



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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June 13, 2003

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:

Earlier this year, we completed our fiscal year 2001-02 single audit and issued our report (03-5). During the course of our audit and subsequent follow-up, we identified over \$2.0 million available to the General Fund from other funds and accounts that the Legislature may wish to consider during the current 2003-05 budget deliberations.

First, we identified a bank account holding over \$1,090,000 related to Wisconsin Health Education Assistance Loan (WHEAL) revenue bonds. This account is no longer needed because the 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.

Second, the Department of Corrections receives federal foster care funds as reimbursement for costs incurred in caring for certain juveniles in its custody. Because these costs were either originally funded by general purpose revenues or by other program revenue sources, the Department should have lapsed the federal reimbursements to the General Fund. However, for fiscal year 2001-02, it credited a net amount of \$456,000 in federal foster care reimbursements for administrative costs to one of its own program revenue appropriations. If desired, the Legislature could direct the Department of Corrections to lapse \$456,000 to the General Fund and make these funds available for general appropriation.

Third, each biennium, the Board of Commissioners of Public Lands receives approximately \$400,000 from the sale of timber on land owned by the Normal School Fund. The Board accounts for timber sales as additions to the Normal School Fund. If the Legislature believes that timber sales should be treated in the same manner as interest income of the Normal School Fund, it could amend the statutes to direct the Board to credit timber revenues to the General Fund to be made available for appropriation.

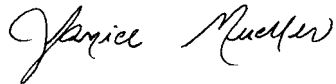
Finally, 2001 Wisconsin Act 16 directed the Department of Administration to sell two aircraft and deposit the sales proceeds to the General Fund. The Department sold two aircraft during fiscal year 2001-02 for \$82,412. However, it deposited the sales proceeds to one of its own

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Representative Suzanne Jeskewitz, Co-chairpersons
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program revenue appropriations. The Legislature could direct the Department to account for these sales proceeds as general purpose revenues of the General Fund.

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
State Auditor

JM/BN/bm

cc: Senator Robert Cowles Representative Samantha Kerkman
 Senator Alberta Darling Representative Dean Kaufert
 Senator Gary George Representative David Cullen
 Senator Jeffrey Plale Representative Mark Pocan

Matthew J. Frank, Secretary
Department of Corrections

Sherrie Nelson, Interim Administrative Manager
Higher Educational Aids Board

Marc J. Marotta, Secretary
Department of Administration

Daniel E. Wisniewski, Secretary
Board of Commissioners of Public Lands

BUDGETARY ISSUES

During the course of our fiscal year (FY) 2001-02 single audit, we identified over \$2.0 million available to the General Fund from other funds and accounts that the Legislature may wish to consider during the current 2003-05 budget deliberations.

Available WHEAL Balances

In the early and mid 1980s, the State issued \$112 million in Wisconsin Health Education Assistance Loan (WHEAL) revenue bonds to make funds available for loans to full-time medical and dental students. The State established a separate bank account for the Higher Educational Aids Board, which administers the WHEAL program, to use to deposit student loan repayments and make subsequent payments to the bond trustee. It was expected that the loan repayments received from the borrowers would be sufficient to make scheduled revenue bond principal and interest payments. However, during 1994, the State became concerned that there would not be sufficient cash available to meet debt service obligations. Therefore, in November of that year, the State issued \$16.96 million of revenue bonds to the State of Wisconsin Investment Board (SWIB) and used the proceeds, along with cash and investments held in the WHEAL program and \$2.15 million from the Capital Improvement Fund, to redeem the original revenue bonds.

The SWIB-owned revenue bonds were fully repaid on October 1, 2001. However, the Higher Educational Aids Board continues to collect outstanding student loan repayments and deposit them to the separate bank account. As of April 30, 2003, over \$1,090,000 had accumulated in the bank account, and approximately \$1.3 million in student loans remained outstanding.

We are concerned because now that the revenue bonds have been fully paid, the bank account is no longer needed and should be closed. One option available to the Legislature is to amend statutes and direct that any available funds be deposited to the Capital Improvement Fund as reimbursement for use of that Fund's cash to redeem the original revenue bonds. Alternatively, as currently required by s. 20.906, Wis. Stats., any balance in the account must be accounted for as general purpose revenues of the General Fund. If this alternative is preferred, the Legislature may wish to direct the Higher Educational Aids Board to close the bank account and immediately transfer the proceeds to the General Fund. The Legislature may also wish to direct that all future WHEAL loan collections be treated as general purpose revenues of the General Fund.

Foster Care Reimbursements

The Department of Corrections seeks federal reimbursement under the foster care program for allowable costs incurred in caring for certain juveniles in its custody. Allowable costs include payments to group homes for the care of juveniles, which are funded by general purpose revenues, and administrative costs, which are funded by program revenue related to juvenile correctional services under the appropriations authorized in ss. 20.410(3)(hm) and 20.410(3)(hr), Wis. Stats. Because the costs have already been paid for by non-federal sources, the Department is expected to treat federal foster care reimbursements as general purpose revenues of the General Fund.

During FY 2001-02, the Department lapsed federal reimbursements related to the juvenile care costs funded by general purpose revenues. However, it credited a net amount of \$456,000 in reimbursements for administrative costs to its program revenue appropriation authorized in s. 20.410(3)(kx), Wis. Stats., for inter-agency and intra-agency programs. Recently, staff in the Department indicated that they plan to lapse the \$456,000 by the end of the current fiscal year. To ensure the lapse occurs, the Legislature could direct the Department of Corrections to immediately lapse \$456,000 to the General Fund from the appropriation authorized under s. 20.410(3)(kx), Wis. Stats., and, for FY 2002-03 and future years, to account for all federal foster care reimbursements as general purpose revenues of the General Fund.

Timber Sales

The Board of Commissioners of Public Lands manages the Normal School Fund. The principal balance of this fund as of May 31, 2003, was \$19.4 million. The Fund's assets are largely loans to local governments and cash invested in the State Investment Fund. The interest earned from loans and the State Investment Fund are deposited to the General Fund as general purpose revenues, as required by s. 24.80, Wis. Stats.

The other major asset of the Normal School Fund is 75,323 acres of land. The land generates income, primarily from timber sales. As shown in Table 1, the Board had over \$1.5 million in Normal School Fund timber sales since FY 1996-97.

Table 1

**Normal School Fund
Timber Sales
FY 1996-97 through FY 2002-03**

<u>Fiscal Year</u>	<u>Timber Sales</u>
1996-97	\$ 188,092
1997-98	267,189
1998-99	175,441
1999-2000	336,366
2000-01	216,709
2001-02	198,346
2002-03*	201,564
Total	\$1,583,707

* Through May 31, 2003

Timber sales are deposited to the Normal School Fund, increasing the principal balance of that fund. Board staff explained that the sale of timber may, at least temporarily, reduce the value of the land and, therefore, timber sales should be credited to the Normal School Fund in the same manner as proceeds from land sales. In addition, staff note that the Board has been treating timber sales as additions to the Normal School Fund's principal since at least 1941.

However, we note that the statutes do not require that timber sales be accounted for as additions to the principal balance of the Normal School Fund. It could be argued that timber sales are income of the Normal School Fund and could be treated in the same manner as interest earnings and deposited to the General Fund.

We reviewed the accounting treatment for timber sales from trust fund lands in other states. Some states, including Utah and Oregon, account for timber revenues in the same manner as the Board. Other states, including Colorado and Montana, account for timber sales as revenues available for distribution. If the Legislature believes Normal School Fund timber sales should be treated in the same manner as interest income, it could clarify the statutes and direct the Board of Commissioners of Public Lands to account for timber sales as general purpose revenues of the General Fund. If this were done, approximately \$200,000 annually, or \$400,000 during the 2003-05 biennium, would be available for appropriation by the Legislature.

Aircraft Sales Proceeds

In non-statutory provisions included in 2001 Wisconsin Act 16, the Legislature directed the Department of Administration to sell two aircraft of its choice and deposit the sales proceeds to the General Fund as general purpose revenues. In April 2002, the Department sold two Cessna 172 aircraft for a total of \$82,412. However, rather than treating the sales proceeds as general purpose revenues, as required, the Department deposited the 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. The Legislature may wish to direct the Department of Administration to immediately transfer \$82,412 to the General Fund as general purpose revenues, as required by 2001 Wis. Act 16.
