

97-11 State of Wisconsin Single Audit

Summary

The State of Wisconsin expended over \$3.5 billion in cash and noncash federal financial assistance during fiscal year (FY) 1995-96. The State, as a condition of receiving federal funds, 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 control structure, assessed the propriety of receipts and disbursements, and tested agency compliance with state and federal program requirements.

Our 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, 1996. This report was issued by the Department of Administration in December 1996 and is available from the State Controller's Office.

The federal compliance portion of the single audit included audit work at the 22 state agencies that administered federal financial assistance programs. These agencies vary in size and complexity from the Department of Health and Family Services, which administered 15 major federal grant programs and 113 other programs during FY 1995-96, 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 University of Wisconsin System and the Wisconsin Supreme Court, both of which have federal audit requirements independent of federal Office of Management and Budget (OMB) Circular A-128. An audit of the federal financial assistance received by the Wisconsin Housing and Economic Development Authority was performed by other auditors.

The amount of federal financial assistance expended by the State, excluding the University, has increased over \$937 million, or 36 percent, in the last five years, from \$2.602 billion in FY 1990-91 to \$3.539 billion in FY 1995-96. The Department of Health and Family Services (DHFS) administered \$2.6 billion, or 72 percent, of the State's cash and noncash federal financial assistance. The majority of these funds, \$1.5 billion, were disbursed for the Medical Assistance Program. The State also contributed over \$1 billion in general purpose revenue to fund this program. Another large program administered by DHFS during

FY 1995-96 was Family Support Payments to States--Assistance Payments, under which \$258.4 million in federal funds was disbursed in FY 1995-96. This program was transferred to the Department of Workforce Development (DWD) as of July 1, 1996.

The Department of Transportation also administers large amounts of financial assistance, including \$307.8 million in FY 1995-96 for the Highway Planning and Construction program, the second-largest federal grant program administered by the State. Other state agencies administering significant federal programs include the Department of Public Instruction (DPI); DWD; and the Department of Natural Resources (DNR). These five state agencies administered 97 percent of the federal financial assistance received by the State, and 26 of the State's 29 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 \$745,134 in costs charged to various federal grant programs. These costs represent only a small portion of the total 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. Issues

addressing technical accounting matters, including those related to the preparation of the State's financial statements, are included in management letters for various state agencies.

Department of Workforce Development

At each agency, we follow up to determine efforts made to implement our recommendations included in the previous year's single audit report (96-9). While DWD has addressed some of our prior audit concerns, it continues to be in noncompliance with several federal rules.

DWD did not implement our prior audit recommendation to cease charging the federal government for interest costs related to the State's new computing center. In addition, this year we found that DWD also charged the federal government for interest incurred to construct buildings in which its offices reside, and interest included in charges for financial services provided by the Department of Administration. OMB Circular A-87, which defines allowable costs that may be charged to federal grant programs, was revised in May 1995. The revised circular continues to specify that interest associated with buildings constructed prior to October 1, 1980, may not be charged to federal grant programs. In addition, starting July 1, 1996, interest included in user rates, such as for computer services and financial services, may be charged to federal grants. However, this interest continued to be an unallowed federal grant expenditure prior to July 1, 1996.

We question \$92,791 of building rental interest and other costs charged to federal grant programs; \$114,578 of computer center interest; and \$12,493 of financial services interest. We first reported our concerns related to computer center interest in our FY 1993-94 single audit report (95-15). Although OMB Circular A-128, which specifies single audit requirements, requires the federal government to resolve questioned costs within six months of receipt of an audit report, the federal government has yet to resolve this issue with DWD, and DWD continued to charge interest to federal grant programs.

DWD also did not implement our prior audit recommendation related to "combined wage claim" benefit overpayments in the Unemployment Insurance program that have yet to be reimbursed to other states. This year, we question \$381,386. Combined wage claims are unemployment insurance claims in which the wages used to determine benefits are earned in more than one state.

If an individual files for unemployment insurance benefits in Wisconsin but also recently worked in other states, Wisconsin is required to pay the benefits and request partial funding from the other states. In the event it is later determined that the individual was not entitled to the benefits, federal rules require Wisconsin to reimburse the other states for their share of the benefits paid by the end of the quarter in which the overpayment is determined. However, DWD credits these states for overpayments only if and when the overpayments are recovered from claimants, and not at the end of the quarter in which they are determined. Some other states follow a similar practice.

This is the third year that we have reported this finding to the federal government. However, the federal government has yet to contact DWD, and this matter remains unresolved. While the rules are clear that DWD needs to credit overpayments to other states related to combined wage claims by the end of the quarter in which the overpayments are determined, we agree with DWD that, to be equitable, it would appear reasonable to expect the federal government to enforce this requirement uniformly. If the federal government does not contact DWD to resolve this finding, we will assume for future audits that the federal government concurs with DWD that combined wage claims need not be paid to the transferring state until overpayments are recovered from the claimants.

Department of Corrections

While the Department of Corrections (DOC) does not administer any major federal grant programs, it is still important that DOC establish the proper policies and procedures to ensure compliance with federal rules and regulations. However, DOC's procedures in several grant administration areas are lacking, including the need to maintain timesheets to substantiate payroll and related costs charged to federal grant programs. In response to our concerns, DOC has implemented a grant time-reporting policy that complies with federal requirements. To avoid having questioned costs included in the single audit report, DOC refunded \$79,230, representing the amount of undocumented work effort, to the federal government prior to the completion of our field work.

In addition, DOC did not have adequate overall grant management procedures. DOC staff did not appear knowledgeable about applicable federal requirements and did not have copies of relevant regulations, such as OMB Circular A-87. DOC has agreed to obtain an understanding of the various federal requirements, assign staff responsibility for ensuring compliance, and assign overall responsibility for grant compliance. These efforts should assist DOC in administering its grants, including 13 additional grants, totaling \$4 million, that it now administers because certain functions have been transferred from DHFS.

Department of Natural Resources

In addition to reviewing for compliance with federal rules and requirements, we review state agencies' efforts to account for and report accounting transactions, including the receipt and disbursement of federal funds, in accordance with the State's budgetary accounting standards. While DNR has established basic financial management systems to monitor its grant activity and charges only eligible costs to the federal government, we noted that improved grant accounting is needed to allow DNR to account for grants on the State's accounting system in the same manner as other state agencies do.

For certain grants, DNR's current accounting allows, at the end of the State's fiscal year, expenditures that could have been charged to federal accounts to remain in state accounts. For the National Pollutant Discharge Elimination Grant that we reviewed, if DNR had transferred to federal accounts the maximum allowed under state budgetary accounting rules, an additional \$220,211 would have been available for expenditure in general purpose revenue appropriations or would have lapsed to the General Fund at the end of FY 1995-96. For other grants, there may be additional amounts accounted for in general purpose revenue appropriations that could be made available for other purposes if DNR revises its accounting methods. Another benefit of adopting better accounting practices is that DNR's preparation of the Schedule of Federal Financial Assistance would be made less complicated, which should reduce the possibility of errors.

Other State Agencies

We found a variety of instances of noncompliance with federal rules at various other state agencies. For example, the Department of Commerce did not adequately document its work effort charged to federal grants, as required by OMB Circular A-87. While the Department prepared a statistical analysis of its work effort that is consistent with its claim that staff performed work at least sufficient to justify the salary and fringe benefit costs charged to federal grant programs, we question \$127,164 of payroll-related costs charged to the Community Development Block Grants/State's Program because federal documentation standards were not followed. A portion of the questioned costs was charged directly to the federal government, and the remainder was charged to state accounts used to match federal expenditures.

The Department of Public Instruction administers the Food Distribution program, under which the federal government provides the State with food commodities for distribution to schools and other eligible institutions. DPI recently implemented a new computer system to account for the food received, distributed, and still on hand. DPI had not, however, performed routine monthly reconciliations of its food commodities records to those of the warehouses where the food is stored. As a result, it has not been able to hold warehouses fully accountable in the event the food actually on hand differs from the amounts recorded on DPI records.

The Department of Military Affairs administers the National Guard Military Operations and Maintenance Projects grant. We found that a customary practice for this grant was to transfer federal funds for some construction projects in advance of the time costs were incurred by the State. The State needs to obtain written clarification from the federal government as to acceptability of this apparent departure from federal cash management guidelines.

Finally, although DHFS disbursed the largest amount of federal financial assistance, we found only a few minor concerns related to grants management. A new concern this year is that DHFS did not ensure that all audit reports of group homes, child care institutions, and other providers of foster care services were received, reviewed, and used to adjust the amounts charged to the federal government as its actual share of costs under the Foster Care--Title IV-E program. The adjustments may either increase the amounts chargeable to the federal government or decrease these amounts. It is important, however, that DHFS ensure audit reports are reviewed and charges adjusted in a timely

manner because federal rules require the adjustments be made within two years of providing the foster care services.

A summary of our findings and questioned costs can be found on pages 141 through 148. The agencies' responses to the findings and their plans for corrective action are included within the body of the report. The federal government is to contact state agencies to resolve the findings and questioned costs included in this report. A summary of the status of recommendations included in our prior audit report is presented on pages 149 through 157.
