

State of Wisconsin FY 2017-18 Single Audit

March 2019

Report Highlights ■

State agencies administered \$11.9 billion in federal financial assistance in FY 2017-18.

Our audit focused on 16 federal programs that accounted for 73.0 percent of federal financial assistance administered by state agencies in FY 2017-18.

Although we found state agencies generally complied with federal requirements, we qualified our opinion on compliance related to cash management requirements for two programs.

We made 14 recommendations to improve the administration of federal programs.

We made 10 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 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) 2017-18, state agencies administered \$11.9 billion in federal financial assistance including \$10.7 billion in cash assistance; \$917.0 million in noncash assistance, such as food commodities; and \$196.9 million in outstanding federal loan balances.

During FY 2017-18, 95.7 percent of the State of Wisconsin's federal financial assistance was administered by six state agencies: the departments of Health Services (DHS), Transportation (DOT), Public Instruction (DPI), Workforce Development (DWD), and Children and Families (DCF), as well as the University of Wisconsin (UW) System.

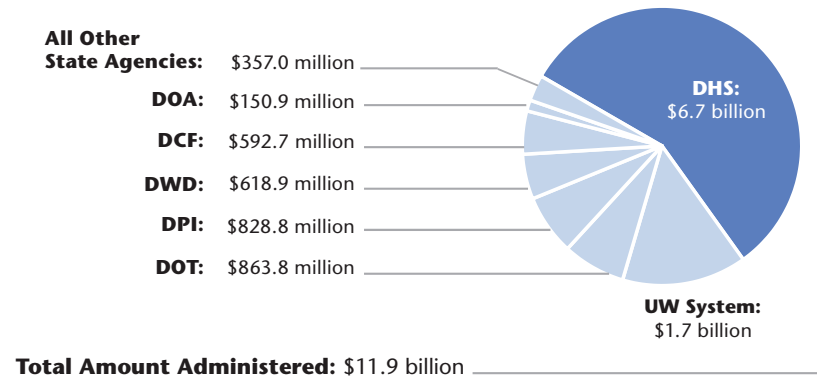
We audited 16 federal programs that accounted for 73.0 percent of the federal financial assistance administered by state agencies in FY 2017-18.

Federal Assistance

DHS administered \$6.7 billion in federal assistance, which was the largest share administered by a state agency. Of this amount, \$5.2 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, \$914.1 million in federal funds and benefits was disbursed by DHS under the Supplemental Nutrition Assistance Program (SNAP) Cluster for Wisconsin's FoodShare program.

UW System administered \$1.7 billion in federal assistance, of which \$1.6 billion supported student financial assistance and research and development grants. DOT administered \$863.8 million in federal funding, most of which was for highway and bridge construction and maintenance projects. DPI provided most of its \$828.8 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. DCF used its federal funding primarily to support the

Federal Financial Assistance Administered by State Agencies FY 2017-18



Key Facts and Findings

DHS administered the largest federal program, the Medicaid Cluster, under which it disbursed \$5.2 billion during FY 2017-18.

We qualified our opinion on compliance related to cash management requirements for two federal programs at DPI.

We identified \$69,970 in improper payments related to terminated providers under the MA Program.

DHS has not begun to return provider overpayments to the federal government related to 544 provider

audits that were not finalized due to a court injunction.

DCF did not collect \$259,308 in child care provider overpayments that it identified from January 2017 through June 2018.

We identified concerns with subrecipient monitoring at DHS, DPI, and WTCS.

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

Wisconsin Shares child care subsidy program, Wisconsin Works (W-2), and the adoption assistance and foster care programs.

Audit Results

We evaluated internal controls, tested for compliance with federal requirements, and followed up on findings and recommendations from our FY 2016-17 single audit (report 18-5). We made 14 recommendations to six state agencies—DOA, DCF, DHS, DPI, UW System, and Wisconsin Technical College System (WTCS)—to improve administration of federal programs. In addition, we qualified our opinion on compliance related to cash management requirements for two federal programs.

Cash Management

Most federal programs are administered on a reimbursement basis. DOA is responsible for requesting reimbursement from the federal government after funds are disbursed for federal program purposes. For the larger programs that are administered under an agreement between the State and the federal government, DOA implemented appropriate controls. However, for other programs for which payment disbursements are scheduled into the future in the State's accounting system, DOA's procedures did not always minimize the time between when the State requested and received federal funds and when the State disbursed funds for grant purposes.

We recommend DOA take steps to minimize the time between requests for federal reimbursement and disbursement of funds for grant purposes. Due to the significance of this finding to two programs administered by DPI, we qualified our opinion on compliance related to cash management requirements for those two programs.

MA Program

The MA Program is used to assist states in maintaining and expanding health care services to certain categories of low-income individuals. We identified concerns with DHS's administration of the MA Program, including:

- \$69,970 in improper payments made with federal funds for claims paid to terminated providers; and
- \$9,235 in improper payments made with federal funds for 70 claims paid for inmate medical services that were not eligible under the State's MA Plan.

In addition, DHS has not begun to return the federal share of provider overpayments identified in 544 provider audits not yet finalized due to a court injunction.

Child Care Program

DCF uses a third-party to administer the new electronic benefits transfer (EBT) system, which was implemented in January 2017. We found DCF did not:

- reconcile the amounts paid to reimburse the third-party administrator with information on amounts paid to the child care providers; or
- collect \$259,308 in child care provider overpayments it identified from January 2017 through June 2018.

In addition, we found DCF did not monitor all health and safety requirements annually for child care providers.

Student Financial Assistance

In FY 2017-18, UW System administered \$1.0 billion in student financial assistance. UW institutions maintain student information systems to administer student financial assistance programs. Information technology (IT) controls help to prevent inappropriate or inadvertent access to systems and data. We first reported concerns with IT controls related to the Student Financial Assistance Cluster in our FY 2014-15 single audit and made recommendations for UW System Administration to develop systemwide IT security policies and procedures. Although UW System Administration has taken some steps, we found that UW System Administration did not make significant progress as of June 30, 2018, in the development of IT policies and procedures.

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 2017-18, including concerns related to DHS for the State Administrative Matching Grants for SNAP; DHS and DPI for the Substance Abuse and Mental Health Services Projects of Regional and National Significance program; and WTCS for the Career and Technical Education—Basic Grants to States program.

State Financial Statements

Our opinion on the State's FY 2017-18 financial statements, which is a required component of this single audit, was included in the State's CAFR, which was issued by DOA in December 2018. We identified two deficiencies in internal control that, when combined, we consider to be a material weakness in internal control over financial reporting. These concerns relate to the reporting of capital assets at DOT.

We also identified eight significant deficiencies in internal control over financial reporting in several areas, including information technology controls at DOA, and financial reporting controls at DHS, DOA, and the Office of the Commissioner of Insurance. These findings are described beginning on page 71 of report 19-3, and additional information related to our audit of the State's CAFR is available in report 18-20.

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 six state agencies, including UW System, begins on page 97. State agencies, including UW System, indicated that corrective action was taken to address 19 of the 33 recommendations made in prior reports. These agencies report having only partially corrected 14 recommendations, including one finding at DHS related to computer data matches that has been reported in each of the last 14 years.

FY 2017-18 Audit Recommendations

We made 24 recommendations, including 14 recommendations related to the administration of federal programs and 10 recommendations related to internal control concerns over financial reporting from our audit of the State's FY 2017-18 financial statements (report 18-20).

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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