

An Audit:

State of Wisconsin
2004-05

March 2006

Report Highlights ■

Our auditor's report is unqualified.

In fiscal year (FY) 2004-05, the State of Wisconsin administered more than \$9.2 billion in federal financial assistance: \$8.2 billion in cash, \$1.0 billion in outstanding loan balances, and \$43.9 million in noncash assistance such as food commodities and vaccines. These funds were administered by state agencies, including the University of Wisconsin (UW) System, through more than 750 individual programs and 890 research and development grants.

Wisconsin administered more than \$9.2 billion in federal financial assistance in FY 2004-05.

As a condition of receiving this federal assistance, the State is required to have an independent audit of its financial statements and its compliance with grant requirements. We focused our audit effort on 26 grant programs that accounted for 70.5 percent of the federal financial assistance administered during FY 2004-05. These programs were administered by eight agencies and selected for review based on their size and the risk of noncompliance with federal rules. We also followed up on findings in our FY 2003-04 single audit report (report [05-5](#)).

In response to our previous recommendations, state agencies took steps to maximize federal reimbursements.

Overall, we found that state agencies properly administered federal grant programs and complied with federal grant and financial reporting requirements. We report on compliance and internal controls and include an unqualified audit opinion on the Schedule of Expenditures of Federal Awards, which provides an inventory of all federal grants administered by state agencies during our audit period. We have identified opportunities for Wisconsin to claim an additional \$3.2 million in federal funds, and we question a total of \$354,531, plus an additional but undetermined amount that was inappropriately charged to federal financial assistance programs and may need to be returned. Our questioned costs represent a very small portion of the \$9.2 billion in federal financial assistance that state agencies administered in FY 2004-05.

Some agencies' efforts to determine eligibility for federal program benefits continue to need improvement.

The federal share of funds lapsed to the

Federal Assistance

Total federal financial assistance to Wisconsin has not changed significantly in the past three years, although funding under some programs continues to increase.

State's General Fund to help address budget shortfalls may need to be repaid.

Key Facts and findings

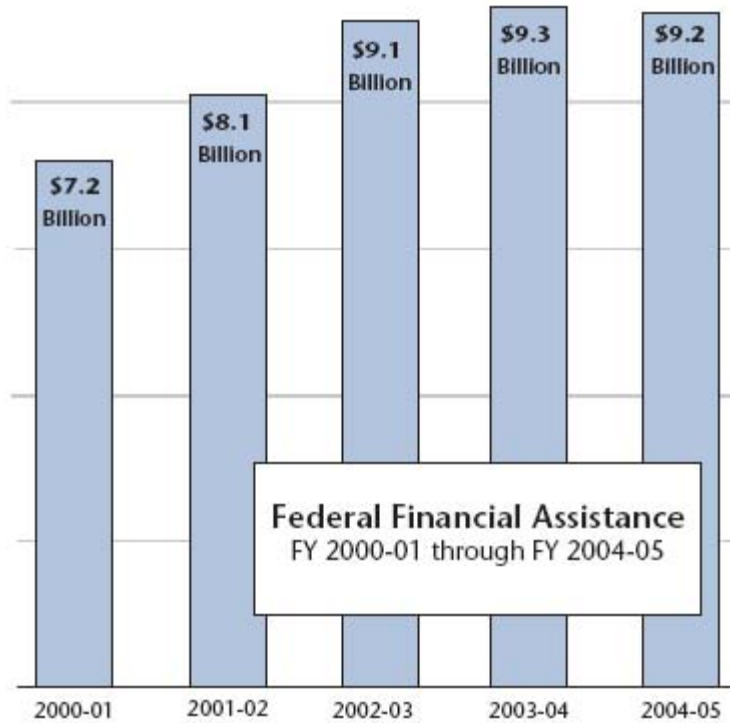
five state agencies administered 94 percent of Wisconsin's federal financial assistance in FY 2004-05.

The largest federal grant program was Medical Assistance, with \$2.8 billion in federal funding.

We question a minimum of \$354,531 in unallowable charges to grants.

We identified opportunities for state agencies to increase their federal funding by \$3.2 million.

Our report includes 15 recommendations related to the administration of federal grant programs.



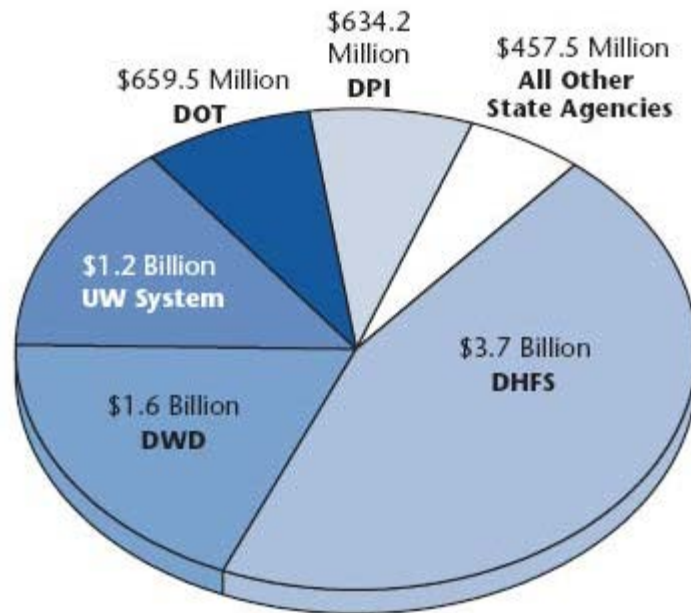
For example, student financial aid funding increased by \$41.2 million in FY 2004-05, and research and development grants to UW System increased by \$44.9 million. However as the economy improved, funding for some federal grant programs that provide assistance or other benefit payments to individuals either increased at a slower rate or declined.

Five state agencies—the Department of Health and Family Services (DHFS), the Department of Workforce Development (DWD), UW System, the Department of Transportation (DOT), and the Department of Public Instruction (DPI) —administered 94 percent of the federal cash and noncash assistance the State expended in FY 2004-05.

DHFS spent the largest share of federal cash and noncash assistance, \$3.7 billion. That amount includes \$2.8 billion in federal funds to support Medical Assistance, the largest federal program administered by the State of Wisconsin. An additional \$1.6 billion in state matching funds was also spent on Medical Assistance.

DWD spent \$1.6 billion in federal assistance for vocational rehabilitation, job training programs that fund certain benefits available under Wisconsin Works (W-2), the Unemployment Insurance program, and other programs.

UW System disbursed \$584.8 million related to student financial aid, \$518.4 million for research and development grants, and \$93.3 million for other programs. Most of DOT's federal funding supported highway planning and construction. DPI provides the majority of its funding to local schools and other entities for education and child nutrition programs.



Maximizing Federal Funding

We have identified a number of opportunities for state agencies to increase their federal funding. For example, in response to a prior recommendation and our current audit work, DHFS has claimed a total of \$1.7 million in additional federal funds for Foster Care—Title IV-E and Adoption Assistance. In the future, DHFS plans to seek an additional \$374,000 under Foster Care—Title IV-E and \$327,000 under Medical Assistance.

Federal funding for DWD also increased as a result of our past audit work. In FY 2004-05, DWD received \$773,000 in federal reimbursements for vocational rehabilitation services provided in earlier years to individuals who were also eligible for Social Security disability benefits.

Eligibility Determinations

If individuals who receive program benefits do not meet federal eligibility requirements, the State may be required to return funds to the federal government.

For example, we found that 11 percent of the 36 case files we reviewed were ineligible for federal reimbursement under Adoption Assistance. In three of these cases, eligibility determinations had been made before DHFS put improved procedures in place. In the fourth, we identified a data entry error.

Although DHFS has taken steps to improve eligibility determinations under Adoption Assistance, it must repay the federal government \$111,357 for the cases we identified. DHFS plans to review other past eligibility determinations and determine whether additional funds will need to be returned to the federal government.

Since our last audit, DWD has made progress in documenting eligibility for federal funding, but we continue to have documentation concerns related to Temporary Assistance for Needy Families (TANF) case files in Milwaukee County. At the time of our fieldwork, DWD could not locate 1

of the 21 Milwaukee County case files we selected for review, and 3 of the 20 case files provided did not contain adequate documentation. We have questioned \$11,313 related to the deficient case files, and an additional but undetermined amount because of the likelihood that untested case files had similar deficiencies.

We reported in past audits that UW-Whitewater had provided federal student financial aid to individuals who were ineligible because they were not making satisfactory academic progress. UW-Whitewater has repaid the federal government \$34,444 for questioned costs from FY 2001-02 through FY 2003-04 and has put revised policies in effect for FY 2005-06. However, because UW-Whitewater continued to award financial aid to ineligible students in FY 2004-05, we question \$139,873.

Continuing Findings

State agencies are generally prompt in following up on our audit findings. However, DHFS has made only limited progress in reconciling federal financial reports to the State's records for both the State Children's Insurance Program (CHIP) and Medical Assistance. We first reported concerns with these reconciliations, which can identify errors or omissions in federal reimbursement amounts, during our FY 1997-98 audit.

As part of its reconciliation efforts, DHFS has identified possible errors in reports prepared by the State's fiscal agent. These errors may have reduced Wisconsin's requests for CHIP reimbursement by \$617,000 over the past six years. While this amount represents a small portion of CHIP, under which \$91.4 million was expended in our current audit period, DHFS should seek the maximum allowable reimbursement for its federal grant expenditures. DHFS has suspended further reconciliation efforts, including those related to Medical Assistance, until the fiscal agent's possible reporting errors are resolved.

Our past concerns with certain federal claims under Foster Care—Title IV-E and Medical Assistance have not been resolved by DHFS. It is not known whether the State underclaimed or overclaimed federal reimbursements for payments to child care agencies. These reimbursements are originally based on estimates and then adjusted when actual costs are known. However, DHFS has yet to review claims for periods after December 1998 and make the necessary retroactive claim adjustments.

Lapses to General Fund

To help address state budget shortfalls in the past several years, Wisconsin has lapsed more than \$28.0 million in excess balances from various internal service funds to the General Fund. The federal share of these lapses was not returned to the federal government until March 2005, when DOA returned \$12.9 million, and December 2005, when an additional \$2.8 million was returned.

In FY 2004-05, Wisconsin continued to lapse excess balances in the internal service funds to the General Fund. DOA may need to return \$203,345, which is the estimated federal share of the \$1.6 million lapsed in FY 2004-05.

Recommendations

Our report includes 15 recommendations related to state agencies' administration of federal grant programs. In addition, we discuss nine internal control concerns and two instances of noncompliance related to our audit of the State's financial statements.

Agency responses and corrective action plans are included in our report. The federal government will work with the state agencies to resolve the questioned costs and ensure that planned corrective actions are sufficient.

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