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WISCONSIN STATE LEGISLATURE

Joint Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

February 4, 2004

Mr. Marc Marotta, Secretary
Department of Administration
101 East Wilson Street
Madison, Wisconsin 53702

Dear Mr. Marotta:

On Friday, February 13, 2004, the Joint Legislative Audit Committee will hold an informational hearing on the State of Wisconsin's Fiscal Year 2002-03 Comprehensive Annual Financial Report (CAFR). The Committee will also engage in a discussion of the generally accepted accounting principles on which the CAFR is based, and the effect of these principles on the calculation of the State's deficit.

Because the Department of Administration is responsible for annual preparation of the CAFR and the Legislative Audit Bureau issues the independent auditor's opinion on the report, representatives from both agencies are invited to offer testimony to the Committee. Given the subject matter and the Committee's interests, we would like to suggest that Mr. William Raftery, State Controller, and Mr. Frank Hoadley, Capital Finance Officer, join you in offering testimony on behalf of the Department of Administration.

As the enclosed hearing notice indicates, we have allowed one hour for this informational briefing. Testimony from the State Auditor and her response to our questions will occupy the first 30 minutes of the hearing. Testimony by and questions addressed to you and staff from the Department of Administration will compose the remaining 30 minutes of scheduled hearing time. Please plan to provide fourteen (14) written copies of your testimony to committee members and the clerks at the time of the hearing.

Please contact Ms. Karen Asbjornson (Senator Roessler's office) at 266-5300 to confirm participation in the hearing. Thank you for your assistance and we look forward to your testimony. Should you have any questions, please contact our offices.

Sincerely,

Senator Carol A. Roessler
Co-chairperson
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz
Co-chairperson
Joint Legislative Audit Committee

Enclosure

cc: Mr. William Raftery, State Controller
Mr. Frank Hoadley, Capital Finance Officer
Ms. Janice Mueller, State Auditor

Mr. Marc Marotta, Secretary
Department of Administration
101 East Wilson Street, 10th Floor
Madison, Wisconsin 53707

Mr. William Raftery, Controller
Department of Administration
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Mr. Frank Hoadley
Capital Finance Officer
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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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February 12, 2004

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed our fiscal year (FY) 2002-03 financial audit of the State of Wisconsin, as requested by the Department of Administration and to fulfill our audit requirements under s. 13.94(1)(c), Wis. Stats. The State's financial statements, and our unqualified audit opinion on them dated December 12, 2003, were included in the State's Comprehensive Annual Financial Report (CAFR) for FY 2002-03, which was published by the Department of Administration and distributed to the Legislature at the end of December.

The CAFR presents the financial position and results of operations for the General Fund and other governmental funds, such as the Transportation Fund, as well as for business-type activities such as the Lottery Fund. Unlike the State's Annual Fiscal Report, which presents financial activity in accordance with budgetary accounting rules established by Wisconsin statutes, the CAFR reports financial activity in accordance with generally accepted accounting principles (GAAP) established for state and local governments. The budgetary basis of accounting recognizes revenues and expenditures largely when cash is received or paid, whereas GAAP generally recognizes revenues and expenditures as they are earned or incurred, regardless of the timing of cash receipts and disbursements. As a result, there are differences in the amounts reported in the two reports.

The CAFR is lengthy and complex, including detailed notes and supporting schedules. The CAFR is intended to be used by legislators, the bonding community, and others to assess the State's current financial position and trends over time. As required by GAAP, the CAFR includes Management's Discussion and Analysis, written by the Department of Administration, to highlight important aspects of the financial statements.

In the attached document, we have summarized financial activity for the General Fund and highlighted other areas that may be of interest to the Legislature. In addition, for purposes of additional analysis, we compared the State's General Fund balance, the State's bond ratings, and the levels of general obligation debt with those of neighboring states.

I hope this information assists you in your understanding of the GAAP-based financial statements included in the CAFR. Please let me know if I can be of further assistance or if you have any questions.

Sincerely,

Janice Mueller
State Auditor

JM/BN/bm

STATE OF WISCONSIN COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year 2002-03

The State of Wisconsin's fiscal year (FY) 2002-03 financial statements, prepared in accordance with generally accepted accounting principles (GAAP) established for state and local governments, were included in the Comprehensive Annual Financial Report, which was issued by the Department of Administration (DOA) in December 2003. These financial statements present the financial activity for the General Fund and other funds of the State on a GAAP basis. In general, GAAP requires revenues to be reported when they are earned and expenditures to be reported when incurred, regardless of the actual timing of the cash receipts and disbursements.

GAAP provides a set of rules of accounting that allows for comparisons of the government's financial position from one year to another and diminishes the ability to affect financial reporting by changing payment dates for obligations. In fact, one of the main objectives of GAAP-based financial reporting is to allow readers to assess the government's financial condition and to conclude whether the financial condition has improved or worsened at the end of the current year compared to the prior year.

General Fund GAAP Financial Statements

The General Fund accounts for the general activities of government. For GAAP reporting purposes, some activities, such as the University of Wisconsin System and some self-financing activities, such as car fleet operations, are not reported in the General Fund but instead are reported as separate funds within the CAFR. During FY 2002-03, the General Fund experienced a decline in its financial condition: the General Fund GAAP deficit as of June 30, 2003 was \$2.24 billion, which is \$758.2 million more than the June 30, 2002 deficit of \$1.48 billion. The General Fund GAAP deficit increased during fiscal year 2002-03 because expenditures and transfers out of the General Fund exceeded revenues and transfers in. We note that, under GAAP, the General Fund was credited in the preceding year (FY 2001-02) with \$992.0 million of the \$1.275 billion in proceeds from the sale of the State's right to future tobacco revenues. The remaining \$283.0 million in tobacco bond proceeds was credited to the General Fund in FY 2002-03 and the balance in the Tobacco Settlement Endowment Fund, which accounted for the tobacco bond proceeds, was zero as of the end FY 2002-03.

DOA also prepares annual budgetary financial statements in accordance with accounting requirements included in the statutes. Those statements are included in the Annual Fiscal Report (AFR), which is issued in October following the end of the fiscal year. The FY 2002-03 AFR reflected a General Fund deficit of \$157.2 million, consisting of a deficit balance of \$275.8 million related to GPR activities and a positive balance of \$118.6 million related to program revenue activities. As noted above, the difference in the deficit between the AFR and the CAFR is due to the differences between the budgetary accounting rules and GAAP. Table 1 provides a reconciliation of the General Fund balance, as reflected in the AFR, to the General Fund balance on a GAAP basis, as reflected in the CAFR.

Table 1

General Fund Reconciliation – Budgetary to GAAP Basis
 June 30, 2003
 (in millions)

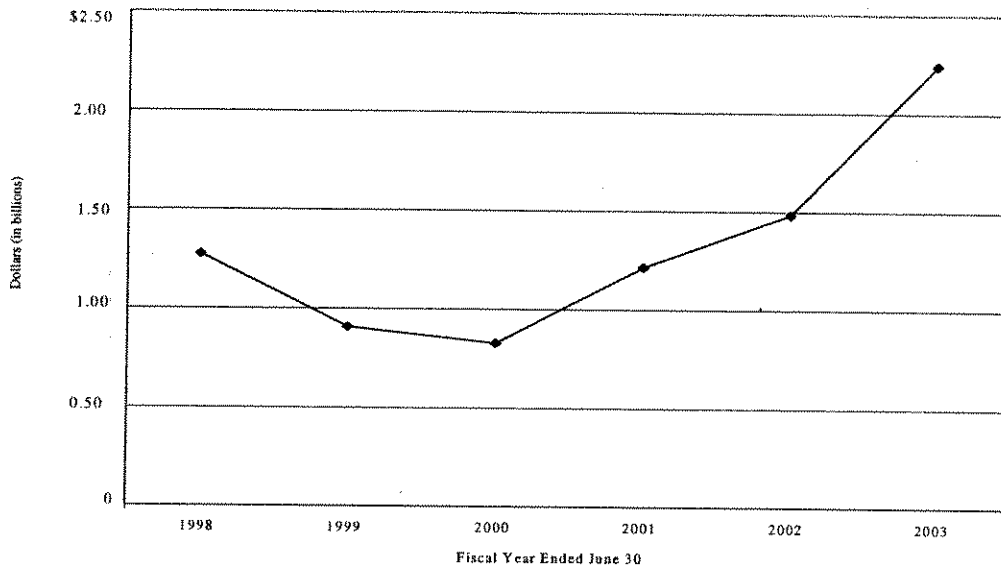
Description	Amount
AFR General Fund Unreserved Balance—GPR	\$ (275.8)
AFR General Fund Unreserved Balance—PR	118.6
Total General Fund Unreserved Balance (Budgetary)	(157.2)
Reclassifications to Separately Report the UW and Other Funds, and Adjustments for Encumbrances	197.5
Liabilities Related to Shared Revenue and Property Tax Credit Programs	(851.7)
Liabilities for Estimated Individual Income Tax Refunds	(738.1)
Other Tax-related Liabilities and Adjustments	(458.1)
Liabilities Related to Unpaid Medicaid Claims	(165.0)
Liabilities for Delayed State Educational Aids Payments	(75.0)
Other Adjustments	5.1
General Fund Balance Reported in the CAFR (GAAP)	\$(2,242.5)

Several adjustments are necessary because GAAP requires that liabilities be reported when they are incurred. The budgetary basis of accounting allows these same transactions to be reported only when cash payments are made. For example, the \$75 million adjustment related to school aid payments results because payments to school districts originally due in June have been delayed to July of the subsequent fiscal year. While budgetary accounting treats these payments as expenditures of the subsequent fiscal year, GAAP requires a liability to be recognized in the current fiscal year to reflect the fact that it owed to school districts as of the end of the fiscal year.

The General Fund GAAP balance has been a deficit since the State first began reporting under GAAP for FY 1989-90. However, as reflected in Figure 1, the deficit has worsened over the past three years to \$2.24 billion as of June 30, 2003, which is the largest deficit the State has ever reported.

Figure 1

General Fund GAAP Deficit
Fiscal Years Ended June 30, 1998 through 2003



At one time, Wisconsin was one of only two states with a General Fund GAAP deficit. However, economic conditions in the past several years have resulted in deficits in other states' general funds. For example, New York's GAAP general fund balance declined from a positive \$492.6 million for its fiscal year ending March 31, 2002 to a deficit of \$3.3 billion as of March 31, 2003.

As shown in Table 2, in comparison to the six surrounding states, Wisconsin is one of three states with a GAAP General Fund deficit. Illinois has reported a General Fund GAAP deficit since June 30, 2000, while Minnesota reported a GAAP deficit for the first time as of June 30, 2003.

Table 2

Summary of General Fund - Other States' CAFRs
 June 30, 2003
 (in billions)

	Total Assets	Total Liabilities	Total Fund Balance	Standard & Poor's Bond Rating
Illinois ¹	\$2.70	\$6.01	(\$3.31)	AA
Wisconsin	2.34	4.58	(2.24)	AA-
Minnesota	2.53	3.46	(.93)	AAA
Ohio	3.42	3.23	.19	AA+
Indiana	3.65	2.39	1.26	AA+
Michigan	5.86	4.55	1.31	AAA
Iowa	2.49	.83	1.66	AA+

¹ As of June 30, 2002 due to unavailability of FY 2002-03 statements.

Bond rating agencies take many factors into consideration when setting bond ratings, including the size of any GAAP deficit and the number of years the deficit has existed, the existence of a rainy day fund, the commitment to addressing fiscal concerns, and economic climate. As shown in Table 2, in part due to its GAAP deficit, the State of Wisconsin's Standard & Poor's AA- bond rating is the lowest among neighboring states. Because of the lower bond rating, the State's general obligation bonds are issued at higher interest rates, resulting in increased interest costs to the State.

General Fund Cash Condition

DOA monitors the State's cash position on a daily basis. At certain times during the year, due to the timing of receipts and disbursements, cash outflows may exceed available cash in the General Fund. For example, the cash balance is generally lower during the first half of the fiscal year when significant shared revenue and other aid payments are made to local governments, and higher during the second half of the fiscal year. To manage these short-term cash flow problems, State statutes allow temporary inter-fund borrowings to cover negative cash balances in the General Fund and in other funds. Section 20.002(11), Wis. Stats., limits General Fund borrowings to 5 percent of general purpose revenue appropriations, with an additional 3 percent allowed for a maximum of 30 days. For FY 2002-03, the General Fund inter-fund borrowing limit was approximately \$890 million.

If additional General Fund borrowings are needed, DOA may request authority from the State Building Commission to issue operating notes under s. 18.72, Wis. Stats. During FY 2002-03, the State did not issue operating notes because sufficient cash was available in the General Fund and other funds. However, in anticipation of short-term cash flow problems, the Building Commission has authorized DOA to issue up to \$800 million in operating notes in FY 2003-04 and, in September 2003, DOA issued \$400 million in operating notes.

Level of General Obligation Debt

The State issues general obligation debt for a variety of purposes, including capital construction and acquisitions, grants for pollution abatement and other purposes, housing loans to qualifying veterans, and other public purposes. While some of the general obligation debt will be repaid from dedicated funding sources, such as veterans home loan repayments, the majority of the general obligation debt will be funded by general purpose revenues. In addition, the State also issues revenue bonds, which are not general obligations of the State and which are repaid from pledged revenue sources, such as vehicle registration fees.

The statistical section of the CAFR, which is not considered part of the audited financial statements, includes useful information for purposes of additional analysis. As detailed in the statistical section and summarized in Table 3, the State's net general obligation debt, which excludes general obligation debt to be repaid from dedicated revenue sources such as veterans home loan repayments, has increased from \$2.3 billion as of June 30, 1994 to \$3.4 billion as of June 30, 2003, or by 48.0 percent.

Table 3

General Obligation Debt
on June 30
(in billions)

Year	Net Bonded Debt	Percentage Increase
1994	\$2.29	
1995	2.36	3.1%
1996	2.54	7.6
1997	2.41	-5.1
1998	2.59	7.5
1999	2.66	2.7
2000	2.81	5.6
2001	3.11	10.7
2002	3.30	6.1
2003	3.39	2.7
Total Increase	\$1.10	48.0%

As shown in Table 4, the State's per capita debt as of June 30, 2002, the most recent year for which information from all states was available, is less than the per capita debt of Illinois and Ohio, but greater than the per capita debt of Minnesota. However, comparison of general obligation debt between states is difficult because states rely upon revenue bonding to differing degrees. For example, Indiana and Iowa have constitutional prohibitions from issuing significant amounts of general obligation debt.

Table 4

Net Bonded General Obligation Debt¹
June 30, 2002

	Net Bonded Debt (in billions)	Per Capita
Illinois	\$9.78	\$776
Ohio	8.07	706
Wisconsin	3.30	606
Minnesota	3.03	604

¹ Other midwestern states were not included because they rely more heavily on debt other than general obligation debt.

Other CAFR Highlights

The CAFR includes financial information for over 90 funds that are required to be reported under GAAP. These funds are grouped as either governmental funds, which report financial activity funded primarily by taxes, user fees and licenses, and federal grants, or business-type activities, which are financed in whole or in part by user charges for goods or services. Selected financial highlights for various funds are presented below.

Transportation Fund

The Transportation Fund accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal funds to support transportation activities in Wisconsin. During the FY 03-05 biennium, the Legislature authorized \$675.3 million to be transferred from the Transportation Fund to the General Fund to help address the General Fund's budgetary shortfall. In addition, during FY 2002-03, legislative actions resulted in the transfer of \$15.9 million from the Transportation Fund to the General Fund.

University of Wisconsin System

University of Wisconsin System operating revenues were \$2.0 billion in FY 2002-03, compared to \$1.8 billion in FY 2001-02. The 11.4 percent increase is primarily due to increases in student fee revenue and federal funds for grants and contracts. The increase in student fee revenue resulted largely from an 8 percent increase in tuition in FY 2002-03 approved by the Board of Regents.

Unemployment Insurance Fund

The Unemployment Insurance Fund accounts for unemployment tax contributions made by employers and unemployment benefits paid to laid-off workers in the State. Wisconsin has four employer tax rate schedules. The lowest schedule has been in effect the past 12 years because the Unemployment Insurance Fund's cash balance had been in excess of \$1.2 billion. However, during fiscal year 2002-03, the Fund's cash balance dropped below \$1.2 billion. Therefore, the second-lowest tax rate schedule is in effect for calendar year 2004, which results in increased employer contributions to the Fund.

Veterans Mortgage Loan Repayment Fund

The Department of Veterans Affairs manages the Veterans Mortgage Loan program. Under this program, the State issues general obligation bonds and the Department uses the bond proceeds to fund first-time mortgage loans to qualifying veterans. Due to the declining number of qualifying veterans seeking new mortgage loans, federal restrictions that prevent the Department from using general obligation bonds to refinance previously issued loans, and declining interest rates, there has been a significant decline in recent years in new mortgage loan activity and a significant increase in prepayments on existing mortgage loans. The mortgage loan balance was \$392.3 million as of June 30, 2003, which is \$242.4 million less than the \$634.7 million loan balance as of June 30, 2002.

Pension Fund

At June 30, 2003, assets held in trust for pension and other employee benefits totaled \$56.2 billion, which represents a \$233.4 million increase from June 30, 2002. In December 2003, the State issued bonds to fund the State's \$1.5 billion accrued liability for the pension fund and the sick leave credit conversion program, the largest of the other employee benefits programs. Because the bonds bear lower interest rates than the rate associated with the accrued liability, this action resulted in cost savings to the State. In addition, bond principal repayments are postponed to at least FY 2008-09.

Government-wide Financial Statements

In addition to presenting financial information for the General Fund and other funds, GAAP requires the State to report consolidated financial information for the State as a whole. These government-wide financial statements allow readers to assess the overall financial condition of the State and changes that occurred during the fiscal year. The government-wide financial statements show that the State had total assets of \$27.3 billion and total liabilities of \$14.2 billion. The largest component of total assets is infrastructure assets, which consists of roads, bridges, and other similar assets. As of June 30, 2003, the State had \$9.4 billion invested in infrastructure assets.

TESTIMONY TO THE JOINT AUDIT COMMITTEE

February 13, 2004

Senator Roessler, Representative Jeskewitz and Members of the Committee:

Good morning.

My name is David Schmiedicke. I am the State Budget Director and Administrator of the Division of Executive Budget and Finance in the Department of Administration. The division includes the State Budget Office, the Capital Finance Office and the State Controllers Office. Division staff assist the Governor in developing the state's executive budget, manage and provide advice on the state's debt portfolio and oversee the state's accounting system.

Secretary Marotta expresses his regrets for being unable to attend today's hearing. Bill Raftery, the State Controller and Frank Hoadley, the Capital Finance Director, are with me today. Between the three of us, I am confident we can address questions you may have regarding the state's Comprehensive Annual Fiscal Report and generally accepted accounting principles.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND THE COMPREHENSIVE ANNUAL FISCAL REPORT (CAFR)

Bill Raftery will give a detailed presentation on GAAP and the state's CAFR. I will provide some general comments and offer some context from the rating agency perspective.

The state of Wisconsin first issued a CAFR in 1990 and has been using GAAP accounting since that time. The first CAFR told us something we already knew – the state has a timing mismatch between when revenues are collected and payments must be made. Accountants call that a "GAAP deficit" – in other words, we defer a liability incurred in one year to the next year.

This mismatch has been in place for over 20 years and is a manifestation of decisions made over that period of time to delay payments in order to have a positive balance from a budgetary accounting perspective. Those decisions include delaying shared revenue payments from one fiscal year to the next, but still within the same calendar year, and delaying school aid payments from June to July in order to finance state funding of two-thirds of school costs.

In order to finance that mismatch, the state has had to sometimes engage in short-term borrowing. Short-term borrowing, either from funds within state government or through operating notes held by banks, has been necessary when general fund budgetary surpluses were insufficient to ensure bills could be paid.

The investment community represents the primary user of the CAFR. Users include bondholders, bond rating agencies, financial analysts and others involved in the bond market. Since 1992, bond rating agencies have expressed concern about the lack of adequate financial reserves as reflected in the state's CAFR. As the economy has softened over the past year and a half, these concerns have become deeper and have resulted in the state's bonds being downgraded. In reviewing a state's bonds, rating agencies look at four primary factors. One of

these factors is the state's financial balance sheet as expressed in the CAFR. The others include management, debt burden and the overall economy.

RECENT CHANGES TO THE BUDGET PROCESS AND OVERALL FISCAL MANAGEMENT

The last few budgets have included several measures to improve the state's fiscal management:

- Increasing the general fund required minimum balance to two percent of appropriations over time.
- Establishing a four-year horizon for budget impacts.
- Noting the impact of budget proposals on state's GAAP balance sheet.
- Requiring one-half of unanticipated revenue growth be deposited in the state's rainy day fund.

Several of these measures enhance the information provided to the Governor and Legislature concerning the impact of various decisions on the state's long-term fiscal outlook. Other measures introduce a degree of fiscal discipline to the budget development process. The four-year budget horizon and the impact of proposals on the state's financial balance sheet were first used in the 2003-05 biennial budget.

POINTS TO CONSIDER

- The timing mismatch between revenues and expenditures has been with us for over 20 years.
- This mismatch will not be erased in the near term.
- There are three key steps in addressing this mismatch:

First Step – Present the impact of the budget on GAAP balance sheet.

- ✓ The 2003-05 budget was the first to require a demonstration of the impact of the budget bill on the state's GAAP balance sheet.

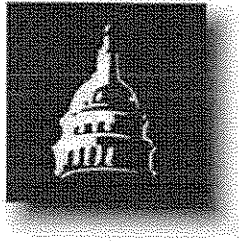
Second Step – Do no further harm to the state's GAAP balance sheet.

- ✓ The 2003-05 budget did not include any payment delays.

Third Step – Begin setting aside revenues to improve the state's GAAP balance sheet.

- ✓ Current law requires that 50 percent of unanticipated revenues be set-aside
 - ✓ The most recent budget, as proposed by the Governor, and adopted by the Legislature, sets aside proceeds from the sale of assets in the budget stabilization fund.
 - ✓ The Governor, through vetoes, prudently set aside \$200 million in the general fund balance – this helped to offset the Legislative Fiscal Bureau's recent downward reestimate of its January 2003 revenue forecast.
-
- Putting the state's fiscal house in order under GAAP means continuing this progress.
 - With the current mismatch a sign of financial weakness, the bond rating agencies will view progress toward addressing that mismatch in a positive light.
 - CAFR and GAAP accounting are very important to showing the implications of budget decisions on the state's balance sheet.
 - Decision-makers are well served by this information.

Thank you for this opportunity to discuss the state's CAFR and GAAP accounting processes. The State Controller, Bill Rafferty, will now proceed to provide a more detailed overview of both of these issues.



JEFF STONE

STATE REPRESENTATIVE
82ND DISTRICT

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Franklin ☞ Greendale ☞ Greenfield

**For Immediate Release
March 3, 2004**

District Phone
414-529-1100

Representative Stone reacts to lowering of State's bond rating

Madison- Representative Jeff Stone (R-Greenfield) pointed to a recent drop in the state's bond rating as further evidence of the need to improve fiscal management in the state.

"Last week the Governor signed legislation deferring and delaying debt repayment by the state," said Stone. "I opposed that effort knowing that we have stretched our financial health to the limits."

Fitch Ratings lowered Wisconsin's bond rating one level and cited concerns about the state's economic prospects.

Stone states, "Of all the challenges facing our state the underlying weakness of our fiscal planning is the most fundamental."

Representative Stone served on a special legislative committee on improving Wisconsin's fiscal management. The committee recommended various changes in budgeting and financing by the state in order to restore fiscal health.

Recommendations included:

- Use of generally accepted accounting principles to create financial statement
- Increase of the balance reserve
- Create timeline for passage of budget
- Creation of 'rainy day fund'
- Specify allowable use of money in the stabilization fund

The last budget cycle has not improved the fiscal health of the state. The budget has actually weakened it. The budget was built on hoped for revenues that have not materialized leading the state to delay debt repayment. This has resulted in increased interest costs of \$40,000,000.00 according to the Legislative Fiscal Bureau, producing the recent downgrade in bond rating.

While the current interest rates are compressed and the costs of borrowing minimized, as rates escalate the cost of borrowing money will increase and end up costing the state more money.

“Fixing these problems will not be easy or inexpensive,” states Stone. “It is work that must be done to put the state’s fiscal house back in order.”

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Wisconsin State Journal March 3, 2004

State's bond rating is lowered

By Judy Newman
Wisconsin State Journal

Fitch Ratings lowered the state of Wisconsin's general obligation bond rating to AA- from AA on Tuesday, saying it's taking longer than expected to recover from the sluggish economy.

The move affects about \$4.5 billion in outstanding general obligation bonds but it does not necessarily mean the state will pay more to borrow money, said Frank Hoadley, capital finance director in the state Department of Administration.

"Interest rates are so compressed, there's very little difference between a AAA bond and an A bond," Hoadley said. If interest rates rise, that could change.

The bond rating is important because it helps to determine how much interest taxpayers will have to pay when the state borrows money for such things as construction projects. It also plays a role in determining how much money investors will make when they buy and sell the bonds.

Fitch cited a recent state report lowering revenue estimates and projecting a \$32 million deficit for the June 30, 2005, end of the biennium instead of a \$186 million balance.

"The economic recovery has certainly been delayed longer than people had expected," Fitch analyst Ruth Corson Maynard said in an interview. But she also said Wisconsin is not alone.

State officials are surprised and disappointed with Fitch's decision, Hoadley said. "We believe the major indicators for the state's finances and specifically, growth in revenue, the state's structural deficit and the state's cash position . . . are all showing positive signs."

The state had more serious cash problems, for instance, a couple of years ago, he said. On June 30, 2002, the state had a \$422 million negative cash position. That means: "the checking account was overdrawn by \$422 million," Hoadley said. Projections for June 30, 2004, show a \$164 million positive cash balance, he said.

Also, Gov. Jim Doyle signed a bill last week that will let the state sell an additional \$175 million in bonds this year to cover part of the more than \$400 million projected shortfall in medical assistance and address the \$32 million projected deficit.

Hoadley said Fitch's action puts the state's rating on a par with two other ratings services, Moody's and Standard and Poor's. Both put Wisconsin's general obligation bonds at a rate comparable to the AA- from Fitch.

Contact Judy Newman at jdnewman@madison.com or 252-6156.

Tuesday, September 28, 2004

AUDIT SUGGESTS CHANGES AFFECTING MEDICAL ASSISTANCE

OVERPAYMENT RECOVERY. The recommendation was part of the Legislative Audit Bureau evaluation of the DHFS Medical Assistance eligibility determinations. The report said, "Inconsistencies in statutes have hindered local efforts to pursue benefit overpayments." Part of the problem is a difference between the definition of MA fraud and the authorization for MA benefit recovery. The Audit Bureau also found "a number of inconsistencies" between statutes and DHFS policies.

"Unless the Legislature intended to limit the circumstances under which counties may recover the value of Medical Assistance benefits, we recommend it revise statutes to allow for recovery of Medical Assistance benefit costs when a recipient does not comply with program policies by failing to disclose information that affects eligibility between the time of application and review," the report said. "We recommend the Dept of Health and Family Services revise its Medical Assistance program integrity policies to be consistent with statutes."

The Audit Bureau also recommended DHFS file a report with the Joint Legislative Audit Committee by mid-January 2005 on the results of its plans to address program integrity needs.

A link to the full evaluation report is available at [The Wheeler Report](#) website.

GAAP

- Certify
 - stand alone audits
- ~~Part of agency~~

we have GAAP accounts

DOA 1 - Annual budgetary Oct 15

2 - comprehensive - Audit renders opinion set by nat'l standard board
check bk. acctg June 30 how much \$ confirms surplus amt.

can delay pymts to other yrs.

incomplete picture of finances

liabilities not always recognized

2 all current liab in gen fund

what bond rating agencies use

tremendous effort agency + audit bureau

"CAF crunch"

* 1.5 billion

pushed forward shared rev. payments

① 492 mill shared rev.

if pay 1/2 on 6-30 no liab.

② inc tax refunds - count this as a liability for those

③ 160m unpd. medicaid claims

AB178/SB65 Pg. 4 of handout

- fund rainy day fund
- reduce GAA deficit over time

- 9.2 billion roads & bridges
95% of roads
92% " bridges in fair condition

- Univ assets \$4 billion - land & bldg on 26 campuses

Pg. 4
Bottom

- 1) Responsible budgeting ^{exec}
- 2) accurate & timely reporting ^{leg branch}
- 3) effective auditing & oversight

why univ. tax supported op's
tuition - acctg. process
mental health instit - proprietary
activity

look at Univ. - tuition &
DNR - P.T. -

when do acctg.
proprietary

conducting - looking for steps - positive view.
barely have enough cash funds

- Push school Funding - transparent
- 50% of general fund
- ETF, PCF - fiduciary funds SWIB
use for comp fund -
- PCF - accountants - actuarially sound fund
see so by the transfer
benefits have to be weighed
get fed & - leverage
actuarially - see so by transfer

Cowles

there are others in pg. 9
illustrative

some are definitions
are pushed

469 mill

some offsets - not underestimate the
GAD P deficit

what does it cost taxpayers -
don't believe quantified

has an impact on financial
we tax more to send more locality
there little commission

Raferty / Schmidke

1990 1st CFR

- timing mismatch

defer liab in 1 yr to next yr.

- mismatch for 20 yrs.

- delay charred rev. + school aid programs from June → July

engage in sh. term borrowing when get fund surplus
w/uff to pay bills on time

bond rating for analysis

adequate financ reserves

States bond law

1. financ. bal - CFR

2. management

3. debt burden

4. overall economy

↑ GF 2% of GDP over time

timing mismatch rev + exp.

3 ways not in

1. present impact of budget law

2. do no further

↓ 190 rule
no print delay

3. set aside rev.

50% current law
20% budget proceed
from sale
on GAAP bal. sheet

Dave will provide testimony

Bill Raftery

"analysts dream"

CAFR - all states annually
mills, large counties

CAFR - intro basic facts

- recent financial

- auditor report

- basic finan. statements

demonstrate overall assets

had. fund statements to show s. tan
op's

5% 550 billion

11 bill per yr. all funds 23 bill/yr.

Gov budget buy back bonds issued

any savings - go to tobacco control +
bal. go to deficit

tobacco bonds - interest rates hist. low

what amt. buyback

what^{are} savings

* BC

tradeoff lower fund
+ a gen fund to maintain
but does maintain a logical
goal for last 4-5 yrs
Pg. 7 LT Lab.

— Bill Rafferty —
Civil Service

DOA request

1. A letter forthcoming BC, Audit, JFC from rating mtg.
2. Comparative statement IL - condo comp. statement
- 3.

PCF - how fees assessed to dis
