

An Audit:

State of Wisconsin
2001-02

March 2003

Report Highlights ■

State agencies complied with most federal grant requirements.

During fiscal year (FY) 2001-02, the State of Wisconsin administered more than \$8.1 billion in federal financial assistance through more than 700 individual grant programs and an additional 721 research and development grants. 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.

Federal financial assistance has steadily increased.

In performing our audit, we gained an understanding of agencies' internal controls, assessed the propriety of agency revenues and expenditures, and tested compliance with federal program requirements. We focused our audit effort on 25 grants that were administered by eight different state agencies, including the University of Wisconsin. These grants accounted for 77 percent of the federal financial assistance administered by the State during FY 2001-02 and were selected for review based on the size of the grant and the risk of noncompliance. We also followed up on findings in our single audit report for FY 2000-01.

While improvements have been made, we continue to identify serious concerns with administration of foster care.

One result of our audit work is our opinion on whether the Schedule of Expenditures of Federal Awards, which provides an inventory of all of the grants administered by the State, is fairly presented. In addition, we provide an opinion on the State's compliance with federal requirements, and we report on internal controls over compliance.

We found serious weaknesses in administration of the Juvenile Accountability Incentive Block Grants program.

Compliance

Except for one program, state agencies generally complied with federal grant program requirements. We identified material noncompliance with eligibility requirements related to the State's administration of the Foster Care program by both the Department of Health and Family Services (DHFS) and the Department of Corrections (DOC). Therefore, our auditor's opinion on the State's compliance with federal foster care requirements is qualified.

The State may be

required to return some funds that have been lapsed to the General Fund.

Based on our testing, we question a total of \$847,283 in expenditures that various state agencies charged to federal grants. We also question an additional but undetermined amount for items that we did not test.

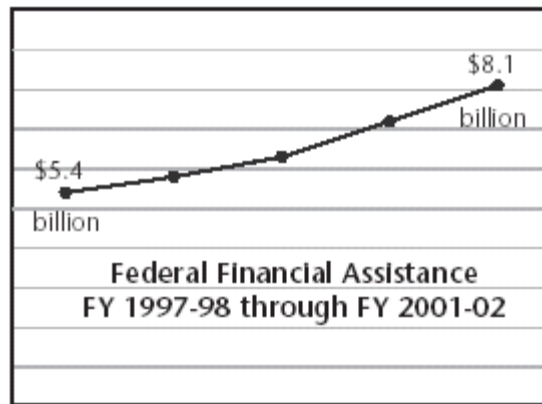
While total potential questioned costs are not known, they represent a small portion of the total federal financial assistance the State administers. However, if state agencies are required to repay the federal government, the questioned costs will adversely affect their operating budgets.

Federal Assistance

Federal financial assistance to the State has increased each year since FY 1997-98 and reached \$8.1 billion in FY 2001-02. That amount includes \$7.4 billion in cash; \$731.8 million in outstanding loan balances; and \$34.2 million in noncash assistance such as food for school lunch programs.

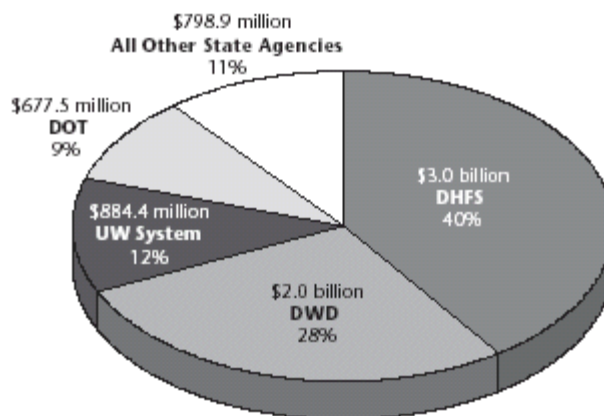
Key Facts and Findings

The State of Wisconsin administered \$8.1 billion in federal financial assistance in FY 2001-02.



Four state agencies—DHFS, the Department of Workforce Development (DWD), the University of Wisconsin (UW) System, and the Department of Transportation (DOT)—administered most of the \$7.4 billion in federal cash assistance the State received in FY 2001-02.

Four state agencies administered 89 percent of the federal financial assistance.



We tested expenditures state agencies charged to federal grants.

The \$3.0 billion spent by DHFS includes \$2.5 billion in federal funds to support Medical Assistance, which is the largest federal program in Wisconsin. Another \$1.8 billion in state funds also supported Medical Assistance.

We question a minimum of \$847,283 in unallowable charges to grants.

DWD spent \$2.0 billion in federal cash assistance to administer the Vocational Rehabilitation program, job training programs that fund certain benefits available under Wisconsin Works (W-2), the

We make 39

recommendations to various state agencies for improved administration of federal grant programs.

The federal government will contact state agencies to resolve our findings.

unemployment compensation program, and related programs.

UW System disbursed \$435.9 million related to student financial aid programs and spent \$368.5 million for various research and development grants and \$80.0 million for other programs. Most of DOT's federal funding was expended for highway planning and construction.

Foster Care

The Foster Care—Title IV-E program helps the State provide care for children who are under its jurisdiction and need temporary placement outside their homes. DHFS spent approximately \$12.7 million in federal grant funds for approximately 5,500 Milwaukee County foster care cases during FY 2001-02. In addition, DOC received \$2.5 million in federal foster care funds to care for certain juveniles in its custody.

The foster care grant is complex and includes detailed requirements related to case file documentation and review, court orders, eligibility, and licensing. In our FY 2000-01 audit, we reported significant problems with DHFS's administration of foster care in Milwaukee County.

While improvements have been made, we continue to note material weaknesses in program administration. In addition, this year we identified serious concerns with the foster care cases administered by DOC.

Our findings relate primarily to eligibility documentation. For example, the State did not obtain all necessary eligibility documentation for Milwaukee County cases and those administered by DOC. As a result of these and other foster care findings, DHFS has already returned \$116,000 to the federal government. We question an additional but undetermined amount for items we did not test. In addition, we question \$44,692 related to eight DOC case files we tested, plus an undetermined amount related to those we did not test.

Because of the potential for significant questioned costs for all cases administered by the State, our opinion on the State's compliance with federal requirements related to eligibility for the Foster Care—Title IV-E program is qualified.

Juvenile Accountability Incentive Block Grants

The Juvenile Accountability Incentive Block Grants program is administered by the Office of Justice Assistance (OJA). It funds programs that hold juvenile offenders accountable for their actions.

The Juvenile Justice Commission has oversight responsibility for this program, but it allowed OJA significant discretion in awarding grants. The lack of sufficient oversight and the level of discretion OJA was allowed are material internal control weaknesses. As a result of these weaknesses, we identified \$149,784 in federal funds that were spent in FY 2001-02 for purposes not consistent with the program.

Our concerns with OJA's administration of the Juvenile Accountability Incentive Block Grants program are further described in a separate letter report to the Joint Legislative Audit Committee.

Statewide Issues

As part of efforts to balance recent budgets, funds have been lapsed to the State's General Fund from various programs funded, in part, by federal grants. However, the State has not fully considered the need to remit the federal share of the lapsed amounts to the federal government.

We are concerned both with the State's treatment of retirement credits authorized in 1999 Wisconsin Act 11 and with lapses from internal service funds. All state agencies that administer federal grant programs are affected by these concerns.

Act 11 refunded money from the State's pension fund to employers, including state agencies. State agencies have either credited or plan to credit federal grants with \$5.4 million in retirement credits. We calculate that state agencies should have credited federal grant programs with at least an additional \$556,277.

The Department of Administration (DOA) and the Department of Electronic Government (DEG) charge state agencies for services, such as computer processing, according to their level of use. State agencies seek reimbursement from the federal government for its share of the charges.

2001 Wisconsin Acts 16, 25, and 109 directed DOA and DEG to lapse \$9.1 million in excess balances from several of the internal service funds to the State's General Fund in FY 2001-02. The State has yet to return the federal government's share of these balances. DOA and DEG are currently working with the federal government to resolve this issue and to negotiate the amount that will need to be repaid to the federal government.

Recommendations

Our report includes 39 recommendations related to state agencies' administration of federal grant programs. In addition, we include 14 technical recommendations related to internal controls and financial reporting.

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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