

State of Wisconsin FY 2011-12 Single Audit

March 2013

Report Highlights ■

State agencies administered \$12.9 billion in federal financial assistance in FY 2011-12.

State agencies received approximately \$1.1 billion in ARRA funding in FY 2011-12.

State agencies generally complied with federal grant requirements and have taken steps to address our findings from previous years.

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

Our audit efforts identified more than \$4.5 million in additional reimbursements and overpayments for state agencies to claim from the federal government.

During fiscal year (FY) 2011-12, state agencies administered \$12.9 billion in federal financial assistance through more than 2,000 federal programs and grants, including approximately 1,170 research and development grants awarded to the University of Wisconsin (UW) System. This federal financial assistance consisted of \$11.5 billion in cash; \$1.2 billion in noncash assistance, such as food commodities; and \$216.5 million in outstanding federal loan balances. These funds included approximately \$1.1 billion the State received under the federal American Recovery and Reinvestment Act (ARRA) of 2009.

Our audit report includes the Schedule of Expenditures of Federal Awards, which provides an inventory of federal programs administered by state agencies. Our audit focused on 30 federal programs that accounted for 88.8 percent of state agencies' federal financial assistance in FY 2011-12. These programs were selected for review based on their size and the risk of noncompliance with federal rules. We evaluated state agencies' internal controls and tested for compliance with federal grant requirements. We also followed up on findings included in our FY 2010-11 audit (report 12-6) to determine whether state agencies appropriately implemented our recommendations.

Our audit efforts identified more than \$4.5 million in additional reimbursements and overpayments for state agencies to claim from the federal government. Overall, state agencies have complied with federal grant requirements and have taken steps to address our findings from previous years. However, we identified both new and continuing internal control concerns and question more than \$510,000 in reimbursements received. Due to significant concerns, we qualify our opinion on federal compliance for 3 of the 30 programs we reviewed.

Key Facts and Findings

Seven state agencies administered 97.4 percent of the State's federal financial assistance in FY 2011-12.

We qualify our opinion on compliance for Adoption Assistance, the Transit Services Programs Cluster, and the CDBG Cluster.

As a result of our audit efforts, DCF sought federal reimbursement for \$3.9 million of foster care administrative costs.

As a result of our audit efforts, DOA should seek recovery of \$652,500 it overpaid the federal government for the federal share of certain lapses to the General Fund.

Our report contains 65 recommendations related to administration of federal grant programs, of which 21 are to improve UW System's administration of federal funds.

Federal Assistance

Seven state agencies—the departments of Health Services (DHS), Workforce Development (DWD), Transportation (DOT), Public Instruction (DPI), Children and Families (DCF), and Administration (DOA), as well as UW System—administered 97.4 percent of the State of Wisconsin's federal financial assistance for FY 2011-12.

Of the \$5.8 billion in federal funds administered by DHS, \$4.1 billion helped to fund Medical Assistance, which provides health care assistance to eligible children and adults and is the largest federal program administered by the State.

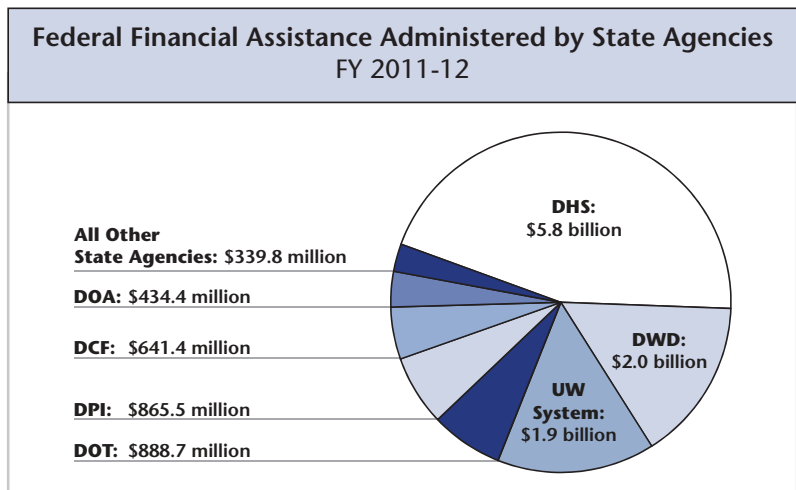
DWD administered \$2.0 billion in funds subject to federal rules, of which \$1.8 billion provided regular, enhanced, and extended Unemployment Insurance program benefits.

Of the \$1.9 billion in federal funds administered by UW System, \$1.8 billion supported student financial assistance or research and development grants.

DOT expended most of its federal funding on highway and bridge construction and maintenance projects. DPI provided most of its federal funding to local school districts and other entities that provide education and nutrition programs for children. DCF used its federal funding primarily to support adoption and foster care services, Wisconsin Shares, and Wisconsin Works (W-2). DOA spent its federal funding largely on housing and economic development activities, energy assistance, and to provide federal Education Jobs grant funds to local school districts.

ARRA Funding

Funding provided under ARRA was intended to stimulate the economy and create or retain jobs, as well as support families and workers. ARRA-funded expenditures initially occurred in FY 2008-09 and peaked at \$3.5 billion in FY 2009-10. Of the \$1.1 billion of ARRA-funded expenditures in FY 2011-12, 66.5 percent was for enhanced and extended unemployment insurance benefits.



Adoption Assistance

Federal Adoption Assistance funds are used to provide a portion of monthly maintenance payments to adoptive parents of eligible children. In our FY 2009-10 and FY 2010-11 audits, we qualified our opinion on the State's compliance with federal requirements due to significant concerns with DCF's rate-setting practices for maintenance payments.

DCF took steps to address our concerns, including providing training to staff and implementing system enhancements, and improvements have occurred. However, for 9 of the 40 case files we reviewed for which monthly maintenance payments were provided during FY 2011-12, portions of the maintenance payments were not eligible for reimbursement under federal program rules.

Because of the significance of this concern and the unknown amount of maintenance payments not eligible for federal reimbursement, we again qualify our opinion on the State's compliance with federal Adoption Assistance requirements.

Transit Services Programs

DOT expended \$6.4 million for the three grants in the federal Transit Services Programs Cluster to provide transportation assistance to elderly, low-income, and disabled individuals. Of this amount, DOT provided \$4.5 million to other entities to provide transportation services directly to these individuals. In our FY 2010-11 audit, we qualified

our opinion on the State's compliance with federal requirements due to concerns with DOT's monitoring of these entities, submission of inaccurate financial reports to the federal government, and record-keeping for vehicles purchased through these grants.

Although DOT is taking steps to address our concerns, these actions were not completed during FY 2011-12. Because the significance and number of concerns continued, we again qualify our opinion on the State's compliance with federal requirements for the Transit Services Programs Cluster.

Community Development Block Grants

Programs funded by the Community Development Block Grants (CDBG) Cluster provide housing, a suitable living environment, and expanded economic opportunities, primarily for persons of low and moderate income. DOA, the recipient of CDBG Cluster funding, administered some of these programs during FY 2011-12 and established a relationship with the Wisconsin Economic Development Corporation (WEDC) to administer other programs. DOA and WEDC subgranted funds to various local government entities to carry out the missions of these programs.

Oversight of these CDBG programs was inadequate during FY 2011-12. Most notably, DOA and WEDC did not adequately monitor local entities, such as by conducting monitoring site visits for all programs and

verifying that amounts paid to the local entities were for allowable costs and activities. Particularly for the programs administered by WEDC, internal controls were not adequate to ensure compliance with federal requirements and sufficient documentation was not maintained to demonstrate compliance.

Because of the significance and number of concerns, we qualify our opinion on the State's compliance with federal requirements for the CDBG Cluster. DOA has indicated its intent to transition the WEDC-administered CDBG programs from WEDC to DOA by the end of FY 2012-13.

Additional Federal Reimbursement

DCF calculates the portion of Foster Care—Title IV-E costs to be reimbursed by the federal government. We found that DCF relied on inaccurate information and did not claim federal reimbursement for the full amount of administrative costs it was eligible to receive. As a result of our audit efforts, DCF was able to claim additional federal reimbursement of \$3.9 million.

Centralized Services

For several years, we have raised concerns because DOA's billing rates have resulted in the accumulation of excess balances for certain centralized services, such as mainframe computer processing. Although it has reduced some user billing rates and provided rebates to reduce

excess balances in past years, DOA remitted \$2.5 million to the federal government in FY 2011-12 for the federal share of excess balances, plus interest. If additional rate reductions or rebates had occurred, the State could have retained the \$2.5 million for direct use on federal grant programs.

We have also raised concerns with DOA's practice of lapsing funds from centralized services to the State's General Fund to help address budget shortfalls. For the lapses that occurred during FY 2011-12, DOA calculated the federal share to be \$1.4 million and remitted that amount to the federal government in a timely manner. However, we found that DOA made an error in its calculation. As a result of our audit efforts, DOA should seek reimbursement of \$652,500 that it overpaid the federal government.

Recommendations

Our report contains 65 recommendations related to administration of federal grant programs, of which 21 are to improve UW System's administration of federal funds. Our report also contains 7 internal control concerns related to our December 2012 audit of the State's financial statements, of which 3 also related to federal grant program administration, including security weaknesses we identified at DHS and with the Human Resource System at UW System. Agency responses and corrective action plans are also included in our report.

Additional Information

For a copy of report 13-5, call (608) 266-2818 or visit our website:



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