

An Audit:

State of Wisconsin
2003-04

March 2005

Report Highlights ■

Our auditor's report is unqualified.

Federal financial assistance increased to \$9.3 billion in FY 2003-04.

As a result of our prior audit, DHFS was able to retroactively claim an additional \$5.9 million in Adoption Assistance funding.

Additional opportunities are available for increased federal funding.

Eligibility documentation continues to need

In fiscal year (FY) 2003-04, the State of Wisconsin administered more than \$9.3 billion in federal financial assistance through more than 750 individual grant programs and an additional 846 research and development grants administered by the University of Wisconsin (UW) System. As a condition of receiving this 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 state agencies that received federal financial assistance, and to meet our audit responsibilities under s. 13.94, Wis. Stats.

Our report includes our unqualified opinion on compliance with federal grant requirements, internal control over compliance, and the schedule of expenditures of federal awards, which provides an inventory of all of the grants administered by the State. Overall, we found state agencies properly administered federal grant programs and complied with federal requirements. However, we identified several compliance and internal control concerns, and we question \$237,797, plus an additional but undetermined amount, charged to federal grant programs. These questioned costs represent a very small percentage of the total federal financial assistance the State administers. However, if state agencies are required to repay the federal government, the questioned costs will adversely affect their operating budgets.

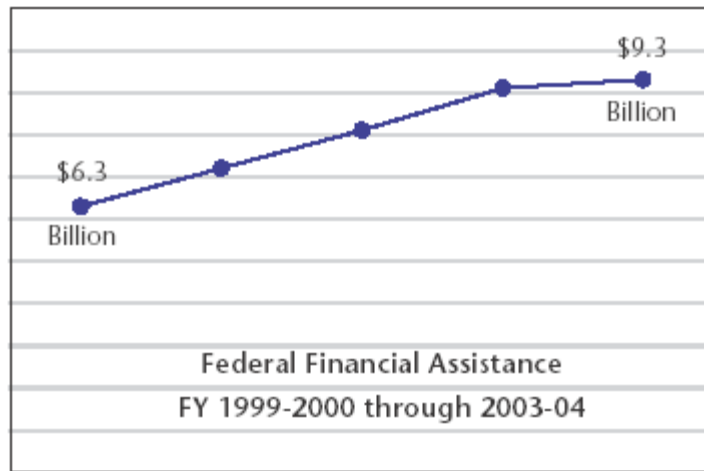
We focused our audit effort on 27 grants that were administered by 11 different state agencies, including the UW System. These grants accounted for 81 percent of the federal financial assistance administered by the State during FY 2003-04 and were selected for review based on their size and the risk of noncompliance with federal rules. We also followed up on findings in our FY 2002-03 single audit report.

Federal Assistance

Federal financial assistance to Wisconsin has increased each of the past five years and reached \$9.3 billion in FY 2003-04. That amount includes \$8.4 billion in cash; \$902.7 million in outstanding loan balances; and

improvement of some federal programs.

\$35.3 million in noncash assistance such as food commodities and vaccines.



Key Facts and Findings

Wisconsin's \$9.3 billion in federal financial assistance included \$8.4 billion in cash.

Five agencies administered 93 percent of the State's federal assistance.

The largest program the State administers, Medical Assistance, accounted for \$2.8 billion in federal funds.

State agencies have claimed or may be able to claim an additional \$1.3 million in federal funds.

We question a minimum

Although federal funding continued to increase during FY 2003-04, it increased at a slower rate than in recent years. Student financial aid funding increased by \$59.4 million, research and development grants to the UW System increased by \$44.0 million, and expenditures under the Food Stamp program increased by \$44.6 million. However, these increases were offset by declines in Medical Assistance funding under the intergovernmental transfer program, federally funded temporary extended unemployment benefits, and expenditures under the Temporary Assistance for Needy Families program.

Five state agencies—the Department of Health and Family Services (DHFS), the Department of Workforce Development (DWD), the UW System, the Department of Transportation (DOT), and the Department of Public Instruction (DPI) —administered 93 percent of the federal cash and noncash assistance the State received in FY 2003-04.

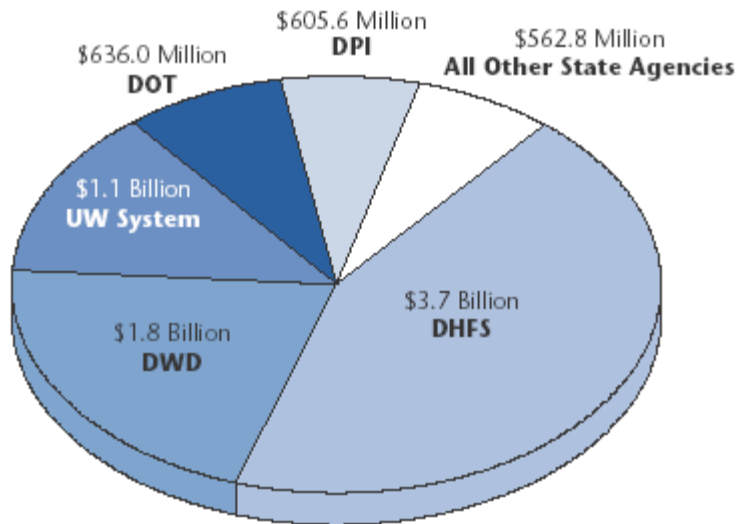
DHFS spent the largest share of federal cash and noncash assistance, \$3.7 billion. That amount includes \$2.8 billion in federal funds to support Medical Assistance, the largest federal program administered by Wisconsin. An additional \$1.5 billion in state funds also supported Medical Assistance.

DWD spent \$1.8 billion in federal cash assistance for vocational rehabilitation, job training programs that fund certain benefits available under Wisconsin Works (W-2), the unemployment insurance program, and other programs.

The UW System disbursed \$543.6 million related to student financial aid programs and spent \$473.4 million for various research and development grants and \$90.2 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.

of \$237,797 in unallowable charges to grants.

Our report includes 23 recommendations related to administration of federal grant programs.



Maximizing Federal Funding

It is the State's long-standing policy to seek maximum federal reimbursement of grant expenditures. This is especially important as it continues to address budgetary shortfalls. As part of our annual audit of federal grants, we consider whether there are additional opportunities for state agencies to seek federal funding.

During our prior audit, we reported that DHFS had not identified all eligible cases under the Adoption Assistance program and had not claimed all of the federal funds the State was entitled to receive. The program helps the State find adoptive homes for children and provides monthly subsidy payments for approximately 7,200 children with special needs. DHFS implemented our prior audit recommendations and devoted the necessary resources to identify additional eligible cases under the Adoption Assistance program and, as of September 2004, claimed an additional \$5.9 million in federal reimbursement.

During our current audit, we identified additional opportunities for state agencies to increase federal funding. For example, DHFS did not properly consider all eligible adoption assistance administrative expenditures and, consequently, did not claim reimbursement for the federal government's share. In response to our finding, DHFS requested and received an additional \$730,000 in federal funding and will determine whether additional costs are eligible for federal reimbursement.

In addition, DWD did not take the necessary steps during FY 2003-04 to ensure it was claiming federal reimbursement for all vocational rehabilitation services provided to clients who are also eligible for disability benefits from the federal Social Security Administration. After our audit period, DWD requested an additional \$335,000 in federal reimbursements, and we estimate that approximately \$247,000 in additional costs could be eligible for federal reimbursement.

Eligibility Documentation

The State maintains computerized systems that help to determine whether individuals receiving certain federal benefits are, in fact, eligible to receive them and whether the benefit levels are appropriate.

However, for some federal programs administered by DHFS and DWD, caseworkers in local government and nonprofit organizations enter supporting information into the computer systems and maintain the case files that support eligibility determinations.

In our prior audit, we identified the need to ensure that documentation supporting eligibility determinations is maintained by local governments and nonprofit organizations. During our current audit, we again reviewed case files for supporting documentation and again found concerns, most notably for DWD grants administered by Milwaukee County.

For example, Milwaukee County, which was responsible for 15 of the 30 Temporary Assistance for Needy Families case files reviewed, was unable to provide 2 case files for review. Further, of the 13 case files provided for our review, 9 were deficient in meeting eligibility requirements. In addition, 13 of the 30 Child Care files reviewed were the responsibility of Milwaukee County. Milwaukee County was unable to provide 1 case file for review, and 7 of the remaining files were deficient.

Failure to provide some case files, and the number of instances where documentation was missing from other cases indicate potentially serious internal control deficiencies, particularly for Milwaukee County cases. Because supporting documentation was not available, we question a total of \$52,542 charged to federal programs, plus an additional but undetermined amount.

Lapses to the General Fund

As part of efforts to balance recent budgets, funds have been lapsed to the State's General Fund from various programs that are supported, in part, by federal grants. As noted in prior single audit reports, the State lapsed \$22.9 million to the General Fund from several internal service funds. During FY 2003-04, an additional \$3.6 million was lapsed to the General Fund. However, the need to remit the federal share of lapsed amounts to the federal government had not been fully considered.

The Department of Administration has been working with the federal government and, in January 2005, federal officials determined that the State owed the federal government \$14.9 million, including \$12.9 million in disallowances and \$2.0 million in interest charges related to the lapses. The State has appealed this determination but, to avoid additional interest charges, has paid the \$12.9 million in disallowed costs and continues to work with the federal government to resolve this issue. However, our report questions additional costs for certain lapses made during FY 2003-04 and not previously considered by the federal government.

Other Findings of Interest

We found a variety of other instances of noncompliance with federal requirements and the need for improved internal controls. For example, DHFS made errors in calculating the amount of reimbursement for administrative costs under the Foster Care—Title IV-E and Adoption Assistance grant programs. As a result, DHFS overclaimed \$914,000 in federal funding under the foster care program and underclaimed

\$143,000 in federal funding for the adoption assistance program. In March 2005, DHFS submitted adjustments for these errors and effectively returned a net amount of \$771,000 to the federal government.

In previous years, we reported that UW-Whitewater provided funding to students who were not making satisfactory academic progress. UW-Whitewater revised its policies and has repaid questioned costs related to our FY 2001-02 audit. However, ineligible awards of \$159,806 were made to students in subsequent years and may require additional repayments to the federal government. We question \$50,357, the amount disbursed in FY 2003-04.

In previous years, we identified serious concerns with the Department of Corrections' (DOC) documentation of eligibility determinations under the Foster Care—Title IV-E grant program. In response to our findings, DOC began working with a private contractor to review case files and make eligibility determinations. DOC determined it had overclaimed \$91,234 in federal funds during FY 2003-04. These funds have not yet been returned to the federal government.

Recommendations

Our report includes a total of 23 recommendations related to state agencies' administration of federal grant programs. In addition, we discuss nine internal control concerns and one instance of material 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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