

An Audit:

State of Wisconsin
2006-07

March 2008

Report Highlights ■

***Wisconsin administered
\$9.6 billion in federal
financial assistance in
FY 2006-07.***

In fiscal year (FY) 2006-07, state agencies administered \$9.6 billion in federal financial assistance through more than 1,600 federal programs and grants, including 930 research and development grants awarded to the University of Wisconsin (UW) System. We performed an independent audit of compliance with federal grant requirements and followed up on findings in our single audit report for FY 2005-06.

***State agencies generally
complied with federal rules.***

Our efforts focused on 22 programs that accounted for 69.9 percent of Wisconsin's federal financial assistance in FY 2006-07. Programs were selected for review based on their size and the risk of noncompliance with federal rules. The majority were administered by:

- the Department of Health and Family Services (DHFS);
- the Department of Workforce Development (DWD);
- UW System and individual campuses;
- the Department of Transportation (DOT); and
- the Department of Public Instruction (DPI).

***Our auditor's report is
unqualified.***

***Resolution of prior audit
concerns at DHFS resulted in
the receipt of \$36.2 million
in federal funding in
June 2007.***

We found that, overall, state agencies have properly administered federal grant programs and complied with federal requirements.

***The federal government will
work with state agencies to
resolve audit findings.***

Our report includes an unqualified audit opinion on the Schedule of Expenditures of Federal Awards, which provides an inventory of all federal grants administered by state agencies during the period we audited. However, we identified a number of audit issues related to the administration of federal programs.

Federal Funding

In FY 2006-07, state agencies administered \$8.5 billion in cash assistance from the federal government, as well as \$1.1 billion in outstanding federal loan balances and \$47.7 million in food commodities and other noncash

assistance.

In total, the amount of federal financial assistance administered by the State has not changed significantly since FY 2002-03. However, funding for many of the programs that provide assistance payments to individuals increased during FY 2006-07.

Key Facts and Findings

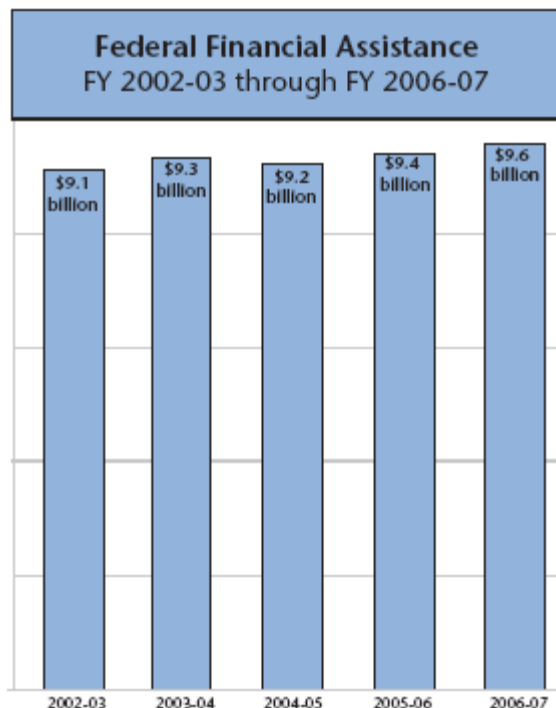
Five state agencies administered 95 percent of Wisconsin's federal financial assistance in FY 2006-07.

The largest federal grant program was the \$2.8 billion Medicaid Cluster, which includes Medical Assistance.

We identified ten inmates who inappropriately received food stamp benefits while incarcerated.

In FY 2007-08, the State returned \$15.5 million to the federal government because of excess balances in an internal service fund administered by the Department of Administration.

DPI needs to improve



For example, federal funding for the Medicaid Cluster, which provides medical assistance to low-income households, increased \$57.5 million during FY 2006-07, while federal funding for the Food Stamp Cluster increased \$26.4 million. In addition, expenditures under the Unemployment Insurance program, which is financed primarily by employer contributions but subject to federal rules, increased \$62.2 million in FY 2006-07.

Programs Administered

DHFS, DWD, UW System, DOT, and DPI administered 95 percent of the federal cash and noncash assistance the State expended in FY 2006-07. DHFS was responsible for the largest share: \$3.8 billion, including \$2.8 billion in federal funding for the Medicaid Cluster. The Medicaid Cluster includes Medical Assistance, the largest federal program administered by the State of Wisconsin. Additional state funding to support Medical Assistance totaled \$1.9 billion in FY 2006-07.

Other federal programs administered by DHFS include the Food Stamp Cluster, the State Children's Insurance Program, Foster Care—Title IV-E, and Adoption Assistance.

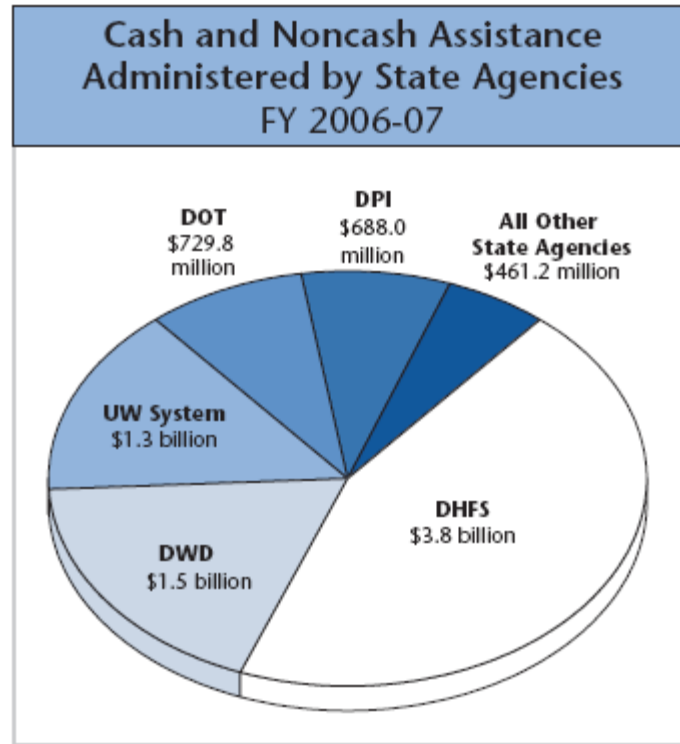
DWD administered \$1.5 billion in federal financial assistance in FY 2006-07. DWD administers the Unemployment Insurance program, as well as the Temporary Assistance for Needy Families, Child Care subsidy, and Vocational Rehabilitation programs.

UW System disbursed a total of \$1.3 billion in federal funds, including \$648.5 million in student financial aid and \$512.9 million in research and

reporting and monitoring of match expenditures for a grant that funds early intervention activities and scholarships for low-income students.

development grants.

Most of the \$729.8 million in federal funding administered by DOT supported the Highway Planning and Construction program, which had FY 2006-07 expenditures of \$638.2 million.



DPI provided the majority of its \$688.0 million in federal funding to local schools and other entities for education and child nutrition programs. Other state agencies disbursed another \$461.2 million in federal funds during FY 2006-07.

Improvements in Financial Reporting

Overall, state agencies have established adequate policies and procedures for the administration of federal programs, and they have taken steps to address concerns we raised in the past.

For example, DHFS addressed our prior audit concerns related to reconciling benefit expenditures reported on federal financial reports to the State's records for Medical Assistance and the State Children's Insurance Program for the period from federal fiscal year 1998-99 through 2005-06. As a result, DHFS received an additional \$36.2 million in federal funds in June 2007, which were deposited into the General Fund.

These funds were the principal reason the State was able to transfer \$55.6 million into its rainy day fund at the end of FY 2006-07. DHFS intends to draw an additional \$4.7 million in federal funds by June 30, 2008.

To ensure that the State receives appropriate federal reimbursements, our report includes a recommendation for DHFS to continue its efforts to improve federal financial reporting for the Foster Care—Title IV-E and Adoption Assistance programs.

Food Stamp Issue

As part of our audit, we matched data on food stamp benefit recipients with Department of Corrections data. We further reviewed a selection of 12 inmates who appeared most likely to have improperly received food stamp benefits. We found that 10 of the 12 inappropriately received food stamp benefits either as individuals or as part of a household. We include a recommendation for DHFS to implement procedures to periodically identify inmates receiving food stamp benefits and seek recovery of inappropriate benefit payments.

Excess Internal Service Funds Returned

Under federal rules, billing rates for certain centralized services provided by the State, such as computer processing services, should not generate profits or a reserve of more than 60 days' operating expenses. If a reserve exceeds that limit or is used for other purposes, the State is required to adjust user rates, provide users with rebates, or return the federal government's share.

For several years, we have expressed concern because the Department of Administration's (DOA's) billing rates have resulted in the accumulation of excess balances. While DOA has been working with the federal government to resolve this finding, it continues to accumulate excess balances.

In FY 2007-08, the State returned \$15.5 million to the federal government. That amount represents its share of the excess balances, plus interest, through June 30, 2005. Since FY 2002-03, the State has returned a total of \$39.0 million, including interest, to the federal government related to the internal service funds.

If DOA had lowered billing rates or provided rebates to state agencies in the past, instead of allowing excess balances to accumulate, funds that were returned to the federal government could instead have been available to the State for other federal program purposes.

Other Audit Issues

DWD has taken steps to address our prior audit concerns related to claiming reimbursement from the federal government for vocational rehabilitation services provided to individuals who also received federal disability benefits. DWD received \$2.2 million in federal funds for claims submitted for calendar years 2005 and 2006.

UW System substantially complied with federal requirements related to the grants it administers, but we make recommendations for several campuses to improve enrollment reporting, federal reporting, and the calculation of aid to be returned to the federal government when students withdraw from school.

We identified errors in DPI's reporting of match expenditures for the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant, an early intervention and scholarship program for low-income students.

We also note that as of February 2008, DPI is not meeting federal match requirements for the current grant. We are concerned because during FY 2006-07, DPI was required to return nearly \$2.1 million in GEAR UP

funds to the federal government because sufficient match had not been provided for the prior grant.

We also found GEAR UP match reporting errors at UW-Eau Claire, and contract administration and time and effort reporting issues at UW-Milwaukee.

Recommendations

Our report includes 27 recommendations related to state agencies' administration of federal grant programs. In addition, we discuss nine 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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