

An Audit:

State of Wisconsin 2008-09

March 2010

Report Highlights ■

Wisconsin administered \$13.6 billion in federal financial assistance in FY 2008-09.

State agencies expended \$1.5 billion in ARRA funding.

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.

ARRA funding will significantly increase future audit efforts.

Key Facts and Findings

Six state agencies administered 95.7 percent of Wisconsin's federal financial assistance in FY 2008-09.

In fiscal year (FY) 2008-09, state agencies administered \$13.6 billion in federal financial assistance through more than 1,600 federal programs and grants, including 919 research and development grants awarded to the University of Wisconsin (UW) System. These funds include approximately \$1.5 billion the State received under the federal American Recovery and Reinvestment Act (ARRA) of 2009, which was enacted in February 2009 to stimulate the economy, create jobs, and support families and unemployed workers.

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. This year's audit focused on 20 federal programs that accounted for 75.2 percent of Wisconsin's federal financial assistance in FY 2008-09. 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 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 for improvement. Overall, state agencies have complied with federal grant requirements and have taken steps to address our findings from previous years.

Our 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 other areas of noncompliance for state agencies to address.

Federal Assistance

Six state agencies—the departments of Health Services (DHS), Workforce Development (DWD), Public Instruction (DPI), Transportation (DOT), and Children and Families (DCF), as well as the University of Wisconsin (UW)

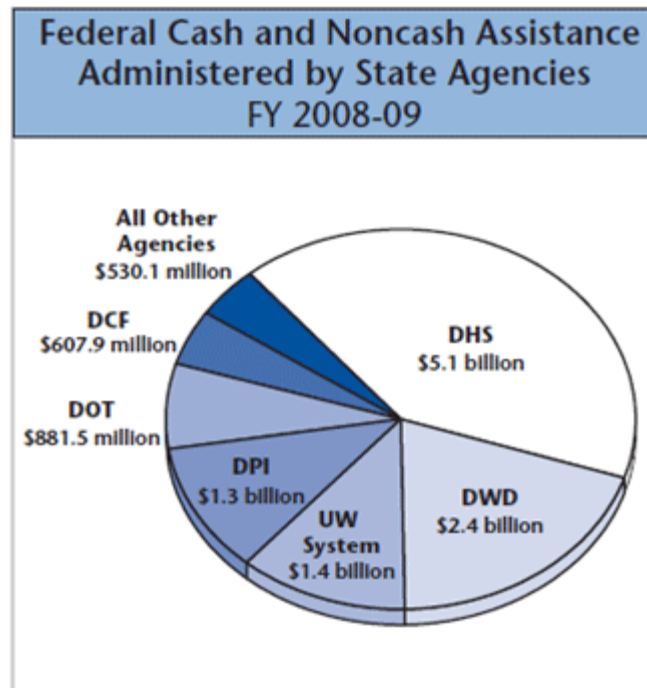
The largest federal program is Medical Assistance.

System—administered 95.7 percent of the federal cash and noncash assistance expended by the State of Wisconsin in FY 2008-09.

As of June 30, 2009, the State had borrowed \$435.5 million from the federal government to help fund unemployment benefits.

We question a minimum of \$2.4 million in costs charged to federal programs.

Our opinion on compliance is qualified for the Child Care and Development Fund and the Temporary Assistance for Needy Families program.



In total, all state agencies administered \$12.2 billion in cash assistance, \$66.6 million in noncash assistance such as food commodities, and \$1.3 billion in outstanding federal loan balances.

Medical Assistance, which pays for healthcare provided to eligible children and adults, is the largest federal program administered by the State of Wisconsin. In FY 2008-09, DHS expended \$4.0 billion in federal funding for Medical Assistance, as well as \$2.0 billion in additional state funding for the program.

Unemployment Insurance is the second-largest federal program administered by the State. In FY 2008-09, DWD spent \$2.2 billion to provide regular and extended unemployment benefits to unemployed workers in Wisconsin. Those benefits were financed by a combination of employer contributions, direct federal funding, and a loan from the federal government with an outstanding balance of \$435.5 million as of June 30, 2009.

UW System expends most of the federal funds it administers for student financial aid or to fund 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.

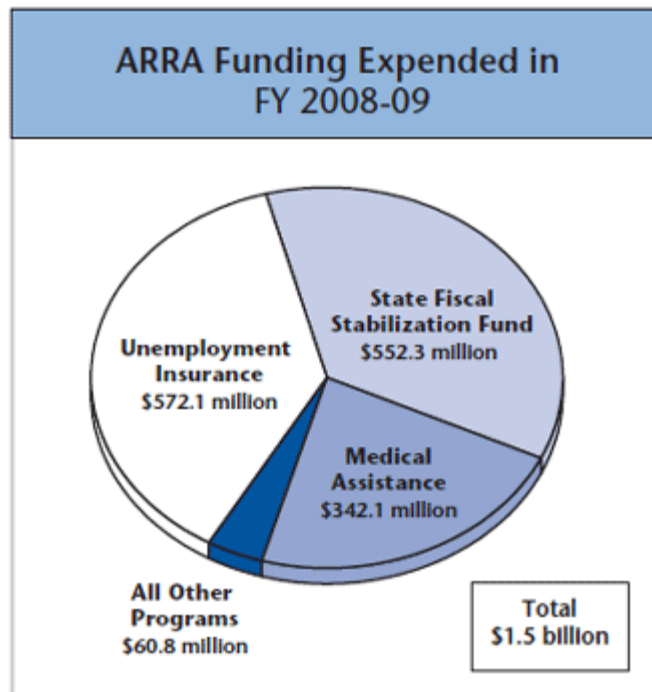
Federal financial assistance for DOT's Highway Planning and Construction program was \$783.1 million, including \$10.3 million in ARRA funding. An additional \$518.8 million in ARRA funding is expected to be expended by the program in FY 2009-10 and FY 2010-11. Most of the federal assistance received by DCF is used to fund programs that support children and families, such as adoption and foster care services, Wisconsin Shares, and Wisconsin Works.

ARRA Funding

Federal financial assistance to the State increased by \$3.6 billion in FY 2008-09, and \$1.5 billion of that amount was ARRA funding for

expenditures that included:

- \$572.1 million for enhanced and extended benefits to the unemployed;
- \$552.3 million awarded under the State Fiscal Stabilization Fund program for funding a portion of the general equalization aid paid to school districts in June 2009; and
- \$342.1 million in additional Medical Assistance funding to offset expenditures the State had funded with general purpose revenue.



Over the next several years, an additional \$3.0 billion in ARRA funding is expected to become available to fund economic stimulus and job creation programs. Future audits will require significantly more effort to review additional grant programs created with ARRA funding, as well as new federal compliance requirements under ARRA.

Qualified Opinion

The Wisconsin Shares child care subsidy program is partially funded by two federal programs: the Child Care and Development Fund, and Temporary Assistance for Needy Families. In a 2009 program evaluation, we determined that 10.8 percent of the participants in our sample were ineligible to receive benefits and estimated that the State made between \$16.7 million and \$18.5 million in improper child care subsidy payments for calendar year 2008.

For the current single audit period, we question \$90,032 in subsidy payments made on behalf of ineligible participants during FY 2008-09, as well as an additional but undetermined amount for cases we included in our projections but did not review. We have also issued a qualified opinion on the State's compliance with federal requirements for the Child Care and Development Fund and Temporary Assistance for Needy Families.

Construction Materials Testing

For several years, we have raised concerns about compliance with DOT's quality assurance program for projects funded by the federal Highway Planning and Construction program, which is intended to ensure that all materials used in federally funded highways and bridges meet minimum specifications.

A May 2009 program evaluation identified similar documentation concerns related to the testing and certification of concrete pavement used in state highway projects. DOT has made progress in addressing our previous concerns, but this single audit identified new concerns related to materials testing by contractors.

The problems we identified varied in scope and size, but we noted that in 14 of 15 projects we selected for review, contractors had not completed and/or documented all required materials testing.

UW System Reporting

UW System Administration and the campuses have not established adequate procedures to ensure the accuracy of a portion of the single audit's Schedule of Expenditures of Federal Awards.

Expenditures for one loan program at UW-Madison were initially overstated by \$100.0 million; \$132.2 million in student loans administered by UW-Milwaukee were initially reported under the wrong program; and \$15.4 million in other expenditures were initially reported incorrectly for four other campuses. UW System Administration corrected these errors after we identified them.

Internal Service Funds

For several years, we have expressed concern about the Department of Administration's billing rates for certain centralized services, such as computer processing, telecommunications, and financial and procurement services. If charges for those services do not comply with federal rules, the State may be required to return funds to the federal government.

In April 2009, the Department provided a \$3.8 million rebate that allowed state agencies to retain an estimated \$1.7 million for federal program purposes. However, two months later it lapsed \$15.0 million from various internal service funds to the General Fund to help meet its own lapse requirements under 2007 Wisconsin Act 20, 2007 Wisconsin Act 226, and 2009 Wisconsin Act 2. As a result, the State will be required to return an estimated \$2.2 million, plus interest, to the federal government.

Additional Federal Revenues

An important aspect of our single audit is to ensure that state agencies maximize federal revenues. For example, DWD implemented our prior audit recommendation and received an additional \$466,199 in federal reimbursement for the cost of vocational rehabilitation services provided to individuals who also received federal disability benefits.

During this year's single audit, we identified \$167,000 in additional federal foster care funds available to DCF, and \$115,000 in additional Airport Improvement Program funds that DOT could have claimed in July 2009. The agencies have requested or will request the additional federal funds.

Recommendations

Our report includes 30 recommendations related to state agencies' administration of federal grant programs and 6 internal control concerns related to our audit of the State's financial statements, as well as agency responses and corrective action plans. We question a minimum of \$2.4 million in costs related to federal programs administered by the State.

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