

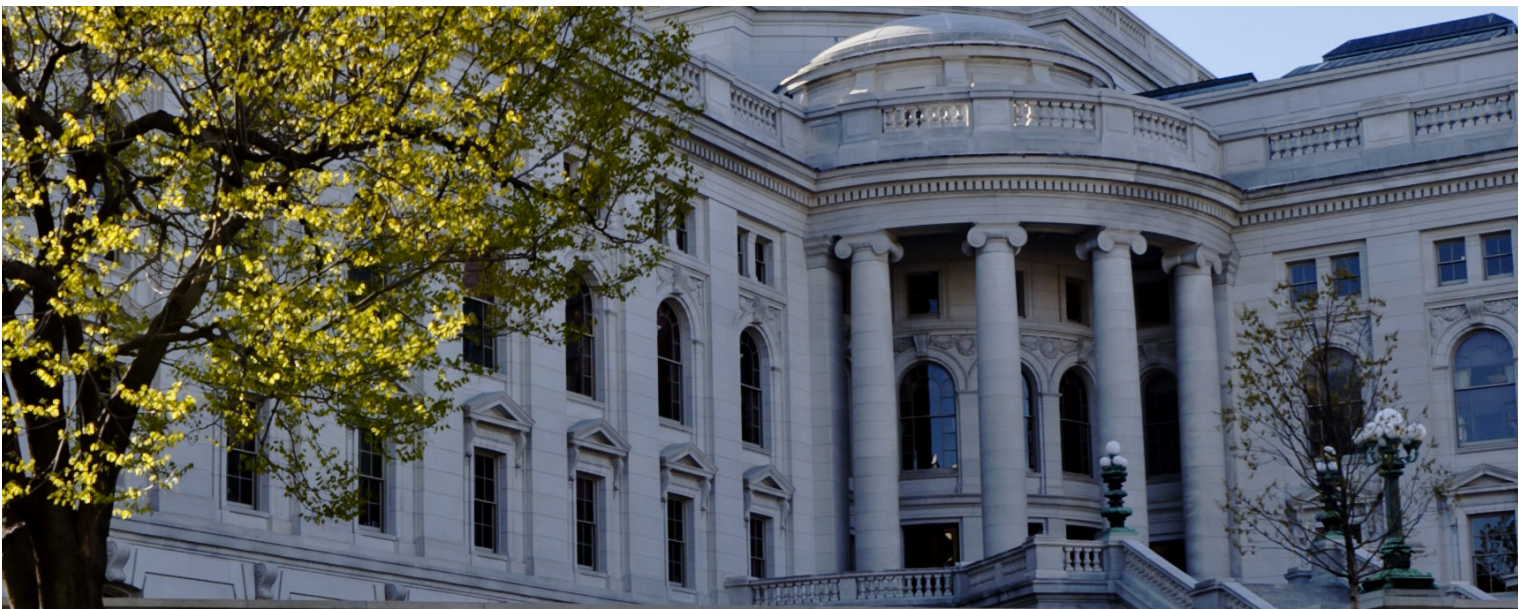


STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-2
January 2024

Fraud, Waste, and Mismanagement Hotline

Semiannual Report: July 2023 - December 2023



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The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. 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.

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit www.legis.wisconsin.gov/lab.

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STATE OF WISCONSIN

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January 31, 2024

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

The Legislative Audit Bureau has operated the Fraud, Waste, and Mismanagement Hotline since April 2008. The hotline permits the public and individuals within state government to confidentially report alleged fraud, waste, and mismanagement within the scope of state government. Individuals may remain anonymous, and statutes require us to protect the identity of any individual making a report.

Hotline reports are received primarily through a toll-free telephone number (1-877-FRAUD-17), and they are also received by mail and a secure online form. We review each report to determine whether the allegation or concern can be addressed by staff in state agencies or through an independent review by Bureau staff.

From the inception of the hotline and through December 31, 2023, we received 1,563 reports. From July 1, 2023, through December 31, 2023, we received a total of 45 reports, including 27 that were state-related. We highlight findings related to selected hotline reports that we resolved since the publication of our last semiannual report (report 23-10). We also conducted follow-up on the administration of state-owned residential properties. We originally reported on this issue in December 2019 (report 19-26).

We appreciate the courtesy and cooperation of the various state agencies with whom we worked to resolve hotline reports.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/SH/ss

Fraud, Waste, and Mismanagement Hotline

***The Bureau operates
a toll-free hotline
(1-877-FRAUD-17).***

As required by s. 13.94 (1) (br), Wis. Stats., the Bureau operates a toll-free hotline to confidentially report alleged fraud, waste, and mismanagement. Callers may remain anonymous, and statutes specifically require the Bureau to protect their identities even when other information related to calls is made public. A secure online form is also available to report concerns at <http://www.legis.wisconsin.gov/LAB/>.

The hotline has been in operation since April 2008 and is primarily administered by certified fraud examiners. It does not duplicate or replace other government hotlines or complaint resources. We address hotline reports by:

- following up during the course of ongoing audit work;
- initiating interviews and documentation reviews with other state agencies;
- conducting audits or reviews in response to substantiated allegations and reporting our findings to the Joint Legislative Audit Committee; and
- making referrals, providing information, and correcting misinterpretations that result in allegations.

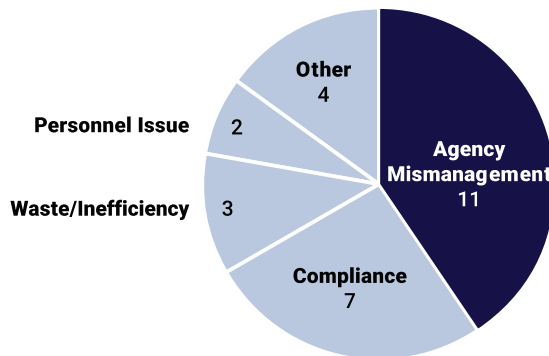
July through December 2023 Hotline Activity

From July through December 2023, we received a total of 45 reports.

Since the inception of the hotline, we have received 1,563 hotline reports alleging fraud, waste, and mismanagement. We received a total of 45 reports from July 1, 2023, through December 31, 2023. Of these 45 reports, 27 reports (60.0 percent) were state-related. As shown in Figure 1, the majority of such reports pertained to alleged agency mismanagement.

Figure 1

Reports of Fraud, Waste, and Mismanagement in State Government¹ July through December 2023



¹ Includes 27 state-related reports received from July 1, 2023, through December 31, 2023.

As shown in Figure 2, we placed each state-related hotline report into one of three categories as of December 31, 2023. These categories are:

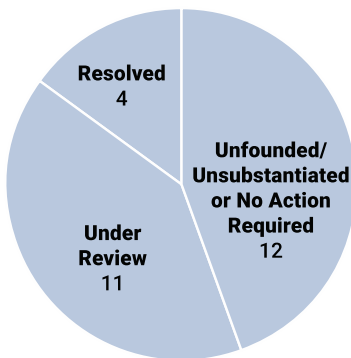
- resolved, which includes actions taken such as internally researching relevant information, conducting fieldwork with relevant agencies, or referring the matter for review by an agency;
- unfounded/unsubstantiated or no action required, which includes a determination that the reported allegation was untrue or limited information was provided to evaluate the concern; and
- under review, which includes hotline reports in which a review is ongoing and therefore remains confidential by law.

As of December 31, 2023, we had resolved 4 of the 27 state-related reports to the hotline.

As of December 31, 2023, we had resolved directly or by referral 4 of the 27 reports to the hotline that were state-related, as shown in Figure 2. We determined that 12 reports were unfounded, unsubstantiated, or no action was required. As of January 1, 2024, 11 of the 27 state-related hotline reports remained under review.

Figure 2

Status of State-Related Hotline Reports¹
July through December 2023



¹ Status as of December 31, 2023, of the 27 state-related reports received from July 1, 2023, through December 31, 2023.

Highlights of Selected Hotline Activities

Some reports to the hotline involve allegations about an individual employee. Other reports to the hotline require a broader review, such as assessing statutory compliance for a state program. We highlight findings related to selected hotline reports that we resolved since the publication of our last semiannual report in July 2023 (report 23-10).

- We assessed a report made to the hotline that raised concerns about travel payments the Wisconsin Historical Society made to two employees who principally resided in a state outside of Wisconsin. In December 2023, we released our audit of *Telework, Space Management, and Risk Management* (report 23-22) that substantiated these allegations. In the report, we recommend that the Department of Administration (DOA) require agencies to provide written documentation to justify these payments, assess whether there may be additional payments for unallowable travel costs, and create written policies to require that agencies keep up-to-date headquarters information in the State’s human resources system.

6 › FRAUD, WASTE, AND MISMANAGEMENT HOTLINE

- We assessed 11 reports made to the hotline that raised concerns about the Department of Safety and Professional Services' (DSPS's) delays in license application processing. In December 2023, we released our audit of *Administration of Professional Credentials* (report 23-24) that included recommendations for DSPS to regularly report on its website information about its administration of credentials. In addition, the report recommended that DSPS regularly collect information about the productivity of its staff and use this information to improve its operations and make decisions about resources needed to administer credentials efficiently and effectively.
- We conducted follow-up on the administration of state-owned residential properties. We originally reported on this issue in December 2019 (report 19-26). We reviewed the status of recommendations we made in report 19-26 to DOA, the Department of Natural Resources (DNR), and the University of Wisconsin (UW) System. We also addressed a report made to the hotline in 2023 within the scope of our audit follow-up work. We recommend DOA improve its oversight of state agency rental rate reductions requested by state agencies for certain state-owned residential properties. We summarize the results of our review in the next chapter.

■ ■ ■ ■

Administration of State-Owned Residential Properties

Under the provisions of ch.16, Wis. Stats., DOA is required to administer state-owned residential properties. In report 19-26, we reviewed DOA's administration of certain state-owned residential properties and lease agreements with employees at DNR and UW System, which is rebranding itself as the Universities of Wisconsin, and made 24 recommendations for improvements. In April 2020, DOA, DNR, and UW System reported to the Joint Legislative Audit Committee on the status of their efforts to implement our recommendations. We reviewed actions taken since report 19-26, including review of the appraisals DOA completed in 2022 of state-owned residential properties. We also reviewed subsequent lease agreements as of December 31, 2022, based on the appraisals and DOA policies. We found the rental rate reduction amounts approved by DOA, including for properties where the state agency stated that an employee residing in the properties was a mandatory condition of employment, remained significant relative to the appraised rental rates determined as of December 31, 2022. We recommended that DOA consider additional policy changes, including ensuring that all approved rental reductions comply with IRS regulations.

State-Owned Residential Properties

Under provisions of ch. 16, Wis. Stats., DOA is required to administer state-owned residential properties that are managed by state agencies. These requirements were originally established during the 1975 legislative session. Over time, many state-owned residential properties were either razed, sold, or the agencies found other uses for the properties. However, in our review of state-owned residential properties in report 19-26, we found that DNR and certain UW System

8 › ADMINISTRATION OF STATE-OWNED RESIDENTIAL PROPERTIES

institutions continued to manage properties for which the agency had executed lease agreements with state employees to occupy.

Although DOA is statutorily required to administer state-owned residential properties, in report 19-26 we identified that DOA had not performed overall monitoring of these properties to ensure agencies complied with policies. For example, DOA had not centrally monitored the inventory of state-owned residential properties across all state agencies, monitored the rental amounts charged by agencies to ensure their compliance with policies, or assessed whether agencies implemented required rental payment adjustments. In report 19-26, we recommended that DOA centrally track the state-owned residential properties subject to its oversight. We now find that DOA centrally tracks these activities.

According to DOA records, the State had 84 state-owned residential properties as of December 2022.

Based on DOA records, and as shown in Table 1, the State had 84 properties available to lease to state employees as of December 31, 2022. As of December 31, 2022, there were 47 active lease agreements with employees for 45 of the 84 properties. More employees had active leases because two of the properties were leased by two employees simultaneously. We found that 59 of the 84 properties were managed by DNR while the remaining 25 were managed by UW System.

Table 1

State-Owned Residential Properties, by Agency

Agency	As of December 2018 ¹	As of December 2022
Department of Natural Resources	55	59
UW System ²	17	25
Total	72	84

¹ As shown in report 19-26.

² Excludes optional apartment properties that are leased to both the public and employees at market rates, and any other properties that are exempt from requirements in ch. 19, Wis. Stats.

DOA Rental Policies

DOA submitted revised policies to the Joint Committee on Finance in February 2022.

Under s. 16.004 (8), Wis. Stats., DOA is required to maintain a system of rental policies for state-owned residential properties, periodically review these policies, and submit any proposed changes to these policies to the Joint Committee on Finance. In report 19-26, we identified that DOA had not formally revised its policies for state-owned residential properties since 1975, and we recommended that DOA periodically review and formally revise its policies for state-owned residential properties. We now find that DOA had established a workgroup in 2019 to coordinate the implementation of recommendations made in report 19-26 for each respective agency, and to discuss formal revisions to the policies for state-owned residential properties. The workgroup included staff responsible for the administration of state-owned residential properties from DOA, DNR, and UW System. In February 2022, DOA finalized and submitted revised policies for consideration by the Joint Committee on Finance. These policies did not include lease agreements for UW employees who opted to lease apartments for which they received no preference in occupancy or rental rates. The Joint Committee on Finance approved the policies under passive review.

Property Appraisals

As of July 2022, DOA completed appraisals for 84 state-owned residential properties.

Rental payment amounts for state-owned residential properties are determined from appraisals. Under s. 16.004 (8), Wis. Stats., DOA is required to conduct appraisals of the fair value of state-owned residential properties by July 1 following each federal decennial census. If no appraisal has been conducted in the previous 24 months, statutes also require DOA to establish periodic rental payment adjustments to rental rates based on changes to the Consumer Price Index (CPI). In report 19-26, we identified that DOA had last conducted appraisals of state-owned residential properties in 1995 and it had not conducted appraisals following either the 2000 census or the 2010 census. DOA began soliciting bids from appraisers in January 2022 and subsequently entered into agreements with eight entities to complete appraisals of state-owned residential properties. We now find that DOA completed appraisals for 84 state-owned residential properties as of July 2022.

Each of the appraisals identified a market-based monthly rental amount for each state-owned residential property. This amount was determined based on multiple factors, including the size, age, and condition of each of the residences and the availability of similar residences in the surrounding geographic area. In reviewing the supporting documentation, we found that the average monthly rental rate assessed for the properties was \$1,195, with monthly rates ranging from \$120 to \$2,754.

Assessment of Rental Rates as of December 2022

State-owned residential property rental payment amounts are determined using three factors. First, as required by statutes, a base rental amount is determined through an appraisal of the fair value of the property. Second, statutes require DOA to determine periodic rental payment adjustments between appraisals. Third, under DOA policies and IRS regulations, certain discounts may be applied to the rental payment amount for employer-provided housing under certain conditions.

As of December 2022, the average rental rate for the 47 active lease agreements was \$597 per month.

Of the 84 state-owned residential properties, we found that 45 properties had an active lease agreement as of December 2022, and we reviewed all of the rental rate amounts authorized for the 47 active lease agreements as of December 2022. Although the average monthly rental rate assessed for the 84 properties was \$1,195, we found that the average rental rate approved in the 47 active lease agreements was \$597 per month as of December 2022.

As shown in Table 2, the average monthly rental rates charged to employees in December 2022 increased following the appraisals DOA conducted in July 2022. When compared to December 2018, the average monthly rental rates were, on average, 67.4 percent higher for DNR residential properties and 88.2 percent higher for UW residential properties.

Table 2

Change in Monthly Rental Rates¹

Agency	Average Rental Rate in December 2018	Average Rental Rate in December 2022	Change in Average Rental Rate	Percentage Change in Average Rental Rate
Department of Natural Resources	\$347	\$581	\$234	67.4%
UW System	338	636	298	88.2

¹ For 45 state-owned residential properties with an active lease agreement as of December 2022.

DOA's February 2022 policies require that state agencies provide support for proposed rental rate reductions and provide copies of all lease agreements to DOA, both of which had not occurred prior to report 19-26. DOA policies provide certain situations that may result in a rental rate adjustment from the base rental amount determined by an appraisal. One such rental rate adjustment is a 50.0 percent reduction if the employee was required to reside in a state-owned residential property. Other situations in which rental rate reductions were proposed and approved include employee limitations on use of the full capacity of the property and the work employees completed on the property, such as property maintenance activities.

During the course of our review, we discussed with DOA certain clarifications to its policies to improve the consistency in applying permitted rental rate reductions and assessing the effect of combinations from reductions applied in multiple categories. For example, the monthly rental rate for one DNR property was reduced by 18.0 percent due to the employee not having access to an attached garage. At one UW System property, a 50.0 percent reduction was applied to the monthly rental rate because the garage was used for storage of event equipment.

A rental rate reduction may also be authorized if a property has capacity for multiple occupants. However, in instances in which only one employee resides in the property, DOA should assess whether a rental rate reduction is warranted. For example, the authorized monthly rental rate for one DNR property was initially reduced by 66.6 percent because the property could accommodate three employees. The monthly rental rate was further reduced by 50.0 percent due to a requirement for the employee to reside in the property as a condition of employment. Although the employee was the only occupant, the combination of these reductions resulted in a monthly rental rate of \$344, which represented 16.7 percent of the base rental amount.

For 37 of 47 state-owned residential properties with an active lease agreement as of December 2022, either DNR or UW System indicated the employee was required to reside in the property as a condition of employment.

As of December 2022, only one active lease agreement for a state-owned residential property set the rental amount to be paid as the base rental amount determined by an appraisal, as shown in Table 3. Instead, under 37 of the 47 active lease agreements for a state-owned residential property as of December 2022, a 50.0 percent reduction in rental payments was received because either DNR or UW System indicated the employee was required to reside in the property as a condition of employment.

Table 3

Monthly Rental Rate Adjustments Authorized¹
As of December 2022

Action	DNR	UW System	Total
Mandatory Reduction	24	13	37
Other Reductions ²	9	0	9
No Reduction	1	0	1
Total	34	13	47

¹ According to DOA-approved rental rate reduction adjustment worksheets.

² Includes reductions related to capacity limitations or services provided by the employee related to the property.

In order to meet certain IRS regulations to provide a rental rate reduction, and to require an employee to reside in a state-owned residential property without assessing the amount as taxable to the employee, DOA's current policies require DNR and UW System to provide justification regarding the inconvenience to the employee. However, we found DOA relied on DNR and UW to determine that requiring the employee to reside in the property met IRS regulations, including documenting the mandatory requirement in appointment letters. As a result, DOA did not independently verify the agency's basis for determining that the conditions met all IRS criteria.

In response to report 19-26, DNR reassessed its residential properties in March 2020 and designated only certain positions to reside in 11 properties. This included eight fishery locations and three properties in state parks. However, as of December 2022 we found rental rate reductions were applied to 15 properties within state parks at which employees were required to reside. Following the appraisals completed by DOA in July 2022, we found DNR initiated 13 appointment letters for employees with an active lease agreement stating that their positions were required to live in those properties. However, it is unclear whether these changes were appropriately evaluated by DNR or DOA to ensure that these positions met the requirement for the employees to reside in those properties under the IRS regulations.

In addition, we noted that documentation DOA had initially received to support rental rate reductions was inaccurate for certain UW System properties. We identified three properties in which the rental rate reduction was documented to compensate a UW employee for conducting certain work. Since this would be considered a taxable rental rate reduction, we requested documentation to support that the amount was taxed on the employee's 2022 W-2 form. In response to our request, UW System Administration indicated that the documentation was in error and the reduction should have indicated that the employee was required to reside in the property as part of their employment, which would not be taxable under IRS regulations.

Recommendation

We recommend the Department of Administration consider further revisions to its state-owned residential properties policies in order to:

- *consistently apply capacity-related rental rate adjustments;*
- *limit multiple rental rate adjustments from resulting in a single-occupant employee paying less than 50.0 percent of the total assessed rental rate for the property unless other exceptions apply;*
- *require that each state agency provide support for how it assessed all IRS criteria when requesting a mandatory reduction in approved rental rates;*

- *assign responsibility for a Department of Administration employee knowledgeable about IRS employment regulations to review an agency's basis for concluding that an employee is required to reside in a state-owned residential property whenever the agency requests a 50.0 percent rental rate reduction for this purpose; and*
- *report to the Joint Legislative Audit Committee by June 14, 2024, on the status of its efforts to implement these recommendations.*

DOA responded to our recommendations in January 2024 and indicated that it would report to the Joint Legislative Audit Committee by June 14, 2024.

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