

An Audit:

## State of Wisconsin Single Audit 2009-10

March 2011

# Report Highlights ■

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***Wisconsin administered \$15.5 billion in federal financial assistance in FY 2009-10.***

***Federal financial assistance included more than \$3.5 billion in ARRA funding.***

***State agencies generally complied with federal grant requirements and have taken steps to address our findings from prior years.***

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

### Key Facts and Findings

*Six state agencies administered 94.4 percent*

In fiscal year (FY) 2009-10, state agencies administered \$15.5 billion in federal financial assistance through more than 1,600 federal programs and grants, including approximately 880 research and development grants awarded to the University of Wisconsin (UW) System. These funds include more than \$3.5 billion the State received under the federal American Recovery and Reinvestment Act (ARRA) of 2009.

ARRA requirements place an increased emphasis on accountability and transparency in the administration of federal funds, and our independent audit of compliance with federal grant requirements is an important component of the State's oversight efforts. To meet federal audit requirements, including specific requirements associated with ARRA funding, our audit efforts increased significantly for FY 2009-10 and focused on 31 federal programs that accounted for 92.8 percent of Wisconsin's federal financial assistance in FY 2009-10. The programs were selected for review based on their size and the risk of noncompliance with federal rules.

As part of the single audit, we evaluate state agencies' internal controls and test for compliance with federal grant requirements. We also follow up on findings included in our prior single audit report to determine whether state agencies appropriately implemented our recommendations. Overall, state agencies have complied with federal grant requirements and have taken steps to address our findings from previous years.

Our FY 2009-10 single audit report includes an unqualified audit opinion on the Schedule of Expenditures of Federal Awards, which provides an inventory of federal programs administered by state agencies during the audit period. However, we identified several new and continuing internal control issues and, in total, question \$12.6 million in inappropriate benefit payments and other costs charged to federal programs.

### Federal Assistance

Six state agencies—the departments of Health Services (DHS), Workforce Development (DWD), Public Instruction (DPI), Transportation (DOT), and

*of Wisconsin's federal financial assistance in FY 2009-10.*

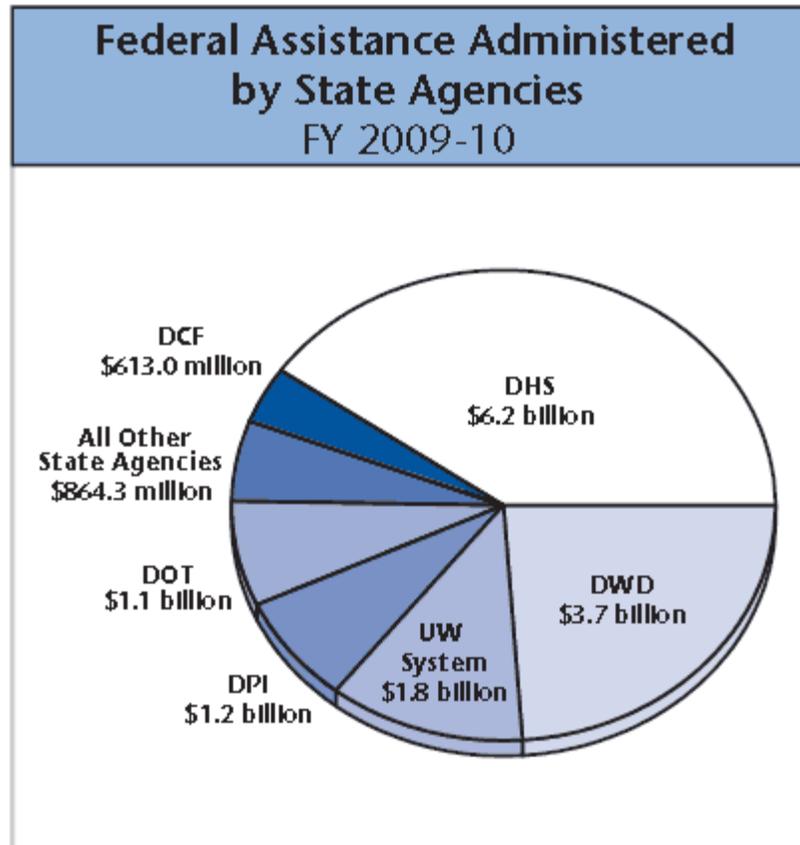
*The largest federal program is Medical Assistance.*

*Four programs accounted for 85.7 percent of the ARRA funds expended during FY 2009-10.*

*As of June 30, 2010, cash advances from the federal government to help fund unemployment benefits totaled \$1.4 billion.*

*Our opinion on compliance is qualified for the Adoption Assistance program.*

Children and Families (DCF), as well as UW System—administered 94.4 percent of the State of Wisconsin's federal assistance for FY 2009-10.



Wisconsin's federal assistance, including ARRA funding, consisted of \$14.3 billion in cash; \$1.0 billion in noncash assistance such as food commodities; and \$187.2 million in outstanding federal loan balances.

Of the \$6.2 billion in federal funds administered by DHS, \$4.7 billion helped to fund Medical Assistance, which provides health care assistance to eligible children and adults and is the largest federal program administered by the State of Wisconsin.

Of the \$3.7 billion in federal funds administered by DWD, \$3.5 billion provided regular, enhanced, and extended Unemployment Insurance program benefits. ARRA funds are \$1.7 billion of that amount. A combination of employer contributions and cash advances from the federal government also funded benefits for the unemployed. As of June 30, 2010, federal cash advances totaled \$1.4 billion.

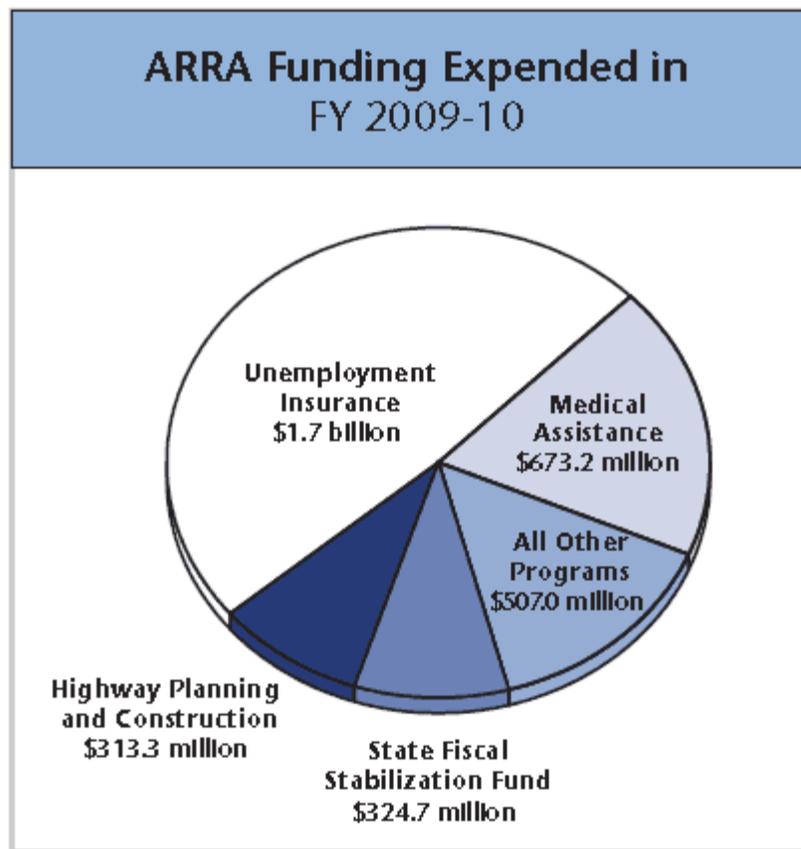
Federal financial assistance for DOT totaled \$1.1 billion in FY 2009-10 and included \$978.0 million for the Highway Planning and Construction program. ARRA funds are \$313.3 million of that amount.

Most of the federal funding administered by UW System supported student financial aid or research and development grants. DPI provided the majority of its federal funding to local school districts and other entities that provide education and nutrition programs for children, while DCF used its federal funding primarily to support adoption and foster care services, Wisconsin Shares, and Wisconsin Works.

## ARRA Funding

Four programs accounted for 85.7 percent of the ARRA funds disbursed by the State. In addition to \$1.7 billion for enhanced and extended Unemployment Insurance benefits and \$313.3 million in DOT funding for the construction and maintenance of highways and bridges, FY 2009-10 ARRA expenditures included:

- \$673.2 million to fund Medical Assistance expenditures the State otherwise would have paid with general purpose revenue; and
- \$324.7 million under the State Fiscal Stabilization Fund, which primarily supported a portion of the general equalization aid paid to school districts in June 2010 and the shared revenue payment to counties in November 2009.



## Adoption Assistance

In FY 2009-10, DCF disbursed \$44.7 million in federal Adoption Assistance program funds as monthly maintenance payments to the adoptive parents of more than 7,000 children with special needs.

We reviewed 90 cases for compliance with program rules, which do not allow federally reimbursed payments for adoption assistance to exceed amounts the federal government would have paid for foster care. In 73 of those cases, foster care payments were increased shortly before the child's adoption. However, in the majority of those cases the increased amounts were not eligible for reimbursement under federal program rules. We therefore questioned \$122,192 that DCF charged the federal government in

the cases we reviewed.

Because of the significance of this concern, we qualified our opinion on the State's compliance with federal requirements for the Adoption Assistance program.

## **Unemployment Benefit Overpayments**

DWD's computer system was not programmed to identify improper claims for a \$25 weekly unemployment benefit supplement that was funded under ARRA and available between February 22, 2009, and December 11, 2010.

At our request, DWD generated a report that identified the overpayments for the entire period that the supplement was available. From that report, we determined that nearly \$9.9 million in overpayments should be recovered from claimants. DWD should return any funds collected to the federal government.

## **Inappropriate Payments to Inmates**

In prior audits, we recommended that both DWD and DHS take steps to identify and recover any unemployment or food stamp benefits that inmates may have inappropriately sought and received. As part of this audit, we matched data for recipients of Unemployment Insurance and FoodShare program benefits with Department of Corrections' data on incarcerated individuals.

We identified 59 individuals who appear to have inappropriately received Unemployment Insurance program benefits while incarcerated. DWD confirmed that overpayments of \$221,889 were made to 37 of these individuals, and it continues to investigate the others.

We also identified 33 incarcerated individuals who are likely to have either improperly received FoodShare program benefits themselves or to have increased the benefits available to households that improperly claimed them as members. We reviewed case records for ten of these individuals and determined that \$21,838 in benefits had been inappropriately used during our audit period. DHS is investigating the remaining cases.

## **TANF Maintenance of Effort**

DCF received \$62.9 million in federal Temporary Assistance for Needy Families (TANF) Contingency Funds that are made available during economic downturns to states that fund qualified expenditures at certain levels.

It is unclear whether pre-kindergarten educational expenditures can be considered qualified expenditures for TANF maintenance of effort purposes. Therefore, we recommend DCF work with the federal government to determine whether the State appropriately claimed \$1.1 million in TANF Contingency Funds.

## **Construction Materials Testing**

For several years, we have raised concerns about DOT's efforts to ensure

that all materials used in federally funded highways and bridges meet minimum specifications. DOT continues to make progress in addressing our concerns by reducing deficiencies both in documentation and in the completion of testing.

However, pavement in 12 of the 34 asphalt projects we reviewed as part of a March 2011 program evaluation of DOT's contractor warranty program, which is a subset of its quality assurance program, did not meet contractually required performance standards during warranty periods.

## **Internal Service Fund Lapses**

The Department of Administration (DOA) continues to lapse funds from appropriations for centralized services—such as computer processing, telecommunications, and financial and procurement services—to the State's General Fund.

In a January 2011 letter to the Joint Legislative Audit Committee, we questioned the appropriateness of lapses from certain appropriations with negative cash balances, including some for internal service funds.

DOA has indicated that those lapses will be reversed. However, \$4.0 million was also lapsed in FY 2009-10 from internal service fund appropriations with positive cash balances, and an estimated \$736,000 is now owed to the federal government related to these lapses.

## **Recommendations**

Our report includes 29 recommendations related to state agencies' administration of federal grant programs, 5 internal control concerns related to our audit of the State's financial statements, and 1 internal control concern related to both federal grant program administration and the State's financial statements.

Agency responses and corrective action plans are also included in our report.

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