



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

January 20, 2011

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As part of the State's Comprehensive Annual Financial Report for fiscal year (FY) 2009-10, which was published by the Department of Administration last month, we issued an unqualified audit opinion and, in a management letter provided to the Joint Legislative Audit Committee on December 17, 2010, described certain concerns with internal control over financial reporting and compliance that we are required to report under *Government Auditing Standards*. During the course of our audit, we also identified two other matters that are not required to be reported under *Government Auditing Standards* but that deserve attention:

- \$19.4 million was lapsed from certain program revenue appropriations with insufficient cash to cover the lapses; and
- expenditures of \$25.9 million were incurred during FY 2009-10 but charged to FY 2010-11 accounts.

Lapses from Certain Program Revenue Appropriations

In recent years, lapses and transfers from various appropriations to the General Fund have become a more commonplace method for helping to balance the State's budget. For example, 2009 Wisconsin Acts 2 and 28 required the Secretary of the Department of Administration to lapse or transfer a total of \$641.8 million from executive branch agencies to the General Fund during the 2009-11 biennium. During FY 2009-10, the amount lapsed or transferred to the General Fund from program revenue appropriations alone was \$137.0 million.

General purpose revenue (GPR) from taxes and other sources is deposited in the General Fund, where it becomes available for general appropriation by the Legislature. Program revenue from dedicated sources, such as licensing and other fees, is appropriated for related programs. Revenues and expenditures for appropriations are accounted for in the State's central accounting system. When deposits to a program revenue appropriation are greater than expenditures, a cash surplus or positive cash balance accumulates in the account for that appropriation. Conversely, if expenditures exceed revenues, there is a deficit or negative cash balance.

Section 20.903(2), Wis. Stats., allows expenditures from program revenue appropriations with negative cash balances when sufficient accounts receivable will be collected in cash to cover the negative amount. In addition, negative cash balances may be allowed if they are covered by other assets, such as buildings and equipment. However, \$19.4 million was lapsed from program revenue appropriations with insufficient cash in FY 2009-10 to cover the lapses. That is, the State's central accounting system recorded \$19.4 million as GPR for FY 2009-10 even though the State had yet to receive and deposit cash related to these entries to its working bank account.

The amount recorded includes \$10.6 million in lapses covered by accounts receivable or other assets. These lapses effectively converted anticipated future program revenue to GPR available for FY 2009-10. Moreover, \$8.8 million was lapsed from program revenue appropriations without accounts receivable or other assets to cover their negative cash balances. That is, the accounting entries showed \$8.8 million in available GPR in FY 2009-10 even though cash in that amount was neither on deposit in the State's working bank account nor anticipated to be received in the future.

Table 1 provides a summary of the FY 2009-10 lapses from program revenue appropriations in excess of available cash. As a result of these lapses, the State's FY 2009-10 Annual Fiscal Report, which was issued by the Department of Administration in October 2010, included \$19.4 million more in General Fund revenue than was actually available.

In addition to the amounts presented in Table 1, there was a \$406,700 lapse to the General Fund in FY 2009-10 from the State's Unclaimed Property program under s. 20.585(1)(k), Wis. Stats., which accounts for the program's administrative expenses. Section 177.23, Wis. Stats., requires that proceeds from the Unclaimed Property program be transferred to the Common School Fund, and Article X, s. 2 of the Wisconsin Constitution requires that "the clear proceeds of all property that may accrue to the State by forfeiture or escheat" be used for educational purposes. Because the funds were not transferred to the Common School Fund, the \$406,700 lapse from the appropriation authorized under s. 20.585(1)(k), Wis. Stats., could be in conflict with both s. 177.23, Wis. Stats., and the Wisconsin Constitution.

Table 1

Program Revenue Lapses in Excess of Available Cash
 FY 2009-10

Agency	Statutory Reference	Appropriation Title	Amount
Lapses Covered by Accounts Receivable or Other Assets:			
Department of Administration	20.505(1)(kb)	Transportation, Records, and Document Services	\$ 4,700,000
UW System	20.285(1)(g)	Physical Plant Service Departments	1,186,200
Department of Administration	20.505(2)(k)	Risk Management Costs	1,000,000
Department of Administration	20.505(5)(ka)	Facility Operations and Maintenance; Police and Protection Functions	399,960
UW System	20.285(1)(ha)	Stores	271,200
UW System	20.285(1)(ia)	State Laboratory of Hygiene; Drivers	131,400
Other Agencies		Various Appropriations	2,924,490
Subtotal			10,613,250
Lapses Not Covered by Accounts Receivable or Other Assets:			
Department of Administration	20.505(1)(kL)	Printing, Mail, Communication and Information Technology Services; Agencies	6,300,000
Department of Corrections	20.410(3)(hm)	Juvenile Correctional Services	1,725,000
Department of Justice		Various Appropriations	448,400
State Fair Park	20.190(1)(h)	State Fair Operations	236,200
Department of Agriculture, Trade and Consumer Protection	20.115(1)(h)	Grain Inspection and Certification	55,700
Subtotal			8,765,300
Total Lapses in Excess of Available Cash			\$19,378,550

FY 2009-10 Expenditures Charged to FY 2010-11 Accounts

We are concerned about accounting entries that three agencies used to charge the \$25.9 million in expenditures shown in Table 2 to FY 2010-11 accounts, even though the expenditures were incurred and the funds were disbursed during FY 2009-10.

Table 2

FY 2009-10 Expenditures Charged to FY 2010-11 Accounts

Department	Statutory Reference	Appropriation Title	Amount
Corrections	20.410(3)(cd)	Community Youth and Family Aids	\$ 5,588,484
Health Services	20.435(1)(f)	Family Planning	167,430
Health Services	20.435(5)(bc)	Grants for Community Programs	19,018
Health Services	20.435(7)(b)	Community Aids and Medical Assistance Payments	19,795,171
Health Services	20.435(7)(bd)	Long-term Care Programs	97,214
Children and Families	20.437(1)(bc)	Grants for Children's Community Programs	712
Children and Families	20.437(1)(cd)	Domestic Abuse Grants	215,317
Total			\$25,883,346

For several annual GPR appropriations, including those shown in Table 2, statutes allow state agencies to transfer funds "between fiscal years." However, we would expect expenditures from the appropriations shown in Table 2 to have been accounted for in the fiscal year in which payments were made, and any necessary spending authority to have been transferred between fiscal years to match the expenditures. Failure to account for these transactions in such a manner would appear to be inconsistent with the intent of Article VIII, s. 2 of the Wisconsin Constitution, which prohibits any expenditure of funds unless appropriated by law.

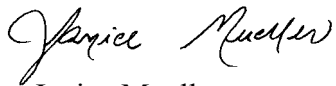
If the expenditures shown in Table 2 had been charged to FY 2009-10 accounts, the State's FY 2009-10 Annual Fiscal Report would have included \$25.9 million more in General Fund expenditures than the Department of Administration reported in October 2010.

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In combination, actions to address the \$19.4 million in lapses and \$25.9 million in expenditures charged to FY 2010-11 accounts would reduce the General Fund's undesignated fund balance by \$45.3 million.

We bring these matters to your attention in an effort to prevent similar occurrences in the future. Please let me know if you have any questions.

Sincerely,



Janice Mueller
State Auditor

JM/BN/bm

cc: Members, Joint Legislative Audit Committee

Members, Joint Committee on Finance

Michael Huebsch, Secretary
Department of Administration

Bob Lang, Director
Legislative Fiscal Bureau