

# *Biennial Report*

*January 1, 1999 – December 31, 2000*

State Auditor – Janice Mueller

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## **LEGISLATIVE AUDIT BUREAU**

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to [Leg.Audit.Info@legis.state.wi.us](mailto:Leg.Audit.Info@legis.state.wi.us). Electronic copies of current reports are available on line at [www.legis.state.wi.us/lab/windex.htm](http://www.legis.state.wi.us/lab/windex.htm).

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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February 1, 2001

Governor Scott McCallum and  
Members of the Legislature  
State Capitol  
Madison, Wisconsin 53702

Dear Governor McCallum and Members of the Legislature:

This biennial report on the operations and performance of the Legislative Audit Bureau covers the period January 1, 1999 through December 31, 2000. It summarizes the Bureau's statutory responsibilities, significant developments affecting the Bureau, and reports released during the past two years and is required under s. 13.94(1)(j), Wis. Stats.

The Bureau conducts financial and program evaluation audits to assist the Legislature in its oversight of executive branch agencies. The Bureau's reports are received and reviewed by the Joint Legislative Audit Committee, whose 1999-2000 members were:

Senator Gary R. George, Co-chairperson  
Senator Judith Robson  
Senator Brian Burke  
Senator Peggy Rosenzweig  
Senator Mary Lazich

Representative Carol Kelso, Co-chairperson  
Representative Stephen Nass  
Representative John Gard  
Representative Robert Ziegelbauer  
Representative David Cullen

In total, we released 42 numbered reports during the biennium, as well as several dozen other documents of a narrow scope or intended for a limited audience. We make every effort to deliver accurate, timely, and useful analyses that enhance the accountability of state government, and we look forward to serving the Legislature, the Governor, and the people of Wisconsin in the coming years.

Respectfully submitted,

Janice Mueller  
State Auditor

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## Legislative Audit Bureau Responsibilities

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The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Legislature in maintaining effective oversight of state programs. The director of the Legislative Audit Bureau is the State Auditor, appointed by the Legislature's Joint Committee on Legislative Organization.

The Bureau conducts audits and evaluations of state agency operations to ensure financial transactions have been made in a legal and proper manner and to determine whether programs are administered effectively, efficiently, and in accordance with the policies of the Legislature and the Governor. At the conclusion of an audit, the Bureau prepares a detailed report, which often includes recommendations or program and policy options for legislative consideration.

Reports are submitted to the Joint Legislative Audit Committee, which has advisory responsibilities for the Bureau. The Committee may hold public hearings to address our findings and recommendations. Agency representatives and interested parties are invited to participate in these hearings.

In addition to reports to the Legislature, and usually in conjunction with them, the Bureau may issue management letters to state agencies. Management letters contain recommendations for agency improvements but do not require direct legislative action. We also conduct periodic reviews of local government operations and report on "best practices" that may save public funds or result in more effective service delivery. In response to legislative requests for information on narrowly defined issues, we issue short, unnumbered reports or letters. We also respond to information requests from individual legislators and to briefing requests from other legislative committees.

We are required by statutes to review the statements of economic interest and reports of economic transactions that members and employees of the State Investment Board file with the Ethics Board on a quarterly basis. Audit Bureau staff examine these documents to ensure Investment Board members and staff follow the policies established by the Board and the Executive Director to avoid the appearance of a conflict of interest in making investment decisions.

Finally, the terms of the gaming compacts between the State of Wisconsin and 11 Wisconsin Indian Tribes specify that the Legislative Audit Bureau must receive copies of all annual financial and biennial security audits of gaming operations conducted under the compacts. The Bureau has the option of commenting on audit engagement letters and accounting and audit procedures.

## Audit Topics

Audits may be mandated by state legislation, directed by the Joint Legislative Audit Committee, requested by a state agency, or initiated by the State Auditor.

The primary listing of the Bureau's required, recurring audits is contained in s. 13.94, Wis. Stats., although some required audits are defined elsewhere in statutes. The Appendix summarizes the recurring audits we are required to perform. The Bureau's broadest mandate is to audit every state agency at least once every five years. However, we are also required to conduct an annual financial audit of the State as a whole, as well as audits of individual components of state government such as the Lottery Fund, retirement funds, and investment funds. In addition, we are required to conduct biennial evaluations of gaming activities, the State Lottery, and the State of Wisconsin Investment Board.

In addition to the recurring audits listed in s. 13.94, Wis. Stats., one-time audits may be mandated or requested by the Legislature. Such one-time audits completed during the 1999-2000 biennium include:

- an evaluation of the use by counties of secure detention for juveniles, which we released as report 99-15;
- an evaluation of the Milwaukee Parental Choice program, which we released as report 00-2;
- an evaluation of the Wisconsin Works (W-2) program, which we are completing and releasing in stages because of its large scope. To date, we have released report 99-3 on program expenditures; an unnumbered report (released in July 2000) examining the expenditures of Maximus, Inc., a private agency under contract to administer W-2; and report 00-8, which analyzes the decline in the use of Food Stamps. Additional reports on W-2 will be released in 2001.

During 1999 and 2000, the Bureau was directed or requested to conduct a number of one-time audits of state programs. These include:

- financial audits of tobacco settlement funds received by the Medical College and UW-Madison, to be released by June 30, 2002 and 2001, respectively;
- an evaluation of child welfare services in Milwaukee County administered by the Department of Health and Family Services, to be released by January 30, 2003;
- an evaluation of the Wisconsin Center for the Blind and Visually Impaired, to be released by June 30, 2003;

- an evaluation of the Children at Risk Program, to be completed by February 1, 2005;
- an evaluation of the volunteer firefighter and emergency medical technician service award program, to be released by February 1, 2006;
- an evaluation of a newly created private employer health care insurance program, to be released by January 1, 2008;
- an evaluation of the Department of Natural Resources' air management program;
- an evaluation of the Division of Emergency Government in the Department of Military Affairs;
- oversight of a contracted evaluation of the Department of Health and Family Services' pilot Family Care program;
- an audit of the Kenosha school district's use of its capital improvement fund.

The Bureau also became responsible for evaluating the efforts of the professional football stadium district in Brown County to achieve minority and female hiring and contracting goals, and for periodic financial audits of the district. We are also newly required to perform annual financial audits of State Fair Park.

At the request of state agencies, we perform audits to assist them in meeting external requirements or their oversight responsibilities. Our largest requested audit is the annual single audit, which identifies all federal funds received by the State and tests compliance with federal grant requirements.

### **Budget**

The Legislative Audit Bureau has an annual operating budget of approximately \$5.3 million and an authorized staffing level of 86.8 positions. General purpose revenue expenditures totaled \$3.6 million for fiscal year (FY) 1998-99 and \$4.0 million for FY 1999-2000. The Bureau also receives and expends program revenue from audit contracts with other state agencies. Total program revenue expenditures were \$1.1 million in FY 1998-99 and \$1.3 million in FY 1999-2000.

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## Recent Developments

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During the past biennium, we prepared for a major change in how the State reports its finances, faced the challenges that rapid changes in information technology have made for all government entities, and had our financial audit work reviewed by a team of outside auditors. We are also pleased to have received formal recognition from our peers for the effectiveness of our evaluation efforts.

### **New Accounting Standards**

The Governmental Accounting Standards Board establishes the rules by which governments report on their assets, liabilities, and the results of operations. Beginning with FY 2001-02, new rules will take effect. Under these rules, all government entities, including the State of Wisconsin, will be required to report financial information in a form similar to what is used in business. The new format will reflect the financial condition of the State as a whole and will encompass assets and liabilities that were never before a part of the State's financial statements. Most notably, infrastructure such as bridges and highways will be given a monetary value and included as capital assets of the State. In addition, the new rules require a more complete narrative discussion to aid readers in interpreting the financial statements.

Much work needs to be done to develop the information the new rules require. The Bureau is working closely with staff in the State Controller's Office in the Department of Administration to plan for the new financial statements, identify accounting and auditing issues, and train staff. The new statements will offer the Legislature greater opportunity to analyze the overall financial status of the State. We look forward to helping members of the Legislature understand and use this new information as it becomes available.

### **Information Technology**

In the past few years, the State has de-emphasized mainframe computer applications and has chosen instead the convenience, cost savings, and flexibility available through networked personal computers. Opportunities to share information and to conduct state business over the Internet have also been recognized. To address the risks these developments have for state agencies and persons sharing personal and financial information over the Internet, Audit Bureau staff are participating in various committees that are overseeing the State's information technology development and developing more advanced plans to test the security of major applications already on the Internet.

We also continually update our own Web site, [www.legis.state.wi.us/lab/](http://www.legis.state.wi.us/lab/). For example, during the final six months of the biennium, we added information on audits in progress to our Internet home page, and the December 2000 Audit Committee hearing was broadcast live over the Web. Currently, we are working with the Legislative Technology Services Bureau and other legislative staff to provide an improved search function so that visitors to our site can quickly locate current and past reports by title, subject, or key words. All current publications, as well as the full text of numbered reports published since August 1998 and summaries of earlier reports, are available electronically at our Web site.

### **Awards and Recognition**

The Bureau performs financial audits in accordance with *Government Auditing Standards*, developed by the Comptroller General of the United States. One general standard, which helps ensure the other standards are followed, calls for a periodic independent review of agency policies and procedures. In September 2000, a team of senior managers enlisted from five states by the National State Auditors Association reviewed the Bureau's financial audit operations. The review included an in-depth examination of our largest financial audits. In its final report, the team concluded the Bureau's system of quality control "was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards."

In April 2000, the Bureau hosted the spring conference of the Midwest Intergovernmental Audit Forum, which brings together state, federal, and local government auditing staff to discuss areas of common interest. The spring conference featured presentations on the future of government auditing, electronic commerce in government, privacy, and performance measurement. In a formal proclamation, the Forum commended the Bureau for the quality of the conference.

In both 1999 and 2000, the Bureau was honored to receive awards from the National Legislative Program Evaluation Society of the National Conference of State Legislatures. These awards recognized the significant impact our program evaluation reports have had on state government. The 1999 Impact Award was given for our evaluation of the Petroleum Environmental Cleanup Fund. We had found severe operational deficiencies in the Fund, as well as a large backlog of unpaid claims. In part because of our evaluation, legislation was enacted to relieve the backlog and improve program operations.

The 2000 Impact Award recognized our review of expenditures and funding for the University of Wisconsin-Madison's Division of Intercollegiate Athletics. In response to increasing legislative concern over deficits in the school's Big Ten athletic programs, we analyzed revenues and expenditures and suggested fiscal remedies to help avoid future deficits. One immediate outcome of our review was greater restraint in expenditures related to post-season bowl games for the University of Wisconsin football team.

In 1999, we were honored by having three senior members of our staff author a chapter in *Legislative Program Evaluation—Driven Research for Decision Makers*, published by the American Evaluation Association. In the chapter “Legislative Utilization of Evaluations,” Don Bezruki, Karen McKim, and Janice Mueller present case studies of three Legislative Audit Bureau reports—Nursing Home Regulation, the State of Wisconsin Investment Board, and Milwaukee Parental School Choice—to demonstrate how to develop effective evaluations that are used by the Legislature and others.

We are pleased to have earned the respect of our colleagues and will do all we can to maintain the quality of our work and the effectiveness of our work products.

### **New Office Location**

After 26 years in the same private office building, the Bureau moved in March 2000 to new offices at 22 East Mifflin Street. Our new location brings us closer to the Capitol, the Legislature, and legislative staff, while the layout of our space allows us to work more efficiently and effectively. For example, both the capacity and features of the Cattanach Training Room, named in honor of former State Auditor Dale Cattanach, allow training space for large and small work groups.

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## Noteworthy Reports of the Biennium

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The scope of the Audit Bureau's efforts mirrors the diversity of the activities of state government. In 1999 and 2000, we conducted program evaluations in the Department of Workforce Development that addressed the State's welfare reform efforts, as well as a funding shortfall in the Division of Vocational Rehabilitation. We also reported on funding the costs of special education and the administration of the Parental Choice program in Milwaukee.

Our financial audits and program evaluations in the Department of Health and Family Services addressed funding for community services to the elderly and people with special needs, public funding of nursing homes, a program to encourage the adoption of children with special needs, and the state-sponsored health insurance plan for individuals who cannot obtain private coverage. In addition, we reported on juvenile corrections issues, as well as sports team financing related to the Milwaukee Brewers, the Green Bay Packers, and intercollegiate athletics at the University of Wisconsin-Madison.

Other noteworthy reports addressed the Stewardship Program, under which the State purchases land; best practices for local governments; and state government operations.

### **Workforce Development**

Our evaluations of the Department of Workforce Development's efforts to overhaul the State's welfare system and provide individuals with opportunities for economic success found noteworthy accomplishments, but also some serious operational deficiencies. In report 99-3, we noted that agencies under contract to administer the W-2 program locally would likely earn \$33.0 million in unrestricted profits, largely because of a dramatic decline in caseloads that had begun even before the program was implemented. Partly in response to our report, the Legislature and the Department have established performance criteria designed to more closely tie future bonuses to how well a local agency serves program participants and meets program goals.

Our review of W-2 is ongoing, with a comprehensive evaluation scheduled for release in 2001. However, we released reports on several other related projects in 2000. We found that Maximus, Inc., which is a private firm that administers W-2 in areas of Milwaukee, charged the State \$457,547 for costs that were unallowable or questionable based on the documentation provided to us. In report 00-8, we discussed the decline in participation in the Food Stamp Program, which is available both to W-2 participants and to other low-income residents. We found that changes in federal law may be needed to address impediments to Food Stamp Program participation.

While the W-2 caseload has been much smaller than projected, the caseload for programs administered by the Department's Division of Vocational Rehabilitation has been larger than expected. In August 2000, the Vocational Rehabilitation program was closed to new participants because of a projected funding shortfall. In report 00-11, we chronicled funding issues and recommended improvements in fiscal management and service delivery.

### **Education**

Controversies in how to fund educational costs and how to best educate Wisconsin's children continue as in past biennia. To help ensure the debate is grounded in sound information, we reported on funding the costs of special education (report 99-7) and the administration of the Parental Choice program in Milwaukee (report 00-2). We found that special education costs had increased rapidly, reaching \$863.5 million in FY 1997-98. We also noted that nearly 8,000 Milwaukee students were attending private schools under the Parental Choice program. Participating schools offer a variety of educational programs, but the performance of students in Choice schools and Milwaukee Public Schools could not be directly compared because Choice schools are not required to administer standardized tests.

### **Health and Family Services**

Community options programs administered by the Department of Health and Family Services provide services to allow elderly people and those with special needs to remain in the community rather than reside in nursing homes or other institutions. In report 99-8, we found that while combined state and federal funding for these programs had increased from \$80.2 million in FY 1991-92 to \$178.0 million 1998-99, the need for services continued to exceed available funding. We also noted considerable variation in wait-times and in the variety of services counties make available to participants.

The adequacy of public funding for nursing homes has been a continuing concern in the industry for many years. We were asked to consider the special circumstance of county nursing homes. In report 00-1, we found that county homes have proportionately more residents whose challenging behaviors are associated with higher staffing levels, and that their staffing costs are higher than those of privately owned facilities because staff wages and fringe benefits are generally higher. Federal funds are available to help offset county nursing home deficits, but the counties have received a declining share of these funds while the State's share has increased.

In 1994, we had found deficiencies in the Special Needs Adoption program that impaired the State's ability to facilitate the adoption of hard-to-place children. In March 2000 (report 00-3), we noted increased productivity on the part of Department's social workers but called on the Department to better use resources and speed the adoption process.

The Health Insurance Risk-Sharing Plan provides subsidized health insurance to individuals who cannot obtain private coverage because of the severity of their health conditions. Two financial audits, reports 99-6 and 00-13, pointed out operational and funding concerns. We estimated that prescription drug claims were overpaid by \$3.7 million during FYs 1998-99 and 1999-2000 and recommended the Department recover the drug claim overpayments and implement controls to prevent future problems.

### **Corrections**

Our first report of the biennium, report 99-1, discussed state funding for county juvenile delinquency services. We found state Youth Aids had not increased as rapidly as the rise in service costs and covered 45.4 percent of these costs in 1997. In report 99-13, we evaluated counties' use of their expanded authority to place juveniles in secure detention, especially as a punishment for delinquent acts. We found caseworkers and judges had significantly increased the number of secure placements.

### **Sports Team Financing**

The Milwaukee Brewers and the Green Bay Packers sports organizations have sought and received public assistance in developing revenue bases to make them competitive with other major-league franchises. At the request of the Joint Legislative Audit Committee, we reported on the costs to build Miller Park, the new stadium for the Milwaukee Brewers Baseball Club (report 99-10). Total project costs were estimated at \$399.4 million at the time of our review, or 24 percent more than the \$322.0 million project budget anticipated in a 1995 memorandum of understanding signed by the State, Milwaukee County, the City of Milwaukee, and the Brewers. We will conduct a final review of the project and issue a final report after construction is completed in 2001.

The Green Bay Packers, Inc., also sought public assistance in order to expand and enhance Lambeau Field. At the request of several legislators, we reviewed the Packers' financial statements, cash and investments, and other available documents. In an unnumbered report issued in March 2000, we confirmed a healthy financial condition through March 31, 2000, but noted that several indicators suggest the potential for challenges in the future.

Our review of finances in the Division of Intercollegiate Athletics at the University of Wisconsin-Madison (report 99-18) was a response to legislative concern over a FY 1998-99 deficit of \$1.1 million. We found the Division needed to better control its expenditures and noted that expenditures relating to post-season play were greater than associated revenues.



## **Natural Resources**

Our major effort in the area of natural resources was an evaluation of the Warren Knowles-Gaylord Nelson Stewardship Program, through which the State preserves natural areas and expands outdoor recreational opportunities. In report 00-10, we addressed concerns about the grant portion of the program, through which the Department of Natural Resources awarded \$45.3 million to local governments and nonprofit organizations from FY 1990-91 through FY 1999-2000. The Department determines grant amounts based on land appraisals provided by grant applicants, which are intended to reflect fair-market value. For the sample of grants we reviewed, the average appraisal used to establish a purchase price was more than twice the assessed value that had been established for property tax purposes. We also found that incentives for local governments to control program costs may be limited.

## **Local Government Best Practices**

We issued a best practices review in each year of the biennium. In 1999, we described local cooperation to maintain roads and streets. In 2000, we addressed communities' efforts to reduce truancy. These reviews are intended to identify successful approaches to delivering public services and to offer information on how communities can best meet common objectives. They have been well-received by the communities, and they assist the University of Wisconsin-Extension in its educational outreach to local governments.

## **State Government Operations**

While much of our work directly relates to evaluating specific programs and services the State provides to its citizens, we also perform financial audits and broader reviews of government operations. Our annual audit of the State's general purpose financial statements may be the most critical, because it is required for receipt of federal funds and necessary for the State's bonding program. However, other financial audits also contribute to the Legislature's oversight of executive branch operations, including annual audits of the State Lottery, the Investment Board, and the Wisconsin Retirement System. During the biennium, we also audited the financial statements of the Unemployment Reserve Fund, the Mental Health Institutes, the State Life Insurance Fund, the Local Government Property Insurance Fund, and the Universal Service Fund. While they do not typically lead to legislative recommendations, financial audits promote good fiscal practices.

Sometimes we perform a consulting role to assist agencies in meeting financial reporting responsibilities. For instance, the newly created Petroleum Inspection Fees Revenue Obligations program was required to develop first-time financial statements for bondholders. We assisted the State's Capital Finance Office in evaluating possible formats and found that cash-based financial statements would provide the most useful information to the holders of the revenue bonds and commercial paper.

In addition to an annual financial audit, the federal government requires annual audits of state agencies' compliance with federal requirements. Our annual audit of federal programs encompasses every state agency receiving federal funds, and it typically identifies questioned costs or other problems in administering the federal programs. The two single audits completed in the biennium (reports 99-12 and 00-5) included a total of \$981,525 in questioned costs. The questioned costs and noncompliance findings are settled through a resolution process involving the state agencies and related federal departments, and they usually do not require direct legislative action.

In several reports issued during the biennium, we suggested ways to improve operations of the State's administrative functions. In report 99-5, we found that the vendor-taught courses sponsored by the Department of Employment Relations were losing money and had only a minor role in training state employees. The Department's responsibility to provide such courses was subsequently eliminated by the Legislature.

Our review of the enforcement of prevailing wage laws for public works projects (report 00-4) noted that administrative processes could be improved and that enhanced monitoring could increase compliance with the requirement that public works contractors pay their construction workers wages that are at least comparable to the wages paid in a county for similar work in the private sector. Similarly, in report 00-7 we suggested that procedural improvements such as productivity and timeliness standards should be developed for the hearing officers employed by the State. More than 100 hearing officers conducted nearly 25,000 contested case hearings in the audited year.

The return earned by the State of Wisconsin Investment Board is important to the State and to the local governments that contribute to the Wisconsin Retirement System, as well as to their employees and pensioners. In report 99-16, we noted that investment performance had been eroding and suggested a reassessment of investment strategy.

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Published reports that document the results of our financial and program evaluation audits are addressed to the Joint Legislative Audit Committee and available to the public. Numbered reports include evaluations of the effectiveness of various state programs, reviews of agency management and compliance with statutory and financial reporting requirements, and independent financial audits of state agencies' accounting records. The first two digits of each numbered report indicate the year of publication.

We also produce unnumbered and letter reports in response to legislative requests or to meet state or federal funding requirements. These are typically shorter documents addressing more narrowly defined issues. Best practices reviews identify local government practices that may save public funds or provide more effective delivery of government services.

Our report on our annual audit of the State of Wisconsin's general purpose financial statements is published by the State Controller's Office in the State's Comprehensive Annual Financial Report (CAFR). The State of Wisconsin Investment Board, the University of Wisconsin System, and the Department of Employee Trust Funds publish our independent auditor's reports on their financial statements in their annual reports. Our other reports are available electronically at [www.legis.state.wi.us/lab/windex.htm](http://www.legis.state.wi.us/lab/windex.htm) or from our office.

### Numbered Reports Released in 1999

#### **99-1 Youth Aids Program**

*Department of Corrections*

Over time, the amount of state Youth Aids funding available for services other than correctional placements has declined. In 1997, the Youth Aids program funded 45.4 percent of the \$181.4 million that counties spent on juvenile delinquency services. If Youth Aids funding were reallocated using updated data, some counties would gain funding while others would lose. Newer state programs to reduce county juvenile delinquency costs have not been as successful as projected.

#### **99-2 WHA Radio**

We performed an audit of WHA Radio's FY 1997-98 financial statements at the request of the University of Wisconsin-Extension, to fulfill audit requirements of the Corporation for Public Broadcasting. In FY 1997-98, WHA Radio received \$4.8 million in support and revenue, primarily from state appropriations, facilities and support donated by the University of Wisconsin-Extension, and various grants and contracts.

**99-3 Wisconsin Works (W-2) Expenditures**

*Department of Workforce Development*

Because of declining W-2 caseloads, first-year program expenditures were only 59.7 percent of the amount the State had contracted to pay counties, private agencies, and tribes for local program implementation. Contractors will, therefore, earn an estimated \$33.0 million in unrestricted profits, as well as \$47.2 million that must be reinvested in the community. The Legislature could enhance program oversight and limit future profits by requiring performance criteria that more closely tie future bonuses to how well a contractor serves participants and meets program goals.

**99-4 Unemployment Reserve Fund**

*Department of Workforce Development*

We performed an audit of the Unemployment Reserve Fund's FY 1997-98 and FY 1996-97 financial statements at the request of the Department of Workforce Development, which administers the Fund. The Fund's June 30, 1998 cash balance exceeded \$1.6 billion, which allowed the Department to apply the lowest tax rate schedule to taxable employers.

**99-5 State Employee Training Programs**

*Department of Employment Relations*

In FY 1997-98, the Department provided training to approximately 3 percent of state employees at a cost of approximately \$272,400. Vendor-taught courses do not cover their total costs and are subsidized by revenue generated through state-taught courses. The Legislature could maintain the Department's current role in providing state employee training, change its role to that of a coordinator of services, or encourage state agencies to play larger roles in administering employee training.

**99-6 Health Insurance Risk-Sharing Plan**

*Department of Health and Family Services*

Our independent auditor's report for FY 1997-98 is qualified because the Department did not account for provider funding in a way that allowed it to determine whether statutory funding requirements had been met. In addition, we identified several problems with plan design, policyholder service, and administration. The Legislature may wish to consider statutory changes to clarify and simplify the plan's operations.

**99-7 Special Education Funding**

*Department of Public Instruction*

Special education costs increased 36.9 percent from FY 1992-93 to FY 1997-98, from \$630.8 million to \$863.5 million. Neither federal aid nor state categorical aid for special education has increased at the same rate as special education costs. As a result, a larger portion of special education costs has been shifted to state general equalization aids over time.

**99-8 Community Options Programs**

*Department of Health and Family Services*

State and federal funding for these programs has more than doubled to \$178.0 million since FY 1991-92, but demand for services has consistently exceeded available funds. Waiting times and types of services varied among the 72 counties and 1 tribe that administer local programs.

**99-9 Kickapoo Reserve Management Board**

The Board manages the 8,600-acre Kickapoo Valley Reserve in Vernon County under a lease agreement with the U.S. Army Corps of Engineers, which holds title to the land. Three unresolved issues could postpone transfer of the title to the State and the Ho-Chunk Nation. The Board has operated effectively, but continued uncertainty about the transfer could affect its ability to manage the reserve in the future.

**99-10 Milwaukee Brewers Stadium Costs**

*Southeast Wisconsin Professional Baseball Park District*

In June 1999, we estimated total project costs at \$399.4 million. The District will fund \$115.5 million in stadium maintenance and repair costs incurred by the Brewers. The Brewers will not be reimbursed directly for these costs, which may include rental payments, major capital repairs, uniforms, insurance, and utilities; rather, payments will be directed to repay \$50.0 million in loans the Brewers secured to meet their contribution for stadium construction. Efforts are being made to reach statutory hiring and contracting goals for women and minorities.

**99-11 Wisconsin Lottery**

*Department of Revenue*

We issued an unqualified opinion on the Wisconsin Lottery's financial statements for FY 1997-98 and FY 1996-97. A total of \$216.9 million in proceeds was used to provide local property tax relief in FY 1997-98. This amount effectively included two years of property tax credits because of a court ruling that prevented the distribution of property tax credits in FY 1996-97.

**99-12 State of Wisconsin Single Audit**

We performed the FY 1997-98 single audit of the State of Wisconsin to meet federal audit requirements. We tested compliance with federal requirements for 28 major grants administered by various state agencies, including the University of Wisconsin System, and questioned the allowability of \$293,474 in costs the State charged to federal grants.

### **99-13 Secure Juvenile Detention**

The Legislature expanded the authority of judges and caseworkers to place juveniles in county-run secure detention facilities, especially as a form of punishment after being adjudicated delinquent. Judges and caseworkers have used this expanded authority to increase post-adjudicatory secure detention placements by 46.6 percent in the two and one-half years since the changes took effect in 1996, compared to two and one-half years before the changes. Increased use of secure detention has had a limited effect on recidivism.

### **99-14 Wisconsin Lottery**

*Department of Revenue*

The sale of instant tickets, which represent over 50 percent of all ticket sales, has declined each year since FY 1994-95. Large on-line jackpots increased overall sales slightly in FY 1998-99, but strategies to increase sales by other means have met with limited success.

### **99-15 Transit System Contracts with University of Wisconsin Campuses**

The University of Wisconsin campuses in Madison and Milwaukee have contracted with local transit systems for bus pass programs that allow students unlimited access to local bus routes. While the programs provide benefits to local communities by reducing parking demand and increasing bus ridership, any costs not covered by contract revenues and state and federal aid must be paid with local revenues. We estimated that UW-Milwaukee's program has generally covered its costs, while shortfalls have occurred in each year of UW-Madison's program.

### **99-16 State of Wisconsin Investment Board**

The Investment Board has taken steps to improve its operations since a 1995 derivatives loss in the State Investment Fund. Even with the loss, the State Investment Fund's returns have exceeded performance goals. In contrast, the Fixed Retirement Trust Fund, which accounts for approximately 80 percent of the Investment Board's \$60.6 billion in assets, has not consistently met its performance benchmarks. Changes in the Board's investment strategy may be needed.

### **99-17 Wisconsin Mental Health Institutes**

*Department of Health and Family Services*

We performed an audit of the Wisconsin Mental Health Institutes' FY 1997-98 financial statements at the request of the Department of Health and Family Services. While our opinion on the Institutes' financial statements was unqualified, we qualified our report on internal controls and compliance because the Department did not maintain an adequate patient billing system.

**99-18 Division of Intercollegiate Athletics**

*University of Wisconsin-Madison*

The Division incurred a \$1.1 million deficit in FY 1998-99 and projected a deficit for FY 1999-2000. Since FY 1994-95, expenditures have increased \$17.8 million, or 77.5 percent. To ensure financial stability, administrative expenditures for athletic programs, facilities, and administrative costs will need to be better controlled. In addition, more comprehensive financial reporting is needed.

**99-19 Division of Gaming**

*Department of Administration*

We issued an unqualified opinion on the Division's financial statements for FY 1998-99 and FY 1997-98. Although the State's revenues from Indian gaming are expected to increase from \$350,000 in FY 1996-97 to \$22.1 million in FY 1999-2000, revenues from racing and charitable gaming continue to decline. Despite increases in staffing levels, the number of on-site casino audits conducted by the Office of Indian Gaming declined markedly from 1996 through 1999, and backlogs have developed in certifying vendors to do business with tribal casinos.

**99-20 State Life Insurance Fund**

*Office of the Commissioner of Insurance*

The Fund's regulatory-based financial statements for calendar years 1998, 1997, and 1996 are fairly presented in accordance with insurance accounting practices prescribed by the Commissioner of Insurance. The Fund provides low-cost life insurance policies to Wisconsin residents and is self-funded through insurance premiums and investment earnings. It returned between \$3.6 and \$3.8 million to policyholders as dividends in each of the three years audited.

**99-21 Wisconsin Educational Communications Board Television Network**

We performed an audit of the Wisconsin Educational Communications Board Television Network's FY 1998-99 financial statements at the Board's request, to fulfill audit requirements of the Corporation for Public Broadcasting. We found the financial statements to be fairly presented in all material aspects.

**99-22 Wisconsin Educational Communications Board Radio Network**

We performed an audit of the Wisconsin Educational Communications Board Radio Network's FY 1998-99 financial statements at the Board's request, to fulfill audit requirements of the Corporation for Public Broadcasting. We found the financial statements to be fairly presented in all material aspects.



**99-23 WHA Television**

We performed an audit of WHA Television's FY 1998-99 financial statements at the request of the University of Wisconsin-Extension, to fulfill audit requirements of the Corporation for Public Broadcasting. We found the financial statements to be fairly presented in all material aspects.

**99-24 WHA Radio**

We performed an audit of WHA Radio's FY 1998-99 financial statements at the request of the University of Wisconsin-Extension, to fulfill audit requirements of the Corporation for Public Broadcasting. We found the financial statements to be fairly presented in all material aspects.

**Numbered Reports Released in 2000**

**00-1 County Nursing Home Funding**

*Department of Health and Family Services*

The Department reimburses county-owned and private skilled nursing facilities for care to Medical Assistance recipients. County-owned facilities provide care to a greater percentage of residents whose challenging behavior appears to be associated with higher staffing levels. Although the State has used federal Intergovernmental Transfer (IGT) program funds to help offset county deficits, a declining percentage of county deficits has been covered, while the State's share of IGT funding has increased.

**00-2 Milwaukee Parental Choice Program**

In the 1999-2000 school year, the program will provide 7,996 children with \$38.9 million in tuition vouchers for use at 91 private secular and religious schools. Participants choose schools based on perceived quality, but the academic performance of Choice and Milwaukee Public Schools pupils cannot be compared directly because Choice schools are not required to administer standardized tests. The program appears to be serving children who meet statutory requirements related to low income and city residency, but admissions procedures could be improved.

**00-3 Special Needs Adoption Program**

*Department of Health and Family Services*

In 1998, the Department arranged 415 adoptions for children who were considered difficult to place because of disability, age, ethnicity, or for other reasons. Although program performance has improved and additional funding has been used for expanded program capacity, additional management changes are necessary to ensure effective use of program resources and timely placement of children.

**00-4 Enforcement of Prevailing Wage Laws**

*Department of Workforce Development and Department of Transportation*

Both departments enforce compliance with prevailing wage laws for public works projects. Wage rates for 233 job classifications in each county are determined accurately, but the survey process is time-consuming. Enforcement efforts include investigation and monitoring; however, statutory penalty options are seldom invoked. Enforcement could be improved by monitoring contractors independent of complaint investigations, providing the agencies with new penalty options, and improving program management.

**00-5 State of Wisconsin Single Audit**

We performed the FY 1998-99 single audit of the State of Wisconsin to meet federal audit requirements. We tested compliance with federal requirements for 30 major grants administered by various state agencies, including the University of Wisconsin System. We questioned a total of \$688,051 in costs the State charged to federal grants and for interest the federal government did not have the opportunity to earn because of delays in returning the federal share of recovered funds from overpayments made to persons receiving public assistance.

**00-6 Wisconsin Lottery**

*Department of Revenue*

We issued an unqualified opinion on the Wisconsin Lottery's financial statements for FY 1998-99 and FY 1997-98. Our report noted that GTECH Corporation, which maintains the computer system for on-line and instant-ticket games, had agreed to pay the Lottery a tentative settlement of \$750,000 to resolve an outstanding balance due that was related to computer system problems. We recommended that the Wisconsin Lottery report to the Legislature on its planned use of the settlement funds.

**00-7 Hearing Officers in State Government**

In FY 1998-99, the State spent an estimated \$17.3 million and employed 103.3 hearing officers to conduct approximately 24,900 contested case hearings related to employment, social services, corrections, civil rights and discrimination, and other areas it regulates. Two state agencies account for more than 80 percent of hearing-related staff and expenditures. Most hearing officers are subject to performance standards established by statute or rule. Standards typically apply to productivity and timeliness rather than decision quality. However, one indicator of quality, the rate at which decisions are reversed on appeal, shows that most hearing officer decisions are upheld.

**00-8 Food Stamp Program**

*Department of Workforce Development*

The Food Stamp Program served approximately 311,800 individuals in Wisconsin during FY 1998-99 at a cost of \$167.7 million. Program participation declined by 45.2 percent from March 1995 through July 1999. A number of factors contributed to this decline, including the implementation of W-2 and other welfare reform initiatives that place emphasis on work and self-sufficiency. The Food Stamp Program could be changed to increase participation, but some changes will require federal action to implement.

**00-9 Wisconsin Mental Health Institutes**

*Department of Health and Family Services*

We performed an audit of the FY 1998-99 financial statements at the request of the Department. While we expressed an unqualified opinion on the Institutes' financial statements, we noted continuing concerns with the Department's patient billing and accounts receivable system.

**00-10 Warren Knowles-Gaylord Nelson Stewardship Program**

*Department of Natural Resources*

Through FY 1999-2000, program expenditures to preserve natural areas for outdoor recreation and wildlife habitat have been \$190.6 million. That amount includes \$45.3 million for grants awarded to local governments and nonprofit conservation organizations. Among grants we reviewed, the average appraised value supplied by grant applicants, which the Department uses to establish grant amounts, was 120.2 percent greater than the average local assessment for property tax purposes. We noted that some local governments may have limited incentives to control program costs and that questions exist about the definition of nature-based outdoor recreation.

**00-11 Division of Vocational Rehabilitation**

*Department of Workforce Development*

In FY 1999-2000, the Vocational Rehabilitation program spent \$66.3 million in federal and state funds to help 35,000 disabled individuals with employment. Program expenditures have increased while participation remained stable and rehabilitation rates declined. In August 2000, the program was closed to new participants because of a projected funding shortfall. We noted problems with the management of service delivery and a need for improvement in both financial planning and monitoring. Future recruitment and retention of program staff may be challenging.

**00-12 Local Government Property Insurance Fund**

*Office of the Commissioner of Insurance*

We provided an unqualified opinion on the Property Fund's financial statements for FYs 1999-2000, 1998-99, and 1997-98. The Property Fund earned net income totaling \$4.3 million for the three-year period ended June 30, 2000, and as of that date had a surplus of \$23.4 million. The Fund had several large fire and windstorm claims, but reinsurance limited their effect on the Fund.

**00-13 Health Insurance Risk-Sharing Plan**

*Department of Health and Family Services*

We provided an unqualified opinion on the Plan's FY 1998-99 financial statements. The Plan had net income of \$6.6 million, which is a considerable improvement over the \$9.4 million net loss of the previous year. Several prior audit concerns were addressed, but concerns related to funding structure, service delivery, and reporting still require attention. We also found that because important system pricing controls had been suspended, prescription drug claims were overpaid by an estimated \$3.7 million during FYs 1998-99 and 1999-2000.

**00-14 Unemployment Reserve Fund**

*Department of Workforce Development*

We provided an unqualified opinion on the Unemployment Reserve Fund's financial statements for FYs 1999-2000 and 1998-99. The Fund's June 30 cash balance of nearly \$1.8 billion for this period allowed the lowest unemployment tax rate schedule to be applied to taxable employers.

**00-15 Universal Service Fund**

*Public Service Commission*

We provided an unqualified opinion on the Fund's FY 1999-2000 and FY 1998-99 financial statements. The Fund is funded through assessments on telecommunications providers and supports services and access provided by several state agencies, including the Public Service Commission and the Technology for Educational Achievement Board. Expenditures from the Fund totaled \$13.0 million in FY 1999-2000. Expenditures for Universal Service Fund programs administered by the Public Service Commission continued to be significantly less than budgeted.

**00-16 Petroleum Inspection Fee Revenue Obligations Program**

We provided an unqualified opinion on the Statement of Changes in Program Assets for the partial year ended June 30, 2000. During our audit period, the State issued \$230 million in revenue obligations, which allowed the Department of Commerce to reduce the backlog of approved but unpaid Petroleum Environmental Cleanup Fund award claims from \$196 million as of January 1, 2000, to \$16 million as of June 30, 2000.

#### **00-17 Wisconsin Educational Communications Board Radio Network**

We provided an unqualified opinion on the FY 1999-2000 financial statements. The radio network received over \$6.5 million in support and revenue during FY 1999-2000, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

#### **00-18 Wisconsin Educational Communications Board Television Network**

We provided an unqualified opinion on the FY 1999-2000 financial statements. The television network received over \$12.2 million in support and revenue during FY 1999-2000, including state support, member contributions, funding from the Corporation for Public Broadcasting, and various other grants.

### **Unnumbered Reports**

#### **A Best Practices Review: Local Cooperation to Maintain Streets and Roads—May 1999**

We reviewed the use of intergovernmental cooperative agreements to promote savings and improve the results of road construction and repair efforts. The results of our review are used by local governments and UW-Extension in its local government education programs.

#### **Fiscal Control and Budgeting Issues—May 1999**

This report described four issues: a change in the State's accounting for uncashed checks that would protect the intended payee but also allow for earlier lapsing of funds to the General Fund; a change in accounting treatment for federal interest reimbursements, to facilitate their lapsing to the General Fund; recognition, when budgeting for the municipal household hazardous wastes program, that the Department of Natural Resources controls a \$500,000 trust fund to make similar program expenditures; and the proper disposition of \$446,000 accumulated in the Building Trust Fund.

#### **Railroad Crossing Safety Program—July 1999**

Safety concerns are greatest at the 4,406 crossings that intersect with public roads at grade level. Installing 165 warning devices will cost an estimated \$14.0 million and will use all of the federal funding expected to be available to the Office of the Commissioner of Railroads through September 30, 2005. Funding is not yet available for another 209 projects, with an estimated cost of \$2.4 million.

#### **Wisconsin Public Broadcasting Foundation—December 1999 and December 2000**

In each year, we conducted a financial audit of this foundation, which raises funds for the Wisconsin educational radio and television networks.

### **The Financial Condition of the Green Bay Packers, Inc.—March 2000**

We reviewed the Packers' financial statements, cash and investments, and other available documents and confirmed a healthy financial condition through March 31, 2000. However, several indicators point to financial challenges in the future.

### **Environmental Cooperation Pilot Program—April 2000**

1997 Act 27 allowed the Department of Natural Resources to sign agreements with companies to grant them increased flexibility in meeting environmental regulations. No agreements had been signed at the time of our report.

### **The Child and Adult Care Food Program of the Social Development Commission—April 2000**

During the period March 1, 1997 through March 31, 1999, the Social Development Commission received \$3.9 million in federal pass-through funds from the Department of Public Instruction for meals served at the centers the Commission sponsors. We questioned \$1.24 million in meal reimbursements because of lack of documentation to support that claimed meals were served to eligible children.

### **Administration of the Wisconsin Works Program by Maximus, Inc.—July 2000**

Maximus charged the State for at least \$51,300 in costs to seek business outside of Wisconsin. In a test of expenditures, we identified \$138,840 in unallowable costs and an additional \$267,407 in questioned costs. We recommended that Maximus improve its accounting practices and the Department of Workforce Development improve its oversight of Maximus and the other agencies administering W-2.

### **A Best Practices Review: Truancy Reduction Efforts—August 2000**

On average, 15,600 students are truant from Wisconsin public schools on any given day. The number who meet the statutory definition of habitual truant increased from 6.9 percent of the public school enrollment in the 1997-98 school year to 8.7 percent in 1998-99, or from 59,304 to 74,569 students. We found that effective approaches to truancy are prompt and personal. A number of communities have enacted new ordinances against truancy, and some have established truancy abatement centers to both address truancy and reduce daytime juvenile crime that can be associated with it.

### **Wisconsin Family Care Implementation Process Evaluation Report Prepared by the Lewin Group—November 2000**

We are required by 1999 Wisconsin Act 9 to contract for an evaluation of the cost-effectiveness, accessibility, and quality of care provided by the Family Care pilot projects. The Lewin Group completed the first stage of this evaluation. We reviewed its report, which noted that the pilot projects were not able to enroll consumers as efficiently as they had anticipated.

## Letter Reports

Audit opinion on the University of Wisconsin System's FY 1997-98 financial statements, issued January 5, 1999

Certification of the State's net indebtedness as of January 1, 1999, issued February 26, 1999

FY 1997-98 Dental Clinics Contract with Marquette University, issued March 26, 1999

Audit opinion on the State Retirement System's 1998 financial statements, issued June 16, 1999

Audit opinion on the State Investment Fund's FY 1998-99 financial statements, issued August 31, 1999

Audit opinion on the State of Wisconsin's FY 1998-99 general purpose financial statements, issued December 17, 1999

Audit opinion on the State of Wisconsin Investment Board's FY 1998-99 financial statements, issued January 5, 2000

Audit opinion on the University of Wisconsin System's FY 1998-99 financial statements, issued January 5, 2000

Certification of the State's net indebtedness as of January 1, 2000, issued April 18, 2000

Audit opinion on the State Retirement System's 1999 financial statements, issued June 9, 2000

Medical College of Wisconsin, issued June 15, 2000

Dental Education Contract with Marquette University, issued June 15, 2000

FY 1998-99 Dental Clinics Contract with Marquette University, issued June 15, 2000

Audit opinion on the State Investment Fund's FY 1999-2000 financial statements, issued August 25, 2000

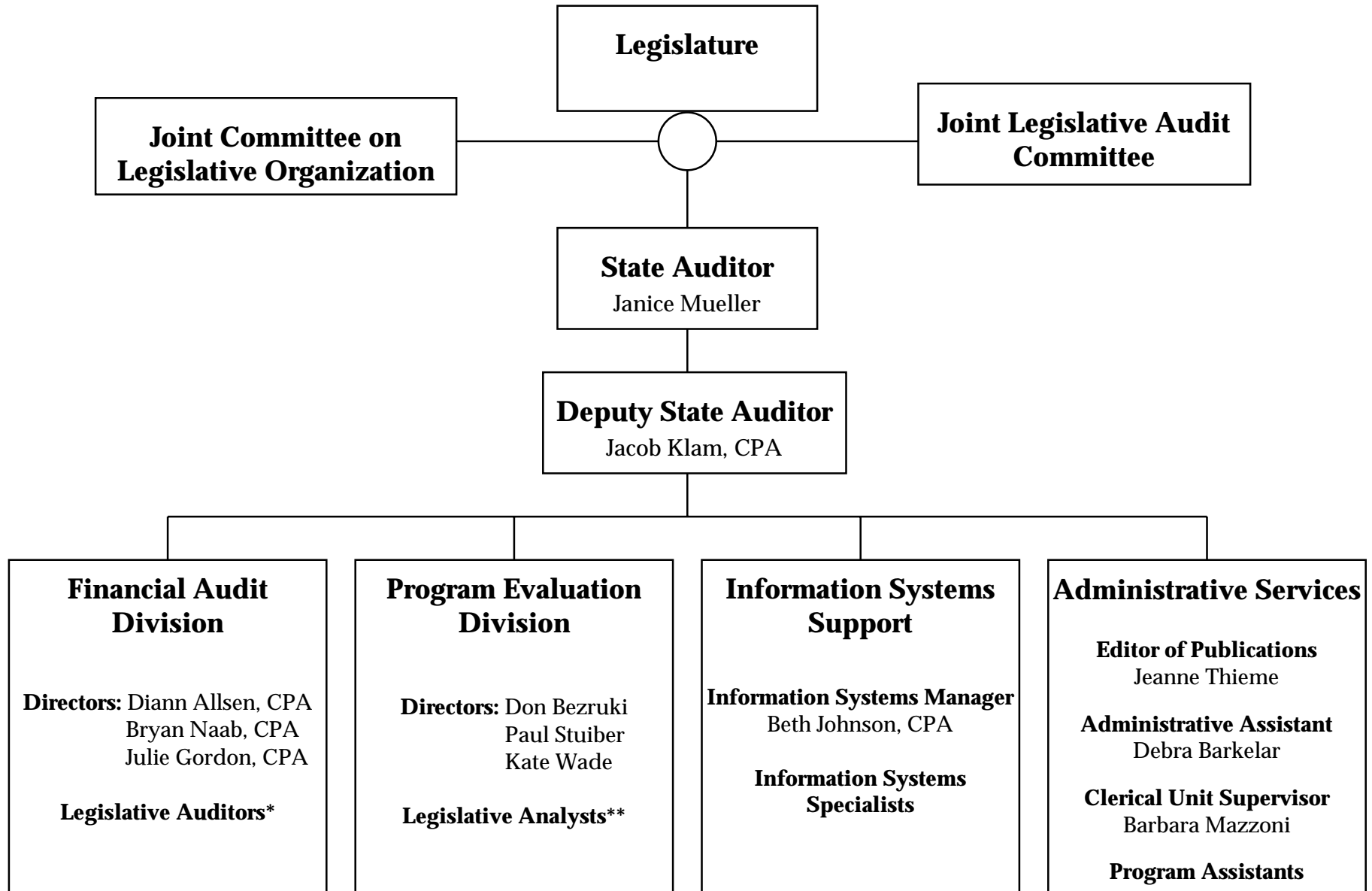
Audit opinion on the State of Wisconsin's FY 1999-2000 general purpose financial statements, issued December 18, 2000

Audit opinion on the State of Wisconsin Investment Board's FY 1999-2000 financial statements, issued December 22, 2000

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# Wisconsin Legislative Audit Bureau

## *Organization Chart*



\* Includes audit supervisors and staff auditors

\*\* Includes project supervisors and staff analysts



## Appendix

### **Statutory Responsibilities**

Under s. 13.94, Wis. Stats., and other statutory provisions, the Legislative Audit Bureau is responsible for conducting annual financial audits of the following:

- Department of Employee Trust Funds
- Capital Improvement Fund
- Bond Security and Redemption Fund
- Wisconsin Investment Board
- Division of Gaming within the Department of Administration
- Wisconsin Lottery
- State Fair Park
- Marquette University School of Dentistry

The Bureau's responsibilities also include biennial financial audits of:

- the accounts of the State Treasurer,
- expenditures from the state appropriation to the Medical College of Wisconsin, and
- the expenditures under the Higher Educational Aids Board contract for dental education services.

In addition, the Bureau has biennial program audit responsibilities for the State Lottery, the Wisconsin Investment Board, and the Division of Gaming within the Department of Administration.

Statutes require that we audit the State Life Insurance Fund, the Local Government Property Insurance Fund, and the Patients Compensation Fund at least once every three years. In recent years, we have performed an audit every three years and interim work each year for purposes of our annual audit of the State's general purpose financial statements.

The Audit Bureau is required to examine, at least once every five years, the extent to which state agencies purchase materials, supplies, or equipment manufactured outside the United States. The Bureau is also responsible for conducting special examinations of the accounts and financial transactions of any department or office as the Governor, the Legislature, the Joint Committee on Legislative Organization, or the Joint Legislative Audit Committee directs. The Bureau may also audit any county, city, village, town, or school district, as directed by the Joint Legislative Audit Committee.

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