☞ **05hr_JC-Au_Misc_pt45c**

☞ Details: Miscellaneous correspondence

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Joint

(Assembly, Senate or Joint)

Committee on Audit...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  - (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

January 4, 2005

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) 2003-04 financial audit of the State of Wisconsin Investment Board, as requested by the Investment Board and to fulfill our audit requirements under s. 13.94(1)(df), Wis. Stats. The Investment Board's financial statements present the investments and investment activity for the State Investment Fund, the Wisconsin Retirement System funds, and five other smaller insurance and trust funds. The statements and our unqualified opinions on them are included in the Investment Board's 2004 annual report, which was recently issued.

The State Investment Fund invests the excess operating funds of State of Wisconsin agencies, the retirement funds, and the Wisconsin Local Government Investment Pool. The State Investment Fund had a net asset balance of $5.6 billion as of June 30, 2004, which was the same as its balance as of June 30, 2003. Net investment income earned by the State Investment Fund continued to decrease in FY 2003-04 because of lower interest rates in the markets. Specifically, net investment income declined 33.1 percent, from $96.5 million in FY 2002-03 to $64.6 million in FY 2003-04.

The retirement funds, which include the Fixed Retirement Trust Fund and the Variable Retirement Trust Fund, experienced significant increases in their assets in FY 2003-04 because of double-digit positive investment returns. The Fixed Retirement Trust Fund also received $1.5 billion from the State and various municipalities for the payment of unfunded pension and accumulated sick leave conversion liabilities. The Fixed Retirement Trust Fund reported net investment income of $8.2 billion in FY 2003-04, or almost four times the $2.1 billion reported in FY 2002-03. Similarly, the Variable Retirement Trust Fund reported net investment income of $1.1 billion in FY 2003-04, which was a significant improvement from the $146.4 million loss in FY 2002-03. After factoring in net investment income, net contribution receipts, and benefit disbursements in FY 2003-04, the net asset balances of the retirement funds as of June 30, 2004, was $59.1 billion for the Fixed Retirement Trust Fund and $5.8 billion for the Variable Retirement Trust Fund.

The Investment Board is also responsible for investing the assets of five insurance and trust funds: the Injured Patients and Families Compensation Fund, the State Life Insurance Fund, the Local Government Property Insurance Fund, the EdVest Tuition Trust Fund, and the Historical Society Trust Fund. Each of these funds has different investment policies, as established by the agency responsible for the fund and the Investment Board. The largest fund, the Injured Patients and Families Compensation Fund, had net assets totaling $695.6 million as of June 30, 2004. Net investment income was significantly lower for all but the Historical Society Trust Fund in comparison to FY 2002-03.

Government Auditing Standards require us to provide an auditor's report on internal control over financial reporting and on compliance and other matters, which accompanies this letter. As noted in the report, we did not identify any control or compliance concerns that are required to be reported under these standards.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/DA/ss

Enclosure


FORWARD
E PLURIBUS UNUM

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

STATE OF WISCONSIN

Legislative Audit Bureau

Janice Mueller
State Auditor

February 9, 2005

Representative Suzanne Jeskewitz
314 North, State Capitol
Madison, Wisconsin 53702

Dear Representative Jeskewitz:

In recent months, there have been various reports in the media on health insurance costs in the public sector. One report was from the Wisconsin Taxpayers Alliance and focused on premiums paid by school districts; another related to health insurance budget actions by the Board of Directors at Milwaukee Area Technical College (MATC).

The Taxpayers Alliance's report noted average annual premiums for school district employees totaled $14,271 for family coverage in the 2003-04 school year; single coverage averaged $6,223. Typically, districts pay 97 percent of single coverage and 95 percent of family coverage. The Taxpayers Alliance also reported that the largest districts tend to pay less than the statewide average for family premiums, due in part to the bargaining power larger numbers of employees can provide. For example, the reported annual family premium for the Milwaukee Public School District was $12,725, but the District paid the full amount.

We have also been monitoring costs for health insurance at MATC. As noted in Legislative Audit Bureau report 03-4, MATC offers its employees and retirees a choice of three health insurance plans: a self-insured preferred provider option and two health maintenance organization (HMO) plans. The MATC Board of Directors recently approved 18-month contracts with Humana for the plans; the 18-month period, which runs through June 30, 2006, aligns MATC's health care contract year with its fiscal year. The annual premiums for single coverage are slightly higher than the statewide average for school districts: $6,842 for the Humana "Narrow Network" of providers and $7,058 for the "Broad Network." The family premiums for the two HMO plans are much higher: respectively, $18,055 and $18,627. Specifically, the "Broad Network" family premium is 31 percent higher than the statewide average for school districts.

MATC cites three reasons for its relatively higher premiums. First, an inflationary factor is included in MATC's longer, 18-month contract period. Second, MATC premiums have increased in part due to a high number of high-cost cases. Third, MATC cites the relatively higher average age of individuals included in its plans: the average age of individuals in the MATC plan is 55, compared with 33 years of age in other plans. Premiums continue to be paid in full by MATC for full-time employees and retirees under the age of 65.

Budgeting for health care costs will remain a major issue for MATC. Expenditures for MATC's health and dental insurance are budgeted to increase from $20.5 million in fiscal year (FY) 2003-04 to $24.5 million in FY 2004-05, an increase of 19.5 percent. The attached table shows health and dental care costs for MATC since FY 1997-98.

I hope you find this useful. Please contact Kate Wade if you have any questions.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/KW/ab

Enclosure

Health and Dental Insurance Expenditures
Milwaukee Area Technical College
(in millions)

Fiscal Year	Expenditures	Annual Percentage Change
1997-98[1]	$10.2	--
1998-99	10.8	5.9%
1999-2000	12.0	11.1
2000-01	14.7	22.5
2001-02[2]	16.4	11.6
2002-03	17.9	9.1
2003-04	20.5	14.5
2004-05[3]	24.5	19.5
2005-06	26.9	9.8
2006-07	30.7	14.1

1 Source for FY 1997-98 through FY 2000-01, LAB Report 03-4.
2 Source for FY 2001-02 through FY 2006-07, MATC.
3 Expenditures for FY 2004-05 through FY 2006-07 are forecasts.

WISCONSIN STATE LEGISLATURE

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

March 1, 2005

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:

At your request, we have collected some information regarding pharmaceutical expenditures by the Department of Corrections (DOC). In the past five years, expenditures for prescription drugs have nearly doubled, from $6.3 million in fiscal year (FY) 1999-2000 to $12.5 million in FY 2003-04. While some of that increase is attributable to the rising cost of prescription drugs, a portion is attributable to the increased number of inmates. The inmate population has increased with both the opening of new institutions and the return of inmates from out of state.

Expenditures for psychotropic drugs more than doubled, increasing from almost $2.3 million in FY 1999-2000 to $4.6 million in FY 2003-04. Based on the cost of prescriptions filled, the top three medications in FY 2003-04 are commonly prescribed for psychotic disorders. These three medications remained among the top five prescription drugs, by cost of prescriptions filled, in the first quarter of FY 2004-05.

Although DOC's Central Pharmacy is the primary source of prescription medications for institutions, inmates are able to purchase over-the-counter drugs and toiletries from the institution canteens. There are no centrally available data on canteen sales, but DOC officials compiled sales information for FY 2003-04. Total expenditures were $143,000.

We appreciate the courtesy and cooperation extended to us by DOC staff. I hope you find this information useful. Please contact me with any questions.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/KW/bm

cc: Senator Robert Cowles
Senator Scott Fitzgerald
Senator Mark Miller
Senator Julie Lassa
Representative Samantha Kerkman
Representative Dean Kaufert
Representative David Travis
Representative David Cullen

PRESCRIPTION DRUGS FOR INMATES

The Department of Corrections (DOC) is responsible for providing health care services to inmates, including prescription drugs. These prescriptions are filled either by DOC's Central Pharmacy located at Dodge Correctional Institution or, in emergencies or other situations in which the Central Pharmacy is unable to deliver the medication in a timely manner, by local pharmacies. As shown in Table 1, prescription drug expenditures have nearly doubled in the past five fiscal years, increasing from $6.3 million in fiscal year (FY) 1999-2000 to $12.5 million in FY 2003-04. Expenditures per inmate increased 37 percent, from $442 in FY 1999-2000 to $605 in FY 2003-04.

Table 1

Prescription Expenditures and Population
FY 1999-2000 through FY 2003-04

Fiscal Year	Average Daily Population	Prescription Drug Expenditures
1999-2000	14,240	$6,294,500
2000-01	14,356	7,593,400
2001-02	15,169	8,853,200
2002-03	19,166	11,582,500
2003-04	20,657	12,501,600

There are three reasonable explanations for the expenditure increase from FY 1999-2000 to FY 2003-04. First, the price of prescription drugs has increased steadily. In order to militate against price increases seen at the retail level, DOC purchases drugs through a national consortium of government health care facilities to achieve savings. Second, the number of inmates housed in Wisconsin's prisons and served by DOC's Central Pharmacy increased by 45 percent, from 14,240 to 20,657. Third, DOC officials note that an aging inmate population has increased medical needs and makes increased use of prescription medications; DOC medical staff indicates inmates' physical condition and health care needs are generally ten years beyond their chronological ages.

In recent years, mental illness among inmates has also been a topic of concern. As shown in Table 2, expenditures for psychotropic drugs more than doubled from $2.3 million in FY 1999-2000 to $4.6 million in FY 2003-04. Expenditures for non-psychotropic drugs increased at a slightly lower rate. Psychotropic drugs represented 36 percent of total expenditures in FY 1999-2000, and 37 percent in FY 2003-04.

Table 2

Prescription Drug Expenditures by Type
FY 1999-2000 through FY 2003-04

Fiscal Year	Psychotropic Drugs	Non-Psychotropic Drugs	Total Prescription Drug Expenditures
1999-2000	$2,266,000	$4,028,500	$ 6,294,500
2000-01	3,341,100	4,252,300	7,593,400
2001-02	3,718,300	5,134,900	8,853,200
2002-03	4,517,200	7,065,300	11,582,500
2003-04	4,627,800	7,873,800	12,501,600

Additional detail on particular drugs is available from the records of prescriptions filled by DOC's Central Pharmacy. These data can be compared with information we reported in our 2001 evaluation of prison health care (report 01-9). However, it should be noted that the records of prescriptions filled do not precisely match the expenditure totals shown in Table 2. Discrepancies result from the exclusion of purchases made by individual institutions at local pharmacies and the inclusion of duplicate or changed medication orders. For example, when an inmate has been moved to a different facility and medications have not been transported, a replacement order is sometimes filled. There are also cases in which medication orders are changed to better treat symptoms.

As shown in Table 3, nine of the top 20 medications, by expenditure, in FY 2003-04 were also among the top 20 in 2000. The top three prescription medications in FY 2003-04 are commonly used to treat psychotic disorders; expenditures to fill orders for these three medications increased 175 percent from 2000 to FY 2003-04.

Table 3

Central Pharmacy Service Top 20 Prescriptions by Expenditure
Comparison of Calendar Year 2000 to Fiscal Year 2003-04

Fiscal Year 2003-04				Calendar Year 2000	
Rank	Amount	Brand Name	Commonly Prescribed for	Amount[1]	Rank
1	$2,427,599	Seroquel	Psychotic disorders	$593,164	1
2	652,155	Zyprexa	Psychotic disorders	204,398	10
3	631,189	Risperdal	Psychotic disorders	553,531	2
4	476,183	Interferon	Hepatitis C	—	—
5	442,280	Neurontin	Mood instability, seizures	225,735	6
6	301,863	Zoloft	Depression	242,289	4
7	260,927	Effexor	Depression	—	—
8	250,125	Paxil	Depression	349,752	3
9	241,160	Mevacor	High Cholesterol	—	—
10	240,388	Glucometer Strips	Diabetes	—	—
11	222,569	Celexa	Depression	83,285	20
12	217,098	Protonix	Stomach acid	—	—
13	197,611	Trizivir	HIV/AIDS	—	—
14	194,327	Depakote	Mood instability	219,542	8
15	188,575	Flovent	Asthma	—	—
16	163,457	Prilosec	Ulcers, acid reflux	—	—
17	161,931	Epogen	Anemia in dialysis patients	224,107	7
18	161,595	Syringes/Insulin	Diabetes	—	—
19	159,676	Salmeterol	Asthma	—	—
20	154,068	Viread	HIV/AIDS	—	—

[1] Amount is not shown for calendar year 2000 if the medication was not among the top twenty by expenditure for that year, though some expenditures may have been incurred.

A review of Central Pharmacy orders filled in the first quarter of FY 2004-05 shows some similarities with previous years. For example, Seroquel, Zyprexa, and Risperdal, all used to treat psychotic disorders, remained among the top five prescription drugs, by expenditure, in the first quarter of FY 2004-05. As shown in Table 4, expenditures for these three medications totaled nearly $1.2 million in the first quarter of FY 2004-05. Four of the six medications shown in Table 4 for the treatment of depression—Zoloft, Remeron, Paxil, and Celexa—were also among the top 20 prescription drugs in 2000.

Table 4

Prescription Drug Expenditures Grouped by Major Illness
July 1, 2004 - October 5, 2004

Expenditures	Prescription Drug Names	Commonly Prescribed for
$1,165,388	Seroquel, Risperdal, Zyprexa	Psychotic disorders
507,284	Zoloft, Remeron, Paxil, Effexor, Celexa, Wellbutrin	Depression
373,534	Prilosec	Ulcers, acid reflux
214,343	Viread, Trizivir, Kaletra, Sustiva, Epivir, Combivir	HIV/AIDS
162,137	Interferon, Intron	Hepatitis C
164,534	Depakote, Neurontin	Mood instability
104,010	Glucometer strips, Syringes	Diabetes
91,532	Mevacor	High cholesterol
89,580	Advair discus, Flovent	Asthma
37,761	Epogen	Anemia in dialysis patients

Canteen Sales of Toiletries

Inmates have access to over-the-counter drugs and toiletries in institution canteens. There is no centralized inventory system or warehouse to supply the canteens, but as a result of our inquiry institutions compiled information about over-the-counter drug purchases by inmates in FY 2003-04. In the Center System—the 16 minimum security facilities that prepare inmates for release from prison—reported purchases totaled $54,000. In the 20 adult minimum-, medium-, and maximum-security institutions, they totaled $143,000, with considerable variation by institution. For example:

- at Waupun, canteen expenditures were highest for ibuprofen ($3,060), acetaminophen ($1,058), and pseudophedrine tablets ($1,011);

- at Taycheedah, canteen expenditures were highest for ibuprofen ($1,700), sore throat lozenges ($505), and aspirin ($391); and

- at Columbia, canteen expenditures were highest for toothpaste ($6,809) and vitamins ($5,014).

Inmate expenditures for pain relief medications, cough syrup, cough and sore throat lozenges, and toothpaste represented 40 percent of expenditures for toiletries in canteens at the 20 adult institutions.

WISCONSIN STATE LEGISLATURE

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

April 18, 2005

Governor James E. Doyle
115 East, State Capitol
Madison, Wisconsin 53702

Senator Scott Fitzgerald and
Representative Dean Kaufert, Co-Chairpersons
Joint Committee on Finance
State Capitol
Madison, Wisconsin 53702

Dear Governor Doyle, Senator Fitzgerald, and Representative Kaufert:

Section 13.94 (1)(a), Wis. Stats., requires the Legislative Audit Bureau to audit the cash and securities on deposit in the treasury or accounted for by the secretary of the Department of Administration and to report our findings to the Governor and the Joint Committee on Finance. We have completed our audit and found the Department of Administration properly accounted for the cash and securities in its possession or held on its behalf by others.

As of June 30, 2005, the Department of Administration's cash records properly reconciled with the records of the State's working bank, which is US Bank, and with the State's official accounting records.

The Department has custodial responsibilities for deposits required of insurance companies and banks operating in certain fiduciary capacities. These deposits consist of bonds, notes, and other deposits held by US Bank. As of June 30, 2005, the Department's records properly reconciled with the records of US Bank, and reported $283,867,331 of bonds, notes, and other deposits for insurance companies and $9,340,000 for banks.

We appreciate the courtesy and cooperation extended to us by the staff of the Department of Administration in conducting this review.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/CS/bm

cc: Members, Joint Committee on Finance
Members, Joint Legislative Audit Committee

Stephen E. Bablitch, Secretary
Department of Administration


FORWARD
E PLURIBUS UNUM

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

May 12, 2005

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:

In March 2005, we completed our fiscal year (FY) 2003-04 single audit of the State of Wisconsin and issued our report (report 05-5). During the course of our audit and subsequent follow-up, we identified $4.5 million available to the General Fund from other funds and accounts that the Legislature may wish to consider during the current biennial budget deliberations. In addition, we identified an error in the State Historical Society of Wisconsin's internal accounting records that understated the balance in its endowment fund by $1.1 million.

First, in FY 2003-04, the Department of Workforce Development (DWD) received $3.0 million in federal funds as reimbursement for costs incurred in prior years by local governments as well as expenditures charged to a prior-year general purpose revenue appropriation. However, rather than accounting for these funds as general purpose revenue of the General Fund, as required by statute, DWD deposited these funds in an unrelated federal appropriation. Alternatives include either lapsing these funds to the General Fund or allowing DWD to retain all or a portion of the funds but requiring the agency to seek legislative authority before expending them.

Second, we identified a bank account holding $906,000 related to Wisconsin Health Education Assistance Loan (WHEAL) revenue bonds. This bank account is no longer needed because the related revenue bonds have been fully repaid. If desired, the Legislature could direct the Higher Educational Aids Board, which administers the loan program, to close the account and transfer the balance, as well as any future student loan repayments, to the General Fund for general appropriation.

Third, the Department of Commerce administers the Wisconsin Development Fund, which was established to provide loans and grants for economic development. At the time a loan or grant is awarded, Commerce encumbers either general purpose revenues or program revenues. However, we identified several inactive loans and grants for which it had previously encumbered funds. If desired, the Legislature could direct the Department of Commerce to liquidate and lapse to the General Fund $337,000 in inactive encumbrances related to general purpose revenue appropriations. In addition, we have identified a total of $7.3 million in inactive encumbrances and additional balances related to a Department of Commerce program revenue appropriation for loans and grants.

Fourth, 2001 Wisconsin Act 109 directed the Department of Administration (DOA) to offer for sale 21 aircraft and to deposit the sales proceeds, less any related liabilities, to the General Fund. As of March 31, 2005, DOA had sold 11 of those aircraft. However, it deposited all sales proceeds to one of its own program revenue appropriations. If the Legislature believes that DOA should instead have lapsed funds at the end of each fiscal year, it could direct DOA to immediately lapse net sales proceeds for FYs 2002-03 and 2003-04, which total to approximately $241,000, as general purpose revenue of the General Fund.

Finally, the State Historical Society of Wisconsin accounts for certain donations in the Historical Society Trust Fund, the Society's endowment fund. However, we found that the Society has not taken into consideration an additional $1.1 million that has been available in the Trust Fund since FY 1997-98. The majority of these funds are restricted for purposes specified by the donors, and the Society's current policy is to spend up to 5 percent of its balances each year. The Legislature may wish to direct that the Society's Board of Curators take into consideration the additional $1.1 million in trust fund balances when developing future expenditure plans.

A more detailed explanation of these available funds is attached. We hope that you find this information useful. If you have any questions or comments, please contact me.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/BN/bm

BUDGETARY ISSUES

During the course of our fiscal year (FY) 2003-04 single audit, we identified $4.5 million available to the General Fund from other funds and accounts that the Legislature may wish to consider during the 2005-07 budget deliberations. In addition, we determined that the State Historical Society of Wisconsin was unaware of an additional $1.1 million available in its endowment fund.

Available Federal Revenues

Before implementation of the federal Temporary Assistance for Needy Families (TANF) program in 1996, the State received funding to assist families in need under the Aid to Families with Dependent Children (AFDC) program. Although AFDC ended, grant awards remained open for an extended period of time to allow states to record any necessary adjustments to previously recorded expenditures.

In its efforts to close out the AFDC grants during FY 2003-04, the Department of Workforce Development (DWD), which administers TANF and assumed responsibility for AFDC, performed a final reconciliation of AFDC transactions and identified $3.0 million in eligible costs incurred in FY 1995-96 and 1996-97 for which federal AFDC funds had not been received. These costs include approximately $2.8 million incurred by local governments and $200,000 originally charged to a general purpose revenue (GPR) appropriation. Because the State was still authorized to request AFDC funding, on June 8, 2004, DWD requested and received $3.0 million in federal funds, representing reimbursements of expenditures that had been paid by local governments or by GPR.

We are concerned because DWD did not account for these funds as general purpose revenue under s. 20.906(1), Wis. Stats., or as refunds of expenditures under s. 20.001(5), Wis. Stats. Rather, DWD recorded these funds as federal revenues and credited them to an unrelated continuing federal appropriation authorized under s. 20.445(3)(nL), Wis. Stats., to account for federal funds provided to local governments for the administration of the child support enforcement program. Accounting for these funds in a continuing appropriation prevented them from lapsing and being made available for appropriation by the Legislature.

DWD staff are aware that they may not expend the funds without legislative authority. They also note that they credited these funds to a continuing, although unrelated, appropriation to ensure funds would be available to pay a portion of the possible disallowances identified by a federal review of AFDC benefit overpayment recoveries received between July 1, 1996, and September 30, 2001. That review concluded that DWD's practices for reporting and remitting AFDC overpayment recoveries to the federal government were not in accordance with federal requirements and that $10.7 million should be returned to the federal government. While DWD disputes the majority of the review's findings and conclusions, it has agreed that approximately $1.4 million in AFDC overpayment recoveries were not appropriately accounted for and should be returned. DWD is currently negotiating with the federal government to resolve this issue.

Although the $3.0 million in federal AFDC funding claimed during the grant closeout process is not directly related to the questioned costs identified by the federal government, if DWD follows statutory accounting provisions and lapses these funds to the General Fund, these funds will not be available for paying federal disallowances. If the Legislature wishes to maintain oversight of the $3.0 million, three options are available:

- First, the Legislature could direct DWD to immediately lapse the $3.0 million to the General Fund and, as required under s. 16.544, Wis. Stats., to report to the Joint Committee on Finance in the event it needs to return funds to the federal government.

- Second, the Legislature could direct DWD to lapse $1.6 million to the General Fund but allow it to retain $1.4 million, representing the amount of overpayments that DWD acknowledges were not accounted for properly.

- Finally, the Legislature could allow DWD to retain the entire $3.0 million in anticipation of the federal audit disallowances.

If DWD is allowed to retain any of the $3.0 million, it would be required to obtain legislative approval before spending those funds.

Available WHEAL Balances

In a June 13, 2003, letter to the Audit Committee, we noted that the Higher Educational Aids Board maintained a separate bank account for Wisconsin Health Education Assistance Loan (WHEAL) repayments. These student loans were originally funded by revenue bonds that were issued in the early and mid 1980s. Because those revenue bonds have been repaid, a separate bank account is no longer needed. In June 2003, we recommended the account be closed.

At that time, we also provided options to the Legislature, including directing that available balances in the bank account be treated as GPR of the General Fund, as required by s. 20.906, Wis. Stats. In s. 9225, 2003 Wis. Act 33, the Legislature directed the Higher Educational Aids Board to transfer $1.0 million from the bank account to the General Fund. The transfer was made during FY 2003-04.

However, the bank account continues to remain open, and the Higher Educational Aids Board continues to collect student loan repayments from the WHEAL program and deposit them to this account. As of March 31, 2005, $906,000 has accumulated in the bank account. In addition, 18 student loans remain outstanding with a total balance of approximately $600,000, for which HEAB will continue to collect principal and interest.

We continue to believe the bank account should be closed and the student loan repayments should be deposited directly to the State's working bank. In addition to directing the Higher Educational Aids Board to close the bank account and immediately transfer the $906,000 account balance to the General Fund, the Legislature may wish to direct that all future WHEAL loan collections be treated as GPR. We note that HEAB currently budgets for $71,100 annually to fund a 0.64 full-time equivalent position in the segregated fund appropriation under s. 20.235, Wis. Stats., which is currently funded by transfers from the bank account. If the account is closed, HEAB would be forced to find an alternative funding source to fund the 0.64 full-time equivalent position or eliminate the positions. Alternatively, the Legislature may wish to provide that a portion of the student loan repayments be credited to that appropriation.

Encumbrances in the Wisconsin Development Fund

The Wisconsin Development Fund, which is administered by the Department of Commerce, was established to provide loans and grants to businesses for economic development. The Fund consists primarily of a biennial GPR appropriation created under s. 20.143(1)(c), Wis. Stats., and a continuing program revenue appropriation created under s. 20.143(1)(ie), Wis. Stats. As provided for by statute, all loan repayments, regardless of the original funding source, are credited to the continuing program revenue appropriation.

During FY 2003-04, Commerce disbursed $4.9 million in GPR and $3.3 million in program revenue for Wisconsin Development Fund loans and grants. The program revenue appropriation had an unencumbered balance of $6.8 million as of June 30, 2004.

The Department of Commerce has an established process to review and award loans and grants. When the loans and grants are approved, Commerce encumbers either GPR or program revenue to ensure sufficient resources are available to pay for the loans and grants in the future. However, most loan and grant disbursements are made on a reimbursement basis. Given that some projects have several phases, it may take several years to fully disburse the funds and liquidate the encumbrances.

It is important to review outstanding encumbrances to ensure they relate to open and active loans or grants. In the event the loans or grants are inactive, the encumbrances should be liquidated to free up spending authority to make other awards or, for the biennial GPR appropriation, to lapse to the General Fund if the encumbrances relate to a prior biennium.

As of June 30, 2004, the GPR appropriation had $5.4 million in outstanding encumbrances, and the program revenue appropriation had $10.0 million in outstanding encumbrances. We reviewed these encumbrances and determined that a total of $789,706 was for inactive loans and grants, as summarized in Table 1:

Table 1

Inactive Encumbrances
June 30, 2004

Source	Number of Encumbrances	Amount
GPR	8	$336,665
Program Revenue	11	452,041
Total	**19**	**$788,706**

None of these encumbrances have had activity since at least June 30, 2003, and the outstanding balances for all 19 encumbrances could be liquidated. Because the inactive GPR encumbrances relate to the prior biennium, the Legislature may wish to direct the Department of Commerce to immediately liquidate these encumbrances and lapse $336,665 to the General Fund.

The $452,041 in inactive program revenue encumbrances should be liquidated to provide a clearer picture of the balances available for expenditure in the continuing program revenue appropriation. As noted, the program revenue appropriation had an unencumbered balance of $6.8 million as of June 30, 2004. After taking into consideration the $452,041 in unneeded encumbrances, Commerce has a total of $7.3 million in program revenue balances available for loans and grants. The Legislature may wish to consider the availability of the $7.3 million in the program revenue appropriation when making funding decisions involving Commerce programs.

Aircraft Sales Proceeds

In nonstatutory provisions included in 2001 Wisconsin Act 109, the Legislature directed the Department of Administration (DOA) to offer 21 aircraft for sale and to deposit the sales proceeds, less the amount of any liabilities related to the aircraft, to the General Fund as GPR. Preparation and selling costs are also deducted from sales proceeds.

Through April 30, 2005, DOA sold 11 aircraft for a total of $1.1 million, as shown in Table 2. However, instead of treating the net sales proceeds as GPR in the year of the sales, DOA deposited all proceeds to its own program revenue appropriation, authorized in s. 20.505(1)(kb), Wis. Stats., for transportation and other services provided to other state agencies.

Table 2

Aircraft Sold
July 1, 2002 through April 30, 2005

Fiscal Year	Aircraft Sold	Sale Proceeds	Related Liabilities	Preparation and Selling Costs	Net Proceeds
2002-03	3	$ 135,444	$ 62,986	24,726	$47,732
2003-04	6	381,805	158,196	30,313	193,296
2004-05	2	630,000	755,117	21,326	(146,443)
Total	**11**	**$1,147,249**	**$976,299**	**76,365**	**$94,585**

The statutory language in 2001 Wisconsin Act 109 does not clearly indicate when the net proceeds should be lapsed to the General Fund. DOA originally anticipated that the net sales proceeds would be determined after all 21 aircraft were sold. However, given that it has sold only 11 aircraft since the enactment of 2001 Wisconsin Act 109, and additional sales are not anticipated for the immediate future, DOA is currently planning to lapse net sales proceeds of $94,585 to the General Fund by the end of FY 2004-05.

If DOA had lapsed the net sales proceeds annually, $47,732 would have been recorded as GPR in FY 2002-03, and $193,296 would have been recorded as GPR in FY 2003-04. This treatment would have been consistent with DOA's policy, dated March 14, 2005, related to the Governor's car fleet reduction initiative, which requires other state agencies to offset gains and losses within the same fiscal year and to deposit the net proceeds to the Budget Stabilization Fund "as soon as possible." However, the Department maintains that the different treatment of net proceeds for the sale of the aircraft and the Governor's car fleet reduction initiative is justified since there are different statutory provisions addressing each.

If the Legislature intended DOA to annually lapse the net proceeds from the sale of aircraft, it could direct the agency to immediately transfer $241,028, the net sales proceeds for aircraft sold during FY 2002-03 and FY 2003-04 to the General Fund.

Historical Society Trust Fund

The State Historical Society of Wisconsin relies on donations and endowment fund earnings to finance many activities related to managing the various historical sites, operating the Society's library, archives, and museum, and fulfilling other statutorily assigned responsibilities. Some donations are solicited by private, nonprofit organizations, the largest of which is the Wisconsin Historical Foundation, Inc. These funds are accounted for outside of the State's central accounting system. However, donations made directly to the Society are generally credited to the Historical Society Trust Fund. That fund is the Society's endowment fund, which is created under s. 25.70, Wis. Stats., and is accounted for on the State's central accounting system.

As reported in the State's audited financial statements, the Historical Society Trust Fund had a June 30, 2004, balance of $10.6 million, which was invested primarily in stock and bond index funds by the State of Wisconsin Investment Board. The majority of these funds are restricted for specific purposes identified by donors, and the Society maintains separate accounts for these purposes. For example, more than $2.4 million is restricted for use at the Madeline Island historic site. However, approximately $3.2 million of the Trust Fund balance is unrestricted and may be used for any Historical Society purpose. In s. 25.70, Wis. Stats., the Legislature provided that only trust fund income may be expended unless otherwise approved by the Board of Curators. In order to lessen fluctuations in annual investment earnings and losses, the Board's current policy bases spending from the trust fund on 5 percent of the three-year average of the account balance, regardless of the amount of annual investment earnings.

Periodically, the Society reports to the Board of Curators, which oversees its operations, on the balance in the Historical Society Trust Fund. As of June 30, 2004, the actual balance of the Trust Fund was $10.6 million. As shown in Table 3, the actual balance was $1.1 million more than the $9.5 million reported to the Board of Curators in February 2005.

Table 3

Historical Society Trust Fund
Difference Between State and Society Records as of June 30, 2004

Description	Amount
Balance Reported in the State's Financial Statements	$10,674,466
Balance Reported to the Board of Curators	9,533,566
Difference	$ 1,140,900

We found that this variance resulted primarily from a $1,148,204 adjustment in the market value of the Trust Fund's investments. The adjustment was correctly recorded in the State's central accounting records during FY 1997-98 but, apparently because of error or oversight, was not allocated by the Society to the various restricted and unrestricted accounts. Miscellaneous errors reduced the variance to $1,140,900.

Because the Society did not properly allocate the $1.1 million to the various Trust Fund accounts, it did not take earnings on these funds into consideration when establishing expenditure plans. Had the Society appropriately recognized these funds, an average of approximately $50,000, or 5 percent of the additional balance, would have been available for expenditure each year for the six-year period from FY 1998-99 through FY 2003-04, for total additional expenditures of $300,000.

As noted, the majority of the funds in the Society's endowment are restricted for specified purposes. Now that additional funds have been identified, we believe it may be prudent for the Society to retain these funds in its endowment, which would provide for increased investment earnings to fund future expenditures. Alternatively, the Board of Curators could decide to spend the funds that would have been budgeted for in prior years, had the Society properly accounted for them in its internal records. The Legislature could also direct that the Board of Curators take the additional $1,140,900 in previously unidentified funds into consideration when developing the Society's future expenditure plans.

****


FORWARD
E PLURIBUS UNUM

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

May 13, 2005

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 an annual financial audit of the Department of Employee Trust Funds, as requested by the Department and to fulfill our audit requirements under s. 13.94(1)(dd), Wis. Stats. The audit covered calendar year 2003. The statements and our unqualified opinion on them are included in the Department's recently issued financial report, which provides information on the financial position and activity of various benefit programs available to public employees.

Most of the Department's programs reported positive financial results in 2003. The State's issuance of appropriation bonds at the end of 2003 to finance payment of its liabilities for the Wisconsin Retirement System (WRS) and the Accumulated Sick Leave Conversion Credit program significantly improved the financial position of both of these programs. However, employers have experienced recent increases in WRS contribution rates as a result of investment experience and benefit changes. The maturation of the WRS presents challenges for management of the system in the future.

In 2002, the Department began work on a new benefit payment system. However, after experiencing ongoing difficulties and delays in the project and incurring $3.9 million in costs, the Department terminated contracts for the development of the new system in 2004. Subsequently, it contracted with another consulting firm, at a contract amount of $198,000, to assess the project. Several contributing factors were identified, including inadequate project management by the Department, insufficient technical skills by the project team, and failure by an external project monitoring firm to complete its intended role. In February 2005, the Department contracted with a new firm, at a contract amount of $4.5 million, to implement the new payment system incrementally.

Finally, accompanying this letter is a management letter we provided to the Department, which includes an auditor's report on internal control and compliance, as required by *Government Auditing Standards*. We did not identify any control or compliance concerns required to be reported under these standards.

We appreciate the courtesy and cooperation extended to us by the Department's staff during our audit.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/DA/bm

Enclosure

DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds is responsible for administering the Wisconsin Retirement System (WRS) and several other programs that provide retirement, disability, health, and other benefits to participants who are current and retired employees of state and local governments. The benefit programs are funded primarily through employer and employee contributions and investment returns. Most programs reported positive net results in their financial activities during 2003. The State issued bonds in 2003 to finance the payment of its liabilities for the WRS and the Accumulated Sick Leave Conversion Credit program, which significantly improved the financial status of both of these programs.

In administering the benefit programs, the Department is dependent on complex computerized systems. In 2003, the Department experienced major problems with the development of a new benefit payment system and terminated contracts for the project. After going through a process to evaluate the problems of the system project, the Department recently contracted with another firm to begin a restructured project to address its aging benefit payment system.

Wisconsin Retirement System

With net assets of $62.1 billion at the end of 2003, the WRS is the largest program administered by the Department. Approximately 512,000 current and former employees of state agencies, school districts, and local governments in Wisconsin participate in the WRS. Its assets are managed by the State of Wisconsin Investment Board through two investment funds:

- the Fixed Retirement Investment Trust Fund (Fixed Fund)—a diversified, balanced portfolio that funds all or part of the retirement benefits for beneficiaries; and

- the Variable Retirement Investment Trust Fund (Variable Fund)—established for participants who are interested in taking a higher degree of risk by increasing their investment in equities for potentially higher long-term returns.

Investment returns and payment of the State's pension liabilities have significantly affected the financial position and operations of the WRS in recent years. Based on various measurements, the WRS is generally considered a well-funded plan. However, employers have experienced recent increases in contribution rates, and the maturation of the system presents challenges for its future management.

Effect of Recent Investment Returns

The WRS is funded by three primary sources: employee contributions, employer contributions, and investment earnings. Investment income represents a significant, although variable, funding source. Both the Fixed Fund and the Variable Fund earned double-digit investment returns for five consecutive years in the late 1990s, as shown in Table 1. However, a market downturn in the second half of 2000 resulted in negative returns for both funds during 2000, 2001, and 2002. A rebound in the markets during 2003 returned the funds to double-digit returns that were among the highest in the last 20 years.

Table 1

Wisconsin Retirement System Annual Returns
(For Years Ending December 31)

Year	Fixed Fund Annual Return	Variable Fund Annual Return
1995	23.1%	25.6%
1996	14.4	19.8
1997	17.2	21.6
1998	14.6	17.5
1999	15.7	27.8
2000	(0.8)	(7.2)
2001	(2.3)	(8.3)
2002	(8.8)	(21.9)
2003	24.2	32.7
2004	12.8	12.7

In valuing assets in the Fixed Fund for funding purposes, an actuary hired by the Department uses a valuation method that smoothes the recognition of investment gains and losses. Use of a smoothing mechanism to moderate the effects of market volatility is a common practice among public pension funds. Wisconsin statutes have specified the actuarial asset valuation method for the Fixed Fund since 1975, and changes to the asset valuation method that provide for faster recognition of investment performance were enacted in 1999 Wisconsin Act 11.

From 1975 through 1999, statutes required that all realized and unrealized investment gains and losses in the Fixed Fund be accumulated in a transaction amortization account, with 20.0 percent of the year-end balance in the account recognized as income for actuarial and funding purposes. With the strong markets of the second half of the 1990s, the transaction amortization account grew significantly, from $2.4 billion at the end of 1994 to $13.9 billion at the end of 1999.

1999 Wisconsin Act 11 made several changes to the WRS, including changes to the Fixed Fund's asset valuation method. Act 11 eliminated the transaction amortization account over a five-year period and established a new asset valuation method, effective January 1, 2000. It directed a one-time transfer of $4.0 billion from the transaction amortization account, effective December 31, 1999, to help fund benefit improvements included in Act 11. Act 11 also required that 20.0 percent, or approximately $2.0 billion, of the remaining transaction amortization account balance be recognized as income annually from 2000 through 2004.

To replace the transaction amortization account, Act 11 established a market recognition account and required that:

- all investment income, including interest, dividends, and realized and unrealized gains and losses, be credited to the market recognition account;

- income equal to the actuarially assumed investment return rate be recognized; and

- the difference between assumed and actual investment income be recognized equally over five years.

The effect of negative investment returns from 2000 through 2002 was buffered by Act 11's provision that the market recognition account distribute an amount equal to the assumed investment return rate, as well as by the phase-out of the transaction amortization account. As a result, while actual investment earnings were negative from 2000 through 2002, the effective rates that were credited to Fixed Fund participant accounts were positive. For example, a 5.0 percent effective rate was credited to participant accounts for 2002, although the actual investment return for the Fixed Fund was -8.8 percent. However, as investment earnings rebounded for 2003 and 2004, the effective rates credited to participant accounts were less than actual returns, due to the buildup of past negative earnings that continue to flow through the market recognition account. For example, a 7.4 percent effective rate was credited to participant accounts for 2003, even though the actual investment returns were 24.2 percent.

The effect of the Fixed Fund's negative earnings on post-retirement adjustments to retiree benefits has been more rapid. After a post-retirement adjustment rate of 17.1 percent was paid in 2000 (based on earnings in 1999), the rate decreased to 5.7 percent paid in 2001 and 0.0 percent paid in 2003. With the rebound of investment earnings for 2003, an adjustment of 1.4 percent was in paid in 2004 after statutes were changed under 2003 Wisconsin Act 153, which allowed the Department to pay a positive or negative adjustment if the annual calculation process resulted in at least a 0.5 percent increase or decrease. Previously, statutes had allowed post-retirement adjustments only if sufficient funds were available to provide for an increase of 2.0 percent or more.

Liquidation of Employers' Pension Liabilities

A prior service pension liability is typically created for any local government employer that joins the WRS and opts to provide benefits for services already provided by its employees. Similarly, a prior service liability is created or increased for employers when the Legislature enacts benefit improvements that relate to services already provided. Annually, employers are assessed interest at the assumed investment return rate, which is currently 7.8 percent, for outstanding balances.

In light of lower interest rates in recent years, several employers, including the State, borrowed funds to finance the payment of part or all of their outstanding pension liabilities. From 2001 to the end of 2003, the WRS' total unfunded prior service liability decreased from $2.1 billion to $0.5 billion. Approximately $705 million of the decrease was attributable to the State's payment of its liability as of the begining of 2003. In addition, more than 250 local employers also made voluntary payments, totaling more than $500 million, to reduce their prior service liability.

As authorized by 2003 Wisconsin Acts 33 and 84, the State issued $1.8 billion in General Fund appropriation bonds in 2003 to finance payment of its unfunded pension liability and an unfunded accrued liability in the Accumulated Sick Leave Conversion Credit program, which allows retired state employees to use unused sick leave balances to pay health insurance premiums. The State's payment of the principal and interest on the appropriation bonds is subject to annual appropriation by the Legislature. While the bonds are not considered general obligations of the State, the Legislature recognized a moral obligation to make the annual appropriation. In addition to expected net interest savings on the pension liability, the bonding was structured to help address the State's budget difficulties by initially requiring the payment of interest only, and delaying principal payments until at least fiscal year (FY) 2006-07.

Funding Progress

The ultimate funding goal for the WRS is to have sufficient resources available to pay benefits as they are owed to participants. To meet that goal, the Department works with an actuary to estimate the amount of obligations that will be owed to current retirees and current employees and to implement a plan that accumulates the needed resources in an orderly fashion.

The funding progress of public retirement systems is often measured in two different ways. First, a standard measure prescribed by governmental accounting standards is a ratio of the actuary's valuation of assets accumulated to pay obligations for services already rendered by present and future retirees to the actuary's estimated value of those obligations. The difference between these two amounts represents the prior service liability and the ultimate goal is to steadily increase the ratio to 100.0 percent over time. The WRS has made significant progress in achieving that goal. Its actuarial value-based funded ratio has increased from 92.9 percent at the end of 1994 to 99.2 percent at the end of 2003. As the State and several other participating employers liquidated their prior service liabilities, the ratio improved significantly at the end of 2002 and 2003.

A second method, which more closely reflects the effects of the markets on the funded status, compares the market value of assets, as reported for financial reporting purposes, to estimated obligations. This ratio typically will exhibit more variation than the actuarial-based ratio, which has been smoothed for investment returns. For example, the WRS's market value-based ratio decreased from 122.2 percent at the end of 1999 to 83.9 percent at the end of 2002 because of the down markets during that period. The ratio increased to 97.8 percent at the end of 2003 because of the improvement in the markets during that year. Under both funding measurement methods, the WRS is generally considered a well-funded program.

Contribution Rates

Another important measure of the success of the WRS's funding plan is the stability of contribution rates that are assessed on employers' payrolls. Maintaining relatively stable contribution rates is important to system employers and to their ability to budget and fund employee retirement obligations. Combined employer and employee contribution rates for general employees and teachers, the largest category of participants in the WRS, have ranged from 9.0 percent to 11.6 percent over the last ten years, as shown in Table 2.

Table 2

Contribution Rates[1] for General Employees and Teachers

Year	Contribution Rates[1]
1996	11.6%
1997	11.4
1998	11.0
1999	10.2
2000	9.6
2001	9.0
2002	9.0
2003	9.4
2004	9.8
2005	10.2

[1] The rates include combined contribution rates for employers and employees because most employers pay the employee contributions. Employee contribution rates, which are set by statute, are 5.0 percent for general employees and teachers. The employer contributions are determined annually based on actuarial analysis. The rates do not include contribution rates for prior service liabilities, which vary by employer.

The changes in rates since 1996 have been affected by both investment experience and benefit changes. Strong investment performance in the late 1990s contributed to a steady decline in contribution rates from 11.6 percent in 1996 to 9.0 percent in 2001 and 2002. Contribution rates have increased since that time, with a contribution rate of 10.2 percent in effect for 2005. The increases in contribution rates in recent years are largely a result of the enactment of several benefit improvement provisions in 1999 Wisconsin Act 11 and of investment losses in recent years that continue to flow through the market recognition account.

Every three years, the actuary hired by the Department compares actual experience to actuarial assumptions and considers other factors that may affect the assumptions in the future. In the most recent three-year study, which covered 2000, 2001, and 2002, the actuary recommended changes to several assumptions, including rates of retirement and mortality, that contributed to the increase in the contribution rate in 2005.

Future Implications

The continued maturation of the WRS as the number of retirees increases will have long-term implications for the future. From 1994 through 2003, the number of retirees or beneficiaries increased more than 41.0 percent, from 86,214 to 121,582. As shown in Table 3, the WRS actuary projected, in an analysis completed in 2002, that the number of retirees will more than double and reach 275,854 retirees at the end of 2031. It is projected to subsequently decrease and eventually reach a level at which it will remain relatively constant. The actuary has also projected that the ratio of active members to retirees will decrease from 2.33 in 2001 to 0.95 in 2031, then start to increase again as the number of retirees begins to decrease.

Table 3

Actuarial Projection of Present and Future Retirees[1]

December 31	Present Retirees	Future Retirees	Total Retirees	Ratio of Active Members to Retirees
2001	112,177	0	112,177	2.33
2011	76,399	105,592	181,991	1.43
2021	42,689	210,073	252,762	1.03
2031	15,107	260,747	275,854	0.95
2041	2,473	261,724	264,197	0.99
2051	265	237,081	237,346	1.10

[1] Based on an analysis the WRS actuary completed in 2002 for the State of Wisconsin Investment Board. In the analysis, the actuary assumed that the number of active members will remain constant at the December 31, 2001 level.

As the number of retirees has increased over the years, the amount paid in retirement benefits has also increased. For example, benefits increased approximately 170.0 percent, from $1.0 billion in 1994 to $2.7 billion in 2003. Further, benefits and expenses began to exceed contributions in 1992, requiring the use of interest and dividends to help meet benefit obligations. According to the actuary, the liquidity needs of the WRS are as expected, based on its stage of maturity, and are similar to those of several other public pension plans. However, the changing liquidity demands will need to be considered in future investment decisions in the long-term. The State of Wisconsin Investment Board periodically meets with the actuary to consider the potential effect the liquidity needs may have on investment decisions for the WRS.

Accumulated Sick Leave Conversion Credit Program

Another major program administered by the Department is the Accumulated Sick Leave Conversion Credit program, which had assets totaling $1.6 billion at the end of 2003. Most State employees accrue sick leave at the rate of five hours every two weeks, to a maximum of 16.25 days a year. Unused sick leave hours accumulate from year to year. At the time of retirement or layoff, state employees may convert the value of their unused sick leave accumulation balances into accounts to be used to pay premiums for coverage in the State's health insurance program. Surviving insured spouses and dependents are also eligible to use sick leave credits to pay health insurance premiums upon the death of the employee or retiree. In 1995, the Legislature authorized the establishment of a supplemental program to provide matching sick leave credits for participants with 15 or more years of state service.

The Accumulated Sick Leave Conversion Credit Program has been affected by recent legislation enacted to address the State's budget difficulties. In 2001 Wisconsin Act 109, the Legislature suspended payment of contributions to the program during FY 2002-03. Contributions that state agencies otherwise would have paid to the Department, which are estimated to be at least $60 million, were instead lapsed into the State's General Fund. The 2001 legislation negatively affected the program's financial position. However, the financial position improved significantly with the issuance in 2003 of appropriation bonds to finance payment of the unfunded actuarial liability. Issuance of these bonds was authorized in the 2003-05 budget legislation.

Approximately $782 million in proceeds from the $1.8 billion issuance of appropriation bonds was transferred to the Accumulated Sick Leave Conversion Credit program. These funds cover all but $54.7 million of the unfunded liability reported in the program's financial statements at the end of 2003. The remaining unfunded liability in the program includes amounts owed by state authorities participating in the program, of which the University of Wisconsin Hospital and Clinics Authority and the Wisconsin Housing and Economic Development Authority are the largest.

In contrast to the WRS, the Accumulated Sick Leave Conversion Credit program had not assessed interest on outstanding balances. Consequently, the State's objectives in bonding for the accumulated sick leave conversion credit liability were to address current State budget needs and to earn higher returns on bond proceeds credited to the program than the interest paid on the bonding, with the ultimate goal of reduced contribution rates in the future. If the program's assets, which are invested with the Fixed Fund, earn the actuarial assumed return of 7.8 percent, the State will be successful in its goal. However, if the Fixed Fund returns less than bonding interest costs over the period the bonds are repaid, the State will not be successful in achieving expected savings.

Benefit Payment System Project

Beginning in the late 1990s, the Department initiated steps to develop a new benefit payment system. However, it experienced several major problems with the system's development and, in early 2004, terminated contracts with vendors responsible for system development and project monitoring. After evaluating the project's problems, the Department recently contracted with another firm to begin a restructured project to address its aging benefit payment system.

History of the Project

In 1992, the Department implemented the Wisconsin Employee Benefit System (WEBS), which is an automated system that maintains and processes employer and participant account information. As part of this effort, the Department retained its existing payment systems, which were developed in 1977, to process annuity, disability, and special payments. In the late 1990s, the Department initiated steps to implement a new benefit payment system to replace the annuity system, which uses outdated technology and is difficult to maintain. The new system was also intended to replace the payment functions of the WRS lump-sum payment system and the accumulated sick leave conversion credit system. The new benefit payment system was expected to integrate annuity payment activities with WEBS and other department data systems; improve data maintenance and updating capabilities; and enhance on-line access to annuity and other payment data.

The Department received initial authorization of $430,400 in segregated funding for a new benefit payment system as part of the State's 1999-2001 biennial budget, but initial efforts were delayed because of the need to prepare the Department's computer systems for the year 2000. In 2000, after work on planning for the new system had begun, the Department concluded that developing the new system would require more effort and resources than originally expected. In mid 2000, it hired Complete Business Solutions, Inc. (now Covansys Corporation), which had system development experience with other public retirement systems, to assist it in analyzing system development options and business process flows at contract amounts totaling $247,875. As part of this process, the scope of the system project was expanded to provide for additional automation and integration of the Department's processes. In the 2001-03 biennium, additional spending authority of approximately $5.5 million in segregated funding was made available for the project.

Following a competitive procurement process, the Department engaged Covansys as its external vendor for system development in February 2002, at a contract amount of $4,474,625. At that time, the Department also contracted with MAXIMUS, Inc. at a contract amount of $744,400, to serve as the project monitor because it did not have the technical expertise to effectively manage the vendor.

In response to ongoing difficulties and delays, contracts with Covansys and MAXIMUS for the development of the new benefit payment system were terminated in January 2004. The Department determined that it had spent approximately $3.9 million for one-time development and implementation costs for the system project, as shown in Table 4. However, the Department indicates that it has been able to use a portion of the completed work as a starting point for the revised project, which it estimates has saved between six and twelve months of time.

Although the Department had not made a payment to Covansys since February 2003, a settlement agreement reached by the Department and Covansys in December 2004 provided for an additional $350,000 payment to Covansys, including $170,000 that the Department had originally withheld and $180,000 as a partial payment for approved work. Covansys had initially requested payment of $901,000 during negotiation of the settlement agreement.

Table 4

Benefit Payment System Project Budget and Costs[1]

Category	Budget[2]	Costs
Covansys[3]	$4,474,625	$1,884,074
MAXIMUS	744,400	402,237
Contract Programmers	655,813	570,300
DET Development Charges[4]	315,000	221,326
Contingency	720,300	0
Training, Equipment, and Tools[5]	496,000	818,304
	$7,406,138	$3,896,241

[1] The amounts presented represent the one-time costs associated with the development and implementation of the system project. These amounts do not include other costs related to the project, such as software maintenance and staff time, that could not be clearly distinguished from non-project costs.

[2] The budget reflects the amount the Department budgeted for the project and includes $5.5 million released from the Joint Committee on Finance, as specified in 2001 Wisconsin Act 16, s. 9116 (1mk), and additional funds allocated to this project from the Department's base budget.

[3] The costs for Covansys include $350,000 the Department agreed to pay Covansys as part of a settlement agreement in December 2004, but do not include exploratory and planning costs incurred prior to the 2002 system development contract with Covansys.

[4] DET Development Charges are charges from the Department of Administration's Division of Enterprise Technology (DET), which is responsible for maintaining the State's mainframe operating system.

[5] The Department has indicated that the costs exceeded the budget because it purchased tools and equipment that were not originally anticipated and sent more staff to training than originally estimated.

Assessment of the Project

In early 2004, the Department went through a competitive procurement process to hire another external consultant, Virchow Krause & Company, at a contract amount of $198,000, to assess problems with the past project and to develop an approach for recovering it. In its July 2004 report, Virchow Krause identified several factors contributing to the project's difficulties. Among the major problem areas noted were:

- management of the project—the Department did not assign a person with sufficient project management experience and time to oversee the project;
- size of the project—the scope of the project grew significantly from its original inception, and the Department did not have project management skills commensurate with the scope, challenge, and risks of the project;

- technical knowledge—the project team lacked knowledge of key system development methodologies, which contributed to an over-engineered technical architecture;

- management of the contracted vendors—the Department placed too much trust in its vendors and did not have adequate procedures in place to monitor and hold them accountable; and

- project monitoring role—the Department recognized some of its limitations in project management experience and skills prior to the start of the project and hired a project monitoring vendor with experience in public retirement systems and information technology. However, the project monitoring vendor failed to perform its intended role, and the Department did not detect or act upon the vendor's failure in a timely manner.

During the course of our financial audit, we also heard concerns about the adequacy of the vendor selection process. Some Department staff expressed concern that the top-scored vendor in the initial evaluation process did not receive the contract. This matter was of particular concern to staff who had reservations about the qualifications of the vendor selected, including lack of experience in implementing a large-scale project using similar technologies. Conclusions regarding the qualifications and capabilities of the top two vendors appeared to differ between the Department's information technology staff and operational staff involved in the evaluation and selection process.

Covansys was selected after additional analysis of the two top-scored vendors was completed, including vendor presentations, reference checks, and best and final offers. Selection of Covansys was a management decision based in part on a belief that its experience in developing system options for the benefit payment system enabled it to provide the most accurate bid, and in part on concerns that the other vendor's cost proposal was not a credible best and final offer that represented a fixed price, and unexpected cost increases could occur in the future. The Department also noted that Covansys' experience with other public retirement systems was a factor. Whether the project would have been successful if the other vendor had been selected cannot be determined, especially considering the other problems noted in the project by Virchow Krause. However, the problems encountered in the project clearly suggest that a different approach is needed in the future.

Future Plans

In its report, Virchow Krause recommended an approach for proceeding with the benefit payment system project and offered several best practices for project management that could be applied in the future. A major aspect of the recommended approach was to restructure the scope of the project in separate phases, with the first phase being replacement of the annuity system. Subsequent phases would be to replace, interface, or integrate with other systems and processes.

Following release of the consultant's report, the Department went through a competitive procurement process for phase 1 of the revised system project and contracted with another external firm, nVISIA, in February 2005, at a contract amount of $4,480,000. Phase 1 is expected to be implemented in 2006, with the first annuity payment from the new system scheduled for February 1, 2006. The Department also has reconfigured its staffing for the project to provide a more focused sponsorship and management structure for the project.

Funding for continued development of the new benefit payment system will likely become an issue as the Department proceeds with the system's various phases. The Department, which still has authorized funds available, did not request any additional funds for the project in the 2005-07 biennium. However, the Department anticipates that it will need to request additional funding in future biennia for additional functionality, some of which will be incorporated into the new payment system.

****

WISCONSIN STATE LEGISLATURE

WISCONSIN LEGISLATURE
P. O. Box 7882 Madison, WI 53707-7882

May 17, 2005

Senator Scott Fitzgerald and
Representative Dean Kaufert, Co-chairpersons
Joint Committee on Finance
State Capitol
Madison, Wisconsin 53702

Dear Senator Fitzgerald and Representative Kaufert:

The Legislative Audit Bureau has recently completed a number of audits containing findings or recommendations relevant to the biennial budget. We write to communicate our personal recommendations concerning several specific issues. These recommendations have not been circulated to the membership of the Joint Legislative Audit Committee and, therefore, represent only our views.

This letter presents background information on five recommendations for your consideration, including:

- clarifying the circumstances under which benefit recovery mechanisms may be used to address instances of Medical Assistance fraud;
- a technical correction that addresses the overpayment of beneficiary deductibles in the Health Insurance Risk-Sharing Plan;
- a change in the basis for determining the annual base operating budget for the State of Wisconsin Investment Board;
- adoption of the proposed trial jobs plus program for W-2 participants contained in 2005 Assembly Bill 100; and
- retaining funding and increasing accountability for the Children at Risk program.

MEDICAL ASSISTANCE FRAUD

Background:

In September 2004, the Legislative Audit Bureau released *An Evaluation: Medical Assistance Eligibility Determinations* (report 04-13). The Joint Legislative Audit Committee held a public hearing on the report in December 2004. The report notes that county officials indicated inconsistencies between the statutory definition of Medical Assistance fraud and the statutory authorization for Medical Assistance benefit recovery. These inconsistencies have hindered their efforts to recover Medical Assistance benefits.

Specifically, s. 49.49(1)(a), Wis. Stats., defines fraud as failure to disclose any event affecting initial or continued right to benefits. However, s. 49.497(1), Wis. Stats., limits benefit recovery to two specific circumstances: failure to disclose income or asset changes, or misstatements or omissions of fact at application or review. Failure to disclose other events affecting eligibility between application and review, such as changes in residence or household composition, is not grounds for pursuing Medical Assistance benefit recovery. Several counties reported having benefit recovery cases overturned at hearing as a result of this inconsistency.

In its audit report, the Legislative Audit Bureau recommended that the Legislature revise statutes to allow for recovery of Medical Assistance benefit payments when a recipient does not comply with program policies by failing to disclose information that affects eligibility between the time of application and review.

SECTION 1169, 2005 Assembly Bill 100, creates new statutory language that partially addresses these concerns. As introduced, that section reads:

> SECTION 1169. 49.497 (1) (a) 3. of the statutes is created to read:
>
> 49.497 (1) (a) 3. The failure of a Medical Assistance or Badger Care recipient or any other person responsible for giving information on the recipient's behalf to report any change in the recipient's financial or nonfinancial situation or eligibility characteristics that would have affected the recipient's eligibility for benefits or the recipient's cost–sharing requirements.

Recommended Action:

As part of the Medical Assistance reform package, we recommend that the Joint Committee on Finance adopt the proposed revisions to s. 49.497(1), Wis. Stats., contained in SECTION 1168 and SECTION 1169 of 2005 Assembly Bill 100. In addition, we recommend that the Joint Committee on Finance add the following language to the bill that would create s. 49.497(1)(a) 4, Wis. Stats., and incorporate all fraud provisions into the benefit recovery statute:

> "49.497 (1)(a) 4. Any action under 49.49(1)(a) 1 to 4."

HEALTH INSURANCE RISK-SHARING PROGRAM

Background:

In April 2004, the Legislative Audit Bureau released *An Audit: Health Insurance Risk-Sharing Plan* (report 04-3). The Joint Legislative Audit Committee held a public hearing on the report in June 2004. The report noted that the contracted actuary for the Department of Health and Family Services (DHFS) and the Health Insurance Risk-Sharing Plan (HIRSP) had identified a technical statutory issue that required legislative action. This issue was discussed again by the Legislative Audit Bureau in its most recent financial audit of the HIRSP program (report 05-9).

Under current statutes, the method by which HIRSP's funding formula applies deductible and drug coinsurance subsidies for low-income policyholders results in policyholders being over-credited for subsidies they did not fund. DHFS and the HIRSP Board of Governors decided in 2001 that $1.5 million of the resulting unallocated costs associated with the deductible subsidy credit would be paid by policyholders, insurers, and health care providers based on the statutory funding split used for HIRSP costs. In April 2004, DHFS and the Board decided to reduce the excess policyholder premium account by $2.2 million for the balance of over-credited deductible subsidies that had subsequently accumulated through March 31, 2004.

Proposed statutory changes to address this technical issue were introduced in the Governor's budget proposal (see item 48, Department of Health and Family Services, page 239) and have been included in 2005 Assembly Bill 100.

Recommended Action:

We recommend that the Joint Committee on Finance support the implementation of this technical correction and adopt the statutory revisions presented in SECTIONS 2041, 2042, 2043, 2046, 2047, 2052, and 2053 of 2005 Assembly Bill 100.

STATE OF WISCONSIN INVESTMENT BOARD

Background:

In November 2004, the Legislative Audit Bureau released *An Evaluation: State of Wisconsin Investment Board* (report 04-13). The Joint Legislative Audit Committee held a public hearing on the report in March 2005. The audit report notes the Investment Board's operating costs for staff salaries and fringe benefits, supplies, and permanent property are funded through assessments to the various funds managed by the Investment Board, as authorized by its continuing program revenue appropriation. No general purpose revenues support Investment Board operations.

1999 Wisconsin Act 9 changed the Investment Board's operating budget from a set dollar amount to a budget that correlates to the value of assets under management. Specifically, the Investment Board was given the flexibility to use up to 2.75 basis points of the total assets under management for its annual operating budget. In recognition that financial markets can fluctuate, 1999 Wisconsin Act 9 established a minimum annual operating budget at $17,720,500, which was 2.75 basis points of assets under management on June 30, 1999. In fiscal year 2002-03 and fiscal year 2003-04, the annual operating budget declined to this minimum level.

Since the audit report was released, Investment Board staff have contacted us concerning a proposed change to the basis for determining its annual operating budget. The Investment Board proposes a recalculation of the annual operating budget to reestablish the minimum amount. The Investment Board further proposes to use an average of the asset base for the six months prior to April 30, rather than the date of April 30, for the determination of the funds available for the next fiscal year. Investment Board staff believe this change will lessen the likelihood that a single market fluctuation or event could affect the annual operating budget and provide them with the flexibility they believe was intended when a basis point budget was established.

Recommended Action:

Given that its annual base operating budget has remained unchanged for some time, we recommend that the Joint Committee on Finance modify s. 25.187(2)(c)1., Wis. Stats., to:

- increase the minimum amount for the annual operating budget to $19,390,300 in fiscal year 2005-06, which is the actual budget authority for fiscal year 2004-05;
- increase the minimum amount for the annual operating budget, beginning in fiscal year 2006-07, by the percent change in the Employment Cost Index published by the United States Department of Labor for the prior calendar year, and by the annualized cost of any positions authorized during the prior fiscal year under s. 16.505, Wis. Stats.; and
- use average month-end assets for the six months ending April 30 in the prior fiscal year to determine the budget authority for the current fiscal year.

TRIAL JOBS PLUS PROGRAM

Background:

In April 2005, the Legislative Audit Bureau released *An Evaluation: Wisconsin Works (W-2) Program* (report 05-6). The Joint Legislative Audit Committee held a public hearing on the report on April 27, 2005. Trial jobs provide work experience and training to program participants and may become permanent, unsubsidized positions. W-2 participants in these jobs earn not less than the minimum wage for every hour worked, and the employer receives a per participant subsidy of not more than $300 per month. Each trial job may not exceed three months, with an opportunity for a three-month extension.

The audit report noted that of all 674 new participants in June 2004, none were placed in trial jobs. There are a number of reasons why few participants have been placed in trial jobs. The W-2 agencies visited by the Bureau noted that many employers believe the $300 monthly wage subsidy they receive for each trial job participant is insufficient, the administrative requirements are too burdensome, and participants are sometimes unqualified for the available jobs.

The Legislative Audit Bureau made no specific recommendations on the trial jobs program. However, the Department of Workforce Development testified that the absence of a viable subsidized wage-paying job tier limits the program's effectiveness in helping participants obtain unsubsidized employment. Under the Governor's proposal for the 2005-07 biennial budget, a "trial jobs plus" pilot project would be created for up to 1,000 participants in Milwaukee County and two other counties. The project, which would operate from January 2006 through June 2007, would reimburse employers for the monthly costs of participants' wages, not to exceed the federal minimum wage, for up to 30 hours per week, as well as applicable social security taxes, unemployment insurance contributions, and worker's compensation premiums. Participants could be in trial jobs plus placements for up to six months, with the opportunity for a three-month extension.

Statutory changes to create the Trial Jobs Plus project were introduced in the Governor's budget proposal (see item 1, Department of Workforce Development, page 591) and have been included in 2005 Assembly Bill 100.

Recommended Action:

We recommend that the Joint Committee on Finance support the implementation of the Trial Jobs Plus project and adopt the statutory revisions presented in SECTION 1060 of 2005 Assembly Bill 100. We further recommend that the Joint Committee on Finance adopt alternatives 1a and 3 of the Legislative Fiscal Bureau's issue paper (paper 852) dated May 18, 2005.

CHILDREN AT RISK PROGRAM

Background:

In March 2005, the Legislative Audit Bureau released *An Evaluation: Children At Risk Program* (report 05-4). The Joint Legislative Audit Committee held a public hearing on the report in April 2005. The Children at Risk program, which is administered by the Department of Public Instruction (DPI), is intended to reduce the number of students in grades 5 through 12 who are at risk of not graduating from high school. It was created in the 1985-87 Biennial Budget Act and, in response to recommendations from the Joint Legislative Council Special Committee on Children at Risk, was last modified in 1999 Wisconsin Act 123. Each year since fiscal year 1990-91, the program has provided $3.5 million in general purpose revenue (GPR) to participating school districts.

In the 2003-04 school year, 21 school districts participated in the Children At Risk program. They identified 29,669 at-risk students. The number of students at risk of not graduating statewide is not known because only districts that receive program funding are required to report to DPI.

Districts receive funding based on the number of their at-risk students who achieve statutory performance objectives. Among the 21 participating districts, 40.2 percent of students identified as at-risk achieved at least three statutory performance objectives in the 2003-04 school year. This is the lowest level since the 1999-2000 school year. In addition, the audit report notes that most participating districts do not comply with one or more statutory requirements, which raises questions about the priority they assign to complying with program requirements.

The best indicators of success for the Children at Risk program may be comparative graduation and dropout rates for participating and nonparticipating, but otherwise similar, students. School districts do not track this type of information. However, the audit analyzed trends in 11 school districts that participated in the Children at Risk program in each school year from 1999-2000 through 2002-03. Among the 11 participating districts, the graduation rate increased 6.5 percentage points, from 71.1 percent to 77.6 percent. Statewide, the increase was 2.5 percentage points. In addition, 10 of the 11 districts reduced their dropout rates over the same period and 6 of the 11 districts had dropout rates below the statewide average.

It may not be reasonable to attribute changes in student performance solely to the Children At Risk program because of the availability of other funding for district at-risk programs. Additionally, because districts receive reimbursement under the Children At Risk program in the year after expenses are incurred, districts decide which programs and services to offer without regard to the level of Children At Risk funding they may subsequently receive.

Recommended Action:

Although the audit noted that the program has had mixed results, we are encouraged by the improvements to graduation rates. As a Legislature, our intention is to increase the number of high school graduates, which is the fundamental purpose of this program. However, the audit and the testimony offered before the Joint Legislative Audit Committee identified the need for program improvements and greater program accountability. Therefore, we recommend that the Joint Committee on Finance retain funding for the Children At Risk program in the 2005-07 biennial budget, and modify the program, as follows:

1. reduce the number of grade levels served by the program by revising s. 118.153 (1)(a), Wis. Stats., to read:

   "Children at risk" means pupils in grades ~~5~~ 7 to 12 who are at risk of not graduating from high school because they are dropouts...

2. allow for the demonstration of achievement through an additional program criterion by students who are not high school seniors by modifying s. 118.153 (4)(c)3, Wis. Stats., to read:

   The pupil, if a high school senior, received a high school diploma. <u>If not a senior, the pupil has demonstrated, on standardized tests or other appropriate measures, gains in subject areas other than reading or mathematics commensurate with the duration of his or her enrollment in the program."</u> [Note: Reading and mathematics are included in a separate program criteria.]

3. increase program accountability and program outcomes by creating nonstatutory language in 2005 AB 100 that reads:

   No later than October 1, 2006, the state superintendent shall report to Joint Legislative Audit Committee on the status and outcomes of children at risk services provided at the school district level and describe recommendations for best practices in service delivery and program improvements.

Given the importance of this program, it is our intention to work closely with the Department of Public Instruction over the course of the next year to ensure that program outcomes are well documented and evaluated. In a separate letter to the State Superintendent, we will identify a number of follow-up actions in response to the audit findings. In addition to the October 2006 report, we will also request an interim report to the Joint Legislative Audit Committee, in order to document the compliance of school districts with the program's statutory requirements and identify the specific children at risk programs eligible for program funding within each school district.

We appreciate your consideration of these items. Please contact us if you have any questions or if we may provide any further information.

Sincerely,

Carol Roessler

Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Suzanne Jeskewitz

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc:

Senator Robert Cowles
Senator Mark Miller
Senator Julie Lassa

Senator Mary Lazich
Senator Alberta Darling
Senator Joseph Leibham
Senator Luther Olsen
Senator Russell Decker
Senator Lena Taylor

Representative Samantha Kerkman
Representative David Travis
Representative David Cullen

Representative David Ward
Representative Scott Jensen
Representative Jeff Stone
Representative Kitty Rhoades
Representative Dan Meyer
Representative Mark Pocan
Representative Pedro Colon

Ms. Elizabeth Burmaster, Superintendent of Public Instruction
Department of Public Instruction

Mr. David Mills, Executive Director
State of Wisconsin Investment Board

Ms. Helene Nelson, Secretary
Department of Health and Family Services

Mr. Robert Lang, Director
Legislative Fiscal Bureau

Ms. Janice Mueller
State Auditor

WISCONSIN STATE LEGISLATURE

JIM DOYLE
GOVERNOR
MARC J. MAROTTA
SECRETARY
Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842
TTY (608) 267-9629

WISCONSIN DEPARTMENT OF
ADMINISTRATION

May 27, 2005

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

Dear Senator Roessler and Representative Jeskewitz:

I am writing to respond to the issues identified in the Legislative Audit Bureau's May 12, 2005 letter pertaining to the Department of Administration (DOA) and the sale of aircraft.

As you know, 2001 Wisconsin Act 109 directed DOA to offer for sale 21 aircraft, no later than June 20, 2003, selected by the Department that are owned by the State on the effective date of subsection (7q). Furthermore, Act 109 required DOA to deposit the sales proceeds, less the amount of any liabilities related to the aircraft and less preparation and selling costs, to the General Fund.

As you also know, Act 109 does not clearly indicate when the proceeds should be lapsed. The Department intends to lapse $94,585 of net proceeds from the aircraft sales by the end of FY 2004-05, as no further sales are anticipated in the immediate future. A lapse of $94,585 represents the net sales proceeds of the aircraft sold since the enactment of Act 109. We believe that this is in full compliance with the law.

The LAB's May 12, 2005 letter references the Department's treatment of sales proceeds for the Governor's fleet reduction initiative and compares that treatment to the sale of the aircraft. However, we maintain that a different treatment of net proceeds for the sale of the aircraft and the Governor's car fleet reduction initiative is warranted and justified, since there are different statutory provisions addressing each.

The aircraft sales were undertaken specifically in accordance with Act 109. The Governor's car fleet reduction initiative was undertaken as a policy directive, beginning with the July 31, 2004 vehicle auction. The treatment of the net sales proceeds for this initiative falls under the provisions of 2003 Wisconsin Act 33, which address the sale of surplus property. Act 33 requires DOA to promulgate rules for surplus supplies, materials and equipment in any agency and deposit the net proceeds in the Budget Stabilization Fund. Unlike the aircraft sales, the Governor's car fleet initiative is anticipated to be completed by the end of FY 2004-05 and within the same fiscal year. Therefore, gains and losses will be offset within the same fiscal year and the proceeds will be deposited to the Budget Stabilization Fund accordingly.

I appreciate your consideration of this additional information. Should you have any questions or wish to discuss the matter further, please feel free to contact me.

Sincerely,

Gina Frank-Reece for

Marc J. Marotta
Secretary