

98-12 State of Wisconsin Single Audit

Summary

The State of Wisconsin expended \$5.251 billion in cash and noncash federal financial assistance during fiscal year (FY) 1996-97. As a condition of receiving federal funds, 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 various state agencies that received federal financial assistance and to meet our audit responsibilities under s. 13.94, Wis. Stats. To satisfy audit requirements, we gained an understanding of the internal control structure, assessed the propriety of receipts and disbursements, and tested agency compliance with state and federal program requirements.

Our audit opinion on the State's general purpose financial statements was included in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 1997. This report was issued by the Wisconsin Department of Administration in December 1997 and is available from the State Controller's Office.

The federal compliance portion of the single audit included audit work at the 22 state agencies that administered federal financial assistance programs. These agencies vary in size and complexity from the Department of Workforce Development (DWD), which administered nine major federal grant programs during FY 1996-97, to the Board on Aging and Long-Term Care, which administered only a few small grants and contracts. New for this year is inclusion of the University of Wisconsin (UW) System in the scope of our federal compliance audit of state agencies. In previous years, UW System was audited and reported on separately.

Our audit did not include the federal grants administered by the Wisconsin Supreme Court because the federal audit requirements for these grants are independent of federal Office of Management and Budget (OMB) Circular A-133 requirements. An audit of the federal financial assistance received by the Wisconsin Housing and Economic Development Authority was performed by other auditors.

As noted, the amount of federal financial assistance expended by the State was \$5.2 billion in FY 1996-97. The Department of Health and Family Services (DHFS) administered \$2.0 billion, or 38 percent, of the State's cash and noncash federal financial assistance. The majority of these funds, \$1.6 billion, were disbursed for the Medical Assistance Program. The State also contributed over \$1 billion in general purpose revenue to fund this program. The Department of Workforce Development also administers large federal programs. One of these programs is the Unemployment Insurance program, under which DWD expended \$505 million during FY 1996-97. In addition, responsibility to make support payments to low-income families was transferred to DWD from DHFS as of July 1, 1996. During FY 1996-97, DWD disbursed \$134 million in federal funds for the Temporary Assistance for Needy Families program, which replaced the Family Support Payments to States-Assistance Payments program.

As noted, this is the first year UW System is included in the scope of the State of Wisconsin's single audit. UW System expended \$648 million during FY 1996-97, including \$340 million in student financial aid, \$252 million under a variety of research and development grants, and \$56 million in other federal grants.

Other state agencies administering significant federal programs include the Department of Transportation (DOT), which expended \$340 million in FY 1996-97 for the Highway Planning and Construction program; the Department of Public Instruction (DPI); the Department of Administration (DOA); and the Department of Natural Resources (DNR). These seven large state agencies administered 97 percent of the federal financial assistance received by the State and 26 of the State's 30 major grant programs. Accordingly, our audit effort concentrated on these state agencies.

We concluded that state agencies were in substantial compliance with federal grant program requirements. However, we noted instances of noncompliance with federal grant requirements and, in total, question \$417,036 in costs charged to

various federal grant programs. These costs represent only a small portion of the total federal financial assistance received during the year. In addition to findings that result in questioned costs, we identified instances of noncompliance that have no direct effect on the amount of federal financial assistance received or for which we could not readily determine the amount to question. Summaries of some of our more serious findings follow.

Department of Natural Resources

All recipients of federal grant funds are expected to have accounting systems and procedures in place to manage federal funds effectively to ensure that the federal government is charged only for its fair share of grant expenditures and to allow for complete and accurate financial reporting of grant-related activity. Federal rules allow state agencies to receive federal reimbursement for allowable indirect costs, which are administrative and other costs incurred to administer state agencies and are not directly related to federal grant programs.

DNR allocates a significant amount of non-administrative indirect costs to federal grant programs through its Cost Accounting and Reporting System (CARS), which was implemented at the beginning of FY 1996-97. For example, for the federal fiscal year 1996-97 Air Pollution Control Program Support Grant, 40 percent of the \$3,285,857 charged to the federal government was for costs allocated through CARS.

We have several serious concerns related to DNR's cost allocation plan and CARS. First, DNR has not complied with federal rules requiring federal approval for its methodology to allocate costs to federal grants. The most recent federal approval was obtained in 1978, and DNR's cost allocation methodology has changed, requiring updated approval.

Second, DNR has not documented the CARS computer programs and has not maintained documentation that it tested the system. Finally, we attempted to test CARS and are unable to conclude that the system accurately allocates costs to federal grants. We question \$36,181, which is the amount we identified that DNR overcharged one portion of the Air Pollution Control Program Support grant for supplies and services expenditures, plus an undetermined amount for other grants.

We also have concerns related to DNR's compliance with federal rules that require it to ensure its subrecipients are properly spending federal grant funds. DNR does not have adequate subrecipient monitoring procedures, does not consistently inform localities and nonprofit organizations that financial assistance from DNR is actually federal financial assistance, and does not have an effective way to track the federal financial assistance it passes on to localities and nonprofit organizations. As a result, the listing of expenditures to subrecipients included in the Schedule of Expenditures of Federal Awards is not complete for DNR. Additionally, since DNR is not able to determine which entities have received pass-through federal financial assistance, it is not able to ensure that federal funds have been properly expended by localities and nonprofit organizations.

Department of Administration

DOA also did not follow all of the federal rules relating to charging indirect costs to federal grants. Typically, state agencies calculate eligible indirect costs based on a percentage of the total salaries and fringe benefits charged to the federal grants. When calculating the indirect cost rate, which must be approved by the federal government, state agencies are to ensure the calculations include only those costs that meet federal standards and that the costs are not included in other agencies' indirect cost calculations.

However, we found DOA included unallowable costs in the pool of costs used to calculate its indirect cost rate and charged subgrants overhead costs that were not approved by the federal government. When calculating its proposed federal indirect cost rate, DOA included in its indirect cost pool over \$2.1 million in costs that were also allocated to other state agencies and were to be included in their indirect cost calculations. As a result, DOA's indirect cost rate was too high, and we question \$146,720, representing the unallowable share of the indirect costs charged to federal grant programs. In addition, because DOA also did not seek federal approval for its methodology to allocate overhead costs to subgrants of federal funds received from other state agencies or non-federal entities, we question all \$68,952 of overhead costs charged to federal subgrants.

Department of Workforce Development

The federal government is responsible for resolving findings with the various state agencies. In prior audits, we expressed continuing concerns regarding several issues affecting DWD. While the federal government has recently resolved one of these issues, others remain unresolved.

DWD did not implement our prior audit recommendation to cease charging the federal government for interest and other unallowed costs related to buildings in which DWD maintains office space. OMB Circular A-87, which defines allowable costs that may be charged to federal grant programs, specifies that interest associated with buildings constructed prior to October 1, 1980, may not be charged to federal grant programs. However, DWD continued to charge \$93,905 in interest and other unallowed costs associated with building space to federal grants it administers. It is especially important for DWD to comply with federal rules because several large federal programs were transferred from DHFS to DWD at the start of FY 1996-97. Due in part to these federal funding changes, DWD agrees with this year's recommendation and has indicated that it will cease charging building interest and other unallowed costs to federal grants.

Another area of continuing concern relates to "combined wage claim" benefit overpayments in the Unemployment Insurance program that have yet to be reimbursed to other states. Combined wage claims are unemployment insurance claims in which the wages used to determine benefits are earned in more than one state. If an individual files for unemployment insurance benefits in Wisconsin but also recently worked in other states, Wisconsin is required to pay the benefits and request partial funding from the other states. In the event it is later determined that the individual was not entitled to the benefits, federal rules require Wisconsin to reimburse the other states for their share of the benefits paid by the end of the quarter in which the overpayment is determined. However, DWD credits these states for overpayments only if and when the overpayments are recovered from claimants, and not at the end of the quarter in which they are determined. In our prior audit, we questioned \$381,386, representing the amount DWD should have paid to other states but did not as of June 30, 1996.

The federal government recently resolved this issue with DWD. In its final determination letter, the federal government determined that the combined wage claims finding is a nonmonetary administrative deficiency but did not mandate that DWD pay other states for the combined wage claims. DWD did not change its procedures during FY 1996-97 and remains in noncompliance with the federal regulations regarding combined wage claims. As of June 30, 1997, DWD had recorded \$408,328 of combined wage claim benefit overpayments that had yet to be paid to the transferring states. We do not, however, question any costs because the federal government has determined that this is an administrative deficiency, and nonmonetary in nature. In addition, we note that some other states follow the same practice as Wisconsin and only pay overpayments to other states when claimants return the funds.

University of Wisconsin System

Although UW System was in substantial compliance with federal program requirements, we noted several instances of noncompliance with federal grant requirements and, in total, question \$14,906 of costs charged to federal programs. Four areas are especially notable because of their relative significance or because they represent continuation of previously noted concerns.

First, we continued to note errors in the preparation of the UW System Schedule of Expenditures of Federal Awards, including incorrect classification of grants, missing or incorrect Catalog of Federal Domestic Assistance numbers or other identifying numbers, and incorrect identification of types of entities providing subgrant funds. Although most of the errors resulted from inaccurate or incomplete grant information from the campuses, UW System Administration Financial Reporting needs to take steps to ensure the completeness and accuracy of the information, including requiring increased campus accountability for the grant information.

Second, we found that UW-LaCrosse, UW-Parkside, and UW Colleges had problems with timely reconciliation and submission of final Pell grant reports to the U.S. Department of Education and, as a result, had not requested or received federal reimbursement for grants totaling \$80,284. The Audit Bureau is in the process of certifying the accuracy of the Pell grant awards to assist the campuses in requesting reimbursement for the unreimbursed amounts. In addition, we identified a total of \$7,471 in Pell grant reimbursements that should be returned to the Department of Education because of overpayment. The campuses are still attempting to reconcile another \$17,291 in variances

between campus records and U.S. Department of Education records.

Third, we found that UW-Platteville was not calculating and recovering overpayments of student financial aid in accordance with federal regulations, which prescribe how educational institutions are to calculate refunds and overpayments to students receiving financial aid who withdraw from school during the semester. We question \$1,500, plus an undetermined amount, for the incorrect calculation of overpayments.

Finally, we note that UW campuses need to place priority on complying with federal property management standards for equipment acquired with federal funds or otherwise furnished by the federal government. We found property management concerns, which have existed for several years, continuing at several campuses, including UW-Madison, UW-Milwaukee, UW-Platteville, and UW-Extension. Concerns include failure to complete an annual physical inventory of property, lack of procedures to reconcile inventory records to the results of the physical inventory, and inaccurate inventory records.

Department of Health and Family Services

While many of our audit findings and questioned costs address the allowability of costs charged to the federal government, we also have findings that are more programmatic in nature. For example, our review of the Medical Assistance Program, which is administered by DHFS, found that only 4.2 percent of the complaints of misconduct by nurse aides submitted between April 1992 and September 1997 were investigated within the 60-day period required by the State Plan for the Medical Assistance Program. These complaints may include allegations of abuse, neglect, or theft by nurse aides that occur while the aides are employed in nursing homes, hospitals, home health agencies, hospices, or facilities for the developmentally disabled. On average, it took DHFS 345 days to investigate and dispose of misconduct complaint cases. DHFS has attempted to correct the backlog of cases by filling vacancies, establishing criteria for closing a case, and updating procedures.

Other State Agencies

We found noncompliance with various federal rules at other state agencies. For example, the Department of Agriculture, Trade and Consumer Protection (DATCP) did not require all employees to adequately document their work effort charged to federal grants, as required by OMB Circular A-87. We question \$46,676 of the payroll-related costs and associated indirect costs for one employee's effort because the employee worked on several different grants, but DATCP charged all of this employee's work effort to just one grant.

The Department of Commerce administers the Community Development Block Grants/State's Program grant. We found that while the Commerce staff person responsible for subrecipient audit monitoring was on a leave of absence, desk reviews of audit reports and other subrecipient monitoring tasks were not performed, resulting in a backlog. As of the end of our audit fieldwork, Commerce had not reviewed any of the calendar year 1996 audit reports received from its subrecipients.

Each year we follow up on findings and recommendations included in our previous year's single audit report. While most state agencies promptly implement corrective actions, sometimes a longer period is required to carry out the recommendations. We had several concerns in our prior audit related to the Department of Corrections' (DOC's) administration of federal grants. This year we found DOC has taken steps to address each prior audit concern. For example, DOC implemented recommendations to improve time reporting, subrecipient monitoring, and general grant management.

The Department of Public Instruction has also made progress in implementing prior audit recommendations. DPI took corrective action relating to subrecipient audit monitoring, reporting state matching expenditures, permanent property management, and grant administration. However, DPI needs to take additional steps to address concerns regarding reporting excess food commodities on hand to the U.S. Department of Agriculture and in reconciling its food commodity records with the records of the private warehouses that store and distribute food commodities for DPI.

The Department of Military Affairs (DMA) has not yet implemented several of our audit recommendations. DMA administers the National Guard Military Operations and Maintenance Projects Grant. In our prior single audit report,

we made recommendations to ensure that the federal government is being charged for only its portion of project costs throughout the course of a project. DMA has not taken action to address this concern, and our report repeats our recommendations in this area.

A summary of our federal findings and questioned costs can be found in Section III, pages 196 through 209, of the Schedule of Findings and Questioned Costs. The agencies' responses to the findings and their plans for corrective action are included within the body of the report. The federal government will contact state agencies to resolve the findings and questioned costs included in this report. A summary of the status of recommendations included in our prior audit report is presented on pages 211 through 222.

Issues addressing technical accounting matters, including those related to the preparation of the State's financial statements, are included in management letters and other audit communications for various state agencies. Summaries of the more serious concerns related to financial reporting are included in Section II of the Schedule of Findings and Questioned Costs.
