

An Audit:

State of Wisconsin
2005-06

March 2007

Report Highlights ■

Wisconsin administered \$9.4 billion in federal financial assistance in FY 2005-06.

In fiscal year (FY) 2005-06, state agencies administered \$9.4 billion in federal financial assistance through more than 1,600 federal programs and grants, including 860 research and development grants awarded to the University of Wisconsin (UW) System. We performed an independent audit of compliance with federal grant requirements.

Our efforts focused on 16 programs that accounted for 53.0 percent of Wisconsin's federal financial assistance in FY 2005-06. These programs were administered by nine agencies. They were selected for review based on their size and the risk of noncompliance with federal rules. We also followed up on findings in our single audit report for FY 2004-05.

State agencies generally complied with federal rules.

We found that, overall, state agencies have properly administered federal grant programs and complied with federal requirements. Our report includes an unqualified audit opinion on the Schedule of Expenditures of Federal Awards, which provides an inventory of all federal grants administered by state agencies during the period we audited.

Our auditor's report is unqualified.

Nevertheless, we identified a variety of internal control and compliance concerns that resulted in inappropriate charges to federal grants during FY 2005-06. State agencies have already returned \$4.4 million to the federal government. We question another \$14,697, plus an additional but undetermined amount that has been charged to federal grant programs and may need to be returned. The funds that have already been returned and the additional amounts we question represent a very small portion of the total federal financial assistance state agencies administered in FY 2005-06.

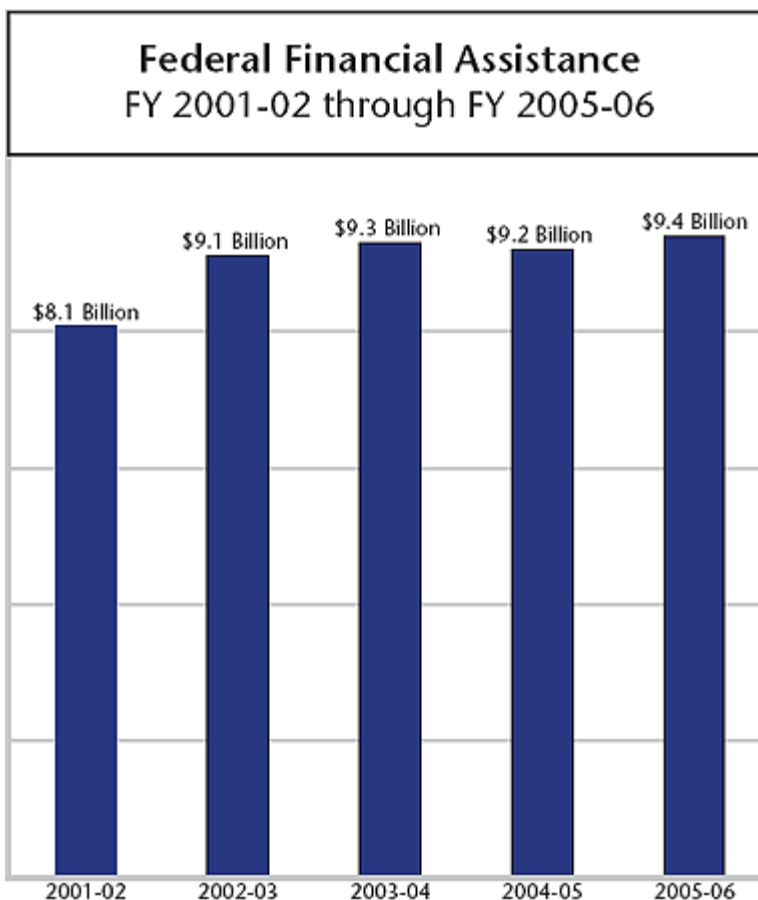
More funds could have been available for program purposes if centralized services had been billed at lower rates in the past.

Federal Funding

In FY 2005-06, state agencies administered \$8.3 billion in cash assistance from the federal government, as well as \$1.1 billion in outstanding federal loan balances and \$43.8 million in food commodities and other noncash assistance.

In total, Wisconsin's share of federal financial assistance has not changed significantly since FY 2002-03. However, funding has increased under some programs and declined under others.

The federal government will work with state agencies to resolve audit findings.



Key Facts and Findings

Five state agencies administered 95 percent of Wisconsin's federal financial assistance in FY 2005-06.

For example, federal funding for highway planning and construction increased by \$83.8 million in FY 2005-06, and federal funding for food stamps increased by \$37.9 million. In contrast, federal funding for Temporary Assistance for Needy Families, which is used to fund Wisconsin's work-based public assistance program, declined by \$33.2 million.

Programs Administered

Five state agencies administered 95 percent of the federal cash and noncash assistance the State expended in FY 2005-06.

The largest federal grant program was the \$2.8 billion Medicaid Cluster, which includes Medical Assistance.

The Department of Health and Family Services (DHFS) was responsible for the largest share: \$3.7 billion. That amount includes \$2.8 billion in federal funding for the Medicaid Cluster, which is the largest federal program administered by the State of Wisconsin and includes the Medical Assistance program. Additional state funding to support Medical Assistance totaled \$1.7 billion in FY 2005-06.

Other federal programs administered by DHFS include the Food Stamp Cluster, the State Children's Insurance Program, Foster Care—Title IV-E, and Adoption Assistance.

The Department of Workforce Development (DWD) administered \$1.5 billion in federal financial assistance in FY 2005-06.

Our recommendations resulted in state agencies claiming \$3.5 million in

DWD administers the Unemployment Insurance program, which is funded primarily through employer contributions but is subject to federal rules, as well as the Child Care subsidy and Vocational Rehabilitation programs and Temporary Assistance for Needy Families.

During the past five fiscal years, federal funding increased 42.4 percent for UW System's research and development grants, and 42.0 percent for student financial

additional federal funds.

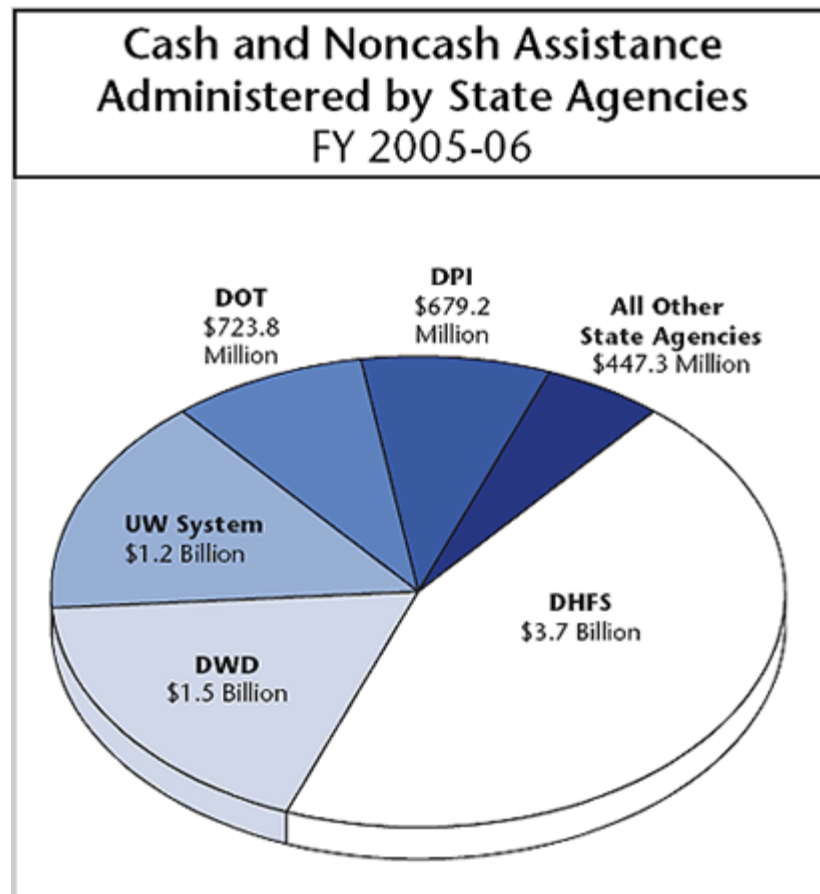
aid. In FY 2005-06, UW System disbursed a total of \$1.2 billion in federal funds, including \$618.9 million in student financial aid and \$524.9 million in research and development grants.

We question \$14,697 in unallowable charges to grants.

Most of the \$723.8 million in federal funding administered by the Department of Transportation (DOT) supported the Highway Planning and Construction program, which had FY 2005-06 expenditures of \$628.7 million. DOT also administers state and federal transportation programs affecting bridges, airports, harbors, and railroads.

The Department of Public Instruction (DPI) provided the majority of its \$679.2 million in federal funding to local schools and other entities for education and child nutrition programs. Other state agencies disbursed another \$447.3 million in federal funds during FY 2005-06.

Our report includes 28 recommendations related to the administration of federal grant programs.



Addressing Audit Concerns

Overall, state agencies have established adequate policies and procedures for the administration of federal programs, and they have taken steps to address concerns we raised in the past.

For example, in response to our prior audit recommendations, DHFS reviewed financial reports related to the Foster Care—Title IV-E and Adoption Assistance programs and identified an additional \$3.0 million to claim for federal reimbursement. DHFS also returned \$26,503 to the federal government after reviewing eligibility determinations for more than 1,500 adoption assistance cases. Additional cases are being reviewed to ensure accuracy.

We include recommendations for DHFS to continue to improve its administration of federal funds and the accuracy of its federal financial reporting.

DWD has also taken steps to address prior audit concerns, but we include a recommendation for immediate action to ensure that claims for all vocational rehabilitation services are submitted in a timely manner. We identified 19 cases in which DWD had not done so when services were provided to individuals who received federal disability benefits.

DWD has since claimed \$408,510 for these cases. However, because some claims were submitted after a 12-month deadline, it is unclear whether all will be reimbursed.

We again found that UW System substantially complied with federal requirements related to the grants it administers. However, we include recommendations for improvement in the administration of student financial aid programs at several campuses, and we question \$12,802 in unallowable continuing education costs that UW-Extension charged to the Cooperative Extension Services grant program.

Lapses to General Fund

Through FY 2004-05, the State lapsed more than \$30.7 million in excess balances from various internal service funds to its General Fund in an effort to address budget shortfalls. That amount included \$15.5 million that had been charged to federal programs.

The excess balances arose because federal programs and grants were overcharged for certain centralized services provided by the State, such as computer processing, telecommunications, fleet, financial, and procurement services.

Under federal rules, billing rates should recover the costs of internal services but should not generate profits or a reserve of more than 60 days' operating expenses. If a reserve exceeds that limit or is used for other purposes, the State is required either to adjust user rates or to return the federal government's share.

The federal government has been repaid \$15.5 million for its share of lapses from internal service funds to the General Fund through FY 2004-05. That amount excludes interest charges, which are being appealed by the Department of Administration (DOA).

However, the internal service funds continued to accumulate excess balances in FY 2005-06. To help address the State's budget shortfalls, some of the excess balances were again lapsed to the General Fund. Consequently, an additional \$4.3 million was returned to the federal government.

DOA is currently negotiating with the federal government to determine whether any additional amounts need to be returned because of the continued accumulation of excess balances. We note that if DOA had lowered billing rates in the past, instead of allowing excess balances to accumulate, funds that have been or will be returned to the federal government could instead have been available for other program purposes.

Recommendations

Our report includes a total of 28 recommendations related to state agencies' administration of federal grant programs. In addition, we discuss eight internal control concerns related to our audit of the State's financial statements.

Agency responses and corrective action plans are included in our report. The federal government will work with the state agencies to resolve the questioned costs and ensure that planned corrective actions are sufficient.

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