



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #553

Inspection Contract Accounting (Safety and Professional Services)

CURRENT LAW

The Department of Safety and Professional Services (DSPS) Division of Industry Services (DIS) is responsible for enforcing building codes and ensuring proper operation of various building components, including elevators, boilers, plumbing, heating and ventilation systems, and electrical systems.

DISCUSSION POINTS

1. State agencies regularly enter into contracts with private entities to reduce costs of certain services, rather than the agency itself conducting the activity. In some instances, these contracted functions may include regulatory responsibilities assigned to the agency, such as inspections of facilities or implements. Additionally, contractors conducting regulatory activities under the auspices of a state agency may in some instances collect fees for services and not remit any revenues to the state, but retain fee revenues as a cost of their service.
2. Section 20.903 (1) of the statutes requires that for instances in which agencies enter these arrangements with private providers, agencies must record the indirect fees and costs attributable to agency functions into the proper agency appropriations. However, since at least 1995-96, multiple agencies have used separate accounting notes in the Wisconsin Annual Fiscal Report (AFR) to disclose revenues and expenditures from contracts with private vendors. It is unknown what guidance or directive agencies were given at the time that initiated the practice.
3. In recent years, the Department of Safety and Professional Services (DSPS) has typically not included indirect fees and costs of certain contractor activities in its appropriation for safety and buildings operations under s. 20.165(2)(j) of the statutes. DSPS indicates this includes inspections performed on behalf of the Division of Industry Services for such things as boilers, electrical systems,

uniform dwelling code inspections, and elevators. In recent years, DSPS has been the only agency using a non-budgetary denotation in the AFR to report these contractual amounts.

4. The following table shows the amounts DSPS has recorded in the AFR notes since 2011-12. In each year, equal revenues and expenditures are listed in the AFR for the amounts shown. Amounts not recorded in the safety and buildings appropriation were as much as \$1,183,400 in 2013-14, but have generally declined in recent years.

DSPS Non-Budgeted Contract Revenues and Expenditures

<u>Fiscal Year</u>	<u>Amount</u>
2011-12	\$1,008,400
2012-13	757,100
2013-14	1,183,400
2014-15	896,500
2015-16	943,400
2016-17	960,000
2017-18	531,300
2018-19	795,100
2019-20	442,400

5. In an April 23, 2021, errata item, the administration requested increasing the safety and buildings appropriation by \$1,400,000 in each year of the 2021-23 biennium, based on DSPS estimates of contract arrangements to be recorded in the safety and buildings general operations appropriation under s. 20.165 (2)(j) of the statutes. The administration indicated if DSPS were to begin recording the previously unrecorded transactions in the appropriation, there may be insufficient funding for currently budgeted programs.

6. The Committee could consider providing \$1,400,000 each year of the 2021-23 biennium to the safety and building operations appropriation to allow for previously non-budgeted agency contractual transactions [Alternative 1]. The Committee could also consider a lower amount. State accounting records indicate DSPS has underspent its expenditure authority in the appropriation by an average of approximately \$835,000 from the 2015-16 through the 2019-20 fiscal years, including amounts encumbered in those years that has carried into subsequent years. The Committee could consider providing \$565,000 each year of the biennium to account for contractual arrangements requiring recording in the state accounting system [Alternative 2].

7. The Committee could take no action [Alternative 3]. By statute and state accounting rules, DSPS would be required to account for contract services provided by vendors in its appropriations. Any such amounts would have to be accommodated with existing agency budget authority. DSPS could also seek additional expenditure authority under s. 16.515 of the statutes if existing budget authority were anticipated to be insufficient.

ALTERNATIVES

1. Provide \$1,400,000 PR in each of 2021-22 and 2022-23 for contractual services done on behalf of the Department of Safety and Professional Services that are to be recorded in the state accounting system.

ALT 1	Change to Base
PR	\$2,800,000

2. Provide \$565,000 PR in each of 2021-22 and 2022-23 for contractual services done on behalf of DSPS.

ALT 2	Change to Base
PR	\$1,130,000

3. Take no action.

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