

State of Wisconsin FY 2014-15 Single Audit

March 2016

Report Highlights ■

State agencies administered \$12.0 billion in federal financial assistance in FY 2014-15.

Our audit focused on 24 federal programs that accounted for 88.2 percent of federal financial assistance administered by state agencies in FY 2014-15.

State agencies generally complied with federal requirements.

We provided a qualified opinion on compliance with federal requirements for 1 of the 24 programs we reviewed.

We made 29 recommendations to improve the administration of federal programs.

As a condition of receiving federal funds, state agencies must meet the audit requirements of the federal Single Audit Act of 1984, as amended, and of federal Office of Management and Budget (OMB) Circular A-133. The Single Audit Act requires there to be one comprehensive audit of federal grant programs. This single audit also incorporates our annual audit of the State's financial statements, which were included in the Comprehensive Annual Financial Report issued by the Department of Administration (DOA).

During fiscal year (FY) 2014-15, state agencies administered \$12.0 billion in federal financial assistance, including \$10.6 billion in cash assistance; \$1.2 billion in noncash assistance, such as food commodities; and \$209.0 million in outstanding federal loan balances.

During FY 2014-15, 97.2 percent of the State of Wisconsin's federal financial assistance was administered by seven state agencies: the departments of Health Services (DHS), Transportation (DOT), Public Instruction (DPI), Workforce Development (DWD), Children and Families (DCF), and Administration, as well as the University of Wisconsin (UW) System. We audited 24 federal programs that accounted for 88.2 percent of the federal financial assistance administered by state agencies in FY 2014-15.

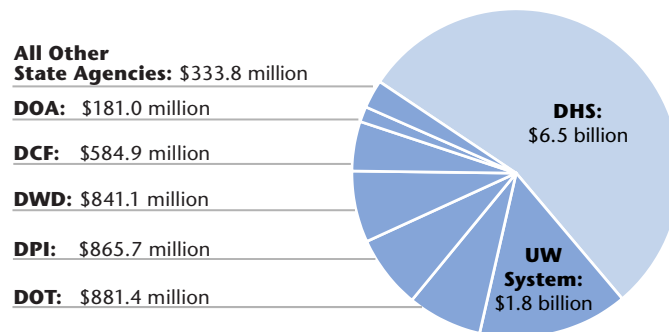
Federal Assistance

DHS administered \$6.5 billion in federal assistance, which was the largest share administered by a state agency. Of this amount, \$4.8 billion was used for Medical Assistance (MA), also known as Medicaid, the largest federal program administered by the State. In addition, \$1.1 billion in federal funds and benefits was disbursed by DHS under the Supplemental Nutrition Assistance Program Cluster for Wisconsin's FoodShare program.

UW System administered \$1.8 billion in federal assistance, of which \$1.1 billion supported student financial assistance or research and development grants. DOT administered \$881.4 million in federal funding, most of which was for highway and bridge construction and maintenance projects.

DPI provided most of its federal funding to local school districts and other entities that provide education and nutrition programs for children. DWD used funds subject to federal rules primarily for unemployment insurance benefits. DCF used its federal funding primarily to support the Wisconsin Shares child care subsidy program, Wisconsin Works (W-2), and the adoption assistance and foster care programs. DOA spent its federal funding largely on housing and economic development activities and on energy assistance.

Federal Financial Assistance Administered by State Agencies
FY 2014-15



Total Amount Administered: \$12.0 billion

Audit Results

We evaluated internal controls, tested for compliance with federal requirements, and followed up on findings and recommendations from the FY 2013-14 single audit (report 15-2). Although state agencies generally complied with federal requirements, we qualified our opinion on compliance with federal requirements for 1 of the 24 programs we reviewed and we questioned nearly \$2.0 million in costs charged to federal programs.

We made 29 recommendations to improve administration of federal programs. We include 10 new recommendations as well as 19 recommendations to address concerns from report 15-2 that remained unresolved. We found state agencies implemented corrective actions to address 14 recommendations from report 15-2.

FY 2014-15 Recommendations ¹			
Agency	Repeat ²	New	Total
DCF	8	4	12
DOA	8	2	10
DHS	3	2	5
UW System	0	2	2
Total	19	10	29

¹ Excludes three recommendations related only to financial statement findings.

² Recommendation for repeat finding from report 15-2.

Included among our 29 recommendations are those related to unallowable costs for the Money Follows the Person Rebalancing Demonstration (MFP) program, referrals by DHS, purchasing card rebates, and

centralized services provided to state agencies. In addition, we substantiated a report to our Fraud, Waste, and Mismanagement Hotline related to overall administration of federal funds provided to DOA by the U.S. Department of Housing and Urban Development (HUD).

MFP Program

DHS administers the MFP program, which helps MA participants transition from institutions, such as nursing homes, to the community. DHS expended \$9.6 million under the MFP program in FY 2014-15.

During the FY 2014-15 audit, we found DHS inappropriately charged \$920,539 of unallowable costs to federal MFP accounts because it did not have sufficient procedures in place to ensure that transactions for the MFP program were reasonable and free of material errors. We recommend DHS return the \$920,539 to the federal government and develop procedures to ensure only allowable costs are claimed for federal reimbursement. Because of the significance of the errors identified in relation to the \$9.6 million expended under the program, we qualified our opinion on compliance with federal requirements for the MFP program.

Referrals by DHS

DHS is required by federal regulations to investigate and refer certain allegations of MA fraud, abuse, neglect, and misappropriation to the Wisconsin Department of Justice (DOJ). DHS may make two types of caregiver misconduct referrals to DOJ: quick-referrals, which are related to severe allegations, such as sexual assault or death; and substantiated cases, which are less severe, such as those related to theft of personal property.

During the FY 2014-15 audit, we found that although DHS notified DOJ of all quick-referral cases, it did not refer any of the 67 substantiated cases to DOJ during calendar year 2014 and, therefore, these cases were not considered for prosecution or further investigation. We recommend DHS immediately provide DOJ with these cases and ensure compliance with policies to refer substantiated cases to DOJ.

UW Purchasing Card Rebates

UW-Madison participates in the State's purchasing card program and receives rebates based on its volume of purchasing card expenditures each year. Federal regulations require that costs must be net of all applicable credits, including purchasing card rebates, in order to be allowable costs that may be charged to federal awards. In addition, UW-Madison policy requires all applicable credits to be offset against the specific direct or indirect costs to which they relate.

Key Facts and Findings

A total of \$4.8 billion in federal funds was used for Medical Assistance, also known as Medicaid, the largest federal program administered by the State.

We questioned nearly \$2.0 million in costs charged to federal programs.

Included among our 29 recommendations are 10 new recommendations and 19 recommendations to address concerns from the FY 2014-15 single audit that remained unresolved.

DHS inappropriately charged \$920,539 of unallowable costs to federal accounts, and it did not make certain referrals to DOJ.

If DOA had better monitored its centralized services balances and not lapsed funds, the State could have retained \$1.9 million for use directly on federal programs in FY 2014-15.

During the FY 2014-15 audit, we found UW-Madison did not reduce costs charged to federal awards by the amount of purchasing card rebates it received and did not take these rebates into consideration when developing its indirect cost rate proposal. UW-Madison was allocated \$699,000 in rebates through the purchasing card program, and we estimate that \$127,000 of these rebates should have been considered applicable credits and offset against costs charged to federal programs in FY 2014-15.

Centralized Services

DOA charges state agencies for their use of centralized services, such as computer processing. We have previously reported concerns because DOA's billing rates have resulted in the accumulation of excess balances. We have also reported concerns in past audits with the practice of lapsing funds from centralized services balances to the State's General Fund.

Although DOA reduced certain user billing rates for FY 2014-15, it continued to accumulate excess balances and lapse funds. As a result, DOA was required to return \$1.9 million to the federal government for the federal share of the accumulated balances and lapsed funds. The State could have retained the \$1.9 million for use directly on federal grant programs if DOA had better monitored its centralized services balances and not lapsed funds.

We first reported that the State could have retained additional federal funding during the FY 2002-03 audit. Since FY 2002-03, DOA has returned to the federal government an estimated \$62.0 million, including interest and penalties, related to internal service fund balances and lapses that could have otherwise been used to further the goals of federal grant programs.

DOA Grant Administration

Since FY 2011-12, DOA has been responsible for administering the Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDBG) and the HOME Investment Partnerships Program (HOME), both of which are HUD programs. During prior audits, we have reported concerns related to administration of both programs. We remain concerned that we identified nine findings to report for FY 2014-15, many of which were repeat findings, and substantiated a report to our Fraud, Waste, and Mismanagement Hotline related to overall administration of federal funds provided by HUD. Although DOA made incremental improvements in its administration of CDBG and HOME, DOA will need to make significant improvements to avoid potential future noncompliance and questioned costs.

Recommendations

We made 29 recommendations related to the administration of federal programs. One of these recommendations, and an additional three, related to internal control concerns from our FY 2014-15 audit of the State's financial statements (report 16-2).

Agency responses and corrective action plans are also included in our report. The federal government will work with state agencies to resolve the concerns we identified. We noted certain additional internal control and compliance matters that we conveyed directly to agency management in separate communications.



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