



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #667

Account Reconciliation (Workforce Development -- Departmentwide and Worker's Compensation)

[LFB 2021-23 Budget Summary: Page 637, #8]

CURRENT LAW

Under current law, state agencies are authorized to use clearing accounts when, at the time of receipt or disbursement, the state agency does not have sufficient information to distribute the revenue or expenditure to the appropriate Chapter 20 appropriation. Receipts and disbursements are required to be recognized in the fiscal year in which they are received or paid. Under s. 20.904 of the statutes, and Section 03-07 of the Wisconsin Accounting Manual, state agencies are required to transfer all revenues and expenditures from their clearing appropriations before the close of the accounting records for the fiscal year, and at such other times as determined by the Secretary of the Department of Administration (DOA). DOA is responsible for maintaining the state's accounting records, approving all payments, and ensuring budgetary control is enforced.

DISCUSSION POINTS

1. According to DOA, in 2016, the State Controller's Office (SCO) created a checklist to guide agencies through a month-end review of financial information to help ensure accuracy in their accounting records. One of the tasks on this monthly checklist directed agencies to transfer revenues and expenditures recorded to clearing appropriations during the month. The SCO also completes an annual review of clearing appropriations and works with agencies to clear revenues and expenditures from those appropriations before year's end. This review concentrates on revenues and expenditures but does not highlight balances that might exist in balance sheet accounts. These balances are often a result of timing issues that clear themselves up shortly after the fiscal period ends. Agencies certify the balances reflected in their appropriations annually.

2. The Legislative Audit Bureau (LAB) Report 20-30, "State of Wisconsin FY 2019-20 Financial Statements," was issued in December, 2020, and recommended "DOA develop a written

plan and timeline for resolving existing balances in clearing appropriations, provide training to state agencies, and report to the Joint Legislative Audit Committee by April 15, 2021, on the status of its efforts." The report states, "DOA agreed with these recommendations and indicated plans to work directly with individual agencies to resolve the balances." Subsequent to the report, an April 15, 2021, letter from DOA provided the following update:

"Prior to April 1, 2021, the SCO contacted each of the state agencies that had existing balances in their clearing appropriations. In these communications, the SCO staff provided training to the agency staff on the appropriate use of clearing appropriations. By working directly with each agency individually, the State Controller's Office has gathered information on how each agency is using the clearing appropriations and how the existing balances developed. This has also allowed the State Controller's Office to develop a plan for resolving existing balances with each agency and tailor its training on the use of these appropriations. As a result of these efforts, DOA reports that of the 36 clearing appropriations identified by LAB that had a balance of a positive or negative \$1.00 or more: (a) 19 appropriations' existing balances have already been resolved; (b) 13 appropriations are being actively reviewed by staff at the appropriate agencies, and will be cleared by June 30, 2021; and (c) four appropriations present challenges that require additional discussion to determine the appropriate resolution."

3. The Department of Workforce Development's (DWD) clearing account was one of the four appropriations identified in the April 15 letter as presenting "challenges that required additional discussion to determine the appropriate resolution." The closing fiscal year 2019-20 balance in DWD's clearing account was -\$975,859. According to DOA, this negative balance was generated by the following two transactions:

"In 1993-94, a transaction was created for \$204,508, which was most likely processed to establish balances from the Central Accounting System onto WiSMART. In 1994, the state converted to the WiSMART system. The state no longer has the detail to research where this balance should have been recorded."

"In 1996-97, Wisconsin Act 3, s. 20.445, Wis. Stats., was modified to change the name of the Department of Industry, Labor and Job Development to the Department of Workforce Development. In that year, a transaction was created in the amount of \$771,351. SCO believes that this transaction was processed as part of the closing of the Department of Industry, Labor and Job Development. Again, the state no longer has the detail to research where this balance should have been recorded."

4. DWD, with the assistance of DOA and the SCO, conducted research into the source of the original expenditures and were unable to identify the appropriations or administrative divisions to which the transactions would have been related. According to DWD, there is no available information on the purpose or intent for either transaction. Had either been discovered, it may have been possible to assign portions of the clearing account's deficit to other agencies or accounts, if appropriate, rather than to DWD's general operations appropriation. It is also not clear why the transactions were not transferred from the clearing accounts at the time that would have been expected. Because the transactions in question were not reassigned to Chapter 20 appropriations at the time they required reconciliation, it is reasonable to assume the balances of some funds or appropriations have been higher by the \$975,900 total. However, without knowledge of the nature of the initial transactions,

the funds cannot be determined.

5. Under s. 20.904, clearing accounts must be cleared prior to the end of the state fiscal year by identifying a funding source consistent with, and appropriate for, the purpose and intent of the original transaction. DWD argues it may not charge the negative balance to another fund source or appropriation because it can no longer be determined that the original nature of the debits is an allowable cost under the authorized expenditures for any other existing appropriation. As a result, the administration contends only general purpose revenue for DWD general operations can be used to cover the identified historical errors.

6. Due to the size of the clearing account deficit, the Department states that it is unable to absorb the debt with the resources available in DWD's existing GPR general program operations appropriation, which has adjusted base funding of \$8,818,200, and of which \$6,607,300 is dedicated to permanent position salaries and fringe. Because the state no longer has the detail on where this balance should have been recorded, AB 68/SB 111 would provide \$975,900 in 2021-22 to DWD's GPR general program operations appropriation to clear this deficit in the Department's clearing account [Alternative 1].

7. Instead of appropriating additional funds, the Committee could direct DOA to identify transfers from other GPR appropriations for the 2021-22 fiscal year sufficient to clear the historical deficit in DWD's clearing account. The Committee is authorized under s. 13.101 (4) of the statutes to transfer between appropriations. If DOA were to identify, by March 1, 2022, appropriations with likely available funding on June 30, 2022, and make a request to the Committee for transfer of sufficient funding, the clearing account deficit could be resolved without additional appropriations in 2021-22 [Alternative 2].

8. Notwithstanding requirements under s. 20.904 that clearing accounts be resolved, the Committee could choose to take no action on this item at this time [Alternative 3]. The -\$975,859 debt would remain in the Department's clearing account until the time that the deficit could be cleared by the identification of existing resources or the appropriation of new funding. The deficit would continue as a liability against the general fund, although the amount would remain a small portion of the general fund.

ALTERNATIVES

1. Provide \$975,900 in 2021-22 to the Department of Workforce Development's general program operations annual appropriation to clear DWD's clearing account deficit.

ALT 1	Change to Base
GPR	\$975,900

2. Direct the Department of Administration to identify amounts from 2021-22 GPR appropriations to transfer to the appropriation under s. 20.445 (1)(a) of the statutes to reconcile DWD's \$975,900 clearing account deficit. Require DOA and DWD to submit a request for transfers to the

Joint Committee on Finance by March 1, 2022.

3. Take no action.

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