

An Audit:

**State of Wisconsin
2007-08**

March 2009

Report Highlights ■

Wisconsin administered \$10.0 billion in federal financial assistance in FY 2007-08.

In fiscal year (FY) 2007-08, state agencies administered \$10.0 billion in federal financial assistance through more than 1,600 federal programs and grants, including 963 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 prior single audit report.

Federal funds expected under the American Recovery and Reinvestment Act of 2009 will be subject to audit in the future.

Our efforts focused on 23 programs that accounted for 74.8 percent of Wisconsin's federal financial assistance in FY 2007-08. Programs were selected for review based on their size and the risk of noncompliance with federal rules. We found that, overall, state agencies have properly administered federal grant programs and complied with federal requirements.

State agencies generally complied with federal rules.

Our auditor's report on compliance is unqualified.

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.

Additional federal funds could have been available if state agencies had requested reimbursement in a timely manner.

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

Beginning in FY 2008-09, the State is expected to receive a substantial amount of additional funding under the federal American Recovery and Reinvestment Act of 2009. We will be monitoring the State's administration of these additional funds. In future audits, we will review compliance with federal requirements for their use.

Key Facts and Findings

Five state agencies administered 95 percent of Wisconsin's federal financial assistance in FY 2007-08.

2007 Wisconsin Act 20 eliminated DHFS and transferred administration of 5 of the 12 largest federal programs to two new agencies, DHS and DCF.

The largest federal program was Medical Assistance.

We identified \$6.7 million in federal funds the State could claim as reimbursement for student financial aid.

UW-Milwaukee overcharged the Foster Care—Title IV-E program \$112,923 for tuition payments on behalf of students seeking Master of Social Work degrees.

DOT should implement procedures to ensure the prevailing wage is paid on airport construction projects, as required by the federal government.

We question a minimum of \$669,799 of unallowable costs related to federal programs.

Federal Funding

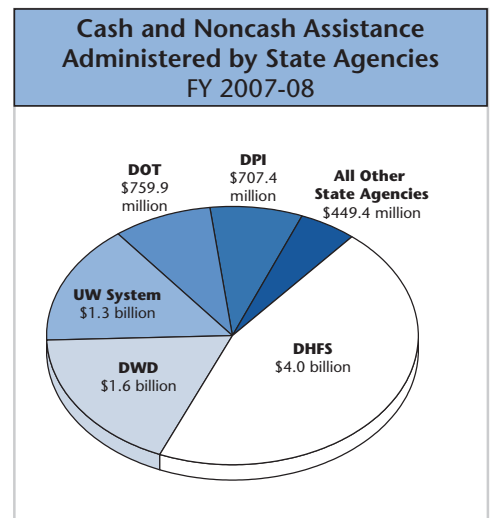
In FY 2007-08, state agencies administered almost \$8.8 billion in cash assistance from the federal government, as well as \$1.2 billion in outstanding federal loan balances and \$66.4 million in noncash assistance such as food commodities.

In total, the amount of federal financial assistance administered by the State increased approximately \$700.0 million since FY 2003-04. Federal funding has increased for many programs that make assistance payments to individuals.

For example, the federal share of Medicaid expenditures increased \$136.9 million during FY 2007-08, and federal funding for food stamps increased \$36.5 million. In addition, expenditures under the Unemployment Insurance program, which is financed primarily by employer contributions but subject to federal rules, increased \$68.6 million.

Programs Administered

Five state agencies administered 95.0 percent of the federal cash and noncash assistance expended during FY 2007-08. One of these agencies—the Department of Health and Family Services (DHFS), which was responsible for the largest share of federal expenditures during the period we audited—was eliminated under 2007 Wisconsin Act 20, which created the Department of Health Services (DHS) and the Department of Children and Families (DCF).



Since July 1, 2008, DHS has administered Medical Assistance, the largest federal program administered by the State of Wisconsin. In FY 2007-08, Wisconsin expended \$3.0 billion in federal funds and provided an additional \$2.0 billion in state funds for Medical Assistance. Other large federal programs for which DHS is responsible fund food stamps and health insurance for children.

Administrative responsibility for the Foster Care—Title IV-E and Adoption Assistance programs was transferred from DHFS to DCF on July 1, 2008. DCF has also assumed responsibility for Temporary Assistance for Needy Families (TANF) and the Child Care and Development Fund Cluster, which were administered by the Department of Workforce Development (DWD) during FY 2007-08. DWD continues to administer the Unemployment Insurance and Vocational Rehabilitation programs.

In FY 2007-08, UW System disbursed a total of \$1.3 billion in federal funds, including \$697.2 million in student financial aid and \$508.2 million in research and development grants. Most of the \$759.9 million in federal funding administered by the Department of Transportation (DOT) supported the Highway Planning and Construction program, for which expenditures totaled \$669.2 million. The Department of Public Instruction (DPI) provided the majority of its \$707.4 million in federal funding to local schools and other entities for education and nutrition programs for children.

Federal Reimbursement Requests

Requests for federal reimbursement of grant expenditures should be made in a timely manner to ensure that neither the federal government nor the State earns interest income at the expense of the other, and to ensure the State receives all of the federal revenue it is entitled to receive.

In our review of student financial aid funds, we found that three UW campuses were not timely in requesting federal reimbursement. For example, as a result of our audit work at UW-Madison, we identified \$6.7 million in federal funds the State could claim as reimbursement for financial aid disbursed to students. We also identified concerns with timeliness of requests for federal reimbursement

at UW-Milwaukee and UW-Oshkosh. We estimate the State lost \$183,500 in interest earnings as a result of the untimely requests of the three campuses.

We have renewed concerns with DWD's process for claiming federal reimbursement for the cost of vocational rehabilitation services provided to individuals who also received federal disability benefits. As a result of our audit, DWD either plans to claim or has already claimed an additional \$227,167 from the federal government.

Foster Care

We identified several concerns with the Foster Care—Title IV-E program, which provides substitute care for children who need temporary placement and care outside their homes.

First, among ten licensed foster care providers selected for review, we identified two for whom required criminal background checks had not been completed in a timely manner. The State subsequently reviewed records for all providers required to have background checks since July 1, 2007, and identified two additional providers without the appropriate background checks. We questioned \$49,900 in federal reimbursements for payments made to these providers for Foster Care—Title IV-E reimbursable children.

Second, to encourage students to pursue careers in child welfare,

UW-Milwaukee uses Foster Care—Title IV-E funds to provide financial support to students in its Master of Social Work program who agree to work in public child welfare upon graduation. However, we found that UW-Milwaukee charged the foster care program twice for tuition payments, resulting in an overbilling of \$112,923. Documentation supporting the students' fulfillment of post-graduate employment requirements was also lacking.

We identified concerns related to incorrect eligibility determinations made by a computer system for certain unique foster care cases. In addition, our report includes recommendations for DCF to continue efforts to improve federal financial reporting for the Foster Care—Title IV-E and Adoption Assistance programs.

Internal Service Funds

For several years, we have expressed concern because the Department of Administration's (DOA's) billing rates have allowed the State to accumulate excess cash balances.

Under federal rules, billing rates for certain centralized services provided by the State, such as computer processing services, should not generate profits or a cash 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.

It would be preferable for DOA to lower billing rates or provide rebates, which would make funding available for state agencies to spend for other federal program purposes. However, DOA continues to generate excess balances and to lapse some balances from these funds to the General Fund.

During FY 2007-08, \$2.2 million was lapsed from an internal service fund to the General Fund. We question \$449,645, representing the federal government's share related to this lapse, which will have to be repaid to the federal government, possibly with interest.

Since FY 2002-03, DOA has returned a total of \$39.3 million to the federal government related to excess balances and lapses from the internal service funds. The returned funds could otherwise have been spent for federal program purposes.

Other Audit Issues

DOT did not have proper controls to ensure its contractors were paying the prevailing wage to workers on construction projects funded through the Airport Improvement Program, as required under the Davis-Bacon Act. We identified 21 workers who were not paid the prevailing wage during one pay

period and question \$974, plus an undetermined amount for pay periods and projects we did not review.

In addition, we continued to identify errors in DPI's reporting of match expenditures for the Gaining Early Awareness and Readiness for Undergraduate Programs grant, an early intervention and scholarship program for low-income students. We again recommend that DPI ensure actual match amounts are reported and that documentation is maintained to support the reported match.

Recommendations

Our report includes 35 recommendations related to state agencies' administration of federal grant programs. In addition, we discuss seven internal control concerns related to our audit of the State's financial statements.

We questioned a minimum of \$669,799 in costs related to federal programs administered by the State. 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 action is sufficient.

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.

Additional Information

For a copy of report 09-5, call (608) 266-2818 or visit our Web site:



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