

An Audit:

State of Wisconsin
2002-03

March 2004

Report Highlights ■

Our auditor's report is unqualified.

Federal financial assistance increased to \$9.1 billion in FY 2002-03.

An additional \$1.0 million or more in Adoption Assistance funds could be available to the State.

Eligibility documentation could be improved for some federal programs.

Grant administration for Foster Care—Title IV-E has improved.

In fiscal year (FY) 2002-03, the State of Wisconsin administered more than \$9.1 billion in federal financial assistance through more than 700 individual grant programs and an additional 755 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 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 an 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. In total, we question \$81,879, 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.

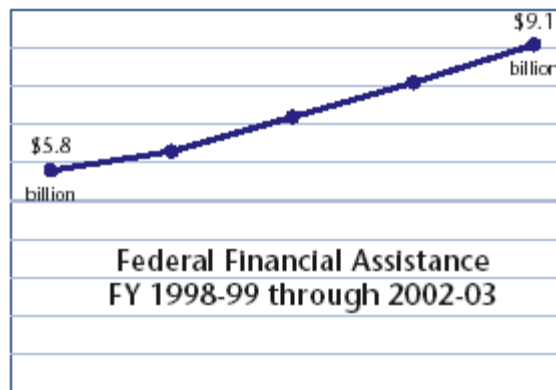
We focused our audit effort on 26 grants that were administered by ten different state agencies, including UW System. These grants accounted for 59 percent of the federal financial assistance administered by the State during FY 2002-03 and were selected for review based on their size and the risk of noncompliance with federal rules. We also followed up on findings in our FY 2001-02 single audit report.

Federal Assistance

Federal financial assistance to Wisconsin has increased each year since FY 1998-99 and reached \$9.1 billion in FY 2002-03. That amount includes \$8.3 billion in cash; \$812.6 million in outstanding loan balances; and \$33.9 million in noncash assistance that

The State may be required to return some federal funds that were lapsed from balances to the General Fund.

includes food commodities and vaccines.



The increase in federal financial assistance is attributable to increases in some grant programs, such as Medical Assistance, as well as to new federal grants. Under the largest of the new grants, Temporary State Fiscal Relief, Wisconsin received \$91.2 million to address budget shortfalls in FY 2002-03, and another \$91.2 million in FY 2003-04. This \$182.4 million in unrestricted federal funding has been appropriated for shared revenues for FY 2003-04.

Key Facts and Findings

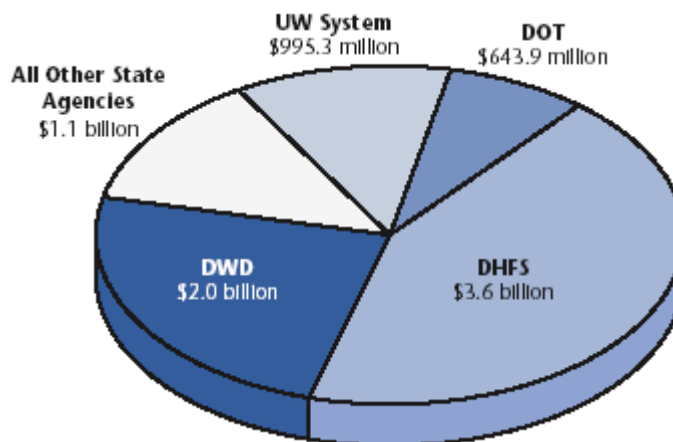
Wisconsin's \$9.1 billion in federal financial assistance included \$8.3 billion in cash.

Four agencies administered 87 percent of the State's federal cash assistance.

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

DHFS expended \$29.1 million in federal Adoption Assistance

Four state agencies—the Department of Health and Family Services (DHFS), the Department of Workforce Development (DWD), UW System, and the Department of Transportation (DOT)—administered 87 percent of the \$8.3 billion in federal cash assistance the State received in FY 2002-03.



DHFS spent the largest share of federal cash assistance, \$3.6 billion. That amount includes \$2.8 billion in federal funds to support Medical Assistance, the largest federal program administered by the State. An additional \$2.0 billion in state funds also supported Medical Assistance.

DWD spent \$2.0 billion in federal cash assistance for vocational rehabilitation, job training programs that fund certain benefits available under Wisconsin Works (W-2), the unemployment compensation program, and related programs.

UW System disbursed \$484.1 million related to student financial aid programs and spent \$429.4 million for various research and development grants and \$81.8 million for other programs. Most of DOT's federal funding supported highway planning and

funds, but an additional \$1.0 million or more could be claimed.

Wisconsin received a total of \$182.4 million under a temporary federal grant to help address states' budget shortfalls.

We question a minimum of \$81,879 in unallowable charges to grants.

construction.

Adoption Assistance

The Adoption Assistance program helps the State find adoptive homes for children and provides monthly subsidy payments for approximately 6,400 children with special needs. DHFS spent \$29.1 million in federal grant funds under the Adoption Assistance program during FY 2002-03.

It is the State's long-standing policy to seek maximum federal reimbursement of grant expenditures. However, DHFS has not claimed all of the federal funds the State is entitled to receive under Adoption Assistance.

Because DHFS did not update its eligibility determination forms to reflect changes in federal regulations that took effect in March 2000, we believe some of the 806 cases it classified as ineligible are, in fact, eligible for federal reimbursement.

For another 849 cases, DHFS had yet to either perform eligibility determinations or enter results into its computer systems by the end of FY 2002-03. It is likely that some of these cases are also eligible for federal reimbursement.

DHFS has already determined that at least 294 of the cases we identified are eligible for federal reimbursement. Based on interim results of an ongoing agency review, we estimate that the State may be able to claim, at a minimum, an additional \$1.0 million in federal Adoption Assistance funds if a timely claim is made.

Eligibility Documentation

The State maintains computerized systems that help to determine whether individuals are eligible to participate in many federal grant programs. However, local governments and nonprofit organizations enter supporting information into computer systems and maintain the case files that support eligibility determinations for some of these programs.

In response to a federal audit requirement effective for FY 2002-03, we reviewed a selection of case files to ensure that local governments and nonprofit organizations maintained adequate documentation. We completed this review for the Temporary Assistance for Needy Families program, the Child Care Cluster grants, and the Medical Assistance program.

We found a need for state agencies to better ensure that documentation supporting eligibility determinations under these programs is maintained by local governments and nonprofit organizations. For example, Milwaukee County was responsible for 19 of the 28 case files we reviewed related to the Temporary Assistance for Needy Families program. Milwaukee County was unable to locate 3 files, and only 4 of the remaining 16 contained the appropriate documentation. We have not questioned any costs because other available information indicates that individuals were eligible to participate in the program.

We noted similar problems with case files related to the Medical Assistance program, which are being reviewed as part of a separate program evaluation that we will issue at a later date.

Foster Care

DHFS has addressed many of our past audit concerns with the State's administration of the Foster Care—Title IV-E program. For example, DHFS has worked with the Children's Court of Milwaukee County, the District Attorney's office, and others to improve case file documentation. DHFS has also implemented our 2003 recommendation to better track changes in eligibility status. As a result, the State received an additional \$1.8 million in federal reimbursement under the Foster Care program in FY 2002-03.

However, we continue to be concerned with the foster care cases administered by the Department of Corrections (DOC). Because DOC implemented new procedures for determining foster care eligibility in July 2003, some of the cases it administered during FY 2002-03 did not comply with federal regulations. We identified \$36,066 in unallowable costs for three of the five cases we reviewed.

DOC has arranged for a review of eligibility determinations related to cases claimed from January 1 through June 30, 2003. However, at the time of our audit, this review had not been completed, and DOC is not considering additional ineligible costs that may have been charged to the Foster Care program before January 2003.

DOC will need to work with the U.S. Department of Health and Human Services to resolve this finding.

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. However, the need to remit the federal share of lapsed amounts to the federal government has not been fully considered.

In our FY 2001-02 single audit, we reported that \$9.1 million had been lapsed to the General Fund from several internal service funds. In FY 2002-03, the State lapsed an additional \$13.8 million in balances that had been generated, in part, by charges to federal grants. The Department of Administration (DOA) is currently working with the federal government to resolve this issue and to determine what amount, if any, the State will be required to return to the federal government.

Since our FY 1998-99 audit, we have reported that federal grants funded unallowable costs related to the rates DOA charged state agencies for computer services.

DOA recently negotiated a settlement with the federal government related to these concerns. However, the negotiated settlement of \$2.9 million was paid to the federal government from balances that arose, in part, through charges to federal grants. Therefore, additional funds may be owed the federal government.

Recommendations

Our report includes 39 recommendations related to state agencies' administration of federal grant programs. In addition, we discuss ten internal control concerns 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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