WIN cost data at the sub-project (component) level. The system, as presently designed, can provide this type of information. If enactment of the Family Assistance Plan appears imminent, redesign of the WIN cost reporting system should be deferred in favor of incorporating the system improvements suggested by GAO into the new FAP/OPF information system.

The second segment dealt with project status reporting. Subsequent to the time period covered in the GAO report, several steps have been taken to improve the timeliness and accuracy of project status reporting. We are moving to decentralize processing of reporting documents to the regional offices. This step will result in closer monitoring of reporting, both for accuracy and delinquency. The current project status system, using the MA-516 form, does provide detailed information on project operations. The system has been in place for one year, and we feel provides significant data on the efficiency of project management and on the movement of enrollees through the program. The GAO review was concluded in June 1970 and at that time the 516 system was still being implemented. Data gathered subsequently shows improvement both in level of detail, accuracy and timeliness.

We are examining the definitions used in the MA-101 and 104 systems in order to clarify data elements. Problems with the MA-104 termination report outlined in this review will be corrected. We intend to ask regions and states for suggestions for improvements and will issue new instructions. The "Other" category for terminations will be redefined in order to eliminate excessive numbers of terminations reported in this category.

The instructions for completing reports on welfare savings will be reviewed. The system of having welfare savings reported as part of a general project status system may not be adequate. We therefore will examine alternative possibilities for gathering this type of information, including follow-up and evaluation studies. It should be noted that, although we have attempted to identify welfare savings on our program reports, there is no guarantee that local welfare agencies will supply this information to local employment offices. We have found in many cases that they are so overburdened and understaffed that they do not have the time to develop "extra" data.

The following comments concerning the GAO findings regarding the management information system were received by the Department from California and Colorado:

California - "We agree that the management information system is inadequate and recommend that HEW and DOL reporting requirements be made identical and consolidated." As an example, HEW reports those removed from welfare due to WIN, even in the case of unsuccessful completions, while DOL reports only on those who complete "job entry" successfully.

We agree that welfare costs should be considered part of overall WIN costs. California has instituted a joint information system of both welfare and manpower WIN expenditures. The costs, when audited, are used in computing overall costs of the program for State purposes even though not required by DOL and HEW.

Because the State Department of Finance auditors asked us to use the cash basis of financial reporting and the GAO auditors requested reporting on an accrual basis, we are following the prescribed accounting methods for governmental agencies which is a combination of encumbrance, accrual, and cash accounting.

California agrees that the DOL reporting form for terminations is inadequate and has suggested modifications to DOL that would make the form 104 more accurate. California recommends that a standardized method for projecting welfare savings be required.

- 4 -

Colorado - "While the need to study WIN program operations and to gather information about these operations for presentation to the Congress is appreciated, we feel that it should be recognized that because of the relative newness of an extremely complex and large-scale program, it could not reasonably be expected to be found without problems and need for change. Considering the GAO report and its purpose in the light of a need to review the structure of the WIN program and the organization and procedures for its implementation, we are in general agreement with the findings and recommendations of the GAO report."

Colorado notes that the report stated that the costs of operating the WIN program have not been compiled and reported accurately by DOL. They further state that this should include HEW which has the responsibility of providing data on WIN-related cost which local welfare agencies have paid but is not reported in the WIN cost reports.

Colorado agrees that the definition of reasons for terminations were inadequate and confusing; however, since May 1970, when the revised WIN Information System Manual became available, WIN State staff have made efforts to obtain more accurate reporting. The State further believes that a comprehensive termination reporting form with more explicit reporting instructions would be of considerable assistance.

2. Program Design

The GAO report makes reference to the fact that the program design for WIN and Aid to Families with Dependent Children (AFDC) needs to be changed in certain respects if the overall objective of providing realistic encouragement and opportunities to AFDC family heads to seek employment is to be realized. The Department concurs that since the problems with the basic design cannot be dealt with effectively by administrative action alone, Congress during its deliberations on welfare reform may wish to consider four major areas of the WIN program.

The Department's comments concerning these four major areas are:

(a) HR 1, the new welfare reform bill reported out of the House Committee on Ways and Means with amendments on May 26, 1971, provides that a person in a family eligible for benefits under the Family Assistance Plan will always receive more income through working than not working. In computing a family's earnings for benefit purposes, the first \$720 of earnings and one-third of the remainder is excluded. For example, if the head of a family of four were earning \$2,000 per year, his total income with benefits would be \$3,567 a year if he continued working. This would be \$1,167 more than if he did not work.

- 5 -

(b) The provisions of HR 1 call for a Federal redetermination of benefit levels on a quarterly basis and reapplication for benefits by families if they need to participate in the program beyond a period of two years. Federal benefits will be gradually reduced on a uniform national scale as family income increases. For example, benefit payments would decrease gradually for a family of four until an earning level of \$4,320 is reached. These Federal benefit level determinations are unaffected by the addition or reduction of supplemental benefits by States.

(c) HR 1 provides for strong Federal penalties for refusal to take manpower services and/or employment by family members determined available for such. Refusal will result in reduction of benefits of \$800 per year for each of the first two family members, \$400 for each of the next three, \$300 for each of the next two, and \$200 for the next such member.

(d) The Administration's proposed welfare reform legislation calls for a major public service employment program (200,000 training opportunities in the first year). Public service employment is to provide employment for those unable to obtain employment or to be effectively placed in training programs. It will be developed through grants or contracts with public or nonprofit private agencies. The Secretary of Labor shall provide for the cost of providing such employment to an individual at the rate of 100% the first year, not more than 75% the second year, and not more than 50% the third year. The status of individuals placed in PSE will be reviewed at least once each six months. PSE is intended to be a transitional period prior to movement into unsubsidized employment.

California commented that they agree that the disparity of welfare payments to men and women is a disincentive to men and provides an overly long stay on welfare for the women. They recommend Federal legislation that provides a realistic cut-off point as to the length of time a person remains on AFDC after employment.

California agrees that sanctions, as presently mandated and administered, have not been an effective means to either motivate enrollees to remain in the program or remove families from welfare when the enrollee refuses to participate. County welfare departments, finding the vendor payment and counseling process cumbersome and time consuming for their limited staff, impose sanctions on very few of these enrollees terminated from WIN for lack of good cause.

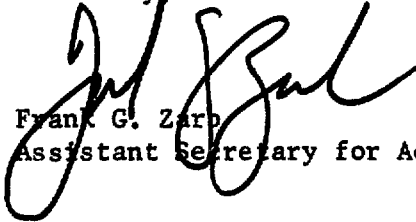
California agrees to the need for special work projects and acknowledges the funding difficulties which seriously limit their use.

Colorado's reply to the Department did not comment on the Program Design phase of the GAO report.

The Administration and the Congress are thoroughly familiar with the problems of implementing and operating the WIN program. Most of these problems have been addressed in the Welfare Reform legislation now under consideration in the Congress. The four major areas, noted in the GAO report and recommended for consideration by Congress, have been considered and corrected in HR 1 as amended, which was recently enacted by the House of Representatives. Other operating problems which can be identified or minimized through administrative direction are receiving priority attention by both Departments.

We appreciate the opportunity to review and comment on this report in draft form. The findings and recommendations presented should be of considerable assistance to us in our effort to efficiently administer the WIN program.

Sincerely,



Frank G. Zarp
Assistant Secretary for Administration



OFFICE OF THE
THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

APPENDIX II
Page 1

AUG 18 1971

Mr. Philip Charam
Associate Director, Civil Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Charam:

The Secretary has asked me to respond to the draft report on the GAO Review of Problems in Accomplishing Objectives of the Work Incentive (WIN) Program. The Department is in general agreement with the conclusions and recommendations therein.

The comments of the California State Department of Social Welfare and the Colorado State Department of Social Services are attached. The States generally concur in the findings and recommendations. The State of California, however, expressed some doubts regarding the advisability of certain changes to the Aid to Families with Dependent Children Program outlined in the report as a matter for consideration by the Congress.

It should be noted that the welfare reform provisions of H.R. 1 correct many of the deficiencies cited in the report. Concerning the need for an adequate management information system, the bill requires the Secretary of Labor to conduct continuous evaluation and research on the effectiveness of the Opportunities for Families Program, and to submit an annual report to the Congress.

In addition, H.R. 1 combines strong work incentives with reasonable work requirements. All recipients--with specific exceptions--would be required to register for manpower services, training, or employment, as appropriate. Failure to do so would result in a reduction of the family's benefits of \$800 per year. The incentive for work is contained in a provision which permits recipients to retain a portion of their benefits until their income reaches a cut-off point, thus making it always more profitable to work.

Breakeven points under H.R. 1 would also be more realistic than under the WIN Program. A family of four would be able to earn up to \$4,140 per year before benefits were terminated; the maximum earnings permitted would be \$5,940 for a family of eight or more. Eligibility and benefit levels, for both male-and female-headed families, would be related to family income rather than number of hours worked.

We appreciate the opportunity to review the draft report prior to issuance of the final report.

Sincerely yours,



James B. Cardwell
Assistant Secretary, Comptroller

Attachment



State of Colorado

DEPARTMENT OF SOCIAL SERVICES

1575 SHERMAN STREET
DENVER, COLORADO 80203

CON F. SHEA
Executive Director

June 10, 1971

Mr. James R. Burress
Regional Commissioner
Social and Rehabilitation Service
Department of Health, Education, and Welfare
Federal Office Building - 19th and Stout Streets
Denver, Colorado 80202

Dear Mr. Burress:

We have carefully reviewed with great interest the draft of the report prepared by the General Accounting Office on the WIN Programs in Denver and Los Angeles. This is a very objective report which outlines the positives and negatives of the WIN Program and the constraints which have led to less than generally desired results. It is urged that the results of this audit be given most serious consideration in any future legislation, policy, and program development related to manpower development and training programs originating at the Federal level.

We appreciate having had the opportunity to review the draft of this report prior to its submittal to Congress.

Sincerely,

CON F. SHEA
Executive Director

CFS:DLA:lr

cc: Charline J. Birkins

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
REGION IXVIA TELECOPIER

DATE: June 30, 1971

REPLY TO
ATTN OF: SRS-DL-USASUBJECT: GAO Draft Report - Problems in Accomplishing Objectives of
Work Incentive ProgramTO: James A. Bax, Commissioner
OSA/SRS, DHEW, Washington, D.C.
Attn. Mr. Carl Uhafin

The following letter was read over the telephone to us by Mr. Bishop's secretary (California State Department of Social Welfare). A copy of the letter will be sent direct to OSA in D.C..

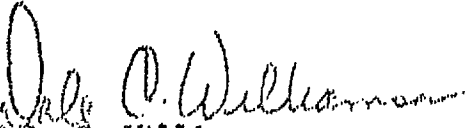
"Dear Mr. Schafer:

The California State Department of Social Welfare is in basic agreement with the findings of the General Accounting Office Report on the Work Incentive Program (WIN). The report makes several recommendations to the Secretary of Labor and to Congress, each of which potentially could simplify and improve the WIN program from an administrative as well as program viewpoint. This Department agrees with and generally supports these recommendations.

"At certain points this report makes recommendations about the entire AFDC program. The report describes inequities between how a female - and a male-headed family are treated when partially employed. The report recommends that the number of hours of employment, criterion for eligibility be eliminated, and that Congress enact a family income versus need standards. Theoretically, this may be a sound recommendation. In practice, however, this action would have the effect of adding many cases to the AFDC program. The final level of cases which would be added to the program would depend on the standards set by Congress. This Department stands in opposition to changes such as this proposal which would add cases to the AFDC program.

"This Department has already indicated its support of other proposals in this study including changes in the WIN sanction procedures, Federal subsidy of WIN special work project salaries and the establishment of a realistic level of income beyond which a family is no longer eligible for welfare.

Charles E. Hobbs"


Dale C. Williamson
Associate Regional Commissioner
Community Services Administration

BEST DOCUMENT AVAILABLE

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF LABOR AND
THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
RESPONSIBLE FOR THE ADMINISTRATION OF
ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office			
	From		To	
<u>DEPARTMENT OF LABOR</u>				
SECRETARY OF LABOR:				
James D. Hodgson	July	1970	Present	
George P. Shultz	Jan.	1969	June	1970
W. Willard Wirtz	Sept.	1962	Jan.	1969
ASSISTANT SECRETARY FOR MANPOWER:				
Malcolm R. Lovell	July	1970	Present	
Arnold R. Weber	Feb.	1969	July	1969
Stanley H. Ruttenberg	June	1966	Jan.	1969
MANPOWER ADMINISTRATOR:				
Paul J. Fasser, Jr.	Oct.	1970	Present	
Malcolm R. Lovell	June	1969	July	1970
J. Nicholas Peet	Feb.	1969	June	1969
William Kolberg (acting)	Jan.	1969	Feb.	1969
Stanley H. Ruttenberg	Jan.	1965	Jan.	1969
<u>DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE</u>				
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:				
Elliot L. Richardson	June	1970	Present	
Robert H. Finch	Jan.	1969	June	1970
Wilbur J. Cohen	Mar.	1968	Jan.	1969
ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE:				
John D. Twiname	Mar.	1970	Present	
Mary E. Switzer	Aug.	1967	Mar.	1970



Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.