

State of Wisconsin FY 2010-11 Single Audit

March 2012

Report Highlights ■

Wisconsin administered nearly \$15.0 billion in federal financial assistance in FY 2010-11.

Federal financial assistance included approximately \$2.8 billion in ARRA funding.

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

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

In fiscal year (FY) 2010-11, state agencies administered nearly \$15.0 billion in federal financial assistance through more than 1,800 federal programs and grants, including approximately 980 research and development grants awarded to the University of Wisconsin (UW) System. These funds included approximately \$2.8 billion the State received under the federal American Recovery and Reinvestment Act (ARRA) of 2009. ARRA requirements placed increased emphasis on accountability and transparency in the State's administration of federal funds and, as a result, our audit efforts increased.

This single 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 31 federal programs that accounted for 91.0 percent of Wisconsin's federal financial assistance in FY 2010-11. 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 2009-10 single audit (report 11-4) to determine whether state agencies appropriately implemented our recommendations.

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 \$220,000 in inappropriate benefit payments and other costs charged to federal programs. Due to significant concerns, we qualify our audit opinion on compliance for two of the programs we reviewed.

Key Facts and Findings

Six state agencies administered 94.3 percent of Wisconsin's federal assistance in FY 2010-11.

The largest federal program administered by the State is Medical Assistance.

Three programs accounted for 80.3 percent of the ARRA funds expended during FY 2010-11.

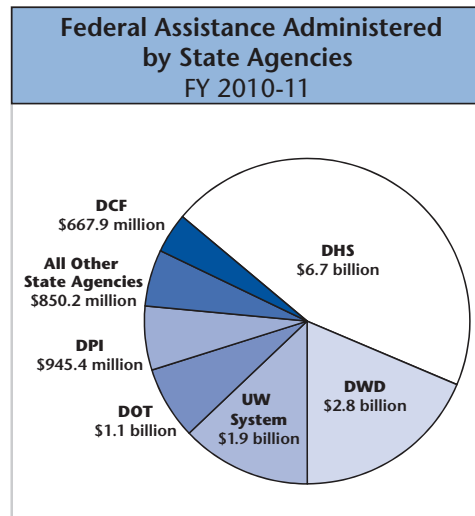
We qualify our opinion on compliance for Adoption Assistance and the Transit Services Programs Cluster.

Our report includes 58 recommendations to improve the State's administration of federal funds.

Federal Assistance

Wisconsin's federal financial assistance, including ARRA funding, consisted of \$13.6 billion in cash, \$1.2 billion in noncash assistance such as food commodities, and \$184.0 million in outstanding federal loan balances.

Six state agencies—the departments of Health Services (DHS), Workforce Development (DWD), Transportation (DOT), Public Instruction (DPI), and Children and Families (DCF), as well as UW System—administered 94.3 percent of the State of Wisconsin's federal assistance for FY 2010-11.



Of the \$6.7 billion in federal funds administered by DHS, \$5.0 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 of Wisconsin.

DWD administered \$2.8 billion in federal funds, of which \$2.5 billion

provided regular, enhanced, and extended Unemployment Insurance program benefits. ARRA funds were \$1.3 billion of that amount. A combination of employer contributions and cash advances from the federal government also funded benefits for the unemployed.

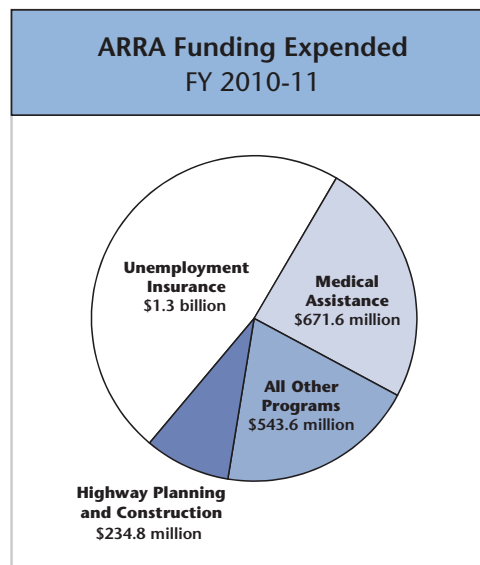
Federal assistance for DOT totaled \$1.1 billion in FY 2010-11. This included \$948.7 million for the Highway Planning and Construction program, of which ARRA funds were \$234.8 million.

Most of the federal funding administered by UW System supported student financial aid or research and development grants. DPI provided the majority 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.

ARRA Funding

Three programs accounted for 80.3 percent of the ARRA funds expended by the State during FY 2010-11. In addition to \$1.3 billion for enhanced and extended Unemployment Insurance benefits, \$671.6 million was expended under the Medical Assistance program to fund expenditures the State otherwise would have paid with general purpose revenue. As noted, DOT also expended \$234.8 million for the construction

and maintenance of highways and bridges. Other programs supported with ARRA funding included those to educate disabled and low-income K-12 students, increase energy efficiency for homes of low-income individuals, and perform a variety of research and development projects.



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 audit, we qualified our opinion on the State's compliance with federal Adoption Assistance requirements due to significant concerns with DCF's rate-setting practices for maintenance payments. DCF has since returned \$122,322 to the federal government for the cases we identified.

Although steps were taken to address our concerns, including

providing training to staff and automating the maintenance payment rate-setting process, many of these actions occurred after FY 2010-11.

We reviewed case files for 40 children placed into adoption during FY 2010-11 and identified 36 cases for which portions of the maintenance payments were not eligible for reimbursement under federal program rules.

Because of the significance of this concern, we again qualify our opinion on the State's compliance with federal Adoption Assistance requirements. The federal government will determine whether the State will need to return additional funds to the federal government.

Transit Services Programs

DOT expended \$7.6 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 \$6.3 million to nonprofit entities and local governments to provide transportation services directly to these individuals.

However, DOT did not adequately monitor these entities to ensure these funds were used appropriately and in accordance with applicable federal requirements. DOT did not ensure entities had single audits performed, if required; conduct site visits; or review supporting documentation

to ensure requests for reimbursement were for allowable costs. DOT also submitted inaccurate financial reports to the federal government, and we identified concerns with DOT's record-keeping for vehicles purchased through these programs.

Because of the significance and number of concerns, we qualify our opinion on the State's compliance with federal requirements for the Transit Services Programs Cluster.

Internal Service Funds

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 reduced some billing rates and provided user rebates to reduce excess balances, DOA remitted \$6.8 million in FY 2010-11 to the federal government for the federal share of excess balances and interest. If additional rate reductions or rebates had occurred, the State may have been able to retain the \$6.8 million for direct use in federal grant programs.

We also report that some other centralized services had accumulated deficit balances, which occur when the costs of providing the service exceed the amounts received through established billing rates. We encourage DOA to work with the federal government to determine the extent to which federal programs may be charged as part of the billing rates to reduce deficit balances.

University of Wisconsin System

We provide 23 recommendations to improve UW System's administration of federal funds, including 15 recommendations regarding campus-specific management of federal student financial aid funds. We also report noncompliance with a cap on salaries funded by grants from the National Institutes of Health and question at least \$33,000 related to salaries, fringe benefits, and overhead costs. UW System will need to work with the federal government to determine whether funds related to these grants should be returned.

Other Audit Concerns

We found other instances of noncompliance with federal requirements and the need for improved internal controls. For example, state agencies are to ensure that subrecipients of federal funds have single audits performed, if required, and to resolve findings identified in those audit reports. Because some agencies had not fully completed these responsibilities, the State could not be assured that its subrecipients had promptly addressed noncompliance and internal control issues.

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

In addition, we report concerns with DPI's efforts to ensure salaries and wages are accurately charged to federal grant programs, the adequacy of DOT's documentation for selecting certain vendors, and the follow-up performed by DHS and DCF on computer data matches used to verify income reported by program participants.

Recommendations

Our report contains 58 recommendations related to state agency administration of federal grant programs and 5 internal control concerns related to our audit of the State's financial statements. Agency responses and corrective action plans are also included in our report.

Additional Information

For a copy of report 12-6, call (608) 266-2818 or visit our website:



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