

State of Wisconsin FY 2016-17 Single Audit

March 2018

Report Highlights ■

State agencies administered \$11.6 billion in federal financial assistance in FY 2016-17.

Our audit focused on 15 federal programs that accounted for 58.2 percent of federal financial assistance administered by state agencies in FY 2016-17.

We found state agencies generally complied with federal requirements, and we provided an unmodified opinion on compliance with federal requirements for those programs we reviewed.

We made 12 recommendations to improve the administration of federal programs.

We made 9 recommendations related to internal controls over financial reporting.

As a condition of receiving federal funds, state agencies must meet the audit requirements of the federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the Single Audit Act of 1984, as amended. The Single Audit Act requires there to be one comprehensive audit of federal grant programs. This single audit also incorporates our annual audit of the State's financial statements, which were included in the Comprehensive Annual Financial Report (CAFR) issued by the Department of Administration (DOA).

During fiscal year (FY) 2016-17, state agencies administered \$11.6 billion in federal financial assistance, including \$10.4 billion in cash assistance; \$983.2 million in noncash assistance, such as food commodities; and \$196.6 million in outstanding federal loan balances.

During FY 2016-17, 95.5 percent of the State of Wisconsin's federal financial assistance was administered by six state agencies: the departments of Health Services (DHS), Public Instruction (DPI), Transportation (DOT), Workforce Development (DWD), and Children and Families (DCF), as well as the University of Wisconsin (UW) System.

We audited 15 federal programs that accounted for 58.2 percent of the federal financial assistance administered by state agencies in FY 2016-17.

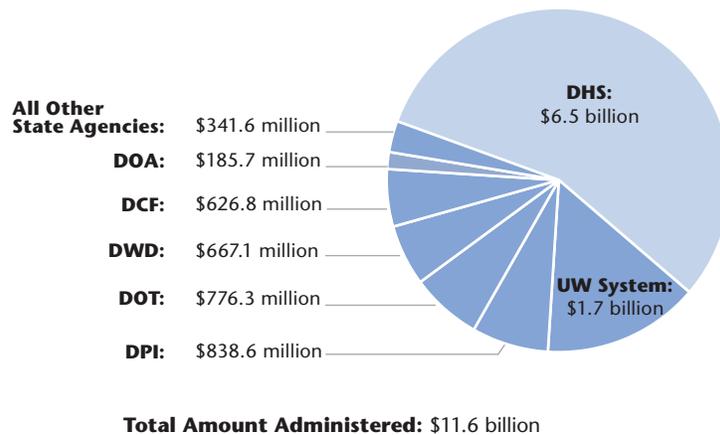
Federal Assistance

DHS administered \$6.5 billion in federal assistance, which was the largest share administered by a state agency. Of this amount, \$4.9 billion was provided for the Medicaid Cluster, which includes funding for Medical Assistance (MA), also known as Medicaid, the largest federal program administered by the State. In addition, \$970.5 million in federal funds and benefits was disbursed by DHS under the Supplemental Nutrition Assistance Program Cluster for Wisconsin's FoodShare program.

UW System administered \$1.7 billion in federal assistance, of which \$1.6 billion supported student financial assistance or research and development grants. DPI provided most of its \$838.6 million in federal funding to local school districts and other entities that provide education and nutrition programs for children. DWD used funds subject to federal rules primarily for unemployment insurance benefits.

DOT administered \$776.3 million in federal funding, most of which was for highway and bridge construction and maintenance projects. DCF used its federal funding primarily to support the Wisconsin Shares child care subsidy program, Wisconsin Works (W-2), and the adoption assistance and foster care programs.

Federal Financial Assistance Administered by State Agencies FY 2016-17



Audit Results

We evaluated internal controls, tested for compliance with federal requirements, and followed up on findings and recommendations from the FY 2015-16 single audit (report 17-5). Although we found state agencies generally complied with federal requirements, we made 12 recommendations to four state agencies—DOA, DCF, DHS, and DOT—to improve administration of federal programs.

Key Facts and Findings

A total of \$4.9 billion in federal funds was for Medical Assistance, also known as Medicaid, the largest federal program administered by the State.

We identified concerns related to subrecipient monitoring at DOA, DCF, DHS, and DOT.

DCF returned \$40.2 million to the federal government for unallowable costs related to the Adoption Assistance program.

We found 410 CHIP participants exceeded the age requirement for eligibility.

The federal government will work with state agencies to resolve the concerns we identified.

Subrecipient Monitoring

Under Uniform Guidance, state agencies are responsible for monitoring subrecipients of federal funds, such as local governments, to ensure compliance with federal requirements. We report concerns with compliance with subrecipient monitoring requirements for FY 2016-17, including concerns related to:

- activities performed by DOA for the Community Development Block Grant (CDBG) program and for the HOME Investment Partnerships Program (HOME);
- risk assessments that were not conducted by DOA of subrecipients for the HOME program;
- risk assessments that were not conducted by DCF of counties for the Foster Care—Title IV-E program;
- risk assessments that were not conducted by DHS of counties for the Social Services Block Grant program; and
- determinations that were not adequately made by DOT to identify subrecipients of the Highway Planning and Construction program and the Airport Improvement Program.

Adoption Assistance

During FY 2016-17, DCF resolved a finding we first reported in our FY 2009-10 single audit (report 11-4) related to federal reimbursement for unallowable costs included in rates established for monthly payments to adoptive parents. In September 2016, the federal government quantified the amount of federal funds inappropriately received by DCF as \$40.2 million. In anticipation of this repayment, DCF accumulated a cash balance of \$55.9 million as of June 30, 2016, in a program revenue appropriation in order to return the disallowed amount to the federal government in October 2016.

Children's Health Insurance Program

DHS receives funding under the Children's Health Insurance Program (CHIP) to provide health care coverage to uninsured children. To participate in CHIP, individuals must meet certain eligibility criteria, including being under age 19. Local agency caseworkers perform eligibility determinations for CHIP using the CARES computer system.

We reviewed the ages of participants determined eligible for CHIP benefits between April 2016 and March 2017. We found 410 CHIP participants age 19 or older, including 12 participants who were ages 20 to 59. The remaining 398 participants were 19 years of age. We recommend DHS take steps to ensure CHIP participants do not exceed the age requirement, including by considering system enhancements or other monitoring procedures.

State Financial Statements

Our opinion on the State's FY 2016-17 financial statements, which is a required component of this single audit, was included in the CAFR issued by DOA in February 2018. We identified one material weakness in internal control over financial reporting that relates to continuing security concerns at DOA involving the State's enterprise resource planning system called STAR.

We also identified eight significant deficiencies in internal control over financial reporting in several areas, including IT controls at DOA, IT controls at UW System, cash at DOA, financial reporting controls at DOA, financial reporting for capital assets at DOT, and DOT's use of project costing data. These findings are described beginning on page 61 of this report, and additional information related to our audit of the State's CAFR is available in report 18-3.

Prior Audit Recommendations

Under Uniform Guidance, management is required to report on the status of efforts to address recommendations we made in prior single audit reports related to our federal compliance and financial reporting findings. The Summary Schedule of Prior Audit Findings, which includes information provided by seven state agencies, including UW System, begins on page 89. Excluding UW System, state agencies indicated that corrective action was taken to address 13 of the 26 recommendations made in prior reports. These agencies report having only partially corrected 12 recommendations, including one finding at DHS related to computer data matches that has been reported in each of the last 13 years. In addition, one agency indicated corrective action was no longer needed for 1 recommendation.

As shown in the Summary Schedule of Prior Audit Findings, we made 25 recommendations in FY 2015-16 to eleven UW institutions, which reported taking corrective action to address 18 of those recommendations.

FY 2016-17 Audit Recommendations

We made 21 recommendations, including 12 recommendations related to the administration of federal programs and 9 recommendations related to internal control concerns over financial reporting from our audit of the State's FY 2016-17 financial statements (report 18-3). One of these internal control concerns also related to federal program administration at DOT.

Agency responses and corrective action plans are also included in our report. The federal government will work with state agencies to resolve the concerns we identified. We also noted certain additional internal control and compliance matters that we conveyed directly to agency management in separate communications.



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