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☛ Details: Legislative Audit Bureau Report 08-5: An Audit: State of Wisconsin 2006-07

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2007-08

(session year)

Joint

(Assembly, Senate or Joint)

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COMMITTEE NOTICES ...

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- Executive Sessions ... **ES**
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 - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
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* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)



STATE OF WISCONSIN

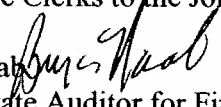
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Janice Mueller
State Auditor

DATE: March 31, 2008

TO: Nicole Hudzinski and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: Bryan Naab 
Deputy State Auditor for Financial Audit

SUBJECT: Report 08-5: An Audit of the State of Wisconsin (Single Audit)

Enclosed is our fiscal year (FY) 2006-07 federal compliance audit report for the State of Wisconsin. As a condition of receiving federal funds, the State's federal grants are subject to the audit requirements included in the federal Single Audit Act of 1984, as amended, and in Office of Management and Budget Circular A-133. We performed this federally required audit at the request of the various state agencies that administer federal funds, including the University of Wisconsin System.

State agencies generally complied with the various federal rules. However, we do report a variety of audit issues that resulted in inappropriate charges to federal grants. We question \$2,857 in costs the State charged to federal grants, which represent a very small portion of the \$9.6 billion in federal assistance administered by the State during FY 2006-07.

Our report includes 27 recommendations related to state agencies' administration of federal grant programs. Typically, our audit identifies questionable expenditures that may have to be repaid to the federal government. However, this year our recommendations also resulted in several instances where state agencies either have or may be able to increase federal reimbursement, as follows:

- The Department of Health and Family Services (DHFS) addressed our prior audit concerns to reconcile benefit payments reported on federal financial reports for Medical Assistance and the State Children's Insurance Program to the State's records. As a result of this reconciliation process, DHFS received an additional \$36.2 million in federal funds in June 2007. These funds were deposited into the General Fund and were the principal reason the State was able to transfer \$55.6 million into the State's 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. While DHFS has not finalized the accounting treatment of these additional funds, they likely will be accounted for as GPR-earned and made available for general appropriation.
- The Department of Workforce Development (DWD) addressed our prior audit concerns related to claiming reimbursement from the federal government for vocational rehabilitation services provided to clients who also receive federal disability benefits. DWD received \$2.2 million in federal funds for claims submitted for calendar years 2005 and 2006. These funds were returned to the vocational rehabilitation program and will allow the State to provide additional services to clients.

We also report that the State needed to repay the federal government to resolve concerns identified in prior audits related to rates billed to state and federal programs for certain centralized services provided by the State, such as computer processing services. Federal rules require these billing rates to not generate cash reserves of more than 60 days of operating expenses. However, the rates billed for certain centralized services have resulted in the accumulation of excess reserves, requiring the State to repay the federal government for its share of these excess balances. Most recently, in FY 2007-08, the State returned \$15.5 million, including interest, to the federal government. We note that had the Department of Administration lowered its billing rates or provided rebates instead of allowing excess reserves to accumulate, funds that have been returned to the federal government could instead have been made available for other federal program purposes.

Individuals incarcerated in state, federal, or local detention facilities for more than 30 days are not eligible for food stamp benefits. We matched data on food stamp benefit recipients with data on prisoners in the custody of the Department of Corrections to determine whether any prisoners inappropriately received food stamp benefits. We further reviewed a selection of 12 prisoners who appeared most likely to have inappropriately received benefits. We found that 10 of the 12 prisoners we reviewed inappropriately received food stamp benefits, either as an individual or as a member of a household. Our report includes a recommendation that DHFS, which administers the food stamp program, periodically determine whether any prisoners inappropriately received food stamp benefits and to seek the recovery of any overpayments.

The audit report will be released on Tuesday, April 1st, at 9:00 a.m. Please contact us with any questions.

BN/bm

Enclosures

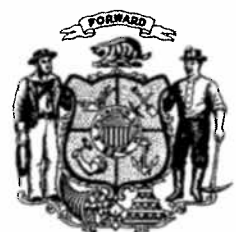


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State of Wisconsin - Legislative Reference Bureau
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**Report 08-5
March 2008**

An Audit

**State of Wisconsin
2006-07**

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Janice Mueller
State Auditor

March 31, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed our annual financial and compliance audit of the State of Wisconsin. This audit satisfies state agencies' audit requirements under the federal Single Audit Act of 1984, as amended, and the federal Office of Management and Budget Circular A-133. It also assists us in meeting audit requirements under s. 13.94, Wis. Stats.

This audit covers \$9.6 billion in federal financial assistance that state agencies administered in fiscal year 2006-07. We assessed the propriety of revenues and expenditures and tested internal controls and compliance with laws and regulations for 22 federal programs that were selected for review using risk-based assessment criteria established by the federal government.

Our report contains the auditor's reports on internal control over financial reporting and on compliance with program requirements, and our unqualified audit opinion on the State of Wisconsin Schedule of Expenditures of Federal Awards. We also discuss the results of our follow-up to prior audit findings. Overall, state agencies have complied with federal grant requirements and have taken steps to address findings included in last year's single audit report. However, we report several new and continuing internal control deficiencies and areas of federal noncompliance. The federal government will contact state agencies to resolve the findings and questioned costs included in our report.

We appreciate the courtesy and cooperation extended to us by state agency staff during our audit. Agencies' comments on individual findings, along with their corrective action plans to address our concerns, are included within the agency narratives.

Respectfully submitted,

Janice Mueller
State Auditor

JM/BN/ss



SINGLE AUDIT FY 2005-06 (Report 07-4)

Finding WI-06-1: Internal Service Funds Rate-Setting and Lapses

We recommend the Wisconsin Department of Administration continue to:

- *work with the U.S. Department of Health and Human Services to resolve concerns with the Department of Administration's rate-setting process, including obtaining approval of its new rate-setting methodology implemented in FY 2006-07; and*
- *take into consideration the surplus or deficit balances that accumulate in each cost pool when setting user rates.*

Finding WI-06-2: Federal Cash Management

We recommend the Wisconsin Department of Administration ensure federal reimbursements are drawn through the State's cash management system in accordance with the agreement required under the Cash Management Improvement Act.

Finding WI-06-3: Federal Reporting and Claiming of Expenditures

We recommend the Wisconsin Department of Health and Family Services:

- *take steps to ensure future Foster Care—Title IV-E and Adoption Assistance quarterly reports are accurately prepared, such as implementing a review process that periodically tests the detail of selected amounts and calculations; and*
- *continue to explore options that would reduce the manual entry of data into electronic spreadsheets.*

Finding WI-06-4: Licensing of Foster Care Providers

We recommend the Wisconsin Department of Health and Family Services ensure that licenses are issued only after properly prepared background disclosure forms are received.

Finding WI-06-5: Subrecipient Monitoring

We recommend the Wisconsin Department of Health and Family Services take the necessary steps to meet timeliness standards for reviewing subrecipient audit reports.

Finding WI-06-6: Computer Data Matches

We recommend the Wisconsin Department of Health and Family Services continue its efforts to ensure counties and tribes follow up in a timely manner on discrepancies identified through data matches between CARES and other databases.

Finding WI-06-7: Reconciliation of Quarterly Report to the Cash Management System

We recommend the Wisconsin Department of Health and Family Services continue with its planned efforts to reconcile, by June 30, 2007, Medical Assistance and State Children's Insurance Program benefit expenditures reported on the quarterly financial reports to federal reimbursements received through the cash management system.

Finding WI-06-8: SSA Reimbursement Claims

We recommend the Wisconsin Department of Workforce Development take immediate action to ensure claims for all eligible vocational rehabilitation services related to cases closed during FY 2005-06 are appropriately submitted to the Social Security Administration in a timely manner. In addition, for cases closed during FY 2005-06 and in the future, the Department should:

- *review cases with costs less than \$10,000 to determine whether clients did not participate in the AAA Take Charge program and, therefore, may be eligible for SSA reimbursement;*
- *consistently determine whether cases meet the substantial gainful activity requirement and are eligible for SSA reimbursement; and*
- *claim all eligible SSA reimbursements in a timely manner.*

Finding WI-06-9: Use of TANF Funds for the State Earned Income Tax Credit

We recommend the Wisconsin Department of Workforce Development work with the Department of Revenue to determine whether the amounts charged to the TANF program during FFY 2003-04 for the State's earned income tax credit program are allowable under federal regulations, and return any excess charges to the federal government.

Finding WI-06-10: Computer Data Matches

We again recommend the Wisconsin Department of Workforce Development take effective measures to ensure counties and W-2 agencies follow up in a timely manner on discrepancies identified through data matches between CARES and other databases.

Finding WI-06-11: TANF 60-Month Limit

We recommend the Wisconsin Department of Workforce Development ensures it complies with the 60-month lifetime limit for TANF assistance payments.

Finding WI-06-12: Return of Student Financial Aid Funds

We recommend the University of Wisconsin-Eau Claire take steps to ensure that institutional break periods are considered when completing student financial aid return calculations.

Finding WI-06-13: Enrollment Reporting

We recommend the University of Wisconsin-La Crosse work with and monitor the third-party servicer to ensure enrollment changes for students who receive federal student loans are provided to the National Student Loan Data System in a timely manner.

Finding WI-06-14: Federal Reporting

We recommend the University of Wisconsin-Oshkosh determine the correct amounts that should be reported on the Fiscal Operations Report and Application to Participate for FY 2004-05 and for FY 2005-06 and submit corrected versions of these reports to the U.S. Department of Education. Further, we recommend the University of Wisconsin-Oshkosh maintain supporting documentation for all amounts on each year's Fiscal Operations Report and Application to Participate for the required minimum of three years after the end of the award year in which the report is submitted.

Finding WI-06-15: In-House Collection Efforts

We recommend the University of Wisconsin-Platteville:

- *review all Perkins loans not in good standing to ensure appropriate collection efforts have been taken to comply with federal regulations; and*
- *implement procedures to periodically review the status of all defaulted Perkins loans.*

Finding WI-06-16: Return of Student Financial Aid Funds

We recommend the University of Wisconsin-Platteville:

- *review all 35 spring semester student withdrawals in FY 2005-06 and, based on federal and state regulations for returns, determine whether additional funds should be remitted to or collected from the U.S. Department of Education and UW-Platteville students; and*
- *establish written policies and procedures related to spring semester return calculations, which may be affected by institutional break periods, to ensure compliance with federal and state regulations.*

Finding WI-06-17: Federal Work-Study Time Sheets

We recommend the University of Wisconsin-Stevens Point implement procedures to ensure that all student time sheets are approved by the appropriate supervisor prior to being processed for payment.

Finding WI-06-18: Federal Reporting

We recommend the University of Wisconsin-Stevens Point:

- *review the underlying data within its financial aid system to ensure it is being compiled accurately for reporting in the Fiscal Operations Report and Application to Participate;*
- *determine the correct amounts to be reported on the Fiscal Operations Report and Application to Participate for FY 2004-05, and submit a corrected report to the U.S. Department of Education; and*
- *maintain supporting documentation for all amounts on each year's Fiscal Operations Report and Application to Participate for the required minimum of three years after the end of the award year in which the report is submitted.*

Finding WI-06-19: Forbearance Documentation

We recommend the University of Wisconsin-Stevens Point establish and implement a policy that requires borrowers to request forbearances in writing along with the necessary supporting documentation.

Finding WI-06-20: Reconciliation Procedures

We recommend the University of Wisconsin-Stevens Point retain all student financial aid reconciliations and related supporting documentation for the retention period established in federal regulations. Further, we recommend UW-Stevens Point ensure its reconciliation procedures are adequate to ensure that transactions related to loan programs, including the Federal Family Education Loans program, are properly recorded on the student financial aid system, accounts receivable system, and the general ledger.

Finding WI-06-21: Financial Aid System Override Capability

We recommend the University of Wisconsin-Stevens Point develop and implement policies and procedures to document proper use of the override code, log and monitor the use of the override code, and maintain documentation in student files to support the use of the override code.

Finding WI-06-22: Enrollment Reporting

We recommend the University of Wisconsin-Stout work with and monitor the thirdparty servicer to ensure enrollment changes for students who receive federal student loans are provided to the National Student Loan Data System in a timely manner.

Finding WI-06-23: Allowable Costs

We recommend the University of Wisconsin-Extension take steps to ensure only allowable expenditures are charged to the Cooperative Extension Service grant.

Finding WI-06-24: Materials Testing

We recommend the Wisconsin Department of Transportation ensure its established procedures are being followed to ensure that required materials testing is completed and that materials used in highway construction projects meet the minimum federal specifications.

Finding WI-06-25: Discretionary Award Procedures

We recommend the Wisconsin Department of Public Instruction develop and implement written policies and procedures for granting discretionary awards under the English Language Acquisition Grants program and maintain documentation related to awarding decisions.

Finding WI-06-26: Subrecipient Monitoring

We recommend the Wisconsin Department of Commerce ensure all required subrecipient audit reports are received and reviewed in a timely manner. In addition, we recommend that the Department formally issue management decisions on audit findings within six months after receipt of the audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Finding WI-06-27: Davis-Bacon Act

We recommend the State of Wisconsin ensure compliance with the Davis-Bacon Act requirements by:

- requiring contractors to provide payroll records for construction projects funded by federal funds; requiring contractors to certify that they are in compliance with Davis-Bacon Act requirements; and*
- reviewing the provided payroll records to ensure that, in fact, the contractors paid prevailing wages to laborers and mechanics who worked on federally funded construction projects.*



SINGLE AUDIT FY 2006-07 (Report 08-5)

Finding WI-07-1: Costs Allocated Based on the Time and Task Time Study

We recommend the Wisconsin Department of Health and Family Services:

- *ensure all staff report work effort for the Time and Task process, as required by the Department's cost allocation plan;*
- *ensure costs directly benefiting specific programs are charged to those programs, rather than allocated through the Time and Task process; and*
- *claim \$13,831 in federal reimbursements under the Medical Assistance Program for allowable costs that were erroneously allocated to a state program, and take more care when summarizing reported work effort to ensure costs are appropriately allocated through the Time and Task process.*

Finding WI-07-2: TANF Funds Spent through the SSBG Program

We recommend the Wisconsin Department of Health and Family Services document that TANF funds provided through the Social Services Block Grant are used to provide allowable services to children or their families whose income is less than 200 percent of the federal poverty level.

Finding WI-07-3: Food Stamp Benefits Provided to Inmates

We recommend the Wisconsin Department of Health and Family Services develop a plan to regularly verify that Food Stamps program participants are not ineligible due to incarceration and seek collection of any overpayments when identified.

Finding WI-07-4: Federal Reporting and Claiming of Expenditures—Foster Care and Adoption Assistance

We recommend the Wisconsin Department of Health and Family Services continue its efforts to ensure future quarterly reports for the Foster Care—Title IV-E program and Adoption Assistance program are accurately prepared, such as additional supervisory review and reduction of manual data entry:

Finding WI-07-5: Subrecipient Monitoring

We again recommend the Wisconsin Department of Health and Family Services take steps to meet timeliness standards for reviewing subrecipient audit reports.

Finding WI-07-6: Computer Data Matches

We again recommend the Wisconsin Department of Health and Family Services ensure counties and tribes follow up in a timely manner on data matches between CARES and other databases.

Finding: WI-07-7: Computer Data Matches

We again recommend the Wisconsin Department of Workforce Development take effective measures to ensure that counties and W-2 agencies follow up in a timely manner on data matches between CARES and other databases.

Finding WI-07-8: TANF 60-Month Limit

We recommend the Wisconsin Department of Workforce Development ensure it complies with the 60-month lifetime limit for TANF assistance payments.

Finding WI-07-9: Return of Student Financial Aid Funds

We recommend the University of Wisconsin-Madison take steps to ensure that institutional break periods are correctly considered when completing student financial aid return calculations.

Finding WI-07-10: Cash Management

We recommend the University of Wisconsin-Madison ensure it requests federal reimbursement of student financial aid expenditures to minimize the time between when it disburses aid to students and when it receives reimbursement.

Finding WI-07-11: Service Contracts and Agreements

We recommend the University of Wisconsin-Milwaukee improve internal controls over its contracting procedures to ensure that payments to vendors occur on a reimbursement basis or, if advances are made, that the time between payment and the receipt of the goods or services is minimized. Further, we recommend UW-Milwaukee ensure that internal service agreements, such as the agreement with the UW-Milwaukee School of Education, are adequately documented and monitored.

Finding WI-07-12: Time and Effort Reporting

We recommend the University of Wisconsin-Milwaukee follow federal time and effort reporting requirements and maintain appropriate documentation for the semiannual certifications of work effort and the personnel activity reports from employees working on multiple activities.

Finding WI-07-13: Reporting Match Expenditures for the GEAR UP Grant

We recommend the University of Wisconsin-Eau Claire:

- *ensure that it reports actual match amounts appropriately for each award period within the Annual Performance Report, which includes ensuring amounts reported for all prior award years are accurate; and*
- *maintain documentation of the match amounts being reported in the Annual Performance Report.*

Finding WI-07-14: Federal Reporting

We recommend the University of Wisconsin-Green Bay strengthen its review of the amounts reported on the Fiscal Operations Report and Application to Participate to ensure the amounts agree with appropriate supporting documentation. Further, we recommend the University of Wisconsin-Green Bay maintain supporting documentation for all amounts in each year for the required minimum of three years after the end of the award year for which the report is submitted.

Finding WI-07-15: Enrollment Reporting

We recommend the University of Wisconsin-Green Bay work with and monitor the third-party servicer to ensure enrollment changes for students who receive federal student loans are provided to the National Student Loan Data System accurately and in a timely manner.

Finding WI-07-16: Return of Federal Student Financial Aid Funds

We recommend the University of Wisconsin-Green Bay:

- *take steps to ensure that institutional break periods are correctly considered when completing student financial aid return calculations;*
- *apply consistent procedures in determining institutional charges to be included when completing student financial aid return calculations; and*
- *review the return calculations completed during the 2006-07 academic year to ensure institutional charges were appropriately calculated, and adjust student financial aid accounts as appropriate.*

Finding WI-07-17: Calculation of State Program Returns

We recommend the University of Wisconsin-Green Bay revise its procedures for calculating the return of state student financial aid funds to ensure the calculations are completed separately for each funding source.

Finding WI-07-18: Federal Reporting

We recommend the University of Wisconsin-River Falls review the amounts reported on the Fiscal Operations Report and Application to Participate and ensure they are accurate and agree with appropriate supporting documentation.

Finding WI-07-19: Reconciliation Procedures

We recommend the University of Wisconsin-River Falls comply with the federal requirements to complete monthly reconciliations of the student financial aid programs to ensure Federal Work-Study Program, Federal Supplemental Educational Opportunity Grants, and Federal Perkins Loan Program disbursements are properly recorded on the student financial aid system and the general ledger.

Finding WI-07-20: Internal Controls over Student Payroll

We recommend the University of Wisconsin-River Falls implement procedures that properly separate the duties of authorizing and disbursing student payroll checks, or identify appropriate compensating controls. In addition, we recommend the University of Wisconsin-River Falls review our concerns with the student payroll system to ensure documentation of payroll activity, including changes in pay rates, is maintained.

Finding WI-07-21: Enrollment Reporting

We recommend the University of Wisconsin-River Falls work with and monitor the third-party servicer to ensure enrollment changes for students who receive federal student loans are provided to the National Student Loan Data System in a timely manner.

Finding WI-07-22: Return of Student Financial Aid Funds

We recommend the University of Wisconsin-River Falls take steps to ensure that return calculations are performed correctly and on a timely basis.

Finding WI-07-23: Financial Aid System Override Capability

We recommend the University of Wisconsin-Stevens Point continue to work on developing and implementing policies and procedures to better control use of the override code on the financial aid system.

Finding WI-07-24: Enrollment Reporting

We recommend the University of Wisconsin-Stout continue to work with and monitor the third-party servicer to ensure enrollment changes for students who receive federal student loans are provided to the National Student Loan Data System in a timely manner.

Finding WI-07-25: Allowable Costs

We recommend the University of Wisconsin-Extension continue to monitor grant expenditures, including conducting an annual review of tuition reimbursement expenditures, to ensure these unallowable expenditures are not charged to the Cooperative Extension Service grant.

Finding WI-07-26: Materials Acceptance Testing

We again recommend the Wisconsin Department of Transportation ensure that:

- *required materials testing is completed and required certifications are obtained; and*
- *documentation of the required tests and certifications is entered into the Materials Tracking System on a timely basis.*

Finding WI-07-27: Reporting and Monitoring of Match Expenditures for GEAR UP

We recommend the Wisconsin Department of Public Instruction:

- *ensure that it reports actual rather than estimated match amounts in the Annual Performance Report;*
- *maintain documentation of the match amounts being reported in the Annual Performance Report; and*
- *monitor closely to ensure match can be met by the time the grant is closed out and federal funding is maximized.*