WISCONSIN LEGISLATIVE AUDIT BUREAU
AUDIT SUMMARY

Report 00-5

May 2000

STATE OF WISCONSIN SINGLE AUDIT

The State of Wisconsin administered $5.7 billion in federal financial assistance during fiscal year (FY) 1998-99. As a condition of receiving federal assistance, the State is required to have an independent audit of its financial statements and of its compliance with federal grant program requirements. We performed this audit at the request of the various state agencies that received federal financial assistance and to meet our audit responsibilities under s. 13.94, Wis. Stats. To satisfy audit requirements, we gained an understanding of the internal controls, assessed the propriety of revenues and expenditures, and tested agency compliance with state and federal program requirements.

Our unqualified audit opinion on the State's general purpose financial statements was included in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. This report was issued by the Wisconsin Department of Administration in December 1999 and is available from the State Controller's Office.

The federal compliance portion of the single audit included audit work at the 23 state agencies that administered federal financial assistance programs. These agencies vary in size and complexity from the Department of Health and Family Services (DHFS) and the Department of Workforce Development (DWD), each of which administered six major federal grant programs during FY 1998-99, to the Board on Aging and Long-Term Care, which administered only a few small grants and contracts.

Our audit did not include the federal grants administered by the Wisconsin Housing and Economic Development Authority and the Wisconsin Supreme Court. These entities are audited separately by other auditors.

As noted, the total amount of federal financial assistance administered by the State was $5.7 billion in FY 1998-99. DHFS administered $2.1 billion, or 36.7 percent, of the State's total federal financial assistance. The majority of these funds, $1.7 billion, was disbursed for the Medical Assistance Program. The State also contributed $1.2 billion in general purpose revenue to fund this program.

DWD also administers large federal programs. One of these programs is the Unemployment Insurance program, under which DWD expended $546.0 million during FY 1998-99. In addition, DWD disbursed $117.2 million in federal funds for the Child Care Cluster grants, and $116.7 million for the Temporary Assistance for Needy Families program.

The University of Wisconsin (UW) System expended $695.1 million in federal aid during FY 1998-99. These expenditures included $366.5 million for student financial aid, $271.7 million under a variety of research and development grants, and $56.9 million for other federal grants. Other state agencies administering significant federal programs include the Department of Transportation (DOT), which expended $407.7 million in FY 1998-99 for the Highway Planning and Construction program; the Department of Public Instruction (DPI); the Department of Natural Resources (DNR); and the Department of Administration (DOA).

These seven large state agencies administered 96.8 percent of the federal financial assistance received by the State, and 27 of the State's 30 major grant programs. Accordingly, our audit effort concentrated on these state agencies.

We concluded that state agencies were in substantial compliance with federal grant program requirements. However, we noted instances of noncompliance with federal grant requirements and, in total, question $688,051 in costs charged to various federal grant programs. These costs represent a small portion of the $5.7 billion in federal financial assistance received during the year. In addition to findings that result in questioned costs, we identified instances of noncompliance that have no direct effect on the amount of federal financial assistance received or for which we could not readily determine the amount to question. Summaries of some of our more serious findings follow.

Department of Workforce Development

DWD administers some of the largest and most complex federal programs and, in recent years, has had more findings and questioned costs than other agencies. In total, we question $556,879 that DWD charged to federal grant programs or that was lost interest earnings to the federal government because of various delays. The largest single area of questioned costs resulted from failure to credit the federal government's share of support collections for public assistance programs in a timely manner. Child support and other support collections related to families that received benefits from public assistance programs, such as the Temporary Assistance for Needy Families program, are not disbursed to the family but are used to offset the federal and state share of program expenditures. Because DWD was late in submitting federally required quarterly reports of collections and expenditures, it did not promptly return the federal government's share of support collections for cases related to public assistance programs. As a result, we question $300,000 in interest that we estimate the State gained at the expense of the federal government.

Some federal grants require the State to match federal expenditures with expenditures financed from non-federal sources. We have concerns because DWD did not obtain and maintain documentation to support amounts reported as non-federal match under the Medical Assistance, Food Stamps, Head Start, and Vocational Rehabilitation programs. In total, we question $167,353 in federal expenditures because DWD could not document that it met the State's matching requirements under these programs.

DWD's Division of Vocational Rehabilitation (DVR) administers the Vocational Rehabilitation program to assist eligible individuals with disabilities in preparing for and engaging in gainful employment. While DVR generally met minimum federal requirements in eligibility determination and documentation of rehabilitation plans, we have single audit concerns over documentation of grant payments made directly to individuals. We found a direct client payment of $3,719 for which DWD did not have supporting documentation. In response to our inquiries, DWD contacted the client but could obtain documentation for only $2,433 in expenditures; the client admitted to the DVR counselor that the remaining $1,286 was spent on unallowable items. We are currently conducting an evaluation of the Vocational Rehabilitation program and expect to issue our report by early fall.

Department of Health and Family Services

Like DWD, DHFS administers many large and complex federal programs, such as the Medical Assistance Program. However, DHFS has been able to administer its federal programs with relatively few issues of noncompliance. We have only two new findings this year, both of which relate to the Women, Infants, and Children (WIC) program and do not result in questioned costs. Participants in the program redeem food coupons issued by the State to purchase WIC-approved food items at grocery stores. While DHFS meets federal requirements to reconcile at least 99 percent of the redeemed food coupons to issuance records within 150 days, there are exceptions that are not investigated. DHFS agrees with our suggestion to reconcile all redeemed food coupons to increase the likelihood of detecting additional instances of fraud or abuse of the program by participants. DHFS has already addressed our second concern by requiring audits of the internal controls of two private organizations with which it contracts to administer the WIC program.

Typically, when we find instances of noncompliance with federal rules and question costs, agencies are required to reimburse the federal government for expenditures that were deemed unallowable. However, at times our audit findings result in additional funds for the State. In our prior audit, we questioned a small amount of money because DHFS made an overpayment related to the Medical Assistance Program when its systems did not make timely adjustments related to updated information on a client's ability to pay for services. Because of the large number of claims processed during the year, we thought additional overpayments were likely. DHFS implemented our recommendation to recalculate claim payments made during FY 1997-98, which resulted in the recovery of $208,000 from nursing homes. Of that amount, approximately $122,000 was returned to the federal government, and $86,000 was retained by the State to offset its share of nursing home costs. In addition, DHFS will be reviewing all available nursing home claims dating back to 1993 to determine the amount of any additional cost recoveries.

University of Wisconsin System

Although UW System was in substantial compliance with federal program requirements, we noted several instances of noncompliance with federal grant requirements and, in total, question $62,022 in costs charged to federal programs. We identified two areas that are of particular concern because of their relative significance or because they represent a continuation of previously noted problems.

First, at UW-Parkside, we noted concerns related to student eligibility and awards. We identified 19 students who failed to meet the satisfactory academic progress policy but continued to be awarded federal financial aid totaling $51,124. Though UW-Parkside's student financial aid system identifies students who fail to meet the satisfactory academic progress policy and can be set to reject payments to them, UW-Parkside staff indicated that this system control was automatically overridden before the spring 2000 session.

Second, at UW-Madison, UW-Milwaukee, UW-Parkside, and UW-River Falls, we identified concerns related to the assignment of defaulted loans to the U.S. Department of Education. Although federal regulations do not specify how long institutions may keep defaulted loans before assignment, good loan management practices require institutions to identify when collection efforts available to them have been exhausted and more powerful collection efforts, such as assignment to the U.S. Department of Education, are necessary. We identified loans at these four UW campuses that were in default for more than eight to ten years, which we believe exceeds the standard for good loan management. For example, we determined that UW-Milwaukee has at least 321 loans, totaling approximately $663,338 in principal and interest, that have been in default for more than ten years without any collections being received.

In addition to these two concerns, UW-Milwaukee and UW-Superior are currently working with the Legislative Audit Bureau to finalize the FY 1998-99 reconciliation of campus Pell Grant disbursement records to the U.S. Department of Education's records. These UW campuses did not complete the reconciliations by September 30 following the end of the academic year because of processing difficulties and delays. Therefore, as required by federal regulations, UW-Milwaukee and UW-Superior have completed the Pell Increase Award Report to notify the U.S. Department of Education of the additional reimbursements needed and are working with the Legislative Audit Bureau to obtain the required auditor's certification.

Department of Administration

DOA charges state agencies for a variety of services, including mainframe computer services. It is expected that DOA would establish billing rates that are fair and equitable and that recover costs directly related to providing mainframe services. DOA assigns budgeted costs to cost pools and then calculates rates to recover these costs. However, we are concerned because one of the mainframe computer cost pools included $2.8 million that was largely unrelated to providing mainframe services, and $5.2 million that should have been allocated to other cost pools. As a result, DOA's mainframe computer rates were overstated, while rates for other services, such as printing, were understated. Consequently, agencies that used relatively more mainframe computer services, such as DWD, may have subsidized users of the other services. In addition, federal grants may have been overcharged for mainframe computer costs. We will be issuing a separate management letter to DOA on the rate-setting methodology in the near future.

Occasionally, state agencies or other entities receive income related to the administration of federal grants. Federal rules require that this income be used to offset the federal government's share of program expenditures or, if agreed to in advance, for other program purposes. We have a continuing concern with program income received by a nonprofit corporation with which DOA contracted to administer a grant program to assist low-income individuals in acquiring houses. This year, we question $69,150 in program income the nonprofit corporation collected but has not reported to DOA. DOA is working with the U.S. Department of Housing and Urban Development to resolve this issue.

Other State Agencies

Generally, state agencies request federal reimbursements in a manner that minimizes the delay between the time grant expenditures are incurred and federal reimbursements are received. However, we note several instances in which state funds temporarily subsidized federal programs, resulting in lost interest to the State. For example, DNR continued to have difficulties obtaining expenditure information from its accounting records and again requested federal reimbursement on a quarterly, or longer, basis. As a result, state funds continued to temporarily subsidize federal programs, resulting in an estimated $95,000 in lost interest earnings to the State. The Department of Corrections also requested quarterly federal reimbursement, even though requests should have been made at least monthly, resulting in estimated loss to the State of at least $7,500 in interest earnings. Finally, the Department of Veterans Affairs had not been successful in collecting $66,668 in reimbursements for expenditures incurred during FY 1994-95 related to construction of a nursing care facility at the Wisconsin Veterans Home. After our interim audit communication, the Department of Veterans Affairs contacted the federal awarding agency and successfully obtained reimbursement.

We also found noncompliance with various federal regulations at other state agencies. For example, DPI did not require suspension and debarment certifications from vendors with contracts over $100,000, and the Department of Justice did not complete the required time and effort certifications for staff working on the State Medicaid Fraud Control Units grant.

Each year we follow up on findings and recommendations included in our previous single audit report. While most state agencies promptly implement corrective action, sometimes a longer period is required to carry out recommendations. This year we found that the Higher Educational Aids Board and DOT had taken timely steps to address prior audit concerns. However, the departments of Military Affairs and Commerce have made only partial progress in implementing prior audit recommendations. The Department of Military Affairs continued to not follow federal rules that require staff working solely on one federal grant to complete semi-annual certifications of their work effort, and those working on multiple grants to complete monthly personnel activity reports. Commerce continues to have difficulties completing desk reviews of single audit reports for which it is the cognizant agency.

A summary of our federal findings and questioned costs can be found in Section III of the Schedule of Findings and Questioned Costs (pages 155 through 161). Agencies' responses to the findings and their plans for corrective action are included in the body of this report. The federal government will contact the agencies to resolve findings and questioned costs. A summary of the status of findings included in our prior audit report (report 99-12) is presented on pages 163 through 175.

Issues addressing technical accounting matters, including those related to preparation of the State's financial statements, are included in management letters and other audit communications for various state agencies. Summaries of the more serious concerns related to financial reporting are included in Section II of the Schedule of Findings and Questioned Costs (pages 143 through 155).

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full report, PDF file (3209KB)