

State of Wisconsin

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Joint Committee on Finance

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: December 30, 2016

Re: 14-Day Passive Review Approval – DOA

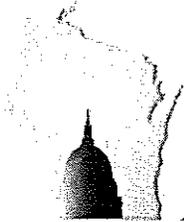
Pursuant to s. 16.513(3), Stats., attached is a 14-day passive review request from the Department of Agriculture, Trade and Consumer Protection; Department of Health Services; Department of Justice; and the Department of Administration, received on December 30, 2016.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Friday, January 20, 2017**, if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AD:JN;jm



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
SECRETARY

Office of the Secretary
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Date: December 30, 2016

To: The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance

The Honorable John Nygren, Co-Chair
Joint Committee on Finance

From: Scott A. Neitzel, Secretary
Department of Administration *SN*

Subject: Section 16.513(3) Request

DEC 30 2016
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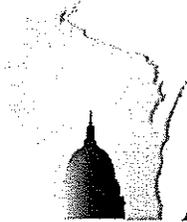
Enclosed are spending plans from the Department of Agriculture, Trade and Consumer Protection; Department of Health Services; Department of Justice; and Department of Administration to address unsupported overdrafts for fiscal year 2015-16. The plans have been approved by this department under the authority granted in s. 16.513(3), Wisconsin Statutes. The explanations for the requests are included in the attached materials.

As provided in s. 16.513(3), the request(s) will be approved on **January 24, 2017**, unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about any of the requests.

Please contact Kirsten Grinde at 266-1353 in the Division of Executive Budget and Finance, if you have any additional questions.

Attachments

cc: Bob Lang, Legislative Fiscal Bureau



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

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Date: December 30, 2016

To: Scott A. Neitzel
Secretary of Administration

From: Waylon R. Hurlburt *WRH*
State Budget Director

Subject: Fiscal Year 2015-16 Program Revenue Overdraft Review

Pursuant to s. 16.513(3), the department is required to review agency plans to address any unsupported overdrafts in program or segregated revenue appropriations, which are defined as appropriations where there are insufficient moneys, assets or accounts receivable to cover expenditures at the end of each fiscal year. The department then submits its recommendation to approve, disapprove or approve with modification the agency's plan to the Joint Committee on Finance. At the February 15, 2012, s. 13.10 meeting, the Committee approved a motion to direct the department to submit these overdraft plans for fiscal year 2011-12 and beyond within six months of the close of the fiscal year.

Since this requirement was enacted, the Department of Administration has conducted an examination of the program revenue and corresponding segregated revenue appropriations that had overdrafts at the end of each fiscal year. This examination is performed after the end of the fiscal year in order to comply with the requirements of s. 20.903(2), Wis. Stats., which states that liabilities may be created in program revenue and corresponding segregated revenue appropriations at the end of the current fiscal year not exceeding unexpended monies plus accrued accounts receivable, inventory and work in process. Certain appropriations are also authorized by statute to use the net book value of equipment and buildings (capital assets) as coverage for the overdraft. After a determination has been made that an appropriation does not have assets, receivables, inventory, or in some instances buildings and equipment to cover the overdraft, agencies are then required by s. 16.513, Wis. Stats., to submit a plan to the department detailing how these overdrafts will be resolved.

In some cases, the deficits are long-standing and will require multiple years and statutory changes, such as revenue adjustments, reallocation of costs or reductions in program requirements, to reduce or eliminate the deficit. And at times, the Administration has included plans to address the overdrafts as part of the biennial budget bills, only some of which have been accepted by the Legislature.

Scott A. Neitzel, Secretary
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The unsupported overdraft appropriations in fiscal year 2015-16 total \$66,048,251. The following agencies have unsupported overdrafts in the following appropriations:

Department of Agriculture, Trade and Consumer Protection

Appropriation 12200, Grain Inspection and Certification, in the amount of \$404,697. The fiscal year 2015-16 unsupported overdraft decreased by \$159,137 from the unsupported balance of \$563,834 in fiscal year 2014-15.

The department has submitted a plan to continue to lapse any remaining GPR balances at year-end to cover the deficit in this appropriation, as required by 2005 Wisconsin Act 25. In fiscal year 2015-16, the department transferred \$212,212 GPR from its general operations appropriation to address the deficit.

RECOMMENDATION: Approve the plan.

Department of Health Services

Appropriation 22500, Alternative Services of Institutes and Centers, in the amount of \$16,709,119. The net cash overdraft for fiscal year 2015-16 was \$17,719,371, and there were receivables of \$1,010,252 that offset a portion of the overdraft, resulting in an unsupported balance of \$16,709,119. The department continues to complete its reconciliation appropriations for fiscal year 2015-16; therefore the final unsupported overdraft balance may differ from the current reported balance.

The overdraft in this appropriation relates to the operations of the Northern Wisconsin Center. Since fiscal year 2004-05, the department has only operated an Intensive Treatment Program at the center for individuals with intellectual disabilities who live in the community. Under this program, counties and Family Care managed care organizations fund a portion of the costs (billed at an interim per diem rate) and the center receives Medicaid reimbursement for the remaining portion of eligible costs. Because cost settlements take several months to finalize, the department records a receivable in anticipation of reimbursement for the days of care billed. In fiscal year 2013-14, the department completed its reconciliation of prior year cost settlements, and no longer had a receivable in anticipation of settlement that was large enough to support the overdraft.

The department has indicated the ongoing unsupported overdraft for the Northern Wisconsin Center is the result of several major factors, including the difference between the interim intensive treatment program daily rate and the actual cost per bed day at the center, declines in census that result in higher bed tax assessments than Medicaid reimbursement, and past accounting treatments of certain center costs and revenues. One interim daily rate, based on average costs, is applied to all of the department's state centers, but Northern Wisconsin Center's actual costs are significantly above the average costs due to its comparatively small size. The department estimates an average annual Medicaid claim of \$4.0 million. In addition,

the center receives a Medicaid access incentive payment for each occupied bed, but pays the bed tax for all licensed beds, occupied or vacant. Due to Northern Wisconsin Center's vacancy rate, it does not receive sufficient access payments to cover the bed tax assessment.

The department has submitted a plan recommending that the Department of Administration and Department of Health Services develop a plan to reduce the cash deficit by utilizing any available revenues received as reimbursement from the Medicaid program for the operations and services of the state centers and to more accurately reflect revenues earned by the centers but not paid until final cost reporting is completed after the fiscal year.

RECOMMENDATION: Approve the plan.

Appropriation 26700, Interagency and Intra-Agency Operations, in the amount of \$6,129,965. The department continues to complete its reconciliation appropriations for fiscal year 2015-16; therefore the final unsupported overdraft balance may differ from the current reported balance.

Agency staff indicated that the unsupported overdraft is the result of the costs of utilities and maintenance of common areas and vacant buildings at the Northern Wisconsin Center, which are not reimbursable under the Medicaid program. The deficits associated with the downsizing of the Northern Wisconsin Center are transferred from the institutional operations and charges appropriation under s. 20.435(2)(gk) into appropriation 26700 in order to keep track of the costs.

The department has submitted a plan that indicates the department will continue to employ strategies identified in previous plans to address the deficit. The department will continue to seek approval from the Governor and the Joint Committee on Finance to use revenue from the sale of surplus land on the Northern Wisconsin Center campus, valued at \$3 million, to reduce the shortfall. The department will also identify any operating budget balances each year that could be used to offset the deficit. Further, beginning in fiscal year 2010-11, the department began allocating all utility and common area maintenance and grounds costs to the agencies that occupy campus facilities, including the Departments of Corrections, Military Affairs and Veterans Affairs. Previously, only the incremental costs were paid by the other agencies.

The department's plan also indicated that the department would consider moving its short-term care unit for people with intellectual disabilities from the campus to reduce overhead costs and that it supported the Department of Administration assuming responsibility for power plant, utility, maintenance and groundskeeping operations and billings on the campus to assist with streamlining operations and implementing a uniform allocation methodology.

RECOMMENDATION: Approve the plan.

Department of Justice

Appropriation 23000, Penalty Surcharge Receipts, in the amount of \$5,601,299. This is an increase of \$1,900,233 from the fiscal year 2014-15 closing deficit balance of \$3,701,066.

Under 2015 Wisconsin Act 55, in order to reduce the deficits of both the justice information fee in the Department of Administration, and the penalty surcharge receipts appropriations, the penalty surcharge receipts will be utilized to fund court interpreters appropriation under s. 20.625(1)(k) in the amount of \$232,700, while the funding for crime lab equipment and supplies appropriation under s. 20.455(2)(jb) will now be funded by the DNA surcharge, rather than penalty surcharge, in the amount of \$558,100 annually. This is expected to reduce obligations to the fund by \$325,400 annually. However, the department indicates that without significant changes in either appropriated amounts or increased surcharges, the deficit is expected to continue.

RECOMMENDATION: Approve the plan and continue to review the allocation of penalty surcharge receipts to determine the most appropriate use of the funds and reduce the deficit.

Appropriation 28100, Grants for Substance Abuse, in the amount of \$1,778,816. This is a decrease of \$44,676 from the fiscal year 2014-15 deficit balance of \$1,823,492. The appropriation was originally created in the 2005-07 Biennial Budget and was transferred to the department under 2013 Wisconsin Act 20. It provides grants to counties for substance abuse treatment programs. Revenues are collected from fines on those convicted of manufacturing or distributing a controlled substance.

For fiscal years 2007-08, 2008-09 and 2009-10, the only revenues for this appropriation consisted of drug offender surcharges. Beginning in fiscal year 2007-08, the first \$850,000 of revenues collected for the drug abuse surcharges were to be deposited to a Department of Health Services appropriation and any revenues between \$850,000 and \$1,275,000 were to be deposited to the Department of Administration appropriation 622. This appropriation transferred to the Department of Justice in fiscal year 2013-14. Any drug abuse surcharge revenues that exceeded \$1,275,000 for the year are to be split one-third to the Department of Justice appropriation 281 and two-thirds to the Department of Health Services appropriation. However, during fiscal year 2009-10, there were less than \$520,000 in drug abuse surcharge revenues, and all were deposited to the Department of Health Services appropriation. Starting with fiscal year 2009-10, the budget for this appropriation was reduced to \$7,500 with no new grant commitments. With this change, the revenues in fiscal year 2010-11 through fiscal year 2015-16 exceeded expenditures. However, it will take time to eliminate the unsupported overdraft that

had accumulated over several years. At current revenue levels, the deficit will remain through fiscal year 2055-56.

RECOMMENDATION: Approve the plan and continue to review fund balances within the department for potential reallocation to address the deficit.

Department of Administration

Appropriation 12300, Justice Information Fee, in the amount of \$2,343,341. This is a decrease of \$457,538 from the fiscal year 2014-15 deficit balance of \$2,800,879.

Revenues for this appropriation come from assessments for the commencement or filing of certain civil court proceedings, including large claims, small claims forfeitures, garnishments, municipal court appeals or other claims. The current surcharge is \$21.50. Of this amount, \$6.00 is appropriated to the Court System for the operation of circuit court automated information systems (CCAP). The remaining revenues are distributed to other appropriations in the Departments of Justice and Corrections, and the Circuit Courts. Beginning with 2011 Wisconsin Act 20, the Department of Administration is also required to lapse \$700,000 of surcharge revenue in each fiscal year to the general fund.

Under 2015 Wisconsin Act 55, the justice information fee revenue transfer to support the court interpreters appropriation under s. 20.625(1)(k) was eliminated, reducing the future annual obligation of the fee revenue by \$232,700. In addition, Act 55 required that the unencumbered balances of each recipient appropriation be transferred to the justice information appropriation under s. 20.505(1)(id). In September 2015, \$1,527,075 in unencumbered balances was returned to the appropriation, reducing the fiscal year 2014-15 deficit to \$1,273,804. The department indicates that these changes positively impacted the appropriation balance but highlights the continuing imbalance between surcharge collections and required transfers. The department states that additional legislative changes to appropriations supported by the justice information fee will be required to address the deficit.

RECOMMENDATION: Approve the plan.

Appropriation 13800, Enterprise Resource Planning System, in the amount of \$30,442,062. The total cash overdraft is \$55,911,711, and there are capital assets of \$17,833,546 and accounts receivable of \$7,636,103 as coverage. The unsupported overdraft increased by \$4,933,435 from the fiscal year 2014-15 unsupported overdraft of \$25,508,627.

The department was directed to implement and maintain the integrated business information system (IBIS) pursuant to s. 16.971(2)(cf), Wisconsin Statutes. After the initial system implementation was put on hold in April 2008 and maintenance payments suspended in May 2011, the Department of Administration opted to move

Scott A. Neitzel, Secretary
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forward in fiscal year 2012-13 with an enterprise resource planning system and announced the State Transforming Agency Resources (STAR) Project.

The deficit in this appropriation as of fiscal year 2015-16 is a result of the department continuing to incur costs (\$27,431,500) associated with STAR Project implementation. In fiscal year 2015-16, the department tested, deployed and maintained the project's financial module (Release 1) and human resources/payroll module (Release 2). In addition, the department built, tested and deployed the STAR financial module for the Department of Transportation (Release 3). The primary cost drivers behind the \$27,431,500 in fiscal year 2015-16 STAR expenses were personnel and contractual professional services to support both project releases ahead of implementation. Of the total fiscal year 2015-16 STAR expenses, \$10,030,364 was financed by the state's Master Lease program.

Release 1 was fully deployed on October 1, 2015, and Release 2 was deployed on December 14, 2015. Release 3, which fully implemented the STAR financial module for the Department of Transportation, was completed to meet the scheduled deployment on July 1, 2016.

Costs incurred by the department for STAR Project work and financing will be recovered by an annual assessment to state agencies beginning in fiscal year 2016-17. With the deployment of STAR Releases 1 and 2 in fiscal year 2015-16, the department has also begun incurring postdeployment maintenance and operations costs for the system. These costs began to be recovered from agencies starting in fiscal year 2015-16 and will continue to be recovered annually thereafter. As such, the ongoing costs will not contribute to the deficit in this appropriation.

RECOMMENDATION: Approve the plan.

Information Technology Investment Fund

Appropriation 16000, Information Technology Investment Fund – Special Projects, in the amount of \$2,638,952. The unsupported overdraft decreased by \$25,000 from the fiscal year 2014-15 unsupported overdraft of \$2,663,952. The funding source to repay a one-time loan from the general fund was eliminated in fiscal year 2001-02, leaving the appropriation with a deficit. The department has used various excess revenues to make payments towards the reduction of this deficit and continues to do so.

RECOMMENDATION: Approve the plan.

FY16 Program Revenue Overdraft Review
 Unsupported Overdrafts Revised 12/27/16

Fund	Agency	Appr	Description	FY16 Net Cash Overdraft	Accounts Receivable	Inventory	Capital Assets Net of Master Lease	Total Support For Overdraft	Unsupported Cash Overdraft
S100	11500	DATCP	12200 Grain Inspection	(500,593)	95,896			95,896	(404,697)
S100	43500	DHS	2(g) Alternative Services	(17,719,371)	1,010,252			1,010,252	(16,709,119) (*)
S100	43500	DHS	2(kx) Interagency & Intra-agency Programs	(4,427,616)	(1,702,349)			(1,702,349)	(6,129,965) (*)
S100	45500	DOJ	23000 Penalty Assessment Surcharge	(5,601,299)	0			0	(5,601,299)
S100	45500	DOJ	28100 Grants for Substance Abuse	(1,778,816)	0			0	(1,778,816)
S100	50500	DOA	12300 Justice Information Fee	(2,343,341)	0			0	(2,343,341)
S100	50500	DOA	13800 Enterprise Resource Planning System	(55,911,711)	7,636,103		17,833,546	25,469,649	(30,442,062)
S280	87000	ITIF	16000 Special Projects; Revenue Fees	(2,638,952)	0			0	(2,638,952)
				(90,921,699)	7,039,902	0	17,833,546	24,873,448	(66,048,251)

(*) FY16 Overdraft Balances are amounts from the Form 78 balances adjusted for the KK to Actuals variances.

Additional Comments:

DNR has indicated they do not have any unsupported overdrafts, but they have not submitted any forms.

DPI has not submitted any forms but indicated that they do not anticipate there will be any unsupported overdrafts.

Tech Colleges has not submitted any forms but indicated that they do not anticipate that there will be any unsupported overdrafts.

DHS has reported almost all their appropriations as unsupported on the forms. However, their cover letter states that once their reconciliation is completed they anticipate that only 2(g) and 2(kx) will be unsupported. They have submitted plans for these two.



State of Wisconsin
Governor Scott Walker

Department of Agriculture, Trade and Consumer Protection
Ben Brancel, Secretary

Date: December 12, 2016

To: Waylon Hurlburt, State Budget Director
Department of Administration

From: Jason Gherke, Finance Director
Department of Agriculture, Trade and Consumer Protection

Subject: FY16 Program Revenue Overdraft Report

The FY16 Program Revenue Overdraft Report identified one Department of Agriculture, Trade and Consumer Protection (DATCP) appropriation as having an unsupported overdraft. As required by s.16.513, DATCP is submitting our plan to resolve the unsupported deficit.

The unsupported overdraft in appropriation s.20.115(1)(h), grain inspection and certification, had a net cash overdraft of \$500,593. Accounts receivables were \$95,896 therefore the appropriation had an unsupported overdraft of \$404,697. The unsupported overdraft decreased by \$159,138 from the FY15 balance of \$563,835.

As required by s.16.56, DATCP will continue to lapse any remaining GPR balances at year end to cover the deficit in the appropriation. In FY16, DATCP transferred \$212,212 from unencumbered balances in our GPR general operations appropriations to the grain inspection appropriation.

If you have any questions regarding DATCP's plan, please contact me at 608.224.4748.

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Department of Health Services
Office of Policy Initiatives and Budget

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Date: December 20, 2016

To: Waylon Hurlburt
State Budget Director
Department of Administration

From: Andy Forsaith, Director 
Office of Policy Initiatives and Budget

Subject: FY 16 DHS Appropriation Closing with Unsupported Cash Overdraft

The State Controller's Office indicates that DHS closed appropriations with overdrafts and that a plan must be filed with the DOA State Budget Office to show how assets or receivables will be generated to cover the unsupported overdrafts.

The following appropriations ended FY 16 with an unsupported overdraft:

- Appropriation s. 20.435(2)(kx) – Interagency and Intra-Agency Programs, ended with an unsupported overdraft of \$6,129,964.99.
- Appropriation s. 20.435(2)(g) – Alternate services of institutes and centers, ended with an unsupported cash overdraft of \$16,709,119.44.

The attachment identifies the DHS plan to eliminate the deficits and cover ongoing expenditures.

cc: Tom Engels
Amy McDowell
Bob Halverson
Laurie Palchik

Appropriation 267 – Inter/Intra Agency Operations

The appropriation, s. 20.435(2)(kx) – Inter/Intra Agency Operations, ended FY 16 with an unsupported overdraft of \$6,129,964.99. The unsupported overdraft is the result of costs for utilities and maintenance of common areas and vacant buildings at Northern Wisconsin Center (NWC). In prior years, these costs were reimbursable by the Medicaid program when DHS operated a large long term care residential program for people with disabilities. Since FY 05, the Department has operated only a small short term care unit, and as a result, a significant portion of campus costs are no longer Medicaid reimbursable.

At the same time the DHS program has decreased, other agencies have increased their presence at NWC. The Department of Corrections, Military Affairs, and Veterans Affairs programs represent roughly 97% of clients served and 63% of employees on campus. These agencies occupy 34% of the building space, compared to 20% for DHS programs. Vacant and mothballed buildings comprise 46% of the building square footage.

Despite its small campus “footprint,” DHS still has the responsibility for all campus power plant, maintenance, grounds keeping, and snowplowing operations. It has no base funding for these costs.

In prior year reports, the Department indicated it would pursue three strategies to address the deficit. First, it would seek approval from the Governor and Joint Committee on Finance to use revenue from future sales of surplus land at NWC. S. 13.101(17) provides that the Department of Health Services, the Department of Corrections, and the Department of Veterans Affairs may seek approval from the Joint Committee on Finance to use the land sale revenue for activities on the Northern Center campus. The value of the surplus land is estimated to be \$3 million. Second, the Department would identify any balances that may occur in its operating budget each year that could be used to fund the deficit. Through this process, the Department would attempt to reduce the remaining deficit over several years to the extent balances occur. Lastly, beginning in FY 11, DHS began to allocate all utility and common area maintenance and grounds keeping costs incurred each year to state agencies on the Northern Center campus on a proportional basis.

The Department will continue to rely on these strategies to address the deficit. DHS recommends that DOA assume responsibility for all NWC power plant, utility, maintenance, and grounds keeping operations and billings, because it is in a better position to streamline campus operations and implement a uniform allocation methodology. The Department is also open to considering moving its short term care unit off campus, to a smaller setting in the Chippewa Valley area, as a way to reduce its overhead costs.

Appropriation 225 – Alternate services of institutes and centers

This appropriation, s. 20.435(2)(g), ended FY 16 with an unsupported cash overdraft of \$16,709,119.44. This overdraft relates to operations of the Northern Wisconsin Center for People with Intellectual Disabilities (NWC) in numeric appropriation 225.

The Department operates three State Centers, which are state licensed and federally certified intermediate care facilities for people with intellectual disabilities (ICF-ID) and receive full cost reimbursement for all Medicaid-eligible costs. Northern Wisconsin Center operates only an Intensive Treatment Program (ITP) that provides short term services to people with intellectual disabilities who live in the community. Counties and Family Care managed care organizations (MCOs) fund a portion of the cost of their consumers in the ITP program, because they are responsible for funding services for the individuals while in the community. NWC receives reimbursement for the remaining portion of Medicaid eligible costs from the Medicaid program.

At the beginning of the year, the Center establishes an interim per diem rate, with which it bills counties, MCOs and the Medicaid program for consumers admitted to the ITP. After the close of the rate year, the Department prepares a cost settlement report based on all actual costs for the rate year and makes an additional Medicaid claim for the difference between the amounts claimed through the interim rate and the full allowable Medicaid costs. The Department typically finalizes the cost settlement nine to twelve months after the close of the fiscal year. The Department records a receivable for days of care billed under the interim rate but not reimbursed by the end of the fiscal year; it does not record any receivable for the Medicaid settlement, which can be positive or negative.

Below is a summary of the major factors behind the deficit:

- All three State Centers operate ITP programs. Each year, the Department establishes one ITP daily rate for the three programs, based on their average costs. The uniform rate is important so that counties and MCOs choose the ITP program based on the needs of their consumers rather than cost. NWC's actual cost per bed day is significantly above the average cost reflected in the interim ITP rate, because of its small size. The uniform ITP rate was \$1,064 per day in FY 16; NWC's final FY 15 cost per day was \$1,888. Consequently, NWC will always receive a cost settlement payment from Medicaid, because its final costs will be higher than revenues received through the interim rate. It is estimated that NWC's cost settlement will average \$4.0 million per year due to the rate averaging; the settlement amount varies from year to year, causing the year-end deficit to vary also.
- The Centers do not receive Medicaid reimbursement for the state ICF-ID bed tax they are required to pay under s. 50.14(2)(bm). The Department deposits bed tax revenues from all facilities into the Medicaid Trust Fund, where they are matched with Medicaid FED and used to fund Medicaid benefits. At the same time, the Department makes a Medicaid access incentive payment to all ICFs (using GPR and FED) that, in total, approximately equals the bed tax paid by all facilities statewide. To comply with federal requirements, the access payment is a fixed amount per Medicaid bed day for all facilities. Because the

access payment is a fixed amount per bed, facilities with a large number of vacant beds will pay more in assessments than they receive back in access payments. Facilities with an occupancy rate of 90.5% or more receive access payments greater than bed tax paid. In recent years, Northern Center has had occupancy rates below 90.5% due to declines in its census. The following table summarizes bed tax losses from each center since the beginning of the tax through FY 16.

Bed Tax Losses FY 04 through FY 16	
Northern Center	\$1,118,704
Central Center	\$1,866,161
Southern Center	\$549,523
Total	\$3,534,388

- States can claim Medicaid reimbursement for depreciation and debt service costs for buildings and other capital assets used to provide Medicaid services. Following state budget procedures, the Department calculates these amounts and then lapses them to the General Fund as "GPR-Earned." The Department then claims Medicaid funds for these costs. The lapse is required on the basis that the state initially funds construction and debt service costs with GPR through the Capital Budget, and therefore the agency should return the Medicaid reimbursement to the General Fund. Over the past several years, not all of the Centers' depreciation and debt service costs were Medicaid reimbursable. However, the Department has lapsed to the General Fund all depreciation and debt service costs, not just the Medicaid reimbursed amounts. For dates of service after FY 12, the Department subtracts Medicaid disallowed claims from the amounts it lapses as GPR-Earned. Similarly, the Department has lapsed Medicaid reimbursement for depreciation for capital asset expenditures funded from the Centers' PR appropriations under (2)(g) and (2)(gk). Under Medicaid rules, the Centers must initially incur the expense and then are reimbursed by Medicaid over time according to depreciation schedules. The Department should have retained these depreciation reimbursements in the Centers appropriations to cover the initial capital costs. For FY 14 forward, the Department will not lapse Medicaid depreciation reimbursements for capital costs paid from the Centers appropriations. The following table summarizes amounts lapsed to GPR-Earned in excess of Medicaid reimbursement.

Excess GPR-Earned Lapses		
	Depreciation Overlaps for PR-funded Assets for FY 06-FY 13	Over-Lapse Amounts Associated with Disallowed Property Costs: FY 02-FY 13
Northern Center	\$458,633	\$3,336,033
Central Center	\$1,731,556	
Southern Center	\$2,141,501	
Total	\$4,331,691	\$3,336,033

The bed tax losses and excess GPR-Earned Lapses attributable to Northern Wisconsin Center directly contribute the negative revenue balance in appropriation 225. These same losses associated with CWC and SWC may be contributing to the appropriation 225 deficit indirectly. Central Center and Southern Center are budgeted to a separate appropriation under s. 20.435(2)(gk). Northern Center also used the appropriation s. 20.435(2)(gk) until the downsizing of its long term care program in 2005, when its budget was shifted to 225. It is possible that, in prior years, that revenue balances were shifted from NWC to the other centers within appropriation s. 20.435(2)(gk). Because of record retention limits and staff turnover, knowledge of transactions dating back 15 years or more is limited.

Recommendation

The Department recommends that DOA work with DHS to develop a plan to reduce the cash deficit by utilizing any available revenues received as reimbursement from the Medicaid program for the operations and services of the state centers, and to more accurately reflect revenues earned by the centers but not paid until final cost reporting is completed after the fiscal year.

CORRESPONDENCE/MEMORANDUM**DEPARTMENT OF JUSTICE**

Date: December 5, 2016

To: Jim Behrend, Audit Supervisor
Department of Administration

From: Darcey Varese, Financial Manager
Department of Justice



Subject: FY16 Unsupported Cash Overdrafts

The WI Department of Justice has two appropriations with unsupported cash deficits at the end of SFY16. This memo describes these deficits as required by s.16.513, Wis. Stats.

Penalty Surcharge Receipts (Appropriation 230)

The unsupported cash deficit in appropriation 230, penalty surcharge receipts, alpha 2(i), was \$5,703,906.47 at the close of SFY16. The deficit was \$3,701,066 at the end of SFY15 and \$2,048,000 at the close of SFY14. Without significant changes in the funding structure of penalty surcharge receipts or increases in surcharges, it is expected that this appropriation will continue to have an unsupported overdraft.

Grants for Offenders' Substance Abuse Treatment Programs (Appropriation 281)

Appropriation 281 has an unsupported overdraft for SFY16 in the amount of \$1,778,816.33 related to the grants for offenders' substance abuse treatment program; alpha 2(kv). At the close of SFY15 the deficit was \$1,823,492 and SFY14 was \$1,876,968. Without any action we anticipate at the current rate the deficit in this appropriation will continue for approximately 40 years.

Please contact me with questions at 608-266-9653.

Cc: Caitlin Frederick
Andy Potts
Bonnie Cyganek
Michelle Gauger



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
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Date: December 22, 2016

To: Waylon Hurlburt, State Budget Director
Division of Executive Budget and Finance

Jeff Anderson, State Controller
Division of Executive Budget and Finance

From: Colleen Holtan, Director
Bureau of Financial Management
Division of Enterprise Operations

Re: FY16 Program Revenue Unsupported Overdraft Plan

In accordance with s. 16.53, Wis. Stats., please accept this memo as the Department of Administration's ("DOA" or "Department") plan to address fiscal year 2016 (FY16) program revenue unsupported overdrafts in the following appropriations:

- Agency 505 (DOA), Appropriation 12300 - Justice Information Fee Receipts
- Agency 505 (DOA), Appropriation 13800 - Enterprise Resource Planning System
- Agency 870 (ITIF), Appropriation 16000 - Information Technology Investment Fund - Special Project

Appropriation 12300 – Justice Information Fee Receipts

The Justice Information Fee was created by 1995 Wisconsin Act 27 (the 1995-97 Biennial Budget) when s. 814.635 (1) of the statutes was amended to rename the "court automation fee" to "justice information fee". Under the law, the Justice Information Fee is generally assessed with a court fee for the commencement or filing of certain civil court proceedings, including large claims, small claims forfeiture, wage earner, or garnishment actions, an appeal from municipal court, third party complaint in a civil action, or for filing a counterclaim or cross complaint in a small claims action. Act 27 established a Justice Information Fee of \$5.00 and required eighty percent of the moneys received under s. 814.635 (1) to be credited to the appropriation for the development and operation of automated justice information systems under s. 16.971 (9), and the remainder to the general fund.

1997 Wisconsin Act 27 (the 1997-99 Biennial Budget) increased from \$5.00 to \$7.00 the fee amount and decreased from 80% to four-sevenths the amount of moneys received under s. 814.635 (1) to be credited to s. 20,505 (1) (ja), Justice information

systems, and directed two-sevenths and one-seventh, respectively, to 20.680 (2) (j) Court information systems and interpreters and the general fund.

1999 Wisconsin Act 9 (the 1999-01 Biennial Budget) increased from \$7.00 to \$9.00 the fee amount and modified the amount of moneys received under s. 814.635 (1) to be credited to s. 20.505 (1) (ja), Justice information systems, 20.680 (2) (j), Court information systems and interpreters, and the general fund, to two-ninths, six-ninths and one-ninth, respectively.

2003 Wisconsin Act 139 consolidated court assessments, surcharges, and restitution payments into Chapter 814 of the statutes; renumbered section 814.635 of the statutes to s. 814.86; and changed the name of all of fees, assessments, surcharges, and restitution payments to surcharges.

2005 Wisconsin Act 25 (the 2005-07 Biennial Budget) increased from \$9.00 to \$12.00 the surcharge amount and modified the amount of moneys received under s. 814.86 (1) to be credited to s. 20.505 (1) (ja), Justice information systems, 20.680 (2) (j), Court information systems and interpreters, and the general fund, to five-twelfths, 50% and one-twelfth, respectively.

2009 Wisconsin Act 28 (the 2009-11 Biennial Budget) increased from \$12.00 to \$21.50 the surcharge amount. It also increased from three to six the number of appropriations to which moneys received under s. 814.86 (1) were to be credited and the changed the distribution method to one based on a fixed amount of the total fee (e.g., \$7.50 of every \$21.20 fee to s. 20.505 (1) (ja), Justice information systems). A summary of the changes in the Justice Information Surcharge is shown in TABLE 1.

TABLE 1
Justice Information Fee/Surcharge

<u>Authorizing Legislation</u>	<u>Amount</u>
1995 Wisconsin Act 27	\$5.00
1997 Wisconsin Act 27	\$7.00
1999 Wisconsin Act 9	\$9.00
2005 Wisconsin Act 25	\$12.00
2009 Wisconsin Act 28	\$21.50 ¹

¹ Surcharge amount is unchanged as of current date

2011 Wisconsin Act 32 (the 2011-13 Biennial Budget) significantly changed the structure of the surcharge distribution with the creation of appropriation s. 20.505 (1) (id), Justice Information Fee Receipts, into which all moneys less \$700,000 received from the justice information surcharge under s. 814.86 (1) are collected for the purpose of annually transferring to the appropriation accounts the amounts in the schedule for subdivisions 1. to 8., and the retention of the transfer of \$6.00 of each \$21.50 received under s. 814.86 (1) for the operation of circuit court automated information systems. During the 2011-13 biennium, the Justice Information Fee Receipts appropriation collected surcharge revenues of \$19,441,625 and transferred to appropriation accounts and the general fund a total of \$19,351,600, resulting in a FY13 ending cash balance of \$90,025.

2013 Wisconsin Act 20 (the 2013-15 Biennial Budget) retained the structure of the surcharge distribution implemented during the prior biennium. During the 2013-15 biennium, the Justice Information Fee Receipts appropriation collected surcharge revenues of \$16,978,696 and transferred to appropriation accounts and the general fund a total of \$19,869,600, resulting in a FY15 ending cash balance of \$(2,800,879).

2015 Wisconsin Act 55 (the 2015-17 Biennial Budget) altered the surcharge distribution by repealing s. 20.505 (1)(id) 8., which provided for the transfer to s. 20.625 (1)(k), for Court Interpreters, and modified the appropriation language for the remaining appropriation accounts authorized under 20.505 (1)(id) to require that, notwithstanding s. 20.001 (3) (a), Wis. Stats., the unencumbered balance on June 30 of each year shall be transferred to the appropriation account under s. 20.505 (1) (id). Additionally, section 9226 of that Act also required the return of certain unused moneys to the justice information surcharge appropriation account in an amount equal to the unencumbered balance as of June 30, 2015 during 2015-16. During 2015-16, the Justice Information Fee Receipts appropriation collected surcharge revenues of \$8,428,025, transferred to appropriation accounts and the general fund a total of \$9,821,000 and received reversions of \$1,850,513 (see TABLE 2), resulting in a FY16 ending cash balance of \$(2,343,341).

TABLE 2
Justice Information Surcharge Funded Appropriations
2015-16 Reversions

<u>Appropriation</u>	<u>Appropriation Name</u>	<u>s. 9226</u>	<u>2015-16</u>	<u>Total</u>
20.505 (1) (kh)	Justice Information Systems	\$ 56,144	\$ 308,144	\$364,288
20.455 (2) (ki)	Interoperable Communication System	37,586	-	37,586
20.455 (2) (kb)	Law Enforcement Officer Supplement Grants	-	8,324	8,324
20.455 (5) (ke)	Child Advocacy Centers	5,255	2,814	8,069
20.455 (2) (kn)	Alternatives to Prosecution and Incarceration for Persons who use Alcohol or other Drugs; Justice Information Fee	505,806	-	505,806
20.455 (2) (ko)	Wisconsin Justice Information Sharing Program	591,777	3,962	595,739
20.410 (1) (kd)	Victim Notification	330,507	194	330,701
	Total	<u>\$1,527,075</u>	<u>\$ 323,438</u>	<u>\$1,850,513</u>

The return of unexpended and unobligated funds and the repeal of s. 20.625 (1)(k), positively impacted the appropriation balance in 2015-16. However, the imbalance between surcharge collections and required transfers to appropriation accounts remains. Collections in the appropriation have decreased by \$1.0 million since 2012-13, while required transfers have increased, causing net collections in the appropriation to be \$(1,069,538) in 2015-16, as shown in TABLE 3.

TABLE 3
Justice Information Fee Receipts

	2012-13	2013-14	2014-15	2015-16
Collections	<u>\$9,470,276</u>	<u>\$ 8,617,569</u>	<u>\$ 8,361,127</u>	<u>\$ 8,428,025</u>
Transfers:				
General Fund	\$ 700,000	\$ 700,000	\$ 700,000	\$ 700,000
Appropriation Accounts	<u>\$9,446,900</u>	<u>\$ 9,234,800</u>	<u>\$ 9,234,800</u>	<u>\$ 9,121,000</u>
Less: Reversions				<u>\$ (323,438)</u>
Total Transfers	<u>\$10,146,900</u>	<u>\$ 9,934,800</u>	<u>\$ 9,934,800</u>	<u>\$ 9,497,563</u>
Net Collections	<u>\$ (676,624)</u>	<u>\$(1,317,231)</u>	<u>\$(1,573,673)</u>	<u>\$(1,069,538)</u>

Legislative changes to appropriations supported by the surcharge revenue will be required to address the deficit.

Appropriation 13800 - Enterprise Resource Planning System

Appropriation 13800 was created under 2007 Wisconsin Act 20 (the 2007-09 Biennial Budget) for the development of an integrated business information system (IBIS). The Department of Administration was authorized to implement and maintain the system pursuant to s. 16.971(2)(cf), Wis. Stats.

PeopleSoft Enterprise Resource Planning (PeopleSoft) software was selected for the IBIS project in 2006 and purchased from Oracle Corporation with financing provided through the State's Master Lease program. Semi-annual master lease payments were scheduled through FY13.

The implementation of IBIS was put on hold in April, 2008; nonetheless, annual maintenance payments for the PeopleSoft software continued to be made by the IBIS Development Appropriation through FY11, at which time they were suspended to give the Administration an opportunity to review options for moving forward with an enterprise resource planning (ERP) system.

In FY13, the Administration announced the State Transforming Agency Resources (STAR) Project to implement a State ERP system. Software licenses, hardware and support purchases totaling \$17,069,720 were made using financing provided by the State's Master Lease program and, as of June 30, 2013, the overdraft in the IBIS Development appropriation, which was renamed the Enterprise Resource Planning System appropriation by 2013 Wisconsin Act 20 (the 2013-15 Biennial Budget), was \$(15,323,739). Of that amount \$6,879,998 was supported by PeopleSoft software purchased in 2006 for which no Master Lease obligations remained and \$(8,443,741) was unsupported.

In FY14, the Department made the decision to purchase new software for the STAR Project at a cost of \$10,000,000 rather than incur a greater expense to upgrade the existing software. As a result, the previously purchased software, with a net value of

\$6.9 million, became obsolete and was written off. The Department also incurred personnel and professional services costs and made other license, hardware and support purchases totaling \$25,510,253 as it undertook the plan, analyze and design phases of the STAR Project. \$20,074,181 of the total \$25,510,253 FY14 expenditures were made using financing provided by the State's Master Lease program. The June 30, 2014, appropriation balance was \$(20,629,813). Of that amount \$4,125,152 was supported by the value of equipment, software and intangible assets in excess of Master Lease obligations, and \$(16,504,661) was unsupported.

In FY15, the Department incurred \$50,598,009 of personnel and other supplies and services costs, the latter primarily consisting of contractual professional services, in support of the build and test phases for Release 1 and the build phase for Release 2. \$36,770,646 of that amount was financed by the State's Master Lease program and \$13,827,363 was paid directly from the appropriation. The June 30, 2015, appropriation overdraft was \$(34,268,881), of which \$8,760,254 was supported by the value of equipment, software and intangible assets in excess of Master Lease obligations, and \$(25,508,627) was unsupported.

In FY16, the Department incurred \$27,431,500 of personnel and other supplies and services costs to test, deploy and maintain Releases 1 and 2; and to build, test and deploy Release 3. \$10,030,364 of that amount was financed by the State's Master Lease program and \$17,401,136 was paid directly from the appropriation. The Department also made \$5,670,461 of master lease financing payments and assessed agencies \$9,064,871 for estimated post-implementation maintenance and operations costs. The June 30, 2016, appropriation overdraft was \$(55,911,711), of which \$17,833,546 was supported by the value of equipment, software and intangible assets in excess of Master Lease obligations; \$7,636,103 was supported by accounts receivable; and \$(30,442,062) was unsupported.

The Department will begin to assess state agencies for the STAR Project costs in an amount necessary to fully recover project and financing costs incurred in its development in FY17 and will continue to annually assess state agencies to recover ongoing maintenance and operations costs for the STAR system.

Appropriation 160 - Information Technology Investment Fund - Special Project

In FY97, General Fund appropriation s. 20.505 (1)(ke), telecommunications and data processing, in the former Division of Technology Management, loaned \$3,957,000 to Information Technology Investment Fund (ITIF) under s. 20.870, to provide grants to agencies for information technology projects. A total of \$3,668,676 of grants was made from the ITIF, net of unspent grant funds. No expenditures have been made from the appropriation since then. Since its inception in FY97, DOA has made annual payments of varying amounts to reduce the loan obligation and at the end of FY16 the appropriation reported an unsupported overdraft of \$(2,638,952). DOA will continue to consider various sources of revenue to apply to the overdraft and will continue to make payments towards its reduction.

December 22, 2016

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Thank you for your consideration of the Department's plan. Should you have any questions or require additional information, please feel free to contact me at 266-1359.

Cc: Jim Langdon, Division Administrator