Biennial Report

January 1, 2003 – December 31, 2004

State Auditor - Janice Mueller

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab.

State Auditor - Janice Mueller

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STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

January 14, 2005

Governor James E. Doyle and
Members of the Legislature
State Capitol
Madison, Wisconsin 53702

Dear Governor Doyle and Members of the Legislature:

This biennial report, which is required under s. 13.94(1)(j), Wis. Stats., summarizes the Legislative Audit Bureau's statutory responsibilities and highlights significant accomplishments from January 1, 2003 through December 31, 2004.

In the 2003-04 biennium, we produced more than 60 independent audits, evaluations, reviews, opinions, and certifications. These documents help to assure the Legislature and the public that financial transactions and management decisions have been made effectively, efficiently, and in compliance with the law and that the policies and practices of state agencies are consistent with legislative intent. Our work frequently includes recommendations for improving government programs and services, maximizing federal reimbursements, and ensuring that public funds are wisely spent and appropriately accounted for.

We are proud to deliver accurate and useful information that enhances accountability, effects positive change, and assists the Legislature in its oversight of executive branch agencies. We look forward to serving the Legislature, the Governor, and the people of Wisconsin in the coming years.

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/JT/ss

Purpose and Organization ▪

The Legislative Audit Bureau is a nonpartisan service agency that assists the Legislature in maintaining effective oversight of state programs and finances. We perform financial audits and broader reviews of government operations that promote good fiscal practices, and we evaluate specific programs and services that the State provides to its citizens. We also conduct a comprehensive audit of the State's financial statements each year, as well as an annual audit of compliance with federal grant requirements encompassing every state agency that receives federal funds.

Our statutory authority and duties are enumerated in s. 13.94, Wis. Stats., which includes a broad mandate to audit fiscal issues of the State and, in connection with our audits, to review state agency performance and program accomplishments.

Since the Bureau was created by Chapter 659, Laws of Wisconsin 1965, we have:

- conducted financial audits and performance evaluations of state agencies and programs that are mandated in s. 13.94 and elsewhere in statutes, or that are requested by the Legislature, the Joint Legislative Audit Committee, the Joint Committee on Legislative Organization, or the Governor;

- issued independent auditor's opinions on the State's financial statements, which are published in the Comprehensive Annual Financial Report prepared by the Department of Administration;

- verified state agencies' compliance with laws and program regulations pertaining to federal funds received by the State of Wisconsin each year;

- performed other independent audits at the request of state agencies that must demonstrate compliance or provide assurance of sound financial practices;

- reviewed financial issues related to the Southeast Wisconsin Professional Baseball Park District, the Milwaukee Brewers Baseball Club, and the Green Bay/Brown County Professional Football Stadium District;

- conducted periodic "best practices" reviews of governmental service delivery by counties and municipalities; and

- performed other audit and program evaluation work initiated by the State Auditor or in response to requests by individual legislators or other units of government.

At the conclusion of each project, we issue a detailed report.

- ***Financial audit reports*** focus on the accuracy of financial data, compliance with required accounting or other standards, and the effectiveness of internal controls. They include independent auditors' opinions that indicate whether agencies have conducted and reported their financial transactions in a legal and proper manner.

- ***Program evaluations and reviews*** help to ensure that government programs are administered effectively, efficiently, and in accordance with both law and policies. They are designed to measure the extent to which an agency or program is achieving its objectives, and they typically include recommendations for improving operations.

- Short, ***unnumbered reports or letters*** are issued in response to requests from individual legislators or the Audit Committee for information on narrowly defined issues.

Our reports typically review financial transactions and analyze agency performance or public policy issues based on measurable performance criteria, taking into account existing conditions, probable causes, and actual and potential effects. We recommend improvements to be made by audited agencies, summarize issues for future consideration by the Legislature, testify before legislative committees, and respond to briefing requests.

From January 2003 through December 2004 we issued:

- 13 program evaluations and reviews addressing criminal justice and corrections, public education, the environment and natural resources, government operations, health care and social services, state highways and transportation, enterprises such as the Wisconsin Lottery and State Fair Park, and various issues involving professional sports stadiums;

- 2 audits of the State's general financial statements, which are intended to provide the most complex and revealing picture of the State's financial position and operating results and which require on-site audit work at every major state agency;

- 2 single audit reports, which tested state agencies' compliance with federal grant requirements related to $9.1 billion in FY 2003-04 expenditures and $8.1 billion in FY 2002-03 expenditures;

- separate audit opinions on the stand-alone financial statements of the University of Wisconsin System, prepared at the request of system management;

- 20 other financial audit reports, nearly all of which include unqualified opinions that indicate the auditor has no reservations about the fair presentation of financial statements for the period audited;

- 1 best practices review designed to help local governments save public funds and deliver services more effectively; and

- numerous letter reports, opinions, and certifications that provide accurate, impartial, and useful information to the Legislature, other state agencies and units of government, and the people of Wisconsin.

In addition:

- we briefed individual legislators and legislative committees on issues ranging from air management to welfare reform;

- the Joint Legislative Audit Committee held 19 hearings to address our findings; and

- legislation was introduced in response to our findings concerning financial reporting for the State's major highway program, and subsequently enacted as 2003 Wisconsin Act 217.

Statutory Responsibilities

Section 13.94, Wis. Stats., requires us to:

- audit the records of every state department, board, commission, independent agency, or authority at least once each five years;
- audit the accounting records of the Department of Administration at least once every two years; and
- reconcile the accounting records of the Department of Administration with deposits in the state treasury or state depositories at least once every two years.

We are also required to perform:

- annual financial audits of entities such as the Department of Employee Trust Funds, the State of Wisconsin Investment Board, the State Fair Park Board, the Division of Gaming, and the Wisconsin Lottery;
- biennial evaluations of the Investment Board's policies and management practices, the Division of Gaming, and the Wisconsin Lottery; and
- financial audits of the State Life Insurance Fund, the Local Government Property Insurance Fund, and the Injured Patients and Families Compensation Fund at least once every three years.

Our statutory responsibilities for recurring audits under s. 13.94 and elsewhere in Wisconsin Statutes are summarized in Appendix 1. Statutes also require us to review the quarterly statements of economic interest and reports of economic transactions that members and employees of the State Investment Board file with the Ethics Board. In completing the annual financial audits and biennial performance evaluations of gaming activities required under s. 13.94, Wis. Stats., we make use of audited financial statements of gaming operations that are required to be made available to us under gaming compacts between the State of Wisconsin and 11 Native American tribes.

In addition to the recurring audits listed in state statutes, one-time audits may be mandated or requested by the Legislature. During the 2003-04 biennium, we fulfilled six one-time audit requirements or requests in recent legislation:

- a requirement in 1999 Wisconsin Act 9 for an audit of the University of Wisconsin-Madison Center for Tobacco Research and Intervention and the Medical College of Wisconsin, to examine the use of Tobacco Control Board Funds;

- a requirement in 1999 Wisconsin Act 9 for an evaluation of the Wisconsin Center for the Blind and Visually Impaired;
- a requirement in 1999 Wisconsin Act 9 to contract with an organization other than a state agency for an evaluation of Family Care pilot projects;
- a request in 1999 Wisconsin Act 9 for an evaluation of the Department of Natural Resources' air management programs;
- a requirement in 2001 Wisconsin Act 16 for a quantitative and qualitative evaluation of the success of restorative justice programming in Milwaukee and Outagamie Counties; and
- a request in 2003 Wisconsin Act 33 for an evaluation of the methodologies proposed by the Department of Regulation and Licensing for calculating administrative and enforcement costs related to credentialing.

In the future, as required by 2003 Wisconsin Act 265, we will evaluate state and local government compliance with election laws and the appropriateness of procedures used to implement those laws.

Quality Assurance

We adhere to professional auditing standards promulgated by the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to:

- be free, in both fact and appearance, from impairments to independence;
- maintain professional competence through continuing education programs;
- have an appropriate internal quality control system in place; and
- employ peer reviews to assess compliance with auditing standards and the adequacy of the internal quality control system.

Internally, our quality control system includes detailed auditing policies and procedures, documentation requirements, supervisory review of all working papers, and both senior staff and editorial reviews of report drafts. Every three years, this system and our working papers from selected financial audits are reviewed by our peers from other states for compliance with financial auditing standards, under the auspices of the National State Auditors Association. In our

2003 peer review, the team found and reported that our control system was suitably designed and our work was completed in compliance with this system.

In 2003 and 2004, the National Legislative Program Evaluation Society of the National Conference of State Legislatures reviewed two of our program evaluation reports—our 2002 review of Milwaukee County government (report 02-16) and our 2003 evaluation of the Department of Transportation's major highway program (report 03-13)—and recognized their "significant impact on public policy."

Staffing and Budget

The Legislative Audit Bureau is headed by the State Auditor, who is appointed by the Legislature's Joint Committee on Legislative Organization and who appoints staff from outside of the classified civil service system. The Bureau has an authorized staffing level of 86.8 positions.

Approximately two-thirds of the professional audit staff are in the Financial Audit Division. Most are certified public accountants. Program and policy analysts in the Program Evaluation Division make up most of the remaining professional staff. All professional staff hold bachelor's degrees, and many have also earned advanced degrees in areas such as accounting, business administration, public policy, and law. The hard work, dedication, and professionalism of all staff are reflected in our work. Our organization chart is Appendix 2.

In the 2003-05 biennium, our annual operating budget was approximately $4.4 million in general purpose revenue (GPR) and $1.4 million in program revenue from audit contracts with other state agencies.

Joint Legislative Audit Committee

Our reports are received and reviewed by the Joint Legislative Audit Committee. On December 31, 2004, Audit Committee members were:

Senator Carol A. Roessler, Co-chairperson
Senator Robert Cowles
Senator Alberta Darling
Senator Jeffrey Plale
Senator Julie Lassa

Representative, Suzanne Jeskewitz, Co-chairperson
Representative Samantha Kerkman
Representative Dean Kaufert
Representative David Cullen
Representative Mark Pocan

Senator Plale was appointed to the committee effective May 23, 2003, replacing Senator Hansen.

Senator Lassa was appointed to the committee effective December 1, 2003, replacing Senator George.

Additional information on the Audit Committee's hearings—including hearing notices and live broadcasts—can be found at our Web site, *www.legis.state.wi.us/lab.* Recorded broadcasts and presentation materials from past hearings are available at *www.legis.state.wi.us/lab/AuditCommittee.htm*

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Requesting Our Services ■

Although some of the audits we perform are mandated by Wisconsin Statutes, most of our program evaluation work is requested through the Joint Legislative Audit Committee. Any legislator may request a program evaluation or financial audit.

Requests should be made in writing to the Committee's Co-chairs. They should clearly identify the topic, program, and agency in question, as well as the specific concerns that justify an audit or evaluation. Legislators may wish to discuss their requests with the State Auditor before submitting them to the Audit Committee, as she can help to assess feasibility, provide information on similar topics that have already been addressed, and determine whether the size and scope of the proposed inquiry might be better suited to a letter report or a limited-scope review.

Whether it is initiated in response to legislation or requested by individual members of the Legislature and approved by the Joint Legislative Audit Committee, our work is strictly nonpartisan. It is intended to provide assurance that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies are carrying out the policies intended by the Legislature and the Governor. State agencies may also request our services in order to meet external audit requirements.

Receiving Reports

Our reports become public documents when they are released to the Joint Legislative Audit Committee. On the day of publication, printed copies are distributed to all members of the Audit Committee, other legislators, the Governor, the press, and other interested parties.

Anyone who wishes to be notified by e-mail when reports are released may visit our Web site, *www.legis.state.wi.us/lab*, and subscribe to the announcement service. Our Web site also lists work in progress and summarizes numbered reports issued since 1993. The first two digits of each document number indicate the year of publication.

The full text and highlights of reports published from 1998 through 2004 can also be found at *www.legis.state.wi.us/lab.* Highlights of our work in the 2003-04 biennium are included in the chapter that follows. For copies of other publications, please order or print from our Web site, call (608) 266-2818, or write to:

Legislative Audit Bureau
22 East Mifflin Street, Suite 500
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Report Highlights ■

To make our work readily accessible to the widest possible audience, we began publishing *Report Highlights*—a summary of the key issues, facts, and findings in each major numbered report—in January 2003. Each four-page, tabloid document also lists our recommendations, summarizes our conclusions, and suggests areas for future consideration by the Legislature. To illustrate the scope of our work in the 2003-04 biennium, they are reproduced here, along with summaries of other significant work on the following topics:

- Criminal Justice and Corrections
- Education
- Environment and Natural Resources
- Fees for Services and Certifications
- Government Operations
- Health Care and Social Services
- Highways and Transportation
- State Fair, Stadiums, and Lottery
- Telecommunications, Radio, and Television
- Audit Opinions and Certifications

Criminal Justice and Corrections

Highlights

- **Restorative Justice Programs** *(Report 04-6)*

  The programs operated by the Milwaukee and Outagamie County district attorneys' offices achieved modest success through 2003. Participation increased in both counties, and participants in Milwaukee County have a lower recidivism rate than nonparticipants. State and federal funding for the Milwaukee and Outagamie County programs ends with FY 2004-05. At least 11 other counties support restorative justice programs primarily with local funds.

Other Reports

- **Letter on Management of Inmate Property** *(October 2003)*

  All costs to inventory, monitor, control, and ship inmate property cannot be identified. However, salary and fringe benefit costs for the 27.3 full-time equivalent correctional officers and sergeants assigned to institutions' property rooms were approximately $1.2 million in FY 2002-03. We recommend that the Department of Corrections study the cost-effectiveness of automating its inmate property inventory system.

- **Letter on Office of Justice Assistance** *(April 2003)*

  We found serious deficiencies in management of the Juvenile Accountability Incentive Block Grants program, which provides federal assistance to states and local governments. Our report includes recommendations for Wisconsin's Juvenile Justice Commission to establish priorities for program funding and for the Office of Justice Assistance to establish a competitive process for distributing all program funds to local governments and state agencies.

Audit Committee Action

☑ *Hearing on Restorative Justice Programs, September 23, 2004*

04-6

An Evaluation:

Restorative Justice Programs

Milwaukee and Outagamie Counties

June 2004

Report Highlights ▪

Participation in restorative justice programs increased from 2002 to 2003.

Milwaukee County participants have a lower recidivism rate than nonparticipants.

At least 11 additional Wisconsin counties have restorative justice programs.

Restorative justice programs involve the victim, the offender, and the community in determining how to repair the harm caused by crime. 2001 Wisconsin Act 16, the 2001-03 Biennial Budget Act, created appropriations and authorized 2.0 full-time equivalent (FTE) assistant district attorney positions to serve as the coordinators of restorative justice programs in Milwaukee and another county to be selected by the Department of Corrections, which chose Outagamie County. The two coordinators are supported by federal and state funds, which are provided through the Office of Justice Assistance (OJA) and the State Prosecutors Office and are scheduled to end with fiscal year (FY) 2004-05. In FY 2002-03, $100,600 was spent on salaries and fringe benefits through the appropriations.

Act 16 requires us to evaluate the success of these restorative justice programs in serving victims, offenders, and the community. Therefore, we analyzed:

- program expenditures through April 2004;
- each county's compliance with statutory reporting requirements;
- oversight by OJA and the State Prosecutors Office, which administer the programs' state and federal funding; and
- 11 restorative justice programs in other Wisconsin counties, which are similar to the Milwaukee and Outagamie County programs but are operated by nonprofit organizations or county agencies.

Key Facts and Findings

In FY 2002-03, restorative justice coordinator expenditures totaled $100,600.

Milwaukee County operates two restorative justice programs, while Outagamie County operates five programs.

The two counties' programs achieved modest success through 2003.

The information that Outagamie County reported about its programs could be improved.

The Legislature may wish to consider the future of the two restorative justice coordinators after FY 2004-05.

Program Participants

Restorative justice programs typically deal with nonviolent crimes and involve diverse approaches, such as:

- victim-offender conferences, which are led by trained facilitators and allow an individual victim to meet the offender and discuss both the crime and how the offender will make amends; and

- victim impact panels, which allow victims and perpetrators of certain similar offenses to meet in groups and understand the effects of the crimes.

Participation by offenders may be voluntary or mandatory and may occur before or after formal sentencing. If offenders comply with a program's provisions, the charges against them may be reduced or dismissed.

From 2002 to 2003, the number of offenders in Milwaukee County's Community Conferencing program increased modestly, from 46 to 49. The number of victims served by that program increased from 51 to 55. Milwaukee County does not track the number of participants in its Neighborhood Initiative program, which does not focus on specific offenses.

The number of offenders in Outagamie County's five programs increased from 415 in 2002 to 471 in 2003. Outagamie County reported that its Community Court and Victim-Offender Conferencing programs each served four victims

Milwaukee County	
Community Conferencing	Victims, offenders, and community members discuss crimes and decide how offenders will make amends
Neighborhood Initiative	Community members discuss public safety issues
Outagamie County	
Drunk Driving Impact Panel	Second-time offenders learn from victims the effects of their crimes
Domestic Violence Fast Track	Expedited court process allows first-time offenders to enter treatment
Drug Fast Track	Expedited court process allows first-time offenders to enter treatment
Community Court	Offenders and community members discuss crimes and decide how offenders will make amends
Victim-Offender Conferencing	Victims and offenders discuss crimes and decide how offenders will make amends

in 2003, and its Domestic Violence Fast Track program served approximately 168. Its other two programs do not typically involve victims of the participants.

Recidivism Rates

Early results for some of the programs are encouraging. For example, by early-February 2004, 4.3 percent of 47 offenders who participated in Milwaukee County's Community Conferencing program from August 2002 through July 2003 were charged with another crime, compared to 13.5 percent of 52 nonparticipating offenders.

We independently calculated recidivism rates for offenders who participated in the Community Conferencing program in 2002. We found that 8.8 percent of participating offenders with no prior convictions were rearrested for or charged with another criminal offense within one year of participation, compared to 27.6 percent of nonparticipating offenders in our control group.

Outagamie County calculated recidivism rates for two of its restorative justice programs. It reported that 8.5 percent of offenders who had participated in its Domestic Violence Fast Track program in 2002, and 24.1 percent of its 2002 Drug Fast Track program participants, were charged with another offense by mid-January 2004. In comparison, 32.8 percent of nonparticipating offenders were charged with another offense. While Outagamie County's results are positive, we identified problems with the control group used for comparison purposes.

First, the county did not identify a separate control group for each program. Second, the combined control group included offenders from both 2002 and 2003. In contrast, the program participant group consisted of 2002 offenders only.

Because of these problems, it is likely that Outagamie County's recidivism rates do not accurately reflect program results. We did not independently calculate recidivism rates for the two fast track programs because Outagamie County did not provide a comprehensive list of participants until late in the audit process, and it did not identify an appropriate control group.

Outagamie County has not reported recidivism rates for its Drunk Driving Impact Panel program, which served 250 offenders in 2002 and 242 offenders in 2003. We include a recommendation that this be done. Outagamie County's Community Court and Victim-Offender Conferencing programs served too few offenders for statistically meaningful rates to be calculated.

Offenders' compliance with the agreements they sign as a condition of program participation is another indicator of program success. Milwaukee County data indicate that 62.2 percent of offenders who participated in its Community Conferencing program in 2002 complied with their agreements. Offenders who comply can receive reduced charges or sentences, or the charges against them can be dismissed. We did not conduct a similar analysis for Outagamie County's two fast track programs.

Other Counties' Programs

We contacted 11 other Wisconsin counties that have their own restorative justice programs. Many of these counties' programs are similar to the Milwaukee and Outagamie County programs.

Nonprofit organizations operate restorative justice programs in eight counties, while county agencies operate them in the remaining three. None of the other counties' programs involve oversight by the district attorney's office. The other counties' programs are funded primarily with county funds that may be supplemented by private grants, participant fees, and state funds. Most program budgets are small. The counties also reported that most of their programs have been successful.

Future Considerations

Statutes require the Milwaukee and Outagamie County restorative justice coordinators to report annually on the number of victims and offenders served, the types of offenses addressed, recidivism rates for program participants and nonparticipants, and the amount of time spent operating their programs. Reports are submitted to the State Prosecutors Office, which forwards them to OJA.

2001 Wisconsin Act 16, which created the four-year pilot program, stipulated that funding for the two restorative justice coordinator positions will end with FY 2004-05. Our report includes options related to future program funding that the Legislature may wish to consider as part of its 2005-07 biennial budget deliberations.

Recommendations

Our recommendations address the need for:

☑ Outagamie County to calculate and compare recidivism rates for participants in its Drunk Driving Impact Panel program and a valid control group (*p. 23*); and

☑ Milwaukee and Outagamie counties to use a consistent methodology to calculate recidivism rates, comply with statutory reporting requirements, and submit copies of their 2004 annual reports to the Joint Legislative Audit Committee (*pp. 30-31*).

Additional Information

For a copy of report 04-6, which includes responses from the Milwaukee and Outagamie County district attorneys' offices, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

Kate Wade
(608) 266-2818

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Legislative Audit Bureau

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Janice Mueller
State Auditor

Education

Highlights

- **University of Wisconsin System Staffing** *(Report 04-10)*

  In March 2004, one-quarter of UW System's 31,971.8 full-time equivalent employees had administrative duties. Reductions in GPR-funded positions have nearly been offset by growth in program revenue–funded positions, and staff pay increases have generally been larger than in other state agencies. Our report includes recommendations for UW System to streamline its position reporting and provide specific proposals to reduce administrative expenditures and increase operating efficiencies.

- **Wisconsin Center for the Blind and Visually Impaired** *(Report 03-6)*

  The Center was created in October 1999 to serve as a statewide educational resource. Its expenditures increased to $7.1 million in FY 2001-02, primarily because of expanded outreach activities. Overall enrollment at the Center's residential school has increased in recent years, but short-term enrollment has not. As of April 2003, the Center had implemented many, but not all, of the outreach objectives in a transition plan that was developed to help it fulfill its mission.

- **Milwaukee Area Technical College District** *(Report 03-4)*

  Financial management of specialized training contracts and enterprise activities could be improved, because the fees MATC charges do not cover its costs. Furthermore, instructor salaries are relatively high, and health care benefit costs have not been effectively managed. Complete and accurate information has not always been available to the Board of Directors.

Audit Committee Action

☑ *Hearing on University of Wisconsin System Staffing, October 6, 2004*

☑ *Hearings on Milwaukee Area Technical College District, June 24, 2004 and July 29, 2003*

04-10

An Evaluation:

University of Wisconsin System Staffing

September 2004

Report Highlights

Growth in program revenue–funded positions has nearly offset reductions in GPR-funded positions.

In March 2004, one-quarter of UW System employees had administrative duties.

Pay increases for more than three-quarters of UW System staff have been larger than those of other state employees.

The costs of administrative services performed by contractors are understated.

The University of Wisconsin (UW) System includes 26 campuses and an extension service that provide instruction, research, and public service statewide. It is governed by a 17-member Board of Regents and directed by the UW System President. Its current biennial budget is $7.1 billion.

UW System's major funding sources are program revenue, which includes tuition and fees; federal revenue, including funding for research; and general purpose revenue (GPR) of $1.9 billion in the 2003-05 biennium. That amount reflects a $250.0 million reduction, primarily in UW System's general program operations appropriation. The reduction was $110.0 million in fiscal year (FY) 2003-04, and $140.0 million in FY 2004-05.

UW System officials are concerned that these GPR reductions have affected instructional quality and operations. Some legislators, however, have questioned the efficiency of UW System's administrative staffing and service delivery, as well as its non-instructional costs. Therefore, at the request of the Joint Legislative Audit Committee, we evaluated:

- staffing levels throughout UW System, including changes in administrative staffing from FY 1997-98 through FY 2003-04;
- staffing costs, including salaries for classified and unclassified staff and executive salaries; and
- contractual services, including expenditures for administrative services provided by contractors and amounts spent by individual UW System institutions.

Our report concludes with a number of options for the Legislature to consider as it deliberates future state funding and student access to UW System institutions.

Key Facts and Findings

UW System is Wisconsin's largest employer, with 31,971.8 full-time equivalent employees.

From March 2003 to March 2004, UW System added 89.3 permanent positions to its payroll.

In FY 2002-03, 15.0 percent of operating expenditures were administrative.

UW System used its flexibility to increase senior executives' salaries by $500,000 since November 2001.

Current methods for monitoring the number of UW System positions are ineffective.

Operating costs per student vary by campus.

Staffing Levels

The number of permanent employees on UW System's payroll increased by 89.3 full-time equivalent positions from March 2003 to March 2004.

In March 2004, UW System employed 31,971.8 permanent, project, and limited-term employees (LTEs). To determine how these staff are employed, we analyzed the number of positions in various reporting categories.

We found that in March 2004, 42.3 percent of all filled positions were held by staff categorized as Professional Non-faculty. That category includes researchers and research assistants, teaching assistants, program support staff, financial services and human resources staff, and those who provide various student services and public outreach.

Faculty held 27.7 percent of all filled positions in March 2004, and managers 4.4 percent. The remaining 25.6 percent were categorized as Clerical and Secretarial, Service/Maintenance, Technical and Paraprofessional, and Skilled Crafts.

We looked at position growth since March 1998 and found that the number of UW System employees increased in all categories except Clerical and Secretarial and Service/Maintenance. However, we identified more than 500 full-time equivalent Clerical and Secretarial positions that were reclassified to other categories, which helps explain part of this reduction.

Among positions in the Professional Non-faculty category, growth was highest for three job titles: research assistant, research specialist, and teaching assistant.

Administrative Positions

To count UW System's filled administrative positions, we reviewed job titles and position descriptions for employees UW System describes as its administrative staff, as well as for staff who have administrative responsibilities that are accounted for with other "activity codes" in UW System's records.

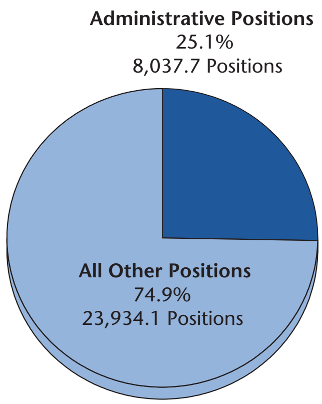
March 2004 payroll records assign 6.9 percent of UW System's 31,971.8 filled positions to Institutional Support, the activity code used by colleges and universities to report system-wide management and long-range planning, fiscal operations, administrative computing support, space management, personnel, and some other functions.

For comparisons with other universities, UW System often refers to positions coded as Institutional Support as its administrative positions. However, the Institutional Support activity code does not include all administrative positions.

We found, for example, that it excludes program assistants who keep records, type correspondence, maintain schedules, and perform similar administrative functions in various academic departments throughout UW System. In UW System's accounting records, the activity code for these staff is Instruction.

Similarly, the activity code for accountants and grant managers who ensure compliance with federal requirements for the use of funds that support a large percentage of UW System's research activities is Research, because their work directly supports that activity.

Institutional Support includes only 2,212.6 of UW System's administrative positions. We identified another 5,825.1 positions with administrative duties that were coded as other activities, including Instruction, Research, Public Service, Academic Support, and Student Services.



March 2004

The 8,037.7 administrative positions we identified represent 25.1 percent of UW System's filled positions in March 2004.

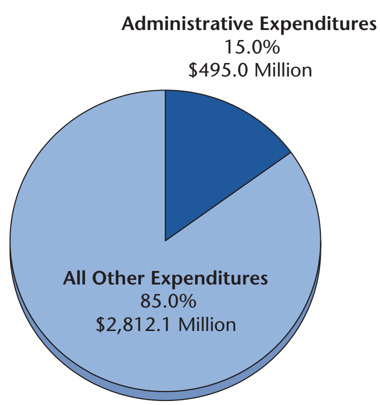
Administrative Costs

In FY 2002-03, UW System's operating expenditures totaled $3.3 billion. Three core activities—instruction, research, and public service—accounted for 54.4 percent of these expenditures.

Only 5.0 percent were recorded as Institutional Support. However, expenditures reported as Institutional Support do not fully represent UW System's expenditures for administrative salaries, fringe benefits, and supplies and services.

We identified an additional $329.5 million in administrative expenditures recorded as activities other than Institutional Support.

When FY 2002-03 expenditures that are recorded as Institutional Support are combined with administrative expenditures recorded under other activity codes, UW System's administrative costs total $495.0 million. That is nearly three times the amount recorded as Institutional Support, and it represents 15.0 percent of UW System's $3.3 billion in operating expenditures for FY 2002-03.



FY 2002-03

Staffing Costs

We reviewed salaries paid to UW System employees, nearly three-quarters of whom are unclassified staff in faculty, research, and other professional positions. In March 2004, approximately two-thirds of UW System's unclassified staff had annual salaries of less than $50,000. However, 41.1 percent of all unclassified staff worked less than full-time.

In contrast, 12.6 percent of classified staff worked less than full-time. Wages have generally increased less rapidly for classified than for unclassified employees.

The Legislature has granted UW System additional flexibility to ensure faculty and senior executive salaries remain competitive. Since November 2001, the Board of Regents approved more than $500,000 in salary increases for 20 senior executive positions.

Although salary increases for senior executive positions were 40 percent or more since FY 1997-98, salaries remain below the median for comparable institutions.

Contractual Services

UW System routinely contracts with private vendors that provide a wide range of services, including administrative services. In FY 2001-02, 12.4 percent of expenditures for contractual services were coded as Institutional Support. However, some expenditures that appear to be administrative in nature, such as payments for accounting services and executive searches, were coded as Public Service and Academic Support.

We identified more than $800,000 in administrative expenditures coded as other activities and include a recommendation to improve consistency in accounting for contractual expenditures.

Matters for Legislative Consideration

We highlight three questions for the Legislature's consideration as it reviews our evaluation, strategic planning documents developed by the Board of Regents, and UW System's 2005-07 biennial budget proposal:

- To what degree should the Legislature control the number and types of positions in UW System?
- How will the relationship between UW System and the State be defined in the future?
- How will student access to UW System be maintained?

Recommendations

Our report also includes recommendations for UW System to:

☑ provide the Legislature with complete periodic reports on executive salaries, fringe benefits, and cash and noncash compensation from outside sources *(p. 50)*;

☑ provide all UW institutions with guidance in coding contractual expenditures in their accounting records to ensure accuracy and consistency *(p. 59)*;

☑ seek statutory changes to streamline and improve its position reporting to ensure accuracy, transparency, and timeliness in reporting the number and types of UW positions *(p. 63)*; and

☑ report to the Joint Legislative Audit Committee by February 1, 2005, on its administrative staffing and service delivery costs by institution, and provide specific proposals to reduce administrative expenditures and increase operating efficiencies in the 2005-07 biennium *(p. 69)*.

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 04-10, which includes a response from the UW System President, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

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03-6

An Evaluation:

Wisconsin Center for the Blind and Visually Impaired

Department of Public Instruction

April 2003

Report Highlights

Increases in the Center's expenditures primarily result from expanded outreach efforts.

Residential school enrollment has increased, but short-term enrollment has not.

The Center does not maintain basic information about its summer programs for youth.

The Center has implemented many, but not all, of the transition plan's outreach objectives.

Additional effort is needed to improve the Center's provision of services.

The Department of Public Instruction operates the Wisconsin Center for the Blind and Visually Impaired to serve as a statewide educational resource for children with visual impairments and for their parents and teachers. 1999 Wisconsin Act 9 created the Center and requires it to operate the Wisconsin School for the Visually Handicapped, a residential school established in 1849, and to offer summer programs for youth and adults with visual impairments. Act 9 also allows the Center to provide statewide outreach services, including Braille and large-print materials and teacher training. In fiscal year (FY) 2001-02, the Center spent $7.1 million, including $4.6 million in general purpose revenue (GPR), and had an authorized full-time equivalent staff of 95.1.

In May 2000, the Department developed a transition plan to help the Center fulfill its statutory mission. The plan addressed 19 areas, including residential school enrollments, summer programs, regional outreach, and increasing the availability of assistive technology to students with visual impairments. The Department anticipated completing these objectives by 2003.

1999 Wisconsin Act 9 directed the Legislative Audit Bureau to conduct a performance evaluation of the Center during FY 2002-03. We analyzed:

- staffing levels and expenditures from FY 1998-99 through FY 2001-02;
- enrollment at the residential school and in the youth and adult summer programs; and
- the extent to which the Department has implemented the objectives included in its May 2000 transition plan.

Key Facts and Findings

1999 Wisconsin Act 9 created the Center and allowed it to provide outreach services statewide.

In FY 2001-02, the Center spent $7.1 million, including $4.6 million in general purpose revenue.

Residential school enrollment increased from 62 students in 1997-98 to 84 students in 2001-02.

Approximately 75 percent of enrolled students have disabilities in addition to visual impairments.

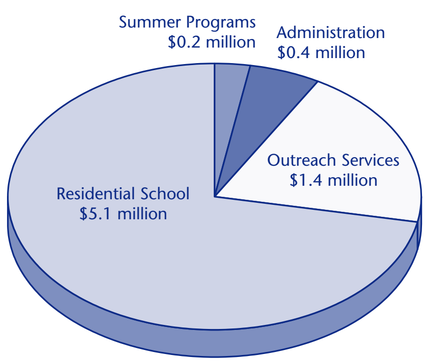
The Center has made limited progress in increasing the number of short-term enrollments at the residential school.

A May 2000 transition plan describes how the Center will fulfill its statutory mission.

Through December 2002, the Center made satisfactory progress in implementing a number of transition plan objectives.

Program Expenditures

Center expenditures increased from $6.0 million in FY 1998-99 to $7.1 million in FY 2001-02, primarily because of expanded statewide outreach efforts. Spending for outreach services was $1.4 million in FY 2001-02.



Residential School Enrollment

Enrollment at the Center's residential school, which is located in Janesville, increased from 62 students in the 1997-98 school year to 84 students in the 2001-02 school year. The Center serves students 3 to 21 years old from throughout the state. However, in December 2001, 1,128 students with visual impairments attended local public school districts.

The residential school serves primarily students with multiple disabilities, many of whom are severely disabled. With the exception of weekend transportation, its services are provided at no cost to local school districts. Overall, approximately 75 percent of students enrolled in the residential school have disabilities in addition to visual impairments. Consequently, many of these students require more special education services than those who have only visual impairments.

The Center's transition plan includes a goal of expanding short-term residential school enrollments in order to teach particular skills, such as orientation and mobility training, before students return to their local school districts. However, in the 2001-02 school year, only 3.6 percent of residential school students attended for 36 days or less. We include a recommendation for the Center to raise awareness of the opportunities for short-term enrollment.

Summer Programs

From 1999 through 2002, the Center supported 20 summer programs to teach youth with visual impairments skills such as orientation and mobility techniques.

The programs were targeted to the students' needs, and feedback indicates that students and their parents were satisfied with the programs. However, the Center was unable to readily provide us with complete information about program contents, costs, or participation.

We include a recommendation for the Center to improve its oversight of the youth summer programs and to collect management information that could help it decide whether to expand specific summer opportunities.

The Center also does not have contact information for all parents of children with visual impairments, which prevents it from notifying these individuals about its summer programs and other outreach services. Local school districts have this contact information but are hesitant to share it with the Center because of confidentiality concerns.

We include a recommendation that the Department ensure the Center obtains parental contact information to enhance its outreach efforts.

Transition Plan Areas We Reviewed

1. Creating a vision teacher licensure program
2. Providing staff training in the use of Braille
3. Providing Braille and large-print materials
4. Providing regional services
5. Providing assistive technology services
6. Distributing assistive technology devices

Outreach Activities

Through December 2002, the Center made satisfactory progress in implementing many of the objectives associated with six transition plan areas we reviewed.

For example, it:

- provided four Braille workshops that were attended by 88 individuals from throughout the state;
- loaned, purchased, or produced 1,637 Braille and large-print books in 2002; and
- created six regional staff positions to facilitate and coordinate outreach services statewide to students with visual impairments.

In addition, the Center has worked with Silver Lake College in Manitowoc to address a shortage of teachers who provide educational services to students with visual impairments. In FY 2002-03, there were only 77 licensed vision teachers in Wisconsin's public schools.

The Center does not expect to implement all of the transition plan's objectives because the needs of students and educators have changed since the plan was developed three years ago. Education officials with whom we spoke, however, are generally satisfied with the Center's outreach services.

Objectives of the transition plan included increasing the availability of assistive technology services and devices to students and teachers.

The Center's expenditures for assistive technology devices increased from $26,700 in FY 1999-2000 to $170,400 in FY 2001-02. The Center loaned 1,025 assistive technology devices as of December 2002, and it hired an assistive technology specialist in November 2002 to provide technical assistance and training to students and educators. However, it fully completed only 1 of 13 specific objectives.

We identified other problems with the Center's implementation of the transition plan's objectives, including a lack of written policies for some outreach activities. We also recommend that more information about resources available to students and teachers be included on the Center's Web site.

For Future Consideration

The Center has changed its focus from primarily serving students enrolled in the residential school to providing outreach services to students with visual impairments statewide. However, additional effort is needed to improve existing outreach services and to provide other services that are being considered but have not yet been offered.

Later this year, the Center anticipates completing a strategic plan in order to build on the transition plan efforts to date. We include a recommendation to establish specific goals that will allow the Center to measure its progress in meeting the objectives included in its strategic plan.

Recommendations

Our recommendations address the need for the Center to:

☑ raise awareness of short-term enrollment options at the residential school *(p. 27);*

☑ develop the capability to contact all parents of children with visual impairments; *(p. 32)*

☑ collect basic programmatic and financial information on its youth summer programs *(p. 32);*

☑ develop written policies for its production of Braille and large-print materials, charge out-of-state requestors for production costs, and list available materials on its Web site *(p. 42);*

☑ develop written policies for lending assistive technology devices *(p. 49);* and

☑ provide to the Joint Legislative Audit Committee, by October 2003, a strategic plan that sets program priorities and establishes specific goals against which the Center's progress can be assessed *(p. 53).*

Additional Information

For a copy of report 03-6, which includes a response from the Department of Public Instruction, call
(608) 266-2818
or visit our Web site:

www.legis.state.wi.us/lab

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Report 03-4

An Evaluation:

Milwaukee Area Technical College District

March 2003

Report Highlights ▪

A number of MATC's financial decisions warrant review.

Instructor salaries are higher than at selected institutions.

MATC has not effectively managed the cost of health care benefits.

MATC agreed to forego additional health plan changes until 2007.

Information provided to the Board has been incomplete and inaccurate in some instances.

The Milwaukee Area Technical College (MATC) District is the largest district in Wisconsin's technical college system. In fiscal year (FY) 2001-02, MATC enrolled 12,504 full-time equivalent (FTE) students and employed 1,944 FTE staff. Its FY 2001-02 operating expenditures totaled $152.0 million.

During FY 2001-02, MATC experienced significant financial difficulties. In response to an anticipated general fund deficit of $3.5 million, Moody's Investors Service attached a "negative outlook" to MATC's debt rating in December 2001. As a result, some legislators and members of MATC's Board of Directors raised concerns about MATC's financial management and governance. Therefore, at the direction of the Joint Legislative Audit Committee, we analyzed:

- MATC's financial status;
- financial management issues, including management of revenue sources such as training contracts and enterprise activities, as well as compensation for administrators and contracting for professional services;
- employee wages and benefits, including those negotiated during the 2001 collective bargaining process; and
- MATC's governance, including adherence to state statutes and the Board's policies.

Key Facts and Findings

MATC has both the largest enrollment and the largest budget of Wisconsin's technical college districts.

In FY 2001-02, operating expenditures were $152.0 million.

A "negative outlook" was attached to MATC's debt rating in December 2001 but removed in December 2002.

MATC receives general state aid equivalent to $2,149 per FTE student. The statewide average is $1,857.

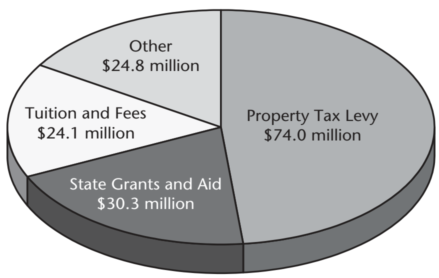
MATC does not comply with its policy of recovering 100 percent of costs associated with specialized training contracts.

Enterprise activities required nearly $1.4 million in property tax levy support in FY 2001-02.

In 2002, 64.4 percent of MATC instructors earned more than $76,000, and 12.0 percent earned more than $100,000.

MATC's health care costs are projected to increase 15.7 percent in FY 2002-03.

In FY 2001-02, local property taxes provided nearly half of MATC's operating revenues. State grants and aid were another 19.8 percent, and tuition and fees were 15.7 percent.

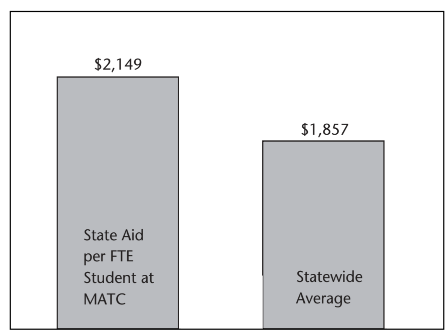


Other revenue sources were enterprise activities such as the bookstore, food service operations, and child care centers; specialized training contracts with local businesses, government agencies, school districts, and nonprofit organizations; and federal grants and aid.

Although its financial status has improved since December 2001, and steps have been taken to reduce costs, MATC faces challenges over the long term.

For example, it cannot raise additional operating revenue by increasing property tax rates because it has been at the statutory mill rate limit of $1.50 per $1,000 of assessed property value since FY 1990-91. Therefore, MATC must rely on growth in property values to gain additional operating revenue from property taxes.

MATC officials have expressed concern about declining general state aid levels. Aid to the district has declined. However, in FY 2001-02, MATC was third among the 16 technical college districts in general state aid as a percentage of operating costs per FTE student. The State provided $2,149 per FTE student, which was 15.7 percent more than the statewide average.



Financial Management

The negative outlook attached to MATC's debt rating was removed in December 2002. However, management decisions and policies in several areas may reduce MATC's ability to improve its financial status in the future.

For example, the fees MATC charges for providing specialized training to businesses and others do not cover its costs. This is a violation of district policy and has resulted in average annual losses of $468,196 from FY 1997-98 through FY 2001-02. We include a recommendation for MATC to comply with its cost recovery policy related to training contracts.

Enterprise activities such as MATC's bookstore, food service operations, and child care centers are generally expected to generate enough aggregate revenue to cover their costs. However, property tax subsidies have been required to cover losses in these areas over the past five fiscal years. In FY 2001-02, subsidies totaled nearly $1.4 million. We include a recommendation for MATC to eliminate property tax subsidies for its enterprise activities.

MATC also operates two business incubators to promote economic development in the Milwaukee area. The Milwaukee Enterprise Centers have lost more than $257,000 over the past five fiscal years. Complete information about their financial status has not been provided to MATC's Board of Directors. We include recommendations for MATC to evaluate the costs and benefits of the centers and to track key performance indicators.

MATC continues to contract for legal, public relations, and lobbying services although it has hired senior administrators at above-market salaries with responsibilities in these areas. Other contracts for professional services may have been avoidable considering the availability of MATC staff. We include a recommendation for MATC to review the continued use of consultants and ensure these costs are justified in light of existing staff resources.

Employee Wages

Instructor salaries are higher at MATC than at selected Wisconsin technical college districts. For example, as of January 2003, the maximum instructor salary at MATC is $78,271. That is 6.7 percent higher than the maximum instructor salary at Madison Area Technical College, which has the second-highest instructor salary levels among selected Wisconsin technical college districts.

MATC's most recent collective bargaining agreements included higher salary increases than were budgeted by the administration. The two-year agreements provide annual increases of 4.0 percent in both FY 2001-02 and FY 2002-03.

Employee Benefits

In an environment of rapidly increasing health care costs, MATC officials separated health care plan changes from collective bargaining discussions in November 2001. The 4.0 percent annual salary increases were predicated on achieving zero percent growth in health care costs in the two-year agreements covering FYs 2001-02 and 2002-03. However, MATC was unable to control health care costs to that degree, and health care costs instead are projected to increase by 15.7 percent, or from $16.9 million in FY 2001-02 to an estimated $19.5 million in FY 2002-03.

In October 2002, MATC and its unions reached agreements for significant health plan changes that include deductibles and co-payments. However, further changes to MATC's health plans cannot be pursued until July 2007 without the unions' agreement. This could limit MATC's ability to adjust health plans if costs continue to increase rapidly.

District Board Governance

In several instances, MATC's administration has not provided the MATC Board with complete or accurate information. For example, the Board was not informed of all health care proposals made by MATC's insurer in April 2002, nor was it given complete information on the fiscal effects of a March 2002 administrative restructuring plan.

In addition, the Board has not consistently complied with state statutes and MATC policies, including the policy requiring probationary periods for new employees and statutory requirements for closed-session meetings. We include several recommendations related to MATC's governance.

Recommendations

Our recommendations address the need for MATC to:

☑ comply with district policy requiring aggregate full cost recovery for training contracts *(p. 36);*

☑ develop and implement plans to eliminate property tax subsidies for enterprise activities *(p. 37);*

☑ evaluate the costs and benefits of the Milwaukee Enterprise Centers *(p. 41);*

☑ review the use of consultants, especially in light of expanded internal capacities *(p. 45);*

☑ clarify the roles and authority of the Board and the president in personnel matters *(p. 48);*

☑ ensure that complete and accurate information is provided to the Board in a timely manner *(p. 61);*

☑ comply with district policy regarding probationary periods for new employees *(p. 62);* and

☑ seek guidance from the Wisconsin Department of Justice regarding its use of closed sessions *(p. 63).*

Additional Information

For a copy of report 03-4, which includes a response from the Milwaukee Area Technical College District, call (608) 266-2818 or visit our Web site:

www.legis.state.wi.us/lab

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Environment and Natural Resources

Highlights

- **Air Management Programs** *(Report 04-1)*

  The Department of Natural Resources is responsible for issuing state and federal air management permits to 2,219 stationary sources of air pollution. Wisconsin is among the slowest states in the nation to issue major operation permits and is the slowest among midwestern states. Our report identifies a pattern of significant program management deficiencies and makes 15 recommendations for improvement.

Other Reports

- **Financial Audits of Petroleum Inspection Fee Revenue Obligations Program** *(Reports 04-15 and 03-14)*

  The program provides financing for payment of claims under the Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. We provided unqualified opinions on its financial statements for FYs 2003-04, 2002-03, and 2001-02.

  In 2004, we reported that the State had issued $387.6 million in revenue obligations to pay PECFA claims and to address a backlog of approved but unpaid PECFA claims. As of June 30, 2004, $361.2 million of that debt remained outstanding, to be repaid from the $0.03 per gallon fee charged for petroleum products sold in Wisconsin.

- **Letter on Chronic Wasting Disease** *(October 2003)*

  Through FY 2002-03, Wisconsin spent an estimated $14.7 million combating chronic wasting disease (CWD) in deer. Nearly two-thirds of this spending supported the salaries and benefits of an estimated 122.8 full-time equivalent employees in the Department of Natural Resources and three other state agencies. In the future, state agencies and the Legislature will need to address continuing efforts to contain CWD, as well as the most appropriate allocation of limited resources.

- **Letter on Pesticide and Fertilizer Fees** *(September 2003)*

  We reviewed revenues and expenditures generated by fees and surcharges on pesticides and fertilizers used in Wisconsin. In FY 2001-02, revenues from these sources totaled $6.8 million. Both the Department of Agriculture, Trade and Consumer Protection and the Department of Natural Resources have a role in the cleanup of fertilizer or pesticide spills using these revenues, and they should ensure that information on spills and site cleanups is exchanged in a timely manner.

- **Letters on Environmental Cooperation Pilot Program**
  (September 2004 and February 2003)

  The Department of Natural Resources has negotiated seven agreements to implement innovative environmental regulations at six different companies. However, as of September 2004 it had not established practices and procedures for collecting and evaluating the information necessary to determine the applicability of innovations to other companies, the feasibility of extending the program's reduced reporting and monitoring requirements to more businesses, and the effect of innovative environmental regulations on its own administrative duties. Program participants are eligible to transfer to the Environmental Results Program (Green Tier) created by 2003 Wisconsin Act 276.

Audit Committee Action

☑ *Hearings on Air Management Programs, November 16, 2004, and May 4, 2004*

☑ *Hearing on Milwaukee Metropolitan Sewerage District (Report 02-12), November 18, 2003*

04-1

An Evaluation:

Air Management Programs

Department of Natural Resources

February 2004

Report Highlights

Wisconsin is among the slowest states in the nation to issue major operation permits.

The process for issuing construction permits could be further streamlined.

DNR does not consistently follow federal and state enforcement guidelines.

Program management needs improvement.

The Department of Natural Resources (DNR) administers state and federal air management programs that regulate the emission of pollutants that have been linked to health problems in humans, as well as to smog and acid rain. As part of this responsibility, DNR is required to ensure that the 2,219 utilities, factories, and other stationary facilities it regulates are complying with the terms of their permits, and to monitor air quality throughout Wisconsin.

Representatives of regulated facilities contend that complying with Wisconsin's air pollution regulations is onerous and expensive, while representatives of environmental groups believe too little is being done to ensure compliance with state and federal air pollution laws. In response to concerns about the time DNR takes to issue permits, the fees regulated facilities are charged, the extent to which the State regulates air pollution beyond federal requirements, and DNR's approach to regulating sources of air pollution—and at the request of the Joint Legislative Audit Committee—we analyzed:

- permit backlogs, including the amount of time taken to issue operation and construction permits;
- the amount of time other states require to issue operation and construction permits;
- the equitableness of fees assessed to regulated facilities emitting varying amounts of pollutants;
- the extent to which Wisconsin has expanded upon regulatory requirements prescribed by federal law;
- air quality monitoring efforts by DNR staff; and
- compliance and enforcement efforts.

Key Facts and Findings

Wisconsin regulates more hazardous air pollutants than federal law requires.

Air quality has improved in 17 former non-attainment areas.

Expenditures have increased from $14.9 million in FY 1996-97 to $17.9 million in FY 2002-03.

As of June 30, 2003, DNR had issued 1,128 operation permits; 1,091 were backlogged

As of June 30, 2003, 29.2 percent of pending construction permits had been backlogged for at least two years.

DNR's median processing time for construction permits was 103.5 days from the date an application was received.

Records indicate that DNR has never inspected 10.0 percent of major facilities and 19.7 percent of synthetic minor facilities.

DNR does not have the basic, accurate data needed for effective program management.

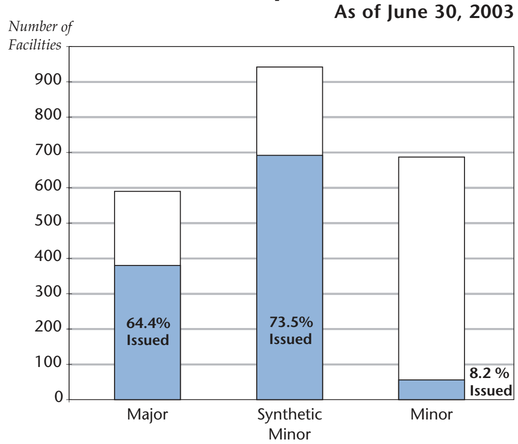
Operation Permits

As of June 30, 2003, DNR had issued operation permits to 50.8 percent of the 2,219 facilities that had applied for them, including:

- 64.4 percent of federally required "major" permits, which have the highest potential air pollution emissions;
- 73.5 percent of federally required "synthetic minor" permits, which have lower potential air pollution emissions; and
- 8.2 percent of state-required "minor" permits, which have the lowest potential air pollution emissions.

In total, 1,128 permits were issued but 1,091 were backlogged.

Operation Permits Issued
As of June 30, 2003



Under the federal Clean Air Act, Wisconsin was required to issue operation permits to all major facilities by March 1998. However, Wisconsin issued only 64.4 percent of its major operation permits by June 30, 2003, the lowest percentage in the Midwest. By comparison, 80.9 percent of major permits had been issued nationally.

2003 Wisconsin Act 118, which took effect February 6, 2004, streamlines DNR's operation permit program and may help to address the permit backlog. DNR has also made several revisions to its plan for issuing operation permits and now anticipates issuing all federally required major permits by January 2005.

No deadlines have been established for issuing either synthetic minor operation permits or minor operation permits. We make several recommendations to further streamline the operation permitting process.

Construction Permits

Wisconsin statutes and administrative rules require DNR to issue permits for new construction and facility modifications within specified time limits.

DNR does not adequately track the time it takes to issue permits, but we found that, based on a random sample of 88 construction permit applications, DNR met statutory deadlines for 86.4 percent of construction permits issued. However, 29.2 percent of all construction permits pending as of June 30, 2003, had been backlogged for at least two years.

DNR officials indicate that construction permits can become backlogged because some projects will be undertaken in the future, and permits for electrical generating facilities require approval from other regulatory bodies.

Because DNR has substantial flexibility in determining when an application is deemed complete and the statutory clock begins, we analyzed the time taken to issue permits from the dates applications were received. For the 88 permits in our sample, the median time was 103.5 days, including 52 permits issued within 120 days and 9 that took longer than one year.

2003 Wisconsin Act 118 reduces the time DNR is allowed for issuing construction permits. We make several recommendations to further streamline the construction permitting process.

Additional State Requirements

Wisconsin has expanded on federal air management requirements in two primary areas. First, Wisconsin regulates 293 more hazardous air pollutants than required by federal law. Of these, 94 were reported emitted by Wisconsin facilities in 2002. Three of five other midwestern states also exceed federal requirements for regulating hazardous air pollutants.

Second, Wisconsin facilities with potential emissions below federal requirements are generally required to obtain state-mandated minor operation permits. As of June 30, 2003, 687 facilities had applied for minor operation permits, but only 56 of these permits had been issued.

Enforcement Efforts

The number of facilities DNR inspects annually has generally declined over time, from 470 in fiscal year (FY) 1994-95 to 276 in FY 2002-03. DNR's records indicate that 15.0 percent of facilities have never been inspected.

In addition, DNR has failed to follow its own policies regarding enforcement against facilities that apply for construction permits after work is already complete, or against facilities that do not submit timely compliance certifications. We also found that DNR does not consistently follow federal policy in taking enforcement actions for high-priority violations. We make several recommendations to improve DNR's enforcement efforts.

Program Management

We identified a pattern of significant deficiencies in DNR program management, including:

- failing to identify 71 facilities that were required to apply for operation permits although DNR records indicate they did not, and failing to have documentation for why an additional 175 facilities may be exempt from permitting;
- failing to issue 113 operation permits even though they had already completed a public comment period and could have been issued, including 106 that could have been issued before June 30, 2002;
- failing to ensure that 49 facilities applied for renewal operation permits when required; and
- having no explanation for why 232 facilities have not reported emissions or paid emission fees, billing 11 facilities approximately $21,000 when they should not have been billed, and failing to bill 13 other facilities approximately $27,000.

In addition to the program and policy changes that recently took effect under 2003 Wisconsin Act 118, a number of proposed changes in federal law could also significantly affect the State's air management programs. Regardless of changes already enacted at the state level and additional changes that may result from efforts to modify federal requirements, DNR program management will need to be improved if Wisconsin's air management goals are to be accomplished.

Recommendations

Our recommendations address the need for DNR to:

☑ correct annual emission fees billing errors *(p. 25)*;

- ☑ assign additional permit engineers to issue operation permits in the Southeast Region *(p. 41)*;
- ☑ further streamline the operation permit program *(pp. 41 and 44)*;
- ☑ ensure facilities have properly applied for permits *(p. 46)*;
- ☑ issue completed permits *(p. 46)*;
- ☑ ensure facilities apply for renewal operation permits *(p. 48)*;
- ☑ revise the expedited review process for construction permits *(p. 61)*;
- ☑ further streamline the construction permit program *(p. 63)*;
- ☑ improve the facility inspection process *(p. 70)*;
- ☑ improve compliance with federal policy for high-priority violations *(p. 72)*;
- ☑ improve the compliance certification process *(p. 73)*;
- ☑ identify after-the-fact permits and take appropriate enforcement action *(p. 74)*;
- ☑ establish additional performance measures *(p. 79)*;
- ☑ improve its data systems *(p. 80)*; and
- ☑ report to the Joint Audit Committee by September 1, 2004, for follow-up *(p. 81)*.

Additional Information

For a copy of report 04-1, which includes a response from the Department of Natural Resources, call
(608) 266-2818
or visit our Web site:

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Fees for Services and Certifications

Highlights

- **Credentialing Fees** *(Report 04-7)*

  Statutes require that fees for occupational licenses, permits, and other credentials reflect regulatory costs. The Department of Regulation and Licensing proposed a new fee structure in 2003 and is expected to do so again in its 2005-07 budget request. Our report discusses proposed fees and fees in other states, and it provides options for the Legislature as it considers the Department's funding and spending authority.

- **Local Government User Fees** *(Best Practices Review, April 2004)*

  We reviewed the extent to which local governments have implemented fees to fund the services they provide. Our report identifies more than 500 types of user fees and highlights best practices for establishing and administering them.

Other Reports

- **Financial Audits of Petroleum Inspection Fee Revenue Obligations Program** *(Reports 04-15 and 03-14)*

  Please see Environment and Natural Resources.

- **Letter on Pesticide and Fertilizer Fees** *(September 2003)*

  Please see Environment and Natural Resources.

Audit Committee Action

☑ *Hearing on Credentialing Fees, September 23, 2004*

04-7

A Review:

Credentialing Fees

Department of Regulation and Licensing

July 2004

Report Highlights

Credentialing fees have not changed since 2001.

In 2003, new fees were proposed to more accurately reflect regulatory costs.

Wisconsin's renewal fees are lower than midwestern averages for some professions and many businesses.

The Legislature may wish to consider how fees are assessed and how they are applied.

The Department of Regulation and Licensing issues 110 types of occupational licenses, permits, and other credentials to individuals and businesses, either directly or through the 38 boards and regulatory authorities to which it provides administrative and other support. It has 125.5 authorized full-time equivalent (FTE) positions and a fiscal year (FY) 2003-04 budget of $11.1 million. Fees paid by new and renewing credential holders fund more than three-quarters of the Department's operating costs.

To ensure that credentialing fees reflect the approximate costs of regulating particular professions and businesses, statutes require the Department to estimate its administrative and enforcement costs for each credential type in each biennium and, as part of its biennial budget proposal, to adjust initial and renewal fees accordingly. To assist the Legislature in its consideration of expected agency budget proposals for the 2005-07 biennium, the Joint Legislative Audit Committee directed us to review:

- whether a new fee-setting methodology proposed by the Department in 2003 is adequately documented and could be administered in a straightforward manner;
- whether proposed new fees would reflect actual regulatory costs by credential type and could provide sufficient revenue to support the Department's operations; and
- how Wisconsin's regulatory structure and practices compare to those of other midwestern states

Our report suggests a number of options for establishing an equitable fee structure and funding new initiatives.

Key Facts and Findings

Credentialing fees fund 118.5 of the Department's 125.5 FTE staff positions.

Costs must be allocated based on service provided to credential holders.

Allocating costs accurately will require an effective timekeeping system.

Recently, revenue from credentialing fees has exceeded the Department's spending authority.

To help address recent state budget deficits, the Department was required to lapse $6.8 million over two biennia.

The Department projects that if no additional lapses occur, its 2005-07 revenue could fund increased services.

Current Fees

Since 1991, the Department has been required by statutes to allocate its costs to credential holders based on services provided, so that fees collected from one type of credential holder do not support the cost of regulating others.

During 2003-05 biennial budget deliberations, the Department proposed both a new method for allocating costs, which it believed to be more accurate, and new credentialing fees. In some cases, the new fees also shifted regulatory costs from new to renewing credential holders.

These changes were not enacted because of legislative concerns about large fee increases for some professions, as well as uncertainty about the appropriateness of the proposed method for establishing fees. Current fees have been in effect since the beginning of the 2001-03 biennium.

Current fees are set at $53 for new credential applicants. In contrast, renewal fees vary widely. Most include the $53 base, but they are also intended to reflect direct enforcement costs related to particular credential types. Therefore, they differ based on the number of credential holders in a profession, as well as enforcement costs related to that profession.

For example, soil scientists, massage therapists, and athletic trainers all pay renewal fees of $53 every two years. Engineers pay $58, barbers and cosmetologists $63, and certified real estate appraisers $167.

The current renewal fee for most businesses is $56. However, charitable organizations pay $15 and cemetery authorities pay $343. Our report includes a listing of renewal fees for each regulated profession and business.

Proposed New Fees

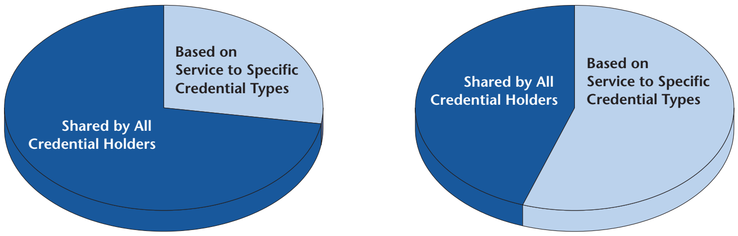
The Department's proposed new method for setting credentialing fees would increase the proportion of costs that are allocated based on services provided.

Currently, more than two-thirds of administrative and enforcement costs are allocated equally to all credential types; only 27.4 percent are allocated based on services provided. The proposed method for setting fees would allocate 58.2 percent of costs based on services provided.

Nevertheless, allocating costs accurately is complex, and the Department could take additional steps to simplify fee-setting. Furthermore, basing credentialing fees primarily on the level of service received by each type of credential holder has significant limitations.

First, the majority of the Department's costs are for staff salaries and fringe benefits, and some staff perform work benefiting many different types of credential holders in a single day. As a result, accurate timekeeping is essential to ensure that costs are allocated precisely. The Department did not have a comprehensive timekeeping system in place when it first proposed changes to the method by which credentialing fees are set.

How Regulatory Costs Are Allocated



Current Fees   *Proposed New Method*

Second, some fees could change significantly under a new system. Based on the Department's anticipated costs for the current biennium, renewal fees would have increased for 68 credential types.

For example, cemetery sales people would have paid an additional $226 to renew their credentials, for a total of $316 for a two-year period. Dentists' renewal fees would have increased by $121, to $252 every two years. However, the proposed new fee-setting method would have reduced renewal fees for 27 credential types.

It should be noted that fees based on services received do not consider average incomes in the various professions and businesses for which credentials are required. Therefore, they may raise concerns about affordability for some credential holders. For example, new renewal fees proposed during 2003-05 biennial budget deliberations would have been $151 for physicians but $161 for dance therapists, who typically have significantly lower incomes.

Fees in Other States

Wisconsin's credentialing fees are significantly lower than midwestern averages for some professions with a large number of credential holders. For example, Wisconsin's current biennial credentialing fee for physicians is $166 less than the midwestern average. Pharmacists pay $52 less, and certified public accountants $25 less.

Current fees are also below the midwestern average for four of the five most commonly credentialed businesses. However, they are higher than the midwestern average for real estate brokers and sales-people, cosmetologists, and nurses.

Like Wisconsin, most midwestern states require credentialing fees to be set at a level that is sufficient to fully fund credentialing activities. However, most other states adjust their fees less frequently. Furthermore, because their regulatory structures are less centralized than Wisconsin's, they are less concerned that fees paid by some professions will subsidize the regulatory costs of others.

Revenues from credentialing fees exceeded regulatory costs for each agency of the other states we contacted. Nevertheless, some other states have increased their credentialing fees or are considering fee increases.

Future Considerations

For many years, the Department has been required to deposit 10.0 percent of credentialing fees to the State's General Fund. These funds reimburse costs that other state agencies incur on the Department's behalf. Since FY 2001-02, the Department has also been required to lapse additional funds to help address state budget deficits. By the end of FY 2004-05, these additional required lapses will have totaled $6.8 million.

Despite these required lapses, the Department projects a balance in its credentialing fees appropriation. Nevertheless, regulatory boards representing several professions have expressed concern that the

Biennial Renewal Fees for Selected Professions

	Midwestern Average	Wisconsin
Physician	$272	$106
Pharmacist	149	97
Certified Public Accountant	84	59
Engineer	82	58
Barber	62	63
Registered Nurse	59	66
Licensed Practical Nurse	59	69
Cosmetologist	43	63
Real Estate Salesperson	60	83
Real Estate Broker	94	128

fees credential holders are assessed to cover regulatory costs are being used for other purposes.

In addition, the Department reduced service levels for some professions in FY 2003-04, in an effort to cut its own costs. Some members of regulatory boards have indicated that as a result, their ability to act on pending credential applications and enforcement cases has been hampered. Furthermore, several boards—including the Medical Examining Board and the Pharmacy Board—have expressed an interest in expanding the level of service the Department provides to them, even if it results in fee increases.

Because credentialing fees have not been adjusted since the beginning of the 2001-03 biennium, the Governor and the Legislature may be asked to consider options for doing so as part of the 2005-07 biennial budget process. They will have several options to consider while preparing and deliberating the Department's budget.

First, the fees currently enumerated in statutes could remain unchanged. These fees have resulted in considerable fund balances in each year since FY 2001-02. They are projected to produce additional balances through the 2005-07 biennium if the Department's spending does not increase.

Second, the fees currently enumerated in statutes could be revised. For example, surcharges could be assessed for specific professions that request additional services, or adjustments could be based on an inflation factor for the 2005-07 biennium. However, fee revisions may not address the Department's concern related to its statutory requirement to allocate costs based on services received.

Finally, the Department's 2003-05 proposal could be implemented in 2005-07 using more complete timekeeping data. Under this option, the proportion of costs allocated on the basis of service would be increased.

Recommendation

The Department's 2005-07 budget request is expected to again propose changes in the method by which credentialing fees are set. Our report includes a recommendation for the Department to:

☑ improve the accuracy and precision of this proposal by clearly explaining how individual fees are determined; using actual timekeeping data; and thoroughly documenting any modifications to current practices that are based on policy or other considerations *(pp. 37-38)*.

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 04-7 which includes a response from the Department of Regulation and Licensing, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

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Janice Mueller
State Auditor

Best Practices Review:

Local Government User Fees

April 2004

Report Highlights

User fees make up a significant proportion of all revenue collected by local governments.

User fees for similar services vary widely.

We used a survey to identify over 500 different user fees.

We identified eight best practices for local governments to consider when establishing user fees.

Local governments have broad authority to implement user fees that reasonably cover the costs of their operations. User fees differ from taxes, which must be authorized by the State Legislature. Through a survey, we identified over 500 different user fees charged by local governments.

Local governments' total revenue from user fees was $2.6 billion in 2001. That amount represented 21.1 percent of all local government revenue. In comparison, property tax revenue totaled $3.1 billion and represented 24.5 percent of all local government revenue.

As directed by s. 13.94(8), Wis. Stats., we completed a best practices review that focused on the extent to which local governments rely on user fees to fulfill government functions. To complete this review we:

- surveyed all counties and cities, as well as villages with populations greater than 2,500 and towns with populations greater than 5,000, to determine how user fees are established and collected and how they manage fee revenue;
- analyzed data that 1,922 local governments provided to the Department of Revenue, to determine the extent to which user fees are relied on as a revenue source;
- reviewed Wisconsin Statutes governing the type and amount of user fees; and
- analyzed fee schedules in order to determine both the types of fees imposed by local governments and the range of fees charged.

Key Facts and Findings

In 2001, user fee revenue totaled $2.6 billion, or 21.1 percent of all local government revenue.

Local governments have authority to set reasonable fees.

Wide variation in fees indicates local governments should regularly review the fees they charge.

Local governments can require developers to pay fees to cover capital costs associated with growth.

Local governments should offer a variety of payment options.

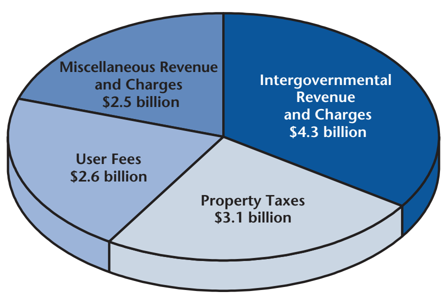
Innovative fee processing practices can lead to cost savings.

User Fee Revenue

We considered user fees in three categories:

- fees that fund necessary services, such as for utilities;
- fees that fund services that add to the quality of life, such as for parks and recreation; and
- fees that fund regulatory and administrative processes, such as for licenses and permits.

2001 was the most recent period for which data were available during the time of our review. In 2001, the $2.6 billion in user fees collected by local governments represented 21.1 percent of their revenue from all sources. Local governments' total revenue from all sources was $12.5 billion in 2001.



Cities had the highest percentage of revenue from user fees. In 2001, cities earned more of their revenue from user fees than from property taxes. Among all local governments, property taxes accounted for approximately one-quarter of total revenue.

Between 1997 and 2001, the percentage of revenue local governments received from user fees declined slightly, from 21.4 percent to 21.1 percent. However, towns' revenue from user fees increased by 38.9 percent, which was more than the increases for all other types of local government.

Nearly one-half of county user fee revenue was earned by county-operated nursing homes and human services departments. This is to be expected, given the types of services provided by counties.

The largest source of city user fees was utilities, while the largest source of village user fees was sewage services. Licenses and permits accounted for the largest percentage of towns' revenue from user fees.

Variation in Fee Types

Among the 500 types of fees we identified through a survey and discussions with local government officials were:

- fees for utilities and necessary services;
- charges for the use of government-owned facilities such as community centers, meeting spaces and park shelters;
- fees for recreation activities; and
- fees that individuals and businesses pay for licenses and permits.

Approximately one-half of the 249 cities, counties, villages, and towns that responded to our survey indicated that they have set a total of 275 new fees over the course of the past three years. More than 38 percent of communities responding to our survey indicated that they plan to implement new fees in the next three years.

Variation in Fee Amounts

While 63.5 percent of local governments indicated that they review their fees annually, some do so less frequently. There is wide variation in fee amounts as well as in the types of fees charged by local governments.

Although some user fees are set by statute, most are set by local governments. 2003 Wisconsin Act 134 provides that fees imposed by local governments, "shall bear a reasonable relationship to the service for which the fee is imposed."

To assess the different amounts communities may charge for common services, we compared the cost of building permits for constructing an average sized single-family home. We found that among the five cities and six villages submitting information, the cost of building permits ranged from $494 to $2,560 for cities and from $818 to $4,714 for villages.

Many communities charge developers fees to help fund new infrastructure costs associated with new subdivisions, such as costs for roads and sewers. Local governments can impose two types of fees for these costs: development fees and impact fees.

Both are similar in intent. The fees developers can be assessed in exchange for land development permits have been upheld by the courts as a reasonable exercise of local government authority.

Impact fees are similar to development fees but are restricted by state statutes for a limited number of infrastructure costs.

Revenue Processing

User fee management and collection practices vary, but nearly all local governments responding to our survey indicated that they offer both cash and check payment options.

Fewer than one-half indicated that they offer on-line payment options, although we learned in a previous best practices review of local e-government services that this practice can lead to increased revenue collections.

Some local governments take steps to develop secure fee collection practices. These include:

- making daily deposits of cash and check payments;
- having at least two individuals responsible for handling and depositing payments;
- using software to record cash payments; and
- conducting at least periodic audits of payments.

In addition, some local governments have realized cost savings by using a private-sector service provider to collect and process fees.

Other unique or innovative practices that have resulted in increased efficiency include using cash register software to link transactions with the municipal financial system, and using barcodes on utility bills and tax forms so that payments can be automatically entered into the local government's computer system.

A complete list of these innovative practices is included in the report.

Some local governments offer credit card payment as an option for user fee payments. The fees that credit card companies charge for these transactions vary by as much as 3 percent per charge. Many of the local governments pay these processing costs. Others pass the charge on to those who pay user fees with credit cards.

Best Practices

Our suggestions for establishing user fees and managing the revenue are that it is a best practice for local governments to:

☑ review all services, considering which could be reasonably funded through user fees *(p. 22)*;

- ☑ regularly review the user fees charged *(p. 26)*;
- ☑ determine both the direct and indirect costs associated with the service *(p. 31)*;
- ☑ periodically review the actual costs for the regulation and inspection of construction and set building permit fees accordingly *(p. 33)*;
- ☑ make a variety of user fee payment options available to users *(p. 38)*;
- ☑ negotiate with credit card companies for low rates for credit card transaction fees *(p. 40)*;
- ☑ when practical, ensure the security of fees and maximize interest earnings by making daily deposits for fee payments *(p. 43)*; and
- ☑ develop measures to ensure the secure handling of cash payments and maintain separation of duties *(p. 45)*.

Additional Information

For a copy of this best practices report, call
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or visit our Web site:

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Janice Mueller
State Auditor

Government Operations

Highlights

- **Assessment of Manufacturing Property** *(Report 04-14)*

  The Department of Revenue generally follows statutorily accepted practices for determining property value, but there are some differences in the extent to which its five districts use the statutorily preferred valuation method. The statutory requirement to inspect all manufacturing property every five years is not being met because of an inefficient assessment process, an increase in appeals, and a decrease in agency staff. As the Legislature considers the Department's 2005-07 biennial budget request, it will have to consider how manufacturing assessment costs are shared with municipalities.

- **State of Wisconsin Investment Board** *(Report 04-13)*

  The Investment Board continues to exceed its long-term actuarial investment expectations for the Fixed Retirement Trust Fund. Most of a 79.3 percent increase in costs from 1999 to 2003 is related to the increasing costs of outside investment managers and advisors, although salaries and bonuses for unclassified staff have also increased. Changes to statutory limits on internal operating costs and on externally managed investments may be warranted.

- **State of Wisconsin Single Audit, 2002-03** *(Report 04-2)*

  The FY 2002-03 single audit includes descriptions of our findings related to internal controls and compliance with federal grant requirements, state agencies' plans for corrective action, and the State's Schedule of Expenditures of Federal Awards. We questioned a minimum of $81,879 of more than $9.1 billion in federal financial assistance the State administers, and we noted that additional federal Adoption Assistance funds could be available. The Department of Health and Family Services subsequently submitted a claim and recovered over $5 million in federal funds.

- **State Purchasing Cards** *(Report 03-8)*

  In FY 2001-02, $86.3 million in goods and services were procured using purchasing cards held by approximately 17,500 employees in 43 state agencies and throughout the University of Wisconsin System. The average transaction was $196. Abuse of the cards was very rare, but oversight could be improved to ensure they are used appropriately.

- **State of Wisconsin Single Audit, 2001-02** *(Report 03-5)*

  In our FY 2001-02 single audit of the State of Wisconsin, we questioned $847,283 in costs the State charged to federal grants. Our opinion on compliance was qualified because of material noncompliance with federal foster care grant requirements.

Other Reports

- **Milwaukee Retirement Systems Error** *(July 2003)*

  As part of our annual financial audit of the Department of Employee Trust Funds, we found an error in information provided to the Department by the State of Wisconsin Investment Board. Investment account balances for the Milwaukee Schools Retirement System and the City of Milwaukee Retirement System were overstated by a total of $3.87 million. Controls were implemented to prevent such errors in the future.

- **Letter on Budgetary Issues** *(June 2003)*

  As part of our annual federal compliance audit and subsequent follow-up, we identified more than $2.0 million available to the General Fund from other funds and accounts, which the Legislature considered during 2003-05 budget deliberations.

04-14

An Evaluation:

Assessment of Manufacturing Property

Department of Revenue

December 2004

Report Highlights ■

Taxes levied on manufacturing property represent 4.1 percent of the statewide total.

The extent to which districts use the statutorily preferred valuation method varies.

DOR is not meeting statutory requirements for field audits.

DOR could improve its efficiency by increasing its use of technology.

A reorganization may affect the amount DOR seeks in reimbursement from municipalities.

In 2003, approximately 11,000 manufacturers in Wisconsin paid $292.7 million in property taxes. In response to concerns about the ability of local assessors to accurately and equitably assess the value of complex manufacturing property, the Department of Revenue (DOR) assumed this responsibility in 1974.

To reduce general purpose revenue (GPR) expenditures, the Governor's 2003-05 biennial budget proposed transferring most of this function back to local assessors. While the proposal was not adopted by the Legislature, it prompted questions about current assessment practices. In response to these concerns, and at the request of the Joint Legislative Audit Committee, we evaluated:

- DOR's methods to assess the value of manufacturing property;
- DOR's performance relating to the statutory requirement that it complete field audits of manufacturing properties at least once every five years;
- the rates at which manufacturers and municipalities appeal DOR assessments; and
- how a reorganization within DOR could affect the quality of manufacturing property assessment.

Key Facts and Findings

Manufacturers paid $292.7 million in property taxes in 2003.

Among DOR districts, the weight given to the statutorily preferred valuation method ranged from 69.0 percent to 92.6 percent.

DOR is nearly two years behind in completing field audits of manufacturing and telephone company property.

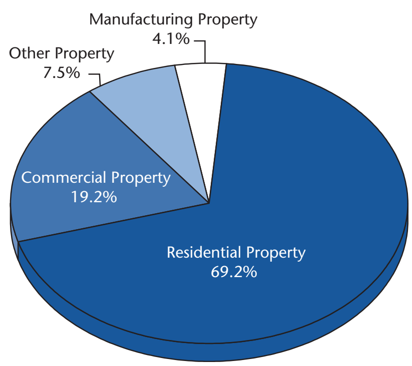
Staffing for property assessment has decreased by 17.9 percent since FY 2001-02.

The number of appeals increased 40.2 percent from 1997 through 2003.

Municipalities pay $1.1 million annually to DOR to support one-half the cost of assessing manufacturing property.

Manufacturing Property Taxes

Taxes levied on all classes of property totaled $7.1 billion in 2003. Taxes levied on manufacturing property represented 4.1 percent of all property tax revenue received by local governments that year.



Residential property generated the most tax revenue, followed by commercial property. Other classes of property include agricultural property, undeveloped property, and non-manufacturing personal property such as office equipment and furniture.

Valuation Methods

Three methods are commonly used to establish the value of real estate:

- The sales approach requires assessors to consider recent arm's-length sales of the subject property or reasonably comparable property.
- The cost approach requires assessors to estimate the cost to replace the property, adjusted for depreciation factors such as age, usage, and the quality of the construction of the improvements.
- The income approach requires assessors to estimate value based on the income that can be generated from the property.

Section 70.32(1), Wis. Stats., requires DOR to use the sales approach to the extent possible before considering other methods to estimate a property's value. However, because of the limited number of comparable sales of manufacturing property, DOR uses a combination of approaches. A computer program analyzes the information collected during a field audit and recommends a weighting for each potential valuation approach. In combination, these weightings must total 100 percent.

The assessor reviews the computer program's recommended weightings, which may be followed or modified based on the assessor's experience and judgment. In 2003, the sales approach was weighted most heavily statewide, at 82.4 percent. However, among DOR's five district offices, the weight given to the sales approach ranged from 69.0 percent to 92.6 percent.

While assessor judgment is needed to determine the proper approach to valuing individual properties, statewide consistency in valuation approaches is also important. Therefore, we include a recommendation for DOR to analyze variations in district assessment procedures.

To support its use of the sales approach, DOR inspects properties that have recently sold and maintains a database of information on their characteristics. This information is also valuable to private appraisal firms. However, the existing database is difficult to use and maintain.

Ease of use could be improved by upgrading the database, which would make information available electronically and allow it to be sold. Revenue generated from these sales could be used to offset the costs of maintaining and improving the database. We include a recommendation for DOR to analyze the feasibility of selling information from this database, as it currently sells other property-related data.

Field Audit Cycle

DOR assesses the value of manufacturing property by updating past assessments and by conducting field audits, or on-site property inspections. Updates are based on information that is reported annually by manufacturers.

Section 70.995(7)(b), Wis. Stats., requires field audits to be conducted at least once every five years. DOR acknowledges that it is not meeting this requirement. DOR also has not met a similar requirement to conduct field audits of all telephone company property at least once every five years.

DOR's inability to meet these field audit requirements appears to be caused, at least in part, by staffing constraints. Along with responsibility for assessing telephone company property, DOR received 4.7 full-time equivalent (FTE) positions in 1998. However, from fiscal year (FY) 2001-02 to FY 2003-04 the number of staff dedicated to property assessment decreased 17.9 percent, from 50.5 to 41.5, as a result of cost-saving measures and budget reductions.

We estimate that with current procedures and staffing levels, DOR would need nearly seven years to complete field audits for all properties for which it has assessment responsibilities.

An increase in the number of appeals has also diverted resources from field audits. The 171 appeals filed in 2003 represent an increase of 40.2 percent over the 122 appeals filed in 1997. Because the manufacturing assessment process is data-intensive, DOR staff can spend a significant amount of time reviewing information when an appeal is filed, including possibly conducting a new field audit to verify the original assessment.

Despite the increase in appeals, they are still rare; less than 1.0 percent of all assessments were appealed in 2003.

Improving Efficiency

Manual processing of annual reporting forms is the largest hindrance to DOR's efficient assessment of manufacturing property. By implementing electronic filing of manufacturing and telephone company property reporting forms, DOR could:

- reduce filing errors;
- redirect its resources toward discovering, valuing, and inspecting manufacturing property; and
- improve timeliness, as nearly 10 percent of forms submitted from 1997 through 2003 were late.

DOR plans to implement electronic filing and indicates these efforts will be funded from existing resources, with no additional funding or positions requested from the Legislature. DOR estimates that with the implementation of electronic filing, its time savings would equal approximately 0.8 FTE position annually, or enough staff time to complete about 73 additional field audits per year.

Many of the information systems DOR uses to store and analyze information are more than 20 years old and require duplicate entries to ensure all necessary information is included. Other currently available technology, such as improved digital cameras and mapping software, could help DOR complete field audits in a more timely manner.

DOR officials agree that upgrading to newer software and technologies would improve manufacturing assessment efficiency and are reviewing possible funding mechanisms and time lines for implementation.

For Future Consideration

In October 2004, DOR received approval from the Department of Administration to reorganize the Division of State and Local Finance, which is responsible for assessing manufacturing property. By merging bureaus and cross-training staff, DOR hopes to gain efficiencies that will allow it to meet the five-year field audit cycle, improve coordination among staff, and mitigate the potential effect of the large number of its staff eligible for retirement over the next few years. However, the efficiency resulting from the reorganization is unlikely to provide sufficient additional resources to meet the statutory requirement for timeliness.

The reorganization may also affect the amount DOR seeks in reimbursement from municipalities. 2003 Wisconsin Act 33 authorized DOR to charge municipalities 50 percent of its budgeted costs associated with the assessment of manufacturing property. However, what constitutes these costs may become less clear as DOR staff cross-train to work on tasks other than manufacturing property assessment. As the Legislature considers DOR's FY 2005-07 budget request, it will have to consider which costs to include in the amount that is to be shared between DOR and the municipalities.

Recommendations

Our recommendations address the need for DOR to:

☑ report to the Joint Legislative Audit Committee on its analysis of differences in valuation methods across districts (*p. 27*);

☑ analyze the feasibility of selling data on manufacturing property sales, including the amount of revenue that could be generated and potential uses for that revenue (*p. 28*);

☑ improve the tracking of field audits in its central database (*p. 31*); and

☑ prioritize its field audit workload to ensure the most accurate manufacturing property values statewide (*p. 32*).

Additional Information

For a copy of report 04-14, which includes a response from the Department of Revenue, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

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Janice Mueller
State Auditor

04-13

An Evaluation:

State of Wisconsin Investment Board

November 2004

Report Highlights

Both retirement funds exceeded investment performance benchmarks in 2003.

External investment management costs have increased significantly.

The compensation plan revisions of 2000 led to significant increases in salaries and bonuses for investment staff.

Statutory limits in the Investment Board's internal budget and use of external investment management may warrant changes.

The State of Wisconsin Investment Board manages the assets of the Wisconsin Retirement System, the State Investment Fund, and five other state insurance and trust funds. Two Wisconsin Retirement System funds—the Fixed Retirement Trust and the Variable Retirement Trust—account for more than 90 percent of all assets under its management and fund retirement benefits for more than 500,000 current and former state and local government employees.

In total, the Investment Board managed $69.1 billion in assets as of December 31, 2003. Its investments included domestic and international stocks and bonds, real estate, direct loans to private companies, alternative investments such as private equity, and cash. The Investment Board's nine-member Board of Trustees establishes long-term investment strategies and policies. The Executive Director, 100.5 full-time equivalent professional staff in the State's unclassified civil service system, and 4.0 classified employees are responsible for day-to-day investment management. For some investments, external managers and advisors supplement staff resources or provide expertise that would otherwise not be available.

Statutes require the Legislative Audit Bureau to perform a biennial management audit of the Investment Board. In addition to reviewing its performance in managing Wisconsin Retirement System assets, we analyzed significant increases in investment costs that are related to external management and support services, and we reviewed revisions to a staff compensation plan that were implemented in 2000.

Key Facts and Findings

The Investment Board managed a total of $69.1 billion at the end of 2003.

2003 annual returns were 24.2 percent for the Fixed Retirement Trust Fund and 32.7 percent for the Variable.

Costs for the services of external investment managers and advisors were $140.2 million in 2003.

Staff compensation costs were $13.2 million in 2003.

Bonus payments totaled $1.8 million in 2004, or more than five times the total paid in 1999.

Investment Performance

A rebound in investment markets during 2003 brought both retirement funds double-digit returns that were among their highest in the past 20 years. 2003 annual returns were 24.2 percent for the Fixed Retirement Trust Fund and 32.7 percent for the Variable.

Annual Returns		
Year	Fixed Fund	Variable Fund
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

Despite losses from 2000 through 2002, the retirement funds also outperformed their one-, five-, and ten-year benchmarks at the end of 2003. Furthermore, the Fixed Retirement Trust Fund continues to exceed the actuarially expected investment results of 7.8 percent over the long-term.

Relative to nine other public pension funds, the Fixed Retirement Trust Fund's performance improved. Its five-year return as of December 31, 2003, was first among the ten funds surveyed for our current and previous evaluation. In our 2001 evaluation, the Fixed Fund had ranked last in performance.

The improvement was related, in part, to a relatively smaller allocation of Fixed Fund assets to domestic stocks as U.S. markets declined from 2000 through 2002. As a result, losses were smaller than those of other public pension funds.

External Management Costs

In addition to its own operating costs, the Investment Board incurs costs for the services of external investment managers and advisors. Both internal and external costs have increased in the past five years, but external costs have increased more significantly. In 2003, they were $140.2 million and represented 89.5 percent of the Investment Board's total costs.

Costs associated with externally managed investments in quantitative funds represented 28.2 percent of external investment expenses in 2003. These funds are somewhat similar to index funds, but they aim for higher earnings based on quantitative analysis of individual companies, market segments, and economic trends.

Investment Board Costs
Calendar Years 1999 through 2003
(In Millions)

	1999	2000	2001	2002	2003	Percentage Change
Internal Operating Expenses	$12.5	$ 15.1	$ 14.7	$ 16.2	$ 16.5	32.0%
External Investment Expenses	74.9	87.8	114.4	126.1	140.2	87.2
Total	**$87.4**	**$102.9**	**$129.1**	**$142.3**	**$156.7**	79.3

Management fees for quantitative funds have two components: a base that reflects the market value of assets under management, and a performance fee that allows the external fund manager to share the excess return if a fund exceeds established performance thresholds. Under such a structure, fees depend upon how well funds perform. When funds exceed performance thresholds, fees increase significantly.

Investment Board Staff Compensation Expenditures By Calendar Year (In Millions)	
Year	Expenditures
1999	$ 8.2
2000	11.2
2001	11.3
2002	13.3
2003	13.2

Compensation Plan

Compensation for its own staff represented 8.4 percent of the Investment Board's total costs in 2003. Expenditures for staff compensation increased $5.0 million, or 61.0 percent, over 1999 levels, in large part because of changes to the compensation plan that were authorized under 1999 Wisconsin Act 9 and took effect in 2000. Staff compensation expenditures were $13.2 million in 2003.

The restructured compensation plan also allows increased performance bonuses for investment and support staff. Since the plan's implementation in 2000, the Investment Board has awarded more than $6.7 million in bonuses. In 2004, bonus payments totaled $1.8 million, or more than five times the total paid in 1999.

For 2003 performance, the average bonus payment was $32,292 for investment staff, and $5,469 for support staff. Bonuses ranged from a high of $162,492 to a low of $0. Under the new compensation plan, overall compensation for investment staff, including salaries and bonuses, has increased to 74.3 percent of the Investment Board's private-sector peer group. The Investment Board's compensation levels compare favorably to those of other public pension funds.

Increased compensation levels appear to have helped the Investment Board recruit and retain experienced staff, although market conditions have also affected staffing efforts. We include a recommendation for the Investment Board to remain diligent in rewarding only meritorious performance through its bonus program.

In addition to salaries and performance bonuses, the Investment Board compensates its staff in other ways, including performance recognition payments, signing and guaranteed bonuses, and additional retirement contributions.

We question whether the Investment Board is circumventing its statutory limit on investment director positions, which have a higher retirement formula factor. The statutory limit for the Investment Board is 11 positions. However, since 2001 the Investment Board has paid $121,796 in additional retirement contributions to give six portfolio managers and the Human Resource Director equivalent executive-level retirement benefits.

Average Unclassified Compensation for 2003		
Average Compensation	Investment Staff	Support Staff
Salary	$112,802	$58,485
Bonus[1]	32,292	5,469
Total Compensation[2]	142,159	63,478

[1] Bonuses for 2003 performance were paid in 2004. Average bonus awards are calculated based on the number of staff who received a bonus award for 2003.
[2] Totals were based on 55 staff for investment staff and 46 staff for support staff.

Future Considerations

The Investment Board's internal budget is limited by a statutory formula and the number of staff authorized. The percentage of investments that may be externally managed is also limited by statute. In light of increasing costs and increasing use of external managers and advisors, changes to these limits may be warranted to further promote the most effective use of resources and to increase accountability over the Investment Board's costs. Under current limits, investment management decisions are not necessarily driven by the most cost effective options available.

At the same time, it is unclear whether the Investment Board is fully meeting the intent of the statutory limit on external management. More detailed reporting may also be useful to the Legislature and others.

The Investment Board recently began a project, which it plans to complete in spring 2005, to analyze the optimal mix of investment approaches and to identify related statutory changes that may be needed to achieve that mix. The Legislature may wish to consider the results of the Investment Board's project as it deliberates changes to the statutory limits.

Recommendations

Our recommendations address the need for the Investment Board to:

☑ evaluate and, in its annual report to the Legislature, report on the cost and added value provided through its quantitative funds in comparison to other investment options *(p. 35)*;

☑ continually evaluate its contracting procedures to ensure that it is diligently analyzing and justifying the need for consulting services *(p. 38)*;

☑ include in its quarterly reports to the Legislature all costs directly charged against investment income, and provide more descriptive information regarding the nature of these costs *(p. 45)*;

☑ reconsider its use of performance recognition payments to provide financial awards to staff independent of its larger bonus program, or ensure that performance recognition payments are also considered when awarding bonuses *(p. 58)*;

☑ discontinue its practice of paying additional retirement contributions for staff not designated as executive participating employees, and pursue statutory changes if it believes additional executive positions are warranted *(p. 60)*; and

☑ remain diligent in using the bonus program to reward only meritorious performance and report to the Joint Legislative Audit Committee, upon completion, on changes it makes to its bonus program *(p. 64)*.

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 04-13, which includes a response from the State of Wisconsin Investment Board's Executive Director, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

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Janice Mueller
State Auditor

04-2

An Audit:

State of Wisconsin 2002-03

March 2004

Report Highlights

Our auditor's report is unqualified.

Federal financial assistance increased to $9.1 billion in FY 2002-03.

An additional $1.0 million or more in Adoption Assistance funds could be available to the State.

Eligibility documentation could be improved for some federal programs.

Grant administration for Foster Care—Title IV-E has improved.

The State may be required to return some federal funds that were lapsed from balances to the General Fund.

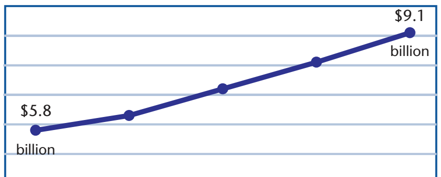
In fiscal year (FY) 2002-03, the State of Wisconsin administered more than $9.1 billion in federal financial assistance through more than 700 individual grant programs and an additional 755 research and development grants administered by the University of Wisconsin (UW) System. As a condition of receiving this assistance, the State is required to have an independent audit of its compliance with federal grant program requirements. We performed this audit at the request of the state agencies that received federal financial assistance, and to meet our audit responsibilities under s. 13.94, Wis. Stats.

Our report includes an unqualified opinion on compliance with federal grant requirements; internal control over compliance; and the Schedule of Expenditures of Federal Awards, which provides an inventory of all of the grants administered by the State. In total, we question $81,879, plus an additional but undetermined amount charged to federal grant programs. These questioned costs represent a very small percentage of the total federal financial assistance the State administers. However, if state agencies are required to repay the federal government, the questioned costs will adversely affect their operating budgets.

We focused our audit effort on 26 grants that were administered by ten different state agencies, including UW System. These grants accounted for 59 percent of the federal financial assistance administered by the State during FY 2002-03 and were selected for review based on their size and the risk of noncompliance with federal rules. We also followed up on findings in our FY 2001-02 single audit report.

Federal Assistance

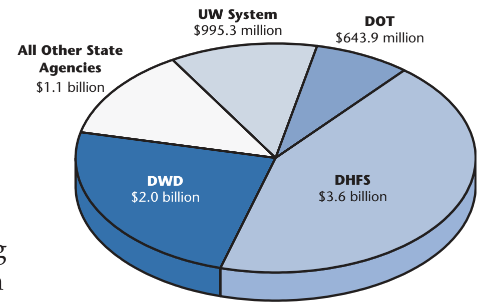
Federal financial assistance to Wisconsin has increased each year since FY 1998-99 and reached $9.1 billion in FY 2002-03. That amount includes $8.3 billion in cash; $812.6 million in outstanding loan balances; and $33.9 million in noncash assistance that includes food commodities and vaccines.



Federal Financial Assistance
FY 1998-99 through 2002-03

The increase in federal financial assistance is attributable to increases in some grant programs, such as Medical Assistance, as well as to new federal grants. Under the largest of the new grants, Temporary State Fiscal Relief, Wisconsin received $91.2 million to address budget shortfalls in FY 2002-03, and another $91.2 million in FY 2003-04. This $182.4 million in unrestricted federal funding has been appropriated for shared revenues for FY 2003-04.

Four state agencies—the Department of Health and Family Services (DHFS), the Department of Workforce Development (DWD), UW System, and the Department of Transportation (DOT)—administered 87 percent of the $8.3 billion in federal cash assistance the State received in FY 2002-03.



DHFS spent the largest share of federal cash assistance, $3.6 billion. That amount includes $2.8 billion in federal funds to support Medical Assistance, the largest federal program administered by the State. An additional $2.0 billion in state funds also supported Medical Assistance.

DWD spent $2.0 billion in federal cash assistance for vocational rehabilitation, job training programs that fund certain benefits available under Wisconsin Works (W-2), the unemployment compensation program, and related programs.

UW System disbursed $484.1 million related to student financial aid programs and spent $429.4 million for various research and development grants and $81.8 million for other programs. Most of DOT's federal funding supported highway planning and construction.

Adoption Assistance

The Adoption Assistance program helps the State find adoptive homes for children and provides monthly subsidy payments for approximately 6,400 children with special needs. DHFS spent

Key Facts and Findings

Wisconsin's $9.1 billion in federal financial assistance included $8.3 billion in cash.

Four agencies administered 87 percent of the State's federal cash assistance.

The largest program the State administers, Medical Assistance, accounted for $2.8 billion in federal funds.

DHFS expended $29.1 million in federal Adoption Assistance funds, but an additional $1.0 million or more could be claimed.

Wisconsin received a total of $182.4 million under a temporary federal grant to help address states' budget shortfalls.

We question a minimum of $81,879 in unallowable charges to grants.

$29.1 million in federal grant funds under the Adoption Assistance program during FY 2002-03.

It is the State's long-standing policy to seek maximum federal reimbursement of grant expenditures. However, DHFS has not claimed all of the federal funds the State is entitled to receive under Adoption Assistance.

Because DHFS did not update its eligibility determination forms to reflect changes in federal regulations that took effect in March 2000, we believe some of the 806 cases it classified as ineligible are, in fact, eligible for federal reimbursement.

For another 849 cases, DHFS had yet to either perform eligibility determinations or enter results into its computer systems by the end of FY 2002-03. It is likely that some of these cases are also eligible for federal reimbursement.

DHFS has already determined that at least 294 of the cases we identified are eligible for federal reimbursement. Based on interim results of an ongoing agency review, we estimate that the State may be able to claim, at a minimum, an additional $1.0 million in federal Adoption Assistance funds if a timely claim is made.

Eligibility Documentation

The State maintains computerized systems that help to determine whether individuals are eligible to participate in many federal grant programs. However, local governments and nonprofit organizations enter supporting information into computer systems and maintain the case files that support eligibility determinations for some of these programs.

In response to a federal audit requirement effective for FY 2002-03, we reviewed a selection of case files to ensure that local governments and nonprofit organizations maintained adequate documentation. We completed this review for the Temporary Assistance for Needy Families program, the Child Care Cluster grants, and the Medical Assistance program.

We found a need for state agencies to better ensure that documentation supporting eligibility determinations under these programs is maintained by local governments and nonprofit organizations. For example, Milwaukee County was responsible for 19 of the 28 case files we reviewed related to the Temporary Assistance for Needy Families program. Milwaukee County was unable to locate 3 files, and only 4 of the remaining 16 contained the appropriate documentation. We have not questioned any costs because other available information indicates that individuals were eligible to participate in the program.

We noted similar problems with case files related to the Medical Assistance program, which are being reviewed as part of a separate program evaluation that we will issue at a later date.

Foster Care

DHFS has addressed many of our past audit concerns with the State's administration of the Foster Care—Title IV-E program. For example, DHFS has worked with the Children's Court of Milwaukee County, the District Attorney's office, and others to improve case file documentation. DHFS has also implemented our 2003 recommendation to better track changes in eligibility status. As a result, the State received an additional $1.8 million in federal reimbursement under the Foster Care program in FY 2002-03.

However, we continue to be concerned with the foster care cases administered by the Department of Corrections (DOC). Because DOC implemented new procedures for determining foster care eligibility in July 2003, some of the cases it administered during FY 2002-03 did not comply with federal regulations. We identified $36,066 in unallowable costs for three of the five cases we reviewed.

DOC has arranged for a review of eligibility determinations related to cases claimed from January 1 through June 30, 2003. However, at the time of our audit, this review had not been completed, and DOC is not considering additional ineligible costs that may have been charged to the Foster Care program before January 2003.

DOC will need to work with the U.S. Department of Health and Human Services to resolve this finding.

Lapses to the General Fund

As part of efforts to balance recent budgets, funds have been lapsed to the State's General Fund from various programs that are supported, in part, by federal grants. However, the need to remit the federal share of lapsed amounts to the federal government has not been fully considered.

In our FY 2001-02 single audit, we reported that $9.1 million had been lapsed to the General Fund from several internal service funds. In FY 2002-03, the State lapsed an additional $13.8 million in balances that had been generated, in part, by charges to federal grants. The Department of Administration (DOA) is currently working with the federal government to resolve this issue and to determine what amount, if any, the State will be required to return to the federal government.

Since our FY 1998-99 audit, we have reported that federal grants funded unallowable costs related to the rates DOA charged state agencies for computer services. DOA recently negotiated a settlement with the federal government related to these concerns. However, the negotiated settlement of $2.9 million was paid to the federal government from balances that arose, in part, through charges to federal grants. Therefore, additional funds may be owed the federal government.

Recommendations

Our report includes 39 recommendations related to state agencies' administration of federal grant programs. In addition, we discuss ten internal control concerns related to our audit of the State's financial statements.

Agency responses and corrective action plans are included in our report. The federal government will work with the state agencies to resolve the questioned costs and ensure that planned corrective actions are sufficient.

Additional Information

For a copy of report 04-2, call **(608) 266-2818** or visit our Web site:

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Janice Mueller
State Auditor

03-8

A Review:

State Purchasing Cards

Department of Administration

July 2003

Report Highlights

Purchasing cards are increasingly important to agency and campus procurement efforts.

Questionable expenditures with purchasing cards were rare.

Implementation of best practices could improve the program.

More specific guidelines from the Department of Administration and the Department of Employment Relations would be useful.

In 1996, the Department of Administration (DOA) began implementation of a program that allows state employees to use credit cards, rather than purchase orders, to make low-dollar purchases for state business purposes. The use of these purchasing cards represents a significant change in the State's procurement procedures because administrative review and approval of purchases happens after, rather than before, a purchase is made.

In fiscal year (FY) 2001-02, state and University of Wisconsin (UW) employees used the cards to purchase a total of $86.3 million in goods and services. The average purchase amount was relatively small—$196 per transaction.

As part of our systematic statewide effort to evaluate agency purchasing card oversight procedures and expenditures, we reviewed:

- purchasing card activity for all state agencies and UW campuses;
- the State's contract with US Bank/Elan Financial Services, the company that issues the cards;
- purchasing card policies and control procedures at five state agencies and three UW System campuses; and
- selected expenditures, to determine whether they were consistent with state purchasing rules.

Purchasing Card Use

Key Facts and Findings

Purchasing card expenditures have risen to $86.3 million after seven years.

Purchasing card expenditures represented 7.3 percent of the State's purchasing in FY 2001-02.

The program has met its goals of simplifying and providing more flexibility for low-dollar purchases.

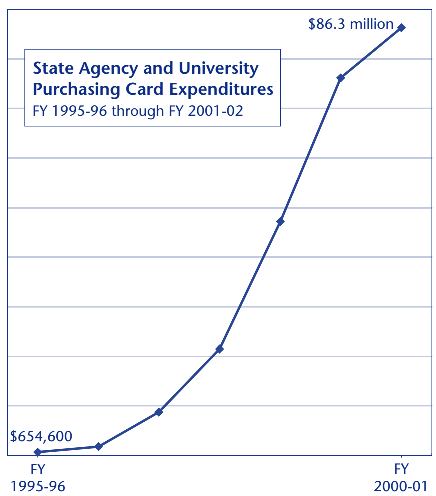
We reviewed 7,339 transactions and found 449 exceptions, including 107 involving misuse.

Oversight could be improved at state agencies and campuses.

Effective purchasing card programs balance oversight and flexibility.

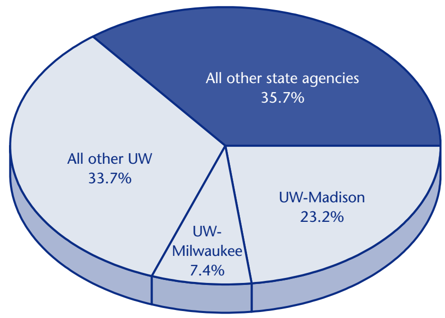
Because of a lack of reporting, the cards' effect on broader procurement goals is unclear.

Purchasing card use has increased significantly since the program's implementation in FY 1995-96. Total purchasing card expenditures increased from approximately $654,600 in FY 1995-96 to $86.3 million in FY 2001-02. These expenditures account for a growing percentage of total procurement and represented an estimated 7.3 percent of all state agency and campus purchasing in FY 2001-02.



In July 2002, approximately 17,500 purchasing cards were held by employees in 43 state agencies and throughout the UW System. The largest volume of purchasing card expenditures was at office supply stores, computer vendors, hotels, and airlines.

Purchasing cards have been incorporated into procurement activities at most state agencies and campuses. UW-Madison, UW-Milwaukee, and the other campuses made 64.3 percent of all purchasing card expenditures. Expenditures at all other state agencies combined represented 35.7 percent of total expenditures in FY 2001-02.



The purchasing card program has achieved its original goals of simplifying purchasing and providing flexibility to allow for faster purchasing of low-dollar items. Agencies report that the cards have significantly reduced the number of purchase orders being processed, and the program's flexibility is demonstrated by the approximately 12,700 merchants who received payment in FY 2001-02 through a state purchasing card.

However, because cardholders use the cards without prior supervisory review and approval, misuse can occur if cardholders fail to follow documentation and oversight requirements. Since most cardholders are not trained as purchasing officers, adequate oversight is important to ensure that purchases are necessary, appropriate, and at the best price.

Not all agencies and campuses required all of the minimum oversight requirements established by DOA, and we found inconsistent cardholder compliance with documentation requirements.

In a file review, we found:

- complete documentation for 94.1 percent of the transactions we sampled at the Department of Natural Resources;
- complete documentation for 91.9 percent at Veterans Affairs;
- complete documentation for 88.1 percent at Transportation;
- complete documentation for 86.3 percent at Corrections; and
- complete documentation for 79.4 percent at Health and Family Services.

Compliance rates were much lower at the three campuses we visited. Complete documentation was available for just 48.1 percent of the transactions we sampled at UW-Parkside, 34.9 percent at UW-Madison, and 34.5 percent at UW-Milwaukee.

Exceptions

Of 7,339 purchasing card transactions we sampled at the five agencies and three campuses, only 449 were determined to be audit exceptions. Most exceptions were purchases for valid business items. However, under DOA or agency purchasing guidelines, the purchases should have been made using an invoice or purchase order.

We also identified 107 transactions that appeared to be misuses of the cards, but we found apparent employee abuse of the card in only 2 transactions. We were unable to identify the purpose or the items purchased for 106 transactions.

The agencies with the highest rates of compliance with documentation requirements had the fewest audit exceptions.

Future Considerations

The Legislature has established broad procurement goals for state agencies and campuses to meet in their purchasing activities, including purchasing from minority, small, and veteran-owned businesses; purchasing products with recycled content; and purchasing from Badger State Industries. While DOA has not tracked purchasing card activity as it relates to these goals, it has made changes to state agency reporting requirements for purchasing card expenditures at minority businesses. Further, it has included improved minority business reporting as a requirement of its new purchasing card contract.

The State's original purchasing card contract, signed in January 1997, was for a five-year period but has been extended while DOA develops a request for proposals for a new contract. DOA plans on awarding a new contract in January 2004.

In February 2003, we sent a letter to DOA with several recommendations to improve fraud detection activities, improve activity reporting, change the appearance of the card to help reduce cardholder error, and increase the performance rebate received from the vendor.

Best Practices

We identified a number of best practices at the agencies and campuses we reviewed. Best practices include:

- requiring cardholders to complete purchasing card logs;
- requiring and properly documenting supervisory review;
- conducting systematic post-audit reviews;
- providing sufficient training for cardholders;
- providing cardholders with clear instructions regarding hospitality expenses for conferences and training sessions hosted by state agencies;
- avoiding paying credit card convenience fees; and
- avoiding the use of purchasing cards to pay for recurring utility bills such as telephone service.

Program control is enhanced when:

- agency or campus leadership emphasizes the importance of following program requirements;
- cards are issued only to staff who have a clear need for a purchasing card;
- credit limits are established that correspond to the employee's job duties; and
- agencies electronically report and reconcile purchasing card logs to ensure that expenditures are accurately allocated within internal agency budgets.

Recommendations

Our recommendations address the need for DOA to:

☑ provide agencies with more specific training in purchasing card policies and procedures, including an overview of the State's procurement goals and how these goals may be achieved using purchasing cards *(p. 33)*; and

☑ lapse the purchasing card rebate amount received from the vendor, totaling $751,100 in calendar year 2002, to the funds that supported the original purchases *(p. 35)*.

We also include a recommendation for the Department of Employment Relations to:

☑ develop rules or guidelines that specify whether it is appropriate for state agencies and campuses to pay for employees' ongoing professional licenses *(p. 24)*.

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Additional Information

For a copy of report 03-8, which includes a response from the Department of Administration, call
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Janice Mueller
State Auditor

Report 03-5

An Audit:

State of Wisconsin 2001-02

March 2003

Report Highlights

State agencies complied with most federal grant requirements.

Federal financial assistance has steadily increased.

While improvements have been made, we continue to identify serious concerns with administration of foster care.

We found serious weaknesses in administration of the Juvenile Accountability Incentive Block Grants program.

The State may be required to return some funds that have been lapsed to the General Fund.

During fiscal year (FY) 2001-02, the State of Wisconsin administered more than $8.1 billion in federal financial assistance through more than 700 individual grant programs and an additional 721 research and development grants. As a condition of receiving this assistance, the State is required to have an independent audit of its compliance with federal grant program requirements. We performed this audit at the request of the state agencies that received federal financial assistance, and to meet our audit responsibilities under s. 13.94, Wis. Stats.

In performing our audit, we gained an understanding of agencies' internal controls, assessed the propriety of agency revenues and expenditures, and tested compliance with federal program requirements. We focused our audit effort on 25 grants that were administered by eight different state agencies, including the University of Wisconsin. These grants accounted for 77 percent of the federal financial assistance administered by the State during FY 2001-02 and were selected for review based on the size of the grant and the risk of noncompliance. We also followed up on findings in our single audit report for FY 2000-01.

One result of our audit work is our opinion on whether the Schedule of Expenditures of Federal Awards, which provides an inventory of all of the grants administered by the State, is fairly presented. In addition, we provide an opinion on the State's compliance with federal requirements, and we report on internal controls over compliance.

Key Facts and Findings

The State of Wisconsin administered $8.1 billion in federal financial assistance in FY 2001-02.

Four state agencies administered 89 percent of the federal financial assistance.

We tested expenditures state agencies charged to federal grants.

We question a minimum of $847,283 in unallowable charges to grants.

We make 39 recommendations to various state agencies for improved administration of federal grant programs.

The federal government will contact state agencies to resolve our findings.

Compliance

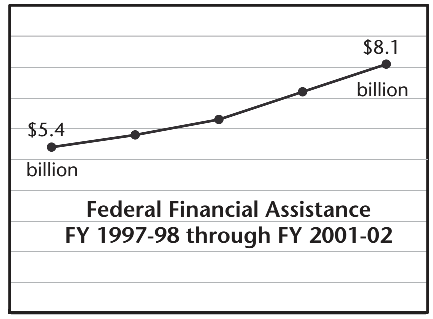
Except for one program, state agencies generally complied with federal grant program requirements. We identified material noncompliance with eligibility requirements related to the State's administration of the Foster Care program by both the Department of Health and Family Services (DHFS) and the Department of Corrections (DOC). Therefore, our auditor's opinion on the State's compliance with federal foster care requirements is qualified.

Based on our testing, we question a total of $847,283 in expenditures that various state agencies charged to federal grants. We also question an additional but undetermined amount for items that we did not test.

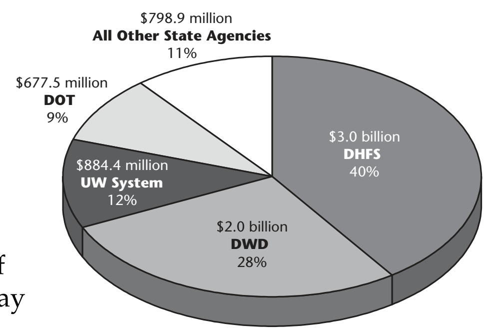
While total potential questioned costs are not known, they represent a small portion of the total federal financial assistance the State administers. However, if state agencies are required to repay the federal government, the questioned costs will adversely affect their operating budgets.

Federal Assistance

Federal financial assistance to the State has increased each year since FY 1997-98 and reached $8.1 billion in FY 2001-02. That amount includes $7.4 billion in cash; $731.8 million in outstanding loan balances; and $34.2 million in noncash assistance such as food for school lunch programs.



Four state agencies—DHFS, the Department of Workforce Development (DWD), the University of Wisconsin (UW) System, and the Department of Transportation (DOT)—administered most of the $7.4 billion in federal cash assistance the State received in FY 2001-02.



The $3.0 billion spent by DHFS includes $2.5 billion in federal funds to support Medical Assistance, which is the largest federal program in Wisconsin. Another $1.8 billion in state funds also supported Medical Assistance.

DWD spent $2.0 billion in federal cash assistance to administer the Vocational Rehabilitation program, job training programs that fund certain benefits available under Wisconsin Works (W-2), the unemployment compensation program, and related programs.

UW System disbursed $435.9 million related to student financial aid programs and spent $368.5 million for various research and development grants and $80.0 million for other programs. Most of DOT's federal funding was expended for highway planning and construction.

Foster Care

The Foster Care—Title IV-E program helps the State provide care for children who are under its jurisdiction and need temporary placement outside their homes. DHFS spent approximately $12.7 million in federal grant funds for approximately 5,500 Milwaukee County foster care cases during FY 2001-02. In addition, DOC received $2.5 million in federal foster care funds to care for certain juveniles in its custody.

The foster care grant is complex and includes detailed requirements related to case file documentation and review, court orders, eligibility, and licensing. In our FY 2000-01 audit, we reported significant problems with DHFS's administration of foster care in Milwaukee County.

While improvements have been made, we continue to note material weaknesses in program administration. In addition, this year we identified serious concerns with the foster care cases administered by DOC.

Our findings relate primarily to eligibility documentation. For example, the State did not obtain all necessary eligibility documentation for Milwaukee County cases and those administered by DOC. As a result of these and other foster care findings, DHFS has already returned $116,000 to the federal government. We question an additional but undetermined amount for items we did not test. In addition, we question $44,692 related to eight DOC case files we tested, plus an undetermined amount related to those we did not test.

Because of the potential for significant questioned costs for all cases administered by the State, our opinion on the State's compliance with federal requirements related to eligibility for the Foster Care—Title IV-E program is qualified.

Juvenile Accountability Incentive Block Grants

The Juvenile Accountability Incentive Block Grants program is administered by the Office of Justice Assistance (OJA). It funds programs that hold juvenile offenders accountable for their actions.

The Juvenile Justice Commission has oversight responsibility for this program, but it allowed OJA significant discretion in awarding grants. The lack of sufficient oversight and the level of discretion OJA was allowed are material internal control weaknesses. As a result of these weaknesses, we identified $149,784 in federal funds that were spent in FY 2001-02 for purposes not consistent with the program.

Our concerns with OJA's administration of the Juvenile Accountability Incentive Block Grants program are further described in a separate letter report to the Joint Legislative Audit Committee.

Statewide Issues

As part of efforts to balance recent budgets, funds have been lapsed to the State's General Fund from various programs funded, in part, by federal grants. However, the State has not fully considered the need to remit the federal share of the lapsed amounts to the federal government.

We are concerned both with the State's treatment of retirement credits authorized in 1999 Wisconsin Act 11 and with lapses from internal service funds. All state agencies that administer federal grant programs are affected by these concerns.

Act 11 refunded money from the State's pension fund to employers, including state agencies. State agencies have either credited or plan to credit federal grants with $5.4 million in retirement credits. We calculate that state agencies should have credited federal grant programs with at least an additional $556,277.

The Department of Administration (DOA) and the Department of Electronic Government (DEG) charge state agencies for services, such as computer processing, according to their level of use. State agencies seek reimbursement from the federal government for its share of the charges.

2001 Wisconsin Acts 16, 25, and 109 directed DOA and DEG to lapse $9.1 million in excess balances from several of the internal service funds to the State's General Fund in FY 2001-02. The State has yet to return the federal government's share of these balances. DOA and DEG are currently working with the federal government to resolve this issue and to negotiate the amount that will need to be repaid to the federal government.

Recommendations

Our report includes 39 recommendations related to state agencies' administration of federal grant programs. In addition, we include 14 technical recommendations related to internal controls and financial reporting.

Agency responses and corrective action plans are included in our report. The federal government will work with the state agencies to resolve the questioned costs and ensure that planned corrective actions are sufficient.

Additional Information

For a copy of report 03-5, call (608) 266-2818 or visit our Web site:

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Health Care and Social Services

Highlights

- **Injured Patients and Families Compensation Fund** *(Report 04-12)*

  Health care providers are required to pay premiums that support the Fund, which pays medical malpractice claims that exceed the primary insurance thresholds established by statutes. The Fund maintains a sound financial position, and we provided an unqualified opinion on its financial statements for FYs 2002-03, 2001-02, and 2000-01. The Office of the Commissioner of Insurance, which manages the Fund, has encountered difficulties in obtaining an actuarial audit.

- **Medical Assistance Eligibility Determinations** *(Report 04-11)*

  The Department of Health and Family Services contracts with counties to determine eligibility for Medical Assistance services and to provide case management. In 6.5 percent of 200 cases we reviewed, worker errors affected eligibility. Individuals were inappropriately denied benefits in 12.9 percent of an additional 101 cases we reviewed.

- **Health Insurance Risk-Sharing Plan (HIRSP)** *(Reports 04-3 and 03-12)*

  Individuals who cannot obtain medical insurance coverage in the private market because of the severity of their health conditions may purchase it through HIRSP. HIRSP implemented an accrual-based funding approach in FY 2001-02 and reduced its accounting deficit to $0.9 million by FY 2002-03. Nevertheless, increasing enrollment and claims costs present continuing challenges to management and funding, and Legislative action will be needed to address a technical issue in HIRSP's statutory funding formula. GPR support for the program was eliminated beginning in FY 2003-04.

- **Use of Tobacco Control Board Funds** *(Report 03-3)*

  The Wisconsin Tobacco Control Board spent $26.2 million from FY 1999-2000 through FY 2001-02 to administer a statewide tobacco control program. Some of the projects it funded have been successful, others less so. Project coordination could be improved, and the Board should ensure it funds only effective projects.

Other Reports

- **Letter on Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM)** *(November 2004)*

  At the time of our review, OIC-GM was Wisconsin's largest provider of W-2 services. After reviewing its expenditures made with state and federal funds, we questioned $421,200 paid for legal services, including $308,000 for questionable work that was inadequately

documented and $113,200 paid to an officer of OIC-GM. We reviewed $1.2 million in other expenditures and identified both unallowable and questionable spending. Criminal and other investigators have subsequently relied on our work.

- **Wisconsin Mental Health Institutes** *(Reports 04-8 and 03-10)*

  At the request of the Department of Health and Family Services, we audited the Institutes' financial statements for both FY 2002-03 and FY 2001-02. The financial position of each Institute improved significantly during FY 2001-02, when Mendota reported a net increase of $2.5 million in assets and Winnebago reported a net increase of $1.0 million. In FY 2002-03, their financial results were mixed: Mendota reported a net increase of $1.4 million, while Winnebago reported a loss of $1.8 million. The Department did not comply with a statutory requirement to lapse funds received on behalf of state-funded patients to the General Fund in FY 2002-03, but it has agreed to do so in the future.

- **Veterans Assistance Program** *(July 2004)*

  Housing and other program services are provided to homeless veterans by the Center for Veterans Issues, Ltd., a nonprofit organization. In 2003, the Center had revenues totaling $2.6 million, which primarily consisted of federal grants but also included $381,200 in state funds. We analyzed the Center's financial condition and found that it has cash flow problems. We identified additional federal funds that are likely available to the Center, and our report includes recommendations for improving its financial management.

- **Letter on Use of Emergency Department Services by Medical Assistance Recipients** *(January 2004)*

  The Department of Health and Family Services administers the Medical Assistance program, which provides health care services for low-income recipients. From FY 1997-98 through FY 2001-02, the State paid fee-for-service providers an average of $20.1 million annually for outpatient emergency care. Approximately one-quarter of recipients in both the fee-for-service and the managed care populations visit emergency departments each year, but a small number account for a significant percentage of total visits.

- **Letter on Nursing Staff Issues at the Wisconsin Veterans Home** *(February 2004)*

  The Department of Veterans Affairs spent $18.1 million on salaries—including overtime costs—and fringe benefits for nursing staff at the Veterans Home in FY 2002-03. Because of significant vacancy rates, the agency required extra time from staff to meet minimum staffing requirements for nursing homes. Recruiting and retention initiatives have been developed, but a competitive labor market for nursing staff has been an obstacle to filling vacancies.

- **Letter on the Food Stamp Program** *(September 2003)*

  Wisconsin's error rate in calculating food stamp benefits is above the national average. Unless the error rate is reduced to the national average, the State will be required to pay the federal government $871,500 in both federal fiscal year 2003-04 and federal fiscal year 2004-05. More than 400,000 Wisconsin residents received food stamps in 2002.

- **Family Care Final Evaluation** *(July 2003)*

  In an evaluation conducted under contract, The Lewin Group, Inc., concluded that as of June 2001, the Family Care pilot program had substantially met goals related to choice, access, and social outcomes, but that it had not yet demonstrated improved health quality for participants. Lewin believes it is too early to draw conclusions regarding long-term cost-effectiveness.

Audit Committee Action

☑ ***Hearing on Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM) December 1, 2004***

☑ ***Hearing on Medical Assistance Eligibility Determinations, December 1, 2004***

☑ ***Hearings on the Food Stamp Program, August 11, 2004, and October 8, 2003***

☑ ***Hearing on Health Insurance Risk-Sharing Plan, June 24, 2004***

☑ ***Hearing on Use of Emergency Department Services by Medical Assistance Recipients, June 24, 2004***

☑ ***Hearings on Regulation of Nursing Homes and Assisted Living Facilities (Report 02-21), June 24, 2004, and February 5, 2003***

☑ ***Hearing on Family Care, February 13, 2004***

☑ ***Hearing on Use of Tobacco Control Board Funds, April 1, 2003***

04-12

An Audit:

Injured Patients and Families Compensation Fund

Office of the Commissioner of Insurance

October 2004

Report Highlights

The Fund maintains a sound financial position.

Questions continue regarding the conservative nature of the Fund's actuarial estimates.

The Office encountered difficulties in obtaining an actuarial audit.

The computerized provider system is aging and experiencing operational problems.

The Injured Patients and Families Compensation Fund (formerly the Patients Compensation Fund) was created to pay medical malpractice claims that exceed primary insurance thresholds established by statute. Statutes require most health care providers that operate or have permanent practices in Wisconsin to maintain primary malpractice coverage of $1 million for each incident and $3 million per policy year. In addition, these providers are required to participate in the Fund, which provides unlimited liability coverage for economic damages that exceed the primary limits.

The Fund is managed by a Board of Governors, administered by the Office of the Commissioner of Insurance, and financed through assessments on health care providers and earnings on the Fund's investments. It has paid over $553.2 million in claims from its inception through June 30, 2004. 2003 Wisconsin Act 111, which changed the Fund's name from the Patients Compensation Fund to the Injured Patients and Families Compensation Fund, established it as an irrevocable trust for the sole benefit of participating health care providers and proper claimants.

Statutes require the Legislative Audit Bureau to perform financial audits of the Injured Patients and Families Compensation Fund at least once every three years. Our audit report contains our unqualified opinion on the Fund's financial statements and related notes as of and for the years ending June 30, 2003, 2002, and 2001.

Key Facts and Findings

The Fund reported an accounting balance of $7.9 million as of June 30, 2003.

Cash and investment balances totaled $658.9 million as of June 30, 2003.

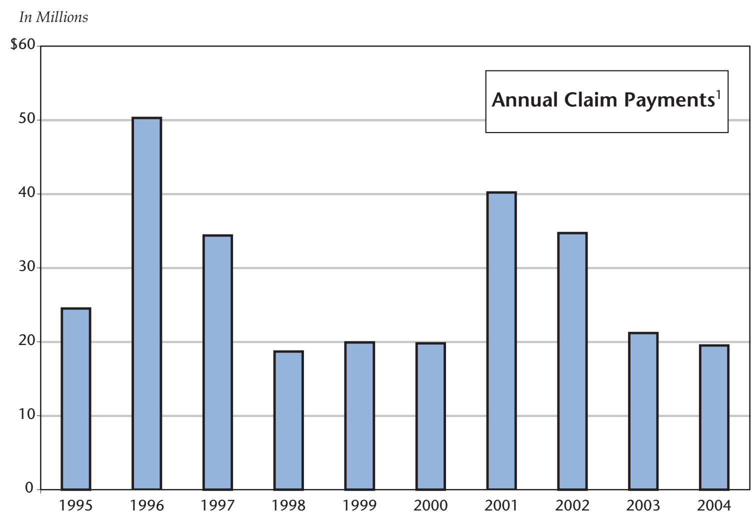
The Fund has paid over $553.2 million for 612 medical malpractice claims since its inception.

An actuarial audit is expected to be completed by November 30, 2004.

Financial Position

The uncertainty and long-term nature of medical malpractice claims make it difficult to predict the size and timing of claims that will be settled and paid from the Fund. In the past ten years, annual claims payments have varied from a low of $18.7 million to a high of $50.3 million.

The Fund reported an accounting deficit for several years in the past because estimated loss liabilities exceeded the cash and investments available to pay them.



[1] For fiscal year ending June 30.

Since its creation in 1975, the Fund has typically received more in assessments and investment income than it has paid out in claims and administrative expenses. As a result, its cash and investment balances have grown to $658.9 million as of June 30, 2003.

However, the Fund's financial position is also significantly affected by its loss liabilities, which are based on estimates of what it may be required to pay for malpractice incidents that have occurred but may not yet have been settled or even reported. The Board of Governors relies on a consulting actuarial firm, which it has employed since the Fund's initial years, to estimate these loss liabilities.

Its accounting balance reached a low of -$122.7 million on June 30, 1988. The Fund's financial position has since improved significantly. The accounting balance was $7.9 million as of June 30, 2003, and is estimated to be $21.0 million as of June 30, 2004.

Actuarial Estimates

Annual actuarial adjustments to the Fund's estimated claims have contributed to the improvement in its financial status in recent years. Because a medical malpractice claim may be filed years after an incident, and there is no limit on the amount of economic losses the Fund may be required to pay, the actuary reviews and revises individual and total loss liability estimates each year, based on subsequent experience and information.

The Fund's actuary indicates that annual adjustments have been within the normal range of variability for actuarial projections, especially considering the uncertainties surrounding medical malpractice cases.

Nevertheless, in nine of the ten years from fiscal year (FY) 1993-94 through FY 2002-03, the actuary's initial estimate of loss liabilities has been decreased one year later, following actuarial review of subsequent experience and information. Furthermore, the actuary's original loss estimates for the last 20 policy years have been reduced over time by $217.3 million, which represents 13.9 percent of the original losses estimated for these years.

Some interested parties continue to be concerned that the actuary may be overly conservative in estimating the Fund's loss liabilities. For example, interest groups representing patients and trial lawyers suggest that over the years, conservative actuarial estimates have exaggerated medical malpractice costs in Wisconsin and, consequently, contributed to 1995 legislation that re-established limits on noneconomic damages awarded to patients and their families for pain and suffering, embarrassment, mental distress, and the loss of companionship and affection that results from medical malpractice. As of May 15, 2004, these awards are limited to $432,532.

On the other hand, from both an actuarial and an accounting perspective, conservative actuarial estimates are considered more prudent than overly optimistic ones, not only because of uncertainties surrounding long-term medical malpractice claims, but also because of the unlimited coverage for economic damages available under the Fund.

While several other states have medical malpractice funds, only a few provide unlimited coverage. Therefore, relatively limited experience pertaining to unlimited coverage is available in the industry.

Prudent estimates are also important because of the significant role that medical malpractice funds can play in a state's medical malpractice environment. The Injured Patients and Families Compensation Fund is often cited as an important factor in Wisconsin's relatively stable environment for health care providers in comparison to other states. Its solid financial position provides flexibility to readily respond to changes that may occur in the medical malpractice environment in the future.

Actuarial Audit

In light of questions raised about the actuarial estimates, we recommended in June 2001 that the Office of the Commissioner of Insurance contract for an audit of the actuarial methods and assumptions used in estimating the Fund's loss liabilities. A comprehensive review by an independent actuary is likely not only to suggest refinements to the actuarial analyses, but also to promote broader acceptance of the analyses by the various interested parties.

However, more than three years after our 2001 recommendation, an actuarial audit of the Fund has not been completed. The Office contracted with an actuarial firm in August 2002, but after reviewing a draft report and working with the firm for several months, the Office and the Board's Finance, Investment, and Audit Committee concluded that the contractor's work and the original request for proposals did not meet the original intent of the Audit Bureau's recommendation and that further analysis and discussion of the nature, structure, and funding of the Fund was needed.

The Office paid the first contractor a total of $23,183 and issued a second request for proposals in April 2004. Five proposals were received and rejected. Subsequently, the Office has obtained proposals from other actuarial firms it has determined to be experts in the area of medical malpractice.

A contract for another actuarial audit is expected to be issued in October 2004 and completed in November 2004. In addition, the Board recently established a policy to obtain an actuarial audit of the Fund once every three years.

Provider System

Another continuing challenge for the Fund is the decreasing effectiveness of its aging computerized provider system. Since the system was first developed in the early 1990s to track medical malpractice claims, it has been expanded to incorporate other aspects of the Fund's operations, including billings and provider compliance with liability coverage requirements. However, the provider system has not been able to easily accommodate the changes that have occurred over time.

As a result, errors in health care provider accounts have occurred, including incorrect bills and noncompliance notices. As a result of these regularly occurring errors, staff must, on a daily basis, review the account information in the system, bills and notices generated by the system, and system reports to ensure that information is complete, accurate, and current.

The regular occurrence of errors and the need to manually identify and correct them increase the risks associated with the Fund's operations and, consequently, required additional audit effort before we could issue an opinion on the fairness of the Fund's financial statements. The condition of the system is likely to worsen, resulting in increased risk to the Fund's financial operations and requiring additional efforts to keep the system operational.

In its 2003-05 biennial budget proposal, the Office requested authority to spend $607,800 from the Fund for a new provider system. Like other budget requests for systems work, the Office's request for additional resources for a new provider system was denied by the Legislature. The Office is now more fully documenting problems with its provider system and assessing its ability to internally complete incremental enhancements. As part of our ongoing financial audit work at the Fund, we will continue to monitor the Office's status in addressing problems with its provider system.

Recommendation

Our recommendation addresses the need for the Office of the Commissioner of Insurance to:

☑ report to the Joint Legislative Audit Committee by November 30, 2004, on the status and results of the actuarial audit expected to be completed in November *(p. 21).*

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 04-12, which includes a response from the Office of the Commissioner of Insurance, call
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Janice Mueller
State Auditor

04-11

An Evaluation:

Medical Assistance Eligibility Determinations

Department of Health and Family Services

September 2004

Report Highlights

Both enrollment and benefit costs have increased substantially in recent years.

Eligibility requirements vary among midwestern states.

Worker errors led to inappropriate eligibility decisions in some instances.

Some applicants were inappropriately denied Medical Assistance coverage.

County efforts to prevent fraud and abuse have been limited in recent years.

In Wisconsin, government-funded health care is available to individuals who meet the financial and non-financial criteria of:

- the federal Medical Assistance program for low-income elderly, blind, and disabled individuals;
- family Medical Assistance, which is available for pregnant women and children under the age of 19 and their parents or caretaker relatives; and
- BadgerCare, a separate component of the Medical Assistance program that was implemented in July 1999 to provide health insurance for low-income working families.

The Department of Health and Family Services (DHFS) administers Wisconsin's Medical Assistance program, while county and tribal agencies determine eligibility and provide case management services. In fiscal year (FY) 2004-05, the program's budget is $4.3 billion: 60.7 percent of these costs are federally funded; the remaining 39.3 percent is funded with general purpose revenue (GPR), segregated fund revenue, and program revenue.

Eligibility requirements changed significantly when families with assets but limited incomes became eligible for program benefits in July 2000. Further changes occurred in 2001, when the application process no longer required supporting documentation for wages and other information used to establish eligibility, unless the information provided was questionable. These changes, as well as increases in caseloads and program costs, have raised concerns about eligibility determinations. Therefore, at the direction of the Joint Legislative Audit Committee, we analyzed program enrollment and expenditures; compared Wisconsin's eligibility criteria and verification requirements to those of other states; tested the accuracy of eligibility approvals and denials; and reviewed efforts to prevent fraud and abuse and to recover overpayments.

Key Facts and Findings

$4.3 billion is budgeted for Medical Assistance for FY 2004-05.

From 2000 to 2004, enrollment increased by 229,000 individuals, or by 47.7 percent.

Among midwestern states, only Michigan and Wisconsin do not require documentation of income.

Workers made errors affecting eligibility in 6.5 percent of the cases we reviewed.

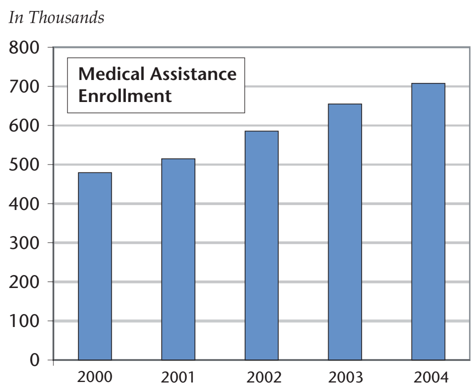
In January 2004, an estimated 1,100 individuals were inappropriately denied benefits.

Wisconsin provides less funding for program integrity than many surrounding states.

Statutes and DHFS policies are inconsistent and may hinder program integrity efforts.

Enrollment and Costs

From 2000 through 2004, enrollment in Medical Assistance programs, including BadgerCare, increased by 47.7 percent, or approximately 229,000 recipients, Program costs have increased as a result.



Expenditures for program benefits grew 48.6 percent in the past five fiscal years, from $2.9 billion in FY 1999-2000 to $4.3 billion in FY 2003-04. Administrative expenditures increased 2.1 percent in the most recent five-year period for which data were available during the course of our review, reaching $169.6 million in FY 2002-03.

Eligibility Requirements

Within parameters set by the federal government, states have the flexibility to design their Medical Assistance programs to provide coverage for certain groups of individuals based on their incomes and assets.

States may share program costs with some recipients by requiring co-payments or monthly premiums, and they may establish requirements for continued eligibility, such as an annual review by a case worker.

In Wisconsin, the initial income eligibility requirement for those enrolled in BadgerCare is 185 percent of the federal poverty level. While BadgerCare covers parents with higher incomes than any other midwestern state except Minnesota, Wisconsin's income requirements for pregnant women, infants, and children under family Medical Assistance are more restrictive than those of other midwestern states.

Like Indiana, Minnesota, and Ohio, Wisconsin does not permit continuous eligibility for Medical Assistance. Instead, recipients are required to promptly report changes in their employment, household composition, or other circumstances that may affect eligibility.

Wisconsin is one of only 12 states that does not require applicants to provide documentation of income, such as pay stubs. Instead, computerized databases are used to verify applicant information. However, some of these databases contain outdated or inaccurate information, and information is not available for all applicants or for all sources of income.

Errors and Discrepancies

County workers generally make correct eligibility determinations. However, both worker errors and discrepancies between estimated and actual income can result in inaccurate eligibility determinations. These errors can have significant effects on applicants and on program costs.

Worker errors affected the outcome of eligibility determinations for 13 of the 200 cases we reviewed in which someone in the household was receiving Medical Assistance benefits. We found that:

- recipients benefited from the errors in seven cases when they were incorrectly provided with Medical Assistance benefits that should have been denied;

- recipients were incorrectly denied benefits in four cases; and

- in two cases, recipients were not affected but the State was harmed because it paid a portion of costs that would have been paid by the federal government if eligibility determinations had been made correctly.

We did not find any instances in our sample of non-citizens or non-Wisconsin residents receiving benefits inappropriately.

Discrepancies between estimates of future income, which are used to determine eligibility for program benefits, and the actual incomes recipients earned, were fairly common. Using information that was not available to county workers during initial eligibility determinations, we found that 10 of the 200 cases we reviewed had income discrepancies that would have affected eligibility.

If this information had been available at the time of eligibility determination, recipients would have been considered ineligible or would have been required to pay a premium in six cases. In three cases, there would have been no effect on recipients, but costs would have shifted from the federal government to the State. In the remaining case, recipients would not have been required to pay premiums they were charged.

Application methods appear to affect the accuracy of income estimates. In-person interviews were most accurate. Of the 140 eligibility determinations made through in-person interviews, 27.1 percent had income discrepancies of $100 or more per month, compared to 32.6 percent for the 43 determinations made from mail-in applications and 41.7 percent for determinations made from 12 telephone interviews. However, because of the fairly small sample size, additional analysis by DHFS may be beneficial.

Denied Benefits

We reviewed 101 cases in which eligibility for Medical Assistance was denied. In 13 cases, the denials were inappropriate. In four of the cases, worker error was the primary cause; in the remaining nine cases the primary cause was a programming problem or limitation with the Client Assistance for Re-employment and Economic Support (CARES) system, the State's computerized processing system used for a number of public assistance and employment programs.

Written guidance provided to county workers to manually compensate for the main programming problem was not effective, and the programming error in CARES was not corrected until July 2004, after we had raised the issue with DHFS staff during the course of our fieldwork. We estimate that in January 2004, the month we reviewed, this error resulted in approximately 1,100 individuals being inappropriately denied benefits, almost all of whom were children.

Ensuring Program Integrity

Efforts to ensure program integrity by correcting errors and preventing fraud and abuse have been limited in recent years. For example, in any given year between 1998 and 2003, approximately one-third of counties did not attempt to recover any benefits that were granted inappropriately.

Several factors contribute to the low level of effort, including decreased funding and inconsistencies in state laws and program policies. We make a number of recommendations to address these issues.

Recommendations

Our recommendations address the need for DHFS to:

☑ report to the Legislature regarding CARES programming changes that could reduce the possibility of eligibility determination errors *(p. 32)*

☑ make a number of changes to the mail-in application form to improve its ability to collect complete and accurate information, and to better inform applicants of their responsibility to report required changes in their circumstances *(p. 37);*

☑ clarify policies regarding when county eligibility determination workers can request documentation of income, and grant them greater discretion in requesting such documentation when they believe it is needed *(p. 37);*

☑ revise its program integrity policies to be consistent with state statutes *(p. 55)* ; and

☑ report to the Legislature regarding its plans to address program integrity needs *(p. 56).*

We also recommend the Legislature:

☑ revise state statutes to make the circumstances under which benefit overpayments may be recovered from recipients consistent with the statutory definition of Medical Assistance fraud *(p. 55).*

Additional Information

For a copy of report 04-11, which includes a response from the Department of Health and Family Services, call
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The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

04-3

An Audit:

Health Insurance Risk-Sharing Plan

Department of Health and Family Services

April 2004

Report Highlights ▪

HIRSP's financial position improved during FY 2002-03.

Policyholder enrollment and claims costs continue to increase.

The 2003-05 Biennial Budget Act included changes to HIRSP.

A technical issue in HIRSP's statutory funding formula needs legislative attention.

The Health Insurance Risk-Sharing Plan (HIRSP) was established in 1980 to provide medical insurance for individuals who cannot obtain coverage in the private market because of the severity of their health conditions. In the late 1990s, it was also designated as Wisconsin's plan to meet federal Health Insurance Portability and Accountability Act (HIPAA) regulations and to provide health insurance to people who lose employer-sponsored group health insurance and meet other specified criteria.

HIRSP is primarily funded through policyholder premiums; financial assessments on health insurance companies that do business in Wisconsin; reduced reimbursements to health care providers; and, until recently, general purpose revenue (GPR). As of February 29, 2004, 17,669 policyholders were enrolled in HIRSP.

HIRSP offers eligible applicants three plans:

- The primary plan, plan 1A, is similar to coverage provided by many private major medical plans.
- The alternative plan, plan 1B, offers the same coverage as plan 1A but at lower premium rates because policyholders pay a higher deductible before HIRSP begins paying claims.
- An additional plan, plan 2, is available to Wisconsin residents under the age of 65 who participate in the federal Medicare program because of a disability.

At the request of the Department of Health and Family Services (DHFS), we completed our sixth financial audit of HIRSP. Our audit report contains our unqualified opinion on HIRSP's financial statements and related notes for the fiscal years ending June 30, 2003 and 2002.

Key Facts and Findings

HIRSP is funded through policyholder premiums, insurer assessments, and reduced reimbursements to health care providers.

We have issued an unqualified opinion on HIRSP's FY 2002-03 financial statements.

HIRSP's accounting deficit decreased by $5.1 million to reach $0.9 million as of June 30, 2003.

The excess policyholder premium account balance increased significantly during FY 2002-03, from $3.0 million to $10.4 million as of June 30, 2003.

Prescription drug claims represented 37.8 percent of the $85.8 million in net claims paid during FY 2002-03.

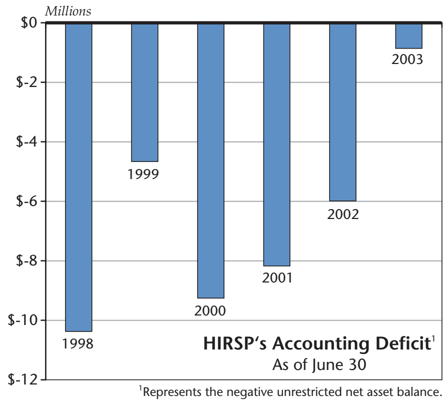
Financial Status of the Plan

Because of its cash-based funding approach, HIRSP had an accounting deficit of $8.2 million as of June 30, 2001. This deficit represented estimated additional cash that HIRSP would eventually need to pay covered medical expenses that had been incurred but not paid before this date.

DHFS and HIRSP's Board of Governors implemented an accrual-based funding approach beginning with fiscal year (FY) 2001-02. An accrual basis takes into account the full costs associated with events that occur during a plan year, including actuarial cost estimates for incurred claims that may not be filed until after the plan year.

The change to an accrual-based approach required funding to eliminate the accounting deficit that had accumulated under the cash-based approach, as well as funding for newly incurred costs accounted for on an accrual basis.

As a result of increasing enrollment and program costs, as well as the change in the funding approach, policyholder premiums and insurer assessments increased significantly in FY 2001-02 and FY 2002-03. Total premium revenue almost doubled, while insurer assessments increased 162.7 percent.



HIRSP's Accounting Deficit[1]
As of June 30

[1] Represents the negative unrestricted net asset balance.

The increased revenues that resulted from increases in premiums and insurer assessments contributed to a $5.1 million reduction in HIRSP's accounting deficit, which was $0.9 million as of June 30, 2003.

Statutes require policyholders to fund 60 percent of HIRSP's costs and establish a floor for policyholder premiums of at least 150 percent of standard risk rates through July 29, 2002, and 140 percent of standard risk rates as of July 30, 2002. Statutes also require a separate accounting of premiums received in excess of the amount needed to cover policyholders' 60 percent share of HIRSP's costs.

Because the statutory floor for premium rates has typically been greater than the premiums needed to fund 60 percent of HIRSP's costs, and because actual claims costs were less than the costs assumed in HIRSP's FY 2002-03 budget, the excess policyholder premium account balance increased significantly during FY 2002-03, from $3.0 million to $10.4 million as of June 30, 2003.

The use of these funds is statutorily restricted for these purposes:

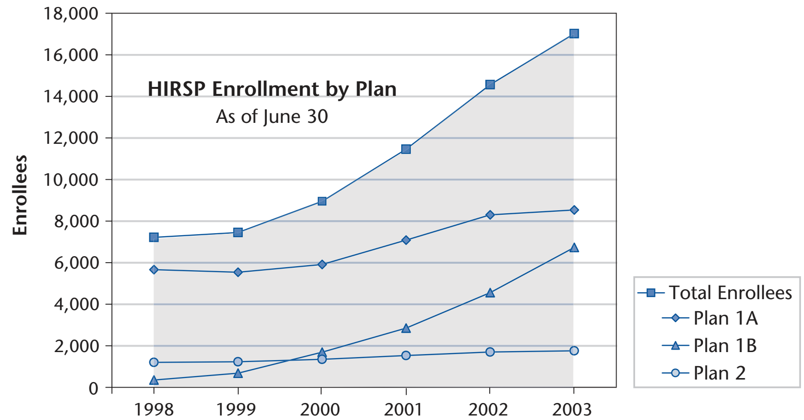
- to reduce policyholder premiums to the statutory minimum when the policyholders' share of costs would otherwise require a premium increase;
- for other needs of eligible persons, with the approval of the Board of Governors; or
- for distribution to eligible persons.

Increasing Enrollment and Claims Costs

Increasing enrollment and claims costs present continuing challenges to the management and funding of HIRSP.

Policyholder enrollment increased 16.9 percent during FY 2002-03, to 17,017 policyholders as of June 30, 2003. However, enrollment experience during the first eight months of FY 2003-04 suggests that enrollment growth may be beginning to slow: enrollment increased by 3.8 percent, to 17,669 as of February 29, 2004.

Enrollment in plans 1A and 2 began to level off in FY 2002-03, although enrollment in plan 1B continued to increase steadily. Further, an increasing number of participants have shifted from plan 1A to plan 1B in recent years. The greatest shift occurred in 2003, when 713 participants changed from plan 1A to plan 1B.



Net of health care providers' discounts, claims costs increased 171.1 percent, or $54.2 million, over the last five years. A large portion of these increases can be explained by the enrollment increases, although HIRSP claims costs also have been affected by medical cost increases similar to those experienced by others in the health insurance industry.

Claims Costs[1]

Fiscal Year	Amount	Percentage Change
1998-99	$31,671,704	–
1999-2000	36,399,671	14.9%
2000-01	54,120,507	48.7
2001-02	67,180,778	24.1
2002-03	85,849,897	27.8

[1]Net of health care providers' discounts.

Legislative Activity

The Legislature began providing GPR funding to offset program costs in FY 1997-98. At that time, GPR funding to subsidize premiums and deductibles for low-income policyholders had been in place for several years. During the 2001-03 biennium, GPR support for HIRSP totaled $21.0 million.

Under 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, all GPR support for HIRSP was eliminated beginning in FY 2003-04. The other funding parties—policyholders, insurers, and health care providers—are now required to pay for costs that had previously been funded through GPR.

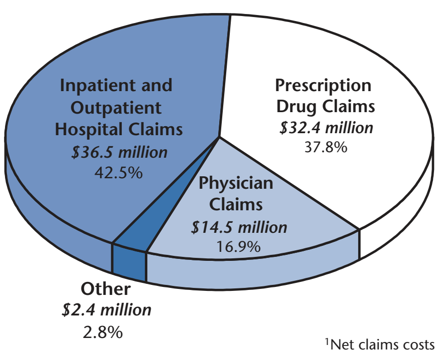
Act 33 also authorizes DHFS to select the HIRSP plan administrator through a competitive procurement process. Since 1998, statutes had required that the Medicaid fiscal agent serve as HIRSP's administrator. DHFS is currently conducting a competitive procurement process with the intent of selecting and contracting with a vendor to administer HIRSP beginning in January 2005, after a six-month transition period.

In light of HIRSP's increasing costs and the loss of GPR, legislation was introduced in February 2004 to expand the funding base to include drug manufacturers and drug labelers, which are companies that repackage prescription drugs for retail sale.

Under 2003 Senate Bill 466, which was not enacted, each manufacturer or labeler that provided prescription drugs under HIRSP would have been required to pay an annual assessment based on claims that HIRSP paid for their drugs in the previous calendar year. On a per claim basis, the assessment amount would have been equal to the rebate amount the drug manufacturer or labeler pays for the drug under Medicaid.

At 37.8 percent of net claims paid during FY 2002-03, prescription drug claims represent the second-largest portion of HIRSP's claims costs. HIRSP currently receives some drug rebates as part of the agreement with its plan administrator, including $677,118 during FY 2002-03.

Types of Claims Paid During FY 2002-03[1]



[1]Net claims costs totaled $85.8 million.

Technical Statutory Issue

DHFS and HIRSP's contracted actuary have identified a technical statutory issue that will require legislative action.

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, and a related portion of costs not being allocated to any funding party.

DHFS and the Board of Governors decided in 2001 that $1.5 million of 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. These costs had accumulated during 1998, 1999, and 2000.

In March 2004, the Board's Financial Oversight Committee approved a recommendation to the Board to reduce the excess policyholder premium account by the amount of over-credited deductible subsidies as of March 31, 2004. The unallocated balance was $2.1 million as of February 29, 2004. DHFS and the Board of Governors plan to pursue statutory changes to address this technical issue during the 2005-07 legislative session.

Additional Information

For a copy of report 04-3, which includes a response from the Department of Health and Family Services, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

Diann Allsen
(608) 266-2818

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Legislative Audit Bureau

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State Auditor

03-12

An Audit:

Health Insurance Risk-Sharing Plan

Department of Health and Family Services

November 2003

Report Highlights ▪

HIRSP's financial position improved during FY 2001-02.

Policyholder enrollment and claims costs continue to increase.

The 2003-05 Biennial Budget Act included changes to HIRSP.

Oversight of pharmacy claims could be improved.

The Health Insurance Risk-Sharing Plan (HIRSP) was established in 1980 to provide medical insurance for individuals who cannot obtain coverage in the private market because of the severity of their health conditions. In the late 1990s, it was also designated as Wisconsin's plan to meet federal Health Insurance Portability and Accountability Act regulations and to provide health insurance to people who lose employer-sponsored group health insurance and meet other specified criteria.

HIRSP is funded through policyholder premiums; financial assessments on health insurance companies that do business in Wisconsin; reduced reimbursements to health care providers; and, until recently, general purpose revenue (GPR). As of June 30, 2003, 17,017 policyholders were enrolled in HIRSP. HIRSP offers eligible applicants three plans:

- The primary plan, plan 1A, is similar to coverage provided by many private major medical plans.

- The alternative plan, plan 1B, offers the same coverage as plan 1A but at lower premium rates, and it requires policyholders to pay a higher deductible before HIRSP begins paying claims.

- An additional plan, plan 2, is available to Wisconsin residents under the age of 65 who participate in the federal Medicare program because of a disability.

At the request of the Department of Health and Family Services (DHFS), we completed a financial audit of HIRSP. Our audit report contains our unqualified opinion on HIRSP's financial statements and related notes for the fiscal years ending June 30, 2002 and 2001.

Key Facts and Findings

HIRSP is funded through policyholder premiums, insurer assessments, and reduced reimbursements to health care providers.

We have issued an unqualified opinion on HIRSP's FY 2001-02 financial statements.

HIRSP's accounting deficit decreased by $2.7 million, to reach $5.5 million as of June 30, 2002.

Increasing enrollment and claims costs present challenges to the management and funding of HIRSP.

The 2003-05 Biennial Budget Act eliminated all GPR support for HIRSP. In the 2001-03 biennium, GPR support was $21.0 million.

Financial Status of the Plan

Since we began auditing HIRSP's financial statements in 1998, we recommended that HIRSP be funded on an accrual basis, rather than the cash-based approach used at the time.

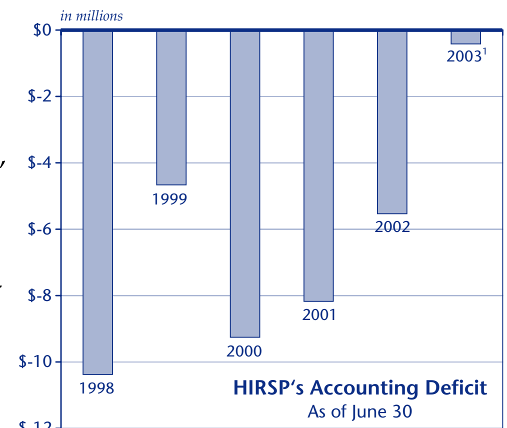
A cash-based funding approach takes into account estimated cash disbursements. An accrual basis takes into account the full costs associated with events that occur during a plan year, including actuarial cost estimates for claims incurred that may not be filed until after the plan year.

HIRSP previously used a cash-based funding approach that contributed to an accounting deficit because it did not factor in all claims liabilities. As a result, HIRSP's accounting deficit of $8.2 million as of June 30, 2001, represented the estimated additional cash HIRSP would eventually need to make payment on its liabilities.

DHFS and HIRSP's Board of Governors decided to implement an accrual-based approach to funding HIRSP beginning with FY 2001-02. The change to an accrual-based approach required funding to eliminate the accounting deficit that had accumulated under the cash-based approach, in addition to funding HIRSP's newly incurred costs on an accrual basis.

As a result of increasing program costs and the funding change, policyholder premiums and insurer assessments increased significantly during fiscal year (FY) 2001-02. Total premiums increased 29.3 percent, while insurer assessments almost doubled, from $9.9 million in FY 2000-01 to $19.6 million in FY 2001-02.

The increased revenues that resulted from increases in premiums and insurer assessments contributed to a $2.7 million reduction in HIRSP's accounting deficit, which was $5.5 million as of June 30, 2002. Based on preliminary unaudited financial statements, the deficit was less than $1.0 million as of June 30, 2003.



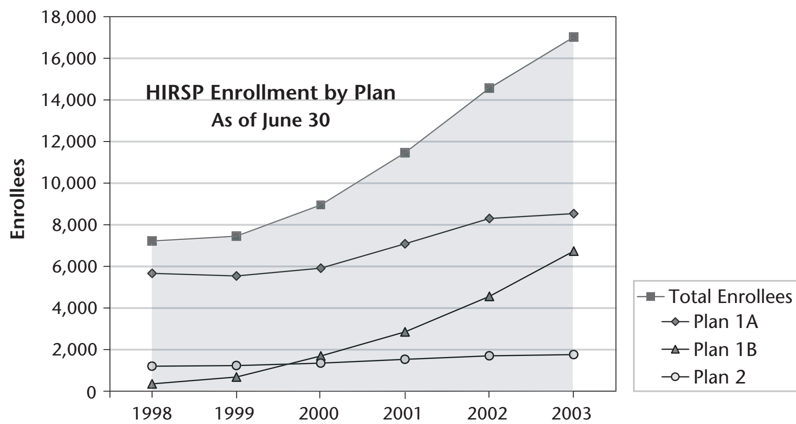
HIRSP's Accounting Deficit
As of June 30

[1]Preliminary unaudited number

Increasing Enrollment and Claims Costs

Increasing enrollment and claims costs present continuing challenges to the management and funding of HIRSP. Policyholder enrollment increased 16.9 percent during FY 2002-03, to 17,017 policyholders as of June 30, 2003, and continues to increase.

Although growth has begun to level off for two of the plans in recent years, enrollment in plan 1B has continued to increase steadily. While a variety of factors may have contributed to interest in plan 1B, its lower premiums in comparison to plan 1A have made it popular.



Like enrollment levels, HIRSP's claims costs are also increasing. Net of health care providers' discounts, the increase was 48.7 percent, or $17.7 million, in FY 2000-01, and 24.1 percent, or $13.1 million, in FY 2001-02. Based on unaudited data, claims costs increased 27.8 percent, or $18.7 million, in FY 2002-03.

Claims Costs		
Fiscal Year	Amount	Percentage Change
1998-99	$31,671,704	–
1999-00	36,399,671	14.9%
2000-01	54,120,507	48.7
2001-02	67,180,778	24.1
2002-03[1]	85,849,897	27.8

[1]Preliminary unaudited number

A large portion of these increases can be explained by the enrollment increases, although they are also affected by increases in medical costs similar to those experienced by others in the health insurance industry. For example, the average cost per HIRSP policyholder, net of provider discounts, increased 12.5 percent, from $4,824 in FY 2000-01 to $5,428 in FY 2001-02.

Enrollment and cost trends are also increasing required funding levels. If these trends continue, pressures likely will increase to control the costs borne by HIRSP's funding parties and to evaluate the fairness and effectiveness of the current funding structure.

Budget Provisions

Beginning in FY 1997-98, the Legislature provided GPR funding to offset program costs, in addition to GPR funding for premium and deductible subsidies available for low-income policyholders that had been in place for several years. GPR support for HIRSP during the 2001-03 biennium totaled $21.0 million.

Under 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, all GPR support for HIRSP is eliminated, effective FY 2003-04. The other funding parties are now required to pay for costs previously funded through GPR.

Act 33 also eliminated the requirement that the HIRSP plan administrator be the Medicaid fiscal agent, and instead authorizes DHFS to select the HIRSP plan administrator through a competitive bidding process. HIRSP's Medicaid fiscal agent has been the administrator since 1998. DHFS is currently developing a request for vendor proposals, with the intent of selecting and contracting with a vendor to administer HIRSP beginning in FY 2004-05.

Fiscal Management Issues

DHFS has improved the system for pharmacy claims, which were $23.1 million during FY 2001-02 and $32.4 million during FY 2002-03, by using a pharmacy benefit management company beginning in FY 2001-02. However, oversight of pharmacy claims could be further improved with periodic reviews of the controls put in place by the pharmacy benefit management company.

Claims processing organizations and other entities that provide similar services to several organizations often obtain special independent external reviews of their controls to fulfill the needs of user organizations and their auditors. These reviews, which are commonly referred to as "SAS 70" service organization audits, provide an in-depth audit of a service organization's control activities.

Although HIRSP's plan administrator regularly obtains a SAS 70 audit, the pharmacy benefit management company does not. In response to recommendations we made orally during this audit, DHFS is considering pursuing a SAS 70 audit or alternative steps to provide independent reviews of controls over pharmacy claims.

DHFS has also taken steps to address two areas of concern identified during our FY 2000-01 audit.

First, we found that inadequate procedures and communication regarding claims data and the actuarial process led to an estimate of actuarial loss liabilities that was materially in error and required an adjustment to HIRSP's financial statements. In response, procedures were revised, and the Board of Governor's Financial Oversight Committee took responsibility to review the loss liability estimates. The estimates for the FY 2001-02 financial statements were materially correct.

The second area of concern in our prior audit was problems with plan administrator fees, which totaled $3.2 million in FY 2001-02. In response, DHFS implemented a streamlined fee structure to simplify the billing process and make it easier to monitor administrative invoices. We noted no problems during our current audit.

Additional Information

For a copy of report 03-12, which includes a response from the Department of Health and Human Services, call **(608) 266-2818** or visit our Web site:

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Janice Mueller
State Auditor

Report 03-3

An Evaluation:

Use of Tobacco Control Board Funds

February 2003

Report Highlights

The Board spent $26.2 million from FY 1999-2000 through FY 2001-02.

Some tobacco control projects have been successful, others less so.

Tobacco control projects statewide sometimes duplicate efforts.

The Board should ensure it funds effective tobacco control projects.

1999 Wisconsin Act 9 created the Tobacco Control Board in October 1999 to administer a statewide tobacco control program. The Legislature appropriated a total of $45.0 million to the Board for the four-year period from fiscal year (FY) 1999-2000 through FY 2002-03.

The Board funds various statewide and local tobacco control projects. Most projects are funded through a competitive grant process, but the Board is required by statutes to annually distribute $2.0 million to the Thomas T. Melvin Youth Tobacco Prevention and Education Program within the Department of Health and Family Services (DHFS), $1.0 million to the University of Wisconsin (UW) Madison Center for Tobacco Research and Intervention, and $500,000 to the Medical College of Wisconsin. The Board does not control how these three entities spend the funds.

1999 Wisconsin Act 9 required the Legislative Audit Bureau to review how the Center and the Medical College used the Board's funds. In addition, we examined other Board-funded tobacco control projects. We analyzed:

- the Board's expenditures from FY 1999-2000 through FY 2001-02;
- the types of projects that the Board supported; and
- the success that Board-funded projects have had in achieving their stated goals.

Key Facts and Findings

The Board's $45.0 million appropriation for FY 1999-2000 through FY 2002-03 was funded by the State's settlement with tobacco companies.

Beginning in FY 2003-04, tobacco settlement funds will no longer be available to support the Board.

Board-funded projects focused on prevention, cessation, and a combination of prevention and cessation.

Two projects of the Center for Tobacco Research and Intervention achieved their stated objectives.

Ten of the Medical College's projects met at least some of their stated objectives.

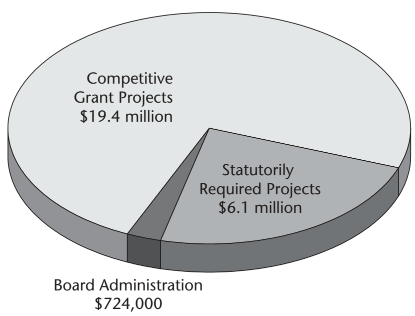
Competitive grant projects need independent evaluation to determine their effectiveness.

The Governor has proposed eliminating the Tobacco Control Board and consolidating efforts in DHFS.

Board Expenditures

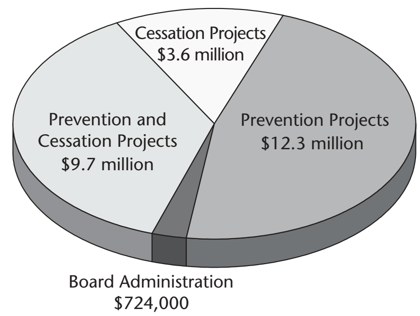
Currently, the Board is supported by funds the State received from the November 1998 Master Settlement Agreement with tobacco manufacturers. In May 2002, the State securitized its annual tobacco settlement payments and spent the resulting $1.3 billion. Therefore, beginning in FY 2003-04, tobacco funds will no longer be available to fund the Board.

From FY 1999-2000 through FY 2001-02, the Board spent $26.2 million, including $19.4 million on competitive grant projects, $6.1 million on the three statutorily required programs, and $724,000 on administration.



Grant projects included an anti-tobacco media and counter-marketing campaign and community coalitions organized by local public health departments.

The Board's FY 1999-2000 through FY 2001-02 expenditures focused on prevention projects, cessation projects, and a combination of prevention and cessation projects.



Project Outcomes

When measured against their individual program goals, the outcomes of projects have been mixed.

Two of the Center for Tobacco Research and Intervention's five projects achieved their objectives. One of these successful projects is the Wisconsin Tobacco Quit Line, a toll-free telephone service that provides cessation information and counseling. The Quit Line is the most expensive of the Center's Board-funded projects, with expenditures of $1.5 million from FY 1999-2000 through FY 2001-02. From May 2001 through June 2002, the Quit Line received more than 24,000 calls.

The Center's successful regional outreach project employed six regional outreach specialists to help health care providers, schools, and community organizations implement tobacco cessation strategies. In December 2001, the Center reported that its regional outreach specialists had trained more than 5,000 Wisconsin health care providers in cessation strategies; sent cessation information to more than 3,000 primary care physicians in cooperation with the State Medical Society; clarified cessation benefits with each of the health maintenance organizations participating in the Medical Assistance and BadgerCare programs; and promoted the Quit Line and other local resources. Project expenditures were $1.0 million from FY 1999-2000 through FY 2001-02.

The Center's three other projects, for which expenditures totaled $667,000, achieved only some of their objectives. For example, through FY 2001-02, the Center spent $357,400 for a survey to measure adult tobacco use. Because of difficulties with the survey instrument and unexpected results, data did not meet initial expectations.

The Medical College spent $500,000 for 19 research projects in FY 2000-01. Ten of these projects accomplished at least some of their objectives. For example, the Smoking Cessation Clinic, for which FY 2000-01 expenditures were $106,000, assessed 155 patients and trained a medical resident and an intern in smoking cessation techniques. A less successful project was the $9,000 Stress Kit project, which sought to reduce relapse rates among women who had quit smoking. This project planned to recruit 100 women but enrolled only 12.

Outcomes of the Board's competitive grant projects, for which expenditures over the past two fiscal years totaled $19.4 million, have been similarly mixed. For example, the Media and Counter-marketing project, which spent $6.8 million through FY 2001-02, resulted in greater recall of anti-smoking messages and knowledge about tobacco industry advertising. Another project, which is one of two Young Adult Pilot studies, aimed to reduce smoking rates among UW-Oshkosh students by 4.0 percent but reported achieving a reduction rate of 29.0 percent. That program's expenditures were $216,000 through FY 2001-02.

In contrast, several competitive grant projects encountered difficulties in meeting their objectives because they were unable to recruit enough participants. For example, a second Young Adult Pilot study project to serve 18- to 24-year olds in the workplace anticipated 75 to 100 participants; however, only 12 participants stayed in the study for the six-month period intended to measure cessation rates. Six of these 12 participants were not smoking when the evaluation ended. The program's expenditures through FY 2001-02 were $94,000.

The number of participants in the Wisconsin Ethnic Network project is unknown, and this competitive grant project did not accomplish its goal to implement tobacco control strategies during the first year of its contract with the Board, which ended in March 2002. Instead, efforts and expenditures were related to building coalitions and developing culturally appropriate advertising materials. The project had expenditures of $551,300 through FY 2001-02.

Project Coordination

The Board has no authority to direct the activities of the Center, the Melvin Program, or the Medical College. In addition, other state programs that are not funded or controlled by the Board, including programs in DHFS and the Department of Public Instruction, have tobacco control elements.

Although the Board has attempted to coordinate tobacco control activities informally, some projects have duplicated efforts. We provide suggestions for improving project coordination.

The Board has not always acted consistently in determining grant periods, monitoring expenditures, and allowing competitive grant recipients to purchase cessation medication. We provide two recommendations for improving the Board's management of its competitive grants.

Project Evaluations

The Board requires projects it funds through the competitive grant process to collect information about project effectiveness. For 2003, it approved additional funding for all competitive grant projects that had previously received funding, as well as for three new projects.

The Board has contracted with the UW Comprehensive Cancer Center to monitor and evaluate tobacco control efforts and statewide smoking rates and attitudes and to assist local coalitions in evaluating their programs. Through December 2002, the Monitoring and Evaluation Program established under this contract focused on monitoring activities, rather than on evaluating results. The UW Comprehensive Cancer Center plans to complete evaluation reports for the Board's projects in spring 2003.

Recommendations

Our recommendations address the need for the Wisconsin Tobacco Control Board to:

☑ use the Monitoring and Evaluation Program's reports to assist it in making decisions about which projects should receive continued funding *(p. 52)*;

☑ revise administrative rules to either allow competitive grant recipients to purchase medication for the cessation of tobacco use or ensure that grant funds do not pay for medication expenses *(p. 52)*; and

☑ use consistent grant periods and monitor grant recipients' expenditures on a regular basis so that unspent funds can be reallocated to other tobacco control projects *(p. 53)*.

Matters for Legislative Consideration

The Legislature will need to decide funding for the 2003-05 biennium. For example, it could allocate:

- $25.0 million annually, the amount stipulated in 2001 Wisconsin Act 109;
- less than the $15.3 million the Board received in each year of the current biennium; or
- $15.0 million annually, as proposed by the Governor.

The Legislature could also consider ways to improve coordination among the State's anti-tobacco efforts. For example, it could give the Board explicit authority over other programs or consider the Governor's proposal to eliminate the Board and consolidate efforts within DHFS.

Additional Information

For a copy of report 03-3, which includes responses from the Tobacco Control Board, the U-W Center for Tobacco Research and Intervention, and the Medical College of Wisconsin, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

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Janice Mueller
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Highways and Transportation

Highlights

- **Major Highway Program** *(Report 03-13)*

  In September 2003, 32 major highway projects were being planned or were under construction, and cost estimates for 7 of these projects had increased by at least $20.0 million each since enumeration. Bonds are increasingly funding the highway program, and debt service costs totaled $101.1 million in FY 2002-03. The highway system is generally in good condition, but policy-makers face challenges that include a shortfall in the Department of Transportation's long-range state highway plan that was $5.2 billion at the time of our report, funding for reconstruction of the aging southeast Wisconsin freeway system, and the needs of other transportation programs.

Audit Committee Action

☑ *Hearings on the Major Highway Program, August 11, 2004, and January 26, 2004*

Legislation Enacted

☑ *2003 Wisconsin Act 217, enacted April 8, 2004*

03-13

An Evaluation:

Major Highway Program

Department of Transportation

November 2003

Report Highlights

The cost of some major highway projects has increased considerably after enumeration.

Better financial record-keeping is needed for the major highway program.

DOT's FY 2001-02 environmental expenditures were $29.1 million.

The State's increasing reliance on bond proceeds to fund highway projects raises concerns.

Maintaining and expanding the State's highway system involves many challenges.

The Department of Transportation (DOT) is responsible for building and maintaining Wisconsin's transportation infrastructure and, under the major highway program, constructs new or expanded state highways. The 15-member Transportation Projects Commission reviews DOT's proposals for major highway projects and recommends projects for enumeration by the Legislature and the Governor.

In fiscal year (FY) 2002-03, the major highway program's budget was $241.6 million. In September 2003, 32 major highway projects were being planned or were under construction. However, in December 2002, DOT had indicated that four of these projects could not be enumerated because the program's increasing costs had reduced the amount of funding available for additional projects. Legislators raised concerns about this disclosure, as well as about the availability of funds to reconstruct the aging southeast Wisconsin freeway system and the extent to which bonds have been used to fund highway projects. Therefore, at the direction of the Joint Legislative Audit Committee, we evaluated:

- project selection, program expenditures, and cost increases related to the program;
- the effects of state and federal environmental laws on highway construction costs and practices;
- financing for transportation projects; and
- how Wisconsin's highways, transportation funding, and transportation spending compare to other midwestern states', and future financial demands on the Transportation Fund.

Key Facts and Findings

In September 2003, 32 major highway projects were being planned or were under construction.

Real estate expenditures for the major highway program nearly quadrupled in ten years and reached $43.8 million in FY 2002-03.

It will take more than 12 years, on average, from enumeration to construction completion for current projects.

From FY 1993-94 to FY 2002-03, transportation revenue increased 49.6 percent.

Wisconsin's state fuel tax is the highest in the nation, and DOT's largest revenue source.

Bond debt service costs totaled $101.1 million in FY 2002-03 and are increasing.

Wisconsin's state highways are funded at levels comparable to six other midwestern states'.

Project Cost Increases

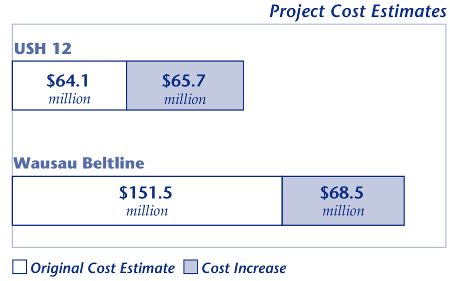
DOT's expenditures for the major highway program increased 69.5 percent in the past ten years and totaled $284.2 million in FY 2002-03. Construction contract costs, which accounted for nearly three-quarters of FY 2002-03 expenditures, increased 67.9 percent since FY 1993-94. In contrast, real estate expenditures nearly quadrupled, reaching $43.8 million in FY 2002-03.

It will take more than 12 years, on average, to complete the projects that were underway in June 2003. DOT has considerable discretion in scheduling and designing major highway projects and may change a project's design to accommodate local officials, concerned citizens, and others the project will affect. Such changes can increase project costs significantly.

To help determine the reasons for cost increases in major highway projects, we reviewed seven current projects for which costs increased by at least $20.0 million each. We found:

- The cost estimate for the United States Highway (USH) 12 (Sauk City to Middleton) project increased from $64.1 million when it was enumerated in 1993 to $129.8 million in June 2003. The increase is attributable to $23.0 million in higher real estate costs that occurred because of project delays, and to upgrading a portion of the Middleton bypass.
- The cost estimate for the Interstate 39/USH 51 (Wausau beltline) project increased from $151.5 million when it was enumerated in 2001 to $220.0 million in June 2003. Approximately $30.0 million of the increase resulted from a decision to upgrade the design speed of an interchange to 60 miles per hour, which resulted in five bridges being added to the project and several other bridges being lengthened to accommodate the higher traffic speed.

Project Cost Estimates



In 2002, DOT commissioned a value engineering study to identify potential cost savings on 21 major highway projects without altering their purpose or lowering safety, quality, or environmental standards. The study cost $247,000.

In its November 2002 report, the engineering firm DOT hired identified $382.0 million in potential savings. For example, it recommended that DOT construct two lanes, instead of four, on highways with low traffic volume. The firm also recommended scaling back several projects to their original planned scope. As of November 2003, DOT is continuing to analyze how much of the $382.0 million in proposed savings measures it will implement.

Financial Reporting

DOT's financial record-keeping system makes it difficult to analyze expenditures for individual major highway projects. While DOT produces a monthly report that shows per project expenditures, the report excludes design and construction engineering expenditures, even though they can account for more than one-quarter of all project costs.

Tracking changes to major highway projects is also made difficult by DOT's practice of separating portions of projects and combining them with other projects.

Environmental Expenditures

State and federal laws require DOT to avoid, minimize, and mitigate harmful environmental effects caused by transportation projects. DOT estimates its FY 2001-02 environmental expenditures for all state highway projects were $29.1 million. These expenditures include the costs of construction work, consultant contracts, payments to the Department of Natural Resources and the State Historical Society, and DOT's own staffing costs.

Construction contractors believe their total costs to comply with all environmental regulations are significantly higher than DOT's estimates, but neither DOT nor the contractors provided supporting documentation to independently verify their estimates.

Revenue Sources

DOT is funded primarily by federal, state, and local revenue, as well as by proceeds from bonds. However, its largest revenue source is state fuel taxes. Transportation revenue for all DOT programs increased 49.6 percent from FY 1993-94 to FY 2002-03, when it totaled $2.3 billion.

The major highway program has long been funded, in part, by transportation revenue bonds, which are repaid with proceeds from vehicle registration, title transfer, and related fees. The issuance of revenue bonds has allowed DOT to construct major highway projects without heavy reliance on other funding sources, but the resulting debt service leaves fewer funds available for projects.

Debt service totaled $101.1 million in FY 2002-03. The proportion of registration fee revenue required to cover debt service costs has been increasing and reached 27.4 percent in FY 2002-03. DOT estimates that annual debt service payments will exceed revenue bond proceeds from FY 2008-09 onward.

2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, expanded the issuance of bonds. It stipulated that $565.5 million in general obligation bonds will be issued to fund, for the first time, rehabilitation projects and the southeast Wisconsin freeways program. Debt service costs for these bonds issued in the 2003-05 biennium will total $767.6 million through FY 2024-25.

As a result of recent legislation, the Transportation Fund will cover debt service costs during the 2003-05 biennium, but the General Fund will cover the costs thereafter.

Future Considerations

We compared Wisconsin's transportation funding sources, spending, and state highway conditions with other midwestern states'.

Wisconsin ranks in the middle of seven midwestern states on state highway spending and conditions, but it relies on fewer sources of transportation revenue. It has the nation's highest gasoline tax rate, at 31.5 cents per gallon, but its $55 annual vehicle registration fee is among the lowest in the Midwest. In 2001, 79.9 percent of Wisconsin state highways had low levels of traffic congestion, and 57.5 percent had good or excellent pavement conditions.

The State's investments to date have resulted in a highway system that is generally in good condition, but policy-makers face many challenges as they seek to maintain existing highways and expand the system to meet future needs. These include:

- a $5.2 billion shortfall identified in DOT's long-range state highway plan;

- reconstruction of the aging southeast Wisconsin freeway system, which has not yet been fully funded;
- increasing reliance on bonding;
- commitments to complete the 32 major highway projects currently enumerated; and
- the needs of other transportation programs that DOT manages.

Recommendations

Our recommendations address the need for DOT to:

☑ improve financial reporting by tracking:
- the amount and cost of all real estate it purchases for each major highway project (*p. 26*); and
- its environmental expenditures, and reporting its plan for doing so to the Joint Audit Committee by June 1, 2004 (*p. 42);*

☑ report to the Joint Audit Committee by February 2, 2004, on the amount of savings it expects to achieve as a result of its 2002 value engineering study (*p. 31*);

☑ report complete expenditure information for all major highway projects to the Transportation Projects Commission semiannually (*p. 32*);

☑ develop policies specifying that all project costs be included in the project cost estimates that are presented in the environmental documents it prepares (*p. 43); and*

☑ provide comprehensive and consistent project cost information, and communicate changes in the scope of projects (*p. 70*).

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Additional Information

For a copy of report 03-13, which includes a response from the Department of Transportation, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

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State Fair, Stadiums, and Lottery

Highlights

- **State Fair Park** *(Reports 04-5 and 03-11)*

  In 2004, we issued unqualified audit opinions on State Fair Park's financial statements for FY 2001-02 and FY 2002-03 but noted continuing deficits. In an earlier management audit, we found that State Fair Park's total expenses exceeded revenues by $4.5 million in September 2003, in part because of new and renovated facilities that had not met overly optimistic revenue projections. Although steps have been taken to improve State Fair Park's financial status, both the agency and the Legislature face continuing challenges related to the fairgrounds' financial operations and management structure, as well as future state support and building plans.

Other Reports

- **Letter on Green Bay/Brown County Professional Football Stadium District** *(August 2004)*

  The Lambeau Field reconstruction project met state contracting and hiring goals for minority and female participation. A total of $60.8 million was paid to targeted businesses: minority-owned businesses were paid 15.7 percent of expenditures, and businesses owned by women were paid 6.5 percent. In addition, 18.9 percent of new hires for the project were members of minority groups, and 6.6 percent were women.

- **Letter on Milwaukee Brewers Baseball Club** *(May 2004)*

  We conducted a limited-scope review of the Brewers' finances from 1994 through 2003. The club has faced significant financial challenges; for example, outstanding debt was $133.2 million at the end of 2003. Our report discloses salaries and other payments to the club's owners and their close relatives and suggests close monitoring of its ongoing relationship with the Southeast Wisconsin Professional Baseball Park District.

- **Wisconsin Lottery** *(Reports 04-4 and 03-7)*

  We issued unqualified opinions on the Wisconsin Lottery's financial statements for FYs 2002-03, 2001-02, and 2000-01. Lottery ticket sales totaled $435.0 million in FY 2002-03 and $427.6 million in FY 2001-02.

Audit Committee Action

☑ *Hearings on State Fair Park, November 16, 2004, and November 7, 2003*

04-5

An Audit:

State Fair Park

June 2004

Report Highlights

As reported in 2003, State Fair Park's overall financial condition deteriorated through FY 2002-03.

State Fair Park has taken some steps to solidify its operations and increase its revenues.

Business plans for 2004 are optimistic and rely on revenues that have not been fully secured, such as sponsorships.

State Fair Park's 2004 business plans should be refined and modified to ensure financial estimates are reasonable and staffing concerns are addressed.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the annual Wisconsin State Fair. Statutes require us to perform an annual financial audit of State Fair Park. However, in 2003, State Fair Park was unable to provide us with accurate and complete financial statements for fiscal year (FY) 2001-02.

State Fair Park subsequently hired a private accounting firm to prepare its financial statements for FY 2001-02 and FY 2002-03, and we have issued an unqualified audit opinion for each year. In addition, we followed up on concerns we expressed in 2003 regarding State Fair Park's financial condition, as well as business planning related to three fairgrounds activities or entities:

- the Milwaukee Mile racetrack and its new grandstand, which State Fair Park began to manage internally in May 2003;
- the new Wisconsin Exposition Center, which is owned by a not-for-profit corporation, used exclusively for the Wisconsin State Fair each August, and rented for non-fair events during the rest of the year; and
- the Pettit National Ice Center, a United States Olympic training facility that is owned by State Fair Park but operated by a private not-for-profit corporation.

.

Key Facts and Findings

We have issued unqualified audit opinions on State Fair Park's financial statements for FY 2001-02 and FY 2002-03.

Program revenue–supported debt service payments will be more than $3.4 million annually through FY 2012-13.

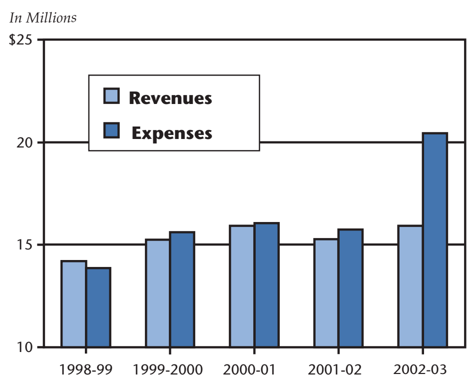
Through May 2004, State Fair Park's expenses exceeded revenues by $2.1 million.

State Fair Park currently projects that total revenues for FY 2003-04 will exceed expenses by nearly $195,000.

State Fair Park must eliminate 6.0 positions to meet its current authorized staffing level.

Fiscal Decline through 2003

As we noted in 2003, State Fair Park's expenses have exceeded revenues since FY 1999-2000. In FY 2002-03, they exceeded revenues by $4.5 million. While FY 2002-03 expenses—including a required lapse of $2.4 million to the State's General Fund—were beyond the control of agency staff or the State Fair Park Board, FY 2002-03 expenses would have exceeded revenues by $1.8 million even without such outside factors.



In recent years, State Fair Park has undertaken a $160.0 million building program to make the fairgrounds a year-round entertainment attraction. This program included new and renovated facilities that were intended to be self-supporting, such as:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, which were completed in time for the 2003 racing season at a cost of $19.1 million; and
- the new Wisconsin Exposition Center, which replaced several existing exhibit buildings and was completed in time for the 2002 State Fair at a cost of $37.8 million.

However, overly optimistic revenue projections that were used to support these and other construction projects have not been met. Instead, the projects have contributed to State Fair Park's declining financial condition. For example, we estimated in 2003 that State Fair Park:

- incurred annual costs of at least $39,100 on behalf of the Exposition Center, including parking lot maintenance and sewer costs;
- paid the Exposition Center $73,540 more than its net parking revenue from non-fair events over an eight-month period; and
- lost 104 days' revenue from events that left the fairgrounds when the Exposition Center was built and several other buildings were demolished.

To fund fairgrounds improvements, State Fair Park has relied on funding from bonds. Through FY 2012-13, program revenue–supported debt service payments are expected to be more than $3.4 million annually. If program revenues are insufficient to cover these debt service costs, the State could ultimately be called on to fund them, as well as at least

$2.0 million in annual debt service costs from general purpose revenue–supported bonds.

Recent Operational Changes

In the nine months since our 2003 report, the State Fair Park Board and entities operating within the fairgrounds have taken steps to improve State Fair Park's overall financial condition and to solidify operations. For example, in accordance with our recommendations, all fairgrounds entities have developed business plans for 2004. In addition:

- The Exposition Center Board hired a president in 2003, and the State Fair Park Board hired a chief financial officer in 2004.
- The Milwaukee Mile has expanded its 2004 racing program and will host four major events, compared to two in prior years.
- State Fair Park has implemented procedures to recoup some of the costs it incurs on the Exposition Center's behalf.
- State Fair Park has received nearly $38,600 from the Exposition Center, which represents one-half of the amount by which State Fair Park's parking expenses exceeded revenues. Furthermore, the agreement related to parking revenues has been changed to ensure that State Fair Park does not incur such losses in the future.
- The Exposition Center is attempting to attract additional events by contacting those events that previously left the fairgrounds.

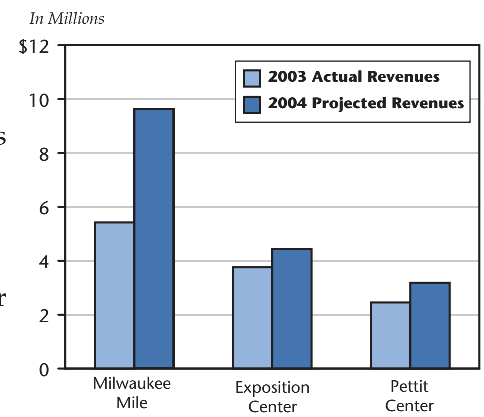
However, as debt service costs increase, the importance of overall profitability is heightened. At least in the short run, State Fair Park's ability to meet its program revenue–supported debt obligations will be limited if program revenues do not increase or if expenses do not decrease.

2004 Business Planning

Although State Fair Park's expenses exceeded revenues by $2.1 million through May 2004, its staff anticipate that additional revenues from a June 2004 race at the Milwaukee Mile and the August 2004 State Fair will be received before the end of FY 2003-04. With the receipt of that revenue, they project that FY 2003-04 total revenues will exceed expenses by nearly $195,000.

Nevertheless, this projection relies on an optimistic financial performance by the Milwaukee Mile, as well as reduced losses from other non-fair operations. For example:

- State Fair Park staff estimate that revenues from the Milwaukee Mile will increase from $5.4 million during the 2003 racing season to $9.6 million for the 2004 season, an increase of 77.7 percent.
- The Pettit Center projects that program revenues will increase from $2.1 million in 2003 to $2.8 million in 2004, an increase of 35.8 percent.
- Milwaukee Mile revenues are projected to include nearly $1.1 million from sponsorship and naming rights in 2004, while the Exposition Center projects $500,000 in sponsorship revenues. However, these revenues have not yet been fully secured.



Any future demands the Exposition Center may place on State Fair Park are also unknown, but the Exposition Center is projecting a net loss of $206,500 for calendar year 2004. Exposition Center staff have indicated that if sufficient resources are not available to meet financial obligations in 2005, reserve funds may be used to cover debt service costs. Doing so could jeopardize a letter of credit issued by a commercial lender to support Exposition Center construction bonds.

Finally, staffing levels within the various entities have not been resolved. For example:

- State Fair Park currently funds ten employees through the Exposition Center. This funding mechanism bypasses both legislative and executive control. Furthermore, State Fair Park has not fully addressed the potential duplication of effort between its own staff and Milwaukee Mile staff.

- As of May 2004, State Fair Park still needed to eliminate 6.0 positions to reach its current authorized staffing level, which was reduced by 15.0 positions under 2003 Wisconsin Act 33.

Recommendations

We include a recommendation for State Fair Park to:

☑ continue to refine and modify current business plans as necessary for future years, considering internal operations—including the Milwaukee Mile's racing activities—and external operations such as the Wisconsin Exposition Center and the Pettit National Ice Center; and

☑ report to the Joint Legislative Audit Committee by October 31, 2004, on its final FY 2003-04 revenues and expenses and its revised business plans for 2005 *(pp. 35-36)*.

At a minimum, we believe revised business plans should include reassessments of operating revenues and expenses, to ensure estimates are reasonable; staffing plans, to incorporate budgetary position reductions and Milwaukee Mile employees; and strategies to continue to improve the entities' profitability.

Matters for Legislative Consideration

Both State Fair Park and the Legislature have taken steps to improve State Fair Park's financial status, but changes in the fairgrounds' operations and improvements to major facilities have not yet allowed State Fair Park to become financially secure.

As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, challenges related to financial operations, the fairgrounds' management structure, the level of state support, and future building plans continue to need attention.

Additional Information

For a copy of report 04-5, which includes a response from State Fair Park's chief executive officer, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

Julie Gordon
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Janice Mueller
State Auditor

03-11

An Evaluation:

State Fair Park

September 2003

Report Highlights ■

State Fair Park's financial condition continued to deteriorate in FY 2002-03.

New facilities, which were expected to be self-supporting, have contributed to this fiscal decline.

State Fair Park has not conducted adequate business planning related to its new facilities.

Additional financial pressure will be placed on State Fair Park as debt service costs increase significantly in the future.

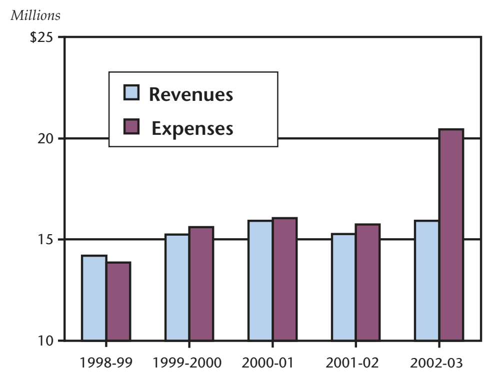
State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to:

- the Wisconsin State Fair, an annual event held at the fairgrounds each August;
- the 56-acre Milwaukee Mile, which consists of the oldest operating major automobile speedway in the United States and a new grandstand that was completed in May 2003;
- the new $37.8 million Wisconsin Exposition Center, which is used exclusively for the State Fair in August and rented for non-fair events during the rest of the year; and
- the Pettit National Ice Center, a United States Olympic training facility that is owned by State Fair Park but operated by a private not-for-profit corporation.

Under s. 13.94(1)(dm), Wis. Stats., we are required to perform an annual financial audit of State Fair Park. To date, State Fair Park has been unable to provide fiscal year (FY) 2001-02 financial statements that are materially correct and accurately reflect that year's financial activity. We have not, therefore, completed our financial audit for FY 2001-02. We have, however, continued to monitor concerns about State Fair Park's financial condition and debt associated with its building program. As part of our continuing efforts to monitor these concerns, we have reviewed State Fair Park's current financial position, its agreements with various entities that own or manage fairgrounds facilities, and debt service costs related to new construction.

Revenues and Expenses

State Fair Park's total expenses have exceeded revenues in four of the past five years. In FY 2002-03, expenses exceeded revenues by $4.5 million.



In FY 2002-03, State Fair Park was required to lapse $2.4 million in program revenue to the State's General Fund, and the Pettit Center did not make $371,600 in rent payments. However, even if State Fair Park had not been required to lapse program revenue funds and the Pettit Center had made its FY 2002-03 rent payments, expenses would have exceeded revenues by nearly $1.8 million.

State Fair Park funds its capital expenses, such as routine building repair and renovation expenses, through a statutorily required capital reserve fund. Its non-capital expenses, including operating and debt service costs, are funded by program revenue appropriations. In FY 2002-03, State Fair Park was unable to fund all non-capital expenses with program revenues and reported a cash deficit of $4.4 million as of June 30, 2003.

Funds from other appropriations within the State's General Fund were used to pay these expenses, but as a result the General Fund will lose an opportunity to invest and earn interest on those funds in the future.

Reasons for Fiscal Decline

The 11-day Wisconsin State Fair accounts for the largest portion of State Fair Park's revenues, and fair attendance has fluctuated in the past ten years. In August 2003, fair attendance was 809,484, which is 9.5 percent below 2002 levels.

State Fair Park recognizes the risk associated with its heavy reliance on fair revenue and has attempted to make the fairgrounds a year-round entertainment attraction. An aggressive $160.0 million building program to revitalize the fairgrounds was inititated in August 2000. It included:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, completed in time for the 2003 racing season at a cost of $19.1 million;
- the Wisconsin Exposition Center, which replaced several existing exhibit buildings and was completed in time for the 2002 State Fair;
- an agriculture village that includes a new barn and several remodeled facilities; and
- new entrance gates, fencing, and a recreational vehicle park.

Key Facts and Findings

State Fair Park has been unable to provide us with accurate financial statements for FY 2001-02.

A $160.0 million building program to revitalize the fairgrounds was approved in August 2000.

The Wisconsin Exposition Center was constructed in 2002 at a total cost of nearly $37.8 million.

From FY 2000-01 through FY 2002-03, approximately $76.7 million was spent to upgrade fairgrounds facilities.

State Fair Park's total expenses exceeded revenues by $4.5 million in FY 2002-03.

The annual Wisconsin State Fair accounts for nearly two-thirds of State Fair Park's total revenues.

However, new and renovated facilities that were intended to be self-supporting have not met the overly optimistic revenue projections that were used to support their construction. Instead, they have contributed to State Fair Park's declining financial condition.

For example, State Fair Park incurred a net loss of more than $341,700 in the 2002 racing season. Although a renegotiated agreement with a private racing promoter was intended to increase revenues from the Milwaukee Mile, the 2002 agreement:

- included profit-sharing provisions that had limited value given that the racing promoter consistently reported net losses;
- did not require the promoter to significantly increase the number of future racing events;
- eliminated a minimum annual rent payment of $300,000; and
- did not require the promoter to reimburse State Fair Park for its debt service costs if the promoter did not realize a profit.

In May 2003, just two days before the start of the racing season, State Fair Park spent an additional $250,000 to terminate this contract and began managing the Milwaukee Mile internally. Under the termination agreement, State Fair Park assumed liability for $3.2 million in debt incurred by the promoter in exchange for approximately $1.6 million in net assets.

State Fair Park also funds $67,000 in monthly salary and fringe benefits costs for eight Milwaukee Mile employees hired by the Exposition Center. This unusual payment process, which bypassed mechanisms for legislative and executive control, provided two employees with incentive pay totaling $27,900.

Under other agreements it negotiated with the not-for-profit Wisconsin Exposition Center, we estimate that State Fair Park:

- incurs annual costs of at least $39,100 on behalf of the Exposition Center, including parking lot maintenance and sewer costs;
- paid the Exposition Center $73,540 more than its net parking revenue from non-fair events over an eight-month period; and
- lost 104 days' revenue from events that left the fairgrounds when the Exposition Center was built and several other buildings were demolished.

Poor Business Planning

Although a private financial consultant hired by State Fair Park projected that a new Milwaukee Mile grandstand could support a significant amount of debt and report a net profit in the second year of operation, several incorrect assumptions were included in that projection.

For example, the projection assumed State Fair Park would receive $10.0 million in naming rights for the grandstand and would attract six major events each year and collect concession revenue averaging $25 per person at each event. However, naming rights have not yet been sold, and State Fair Park acknowledges that six events may be difficult to achieve and that the industry average for concession revenue is only $6 to $13 per person.

Projections for the Exposition Center were also overly optimistic. The Exposition Center was projected to attract 68 events each year, but it has scheduled only 34 events in 2003 and currently has 25 events scheduled for 2004, including the Wisconsin State Fair.

Finally, it is critical that State Fair Park improve its financial management in general, and its financial reporting system in particular.

Because State Fair Park officials have not yet provided FY 2001-02 financial statements that are materially correct and accurately reflect that year's financial activities, we have not been able to complete a statutorily required audit in a timely manner and make our opinion available to the Legislature and the Governor as they considered the State's 2003-05 biennial budget.

Increased Debt Service Costs

To fund the costs of recent improvements to the fairgrounds, State Fair Park has relied on funding from program revenue–supported bonds, GPR-supported bonds, and

$2.0 million from the Stewardship Program. However, its ability to meet debt service obligations will be limited, at least in the short run, if program revenues from the Wisconsin State Fair and other sources do not increase, or if operating expenses do not decline.

State Fair Park's annual program revenue–supported debt service payments will be more than $3.3 million through FY 2012-13. If program revenues are insufficient to cover these debt service costs, the State could ultimately be called on to fund them, as well as at least $2.0 million in annual debt service costs from GPR-supported bonds.

Recommendations

We include recommendations for State Fair Park to:

- ☑ develop a detailed, comprehensive business plan for its racing activities *(p. 27)*;
- ☑ immediately renegotiate its ground lease agreement with the Wisconsin Exposition Center and seek reimbursement of the costs it incurs for Exposition Center operations *(p. 32)*;
- ☑ immediately renegotiate its licensing agreement with the Wisconsin Exposition Center to more reasonably account for parking revenues and expenses related to Exposition Center events *(p. 33)*; and
- ☑ in conjunction with the Wisconsin Exposition Center Board and the Pettit National Ice Center, Inc., develop detailed, comprehensive plans to increase revenues, define operating and management relationships, and establish contingency plans if revenue targets are not met *(pp. 37 and 41)*.

Matters for Legislative Consideration

As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, a number of other areas will need to be addressed, including State Fair Park's management structure, the level of additional financial support the State may be requested to provide in the future, and the level of oversight it wishes to retain at the fairgrounds.

Additional Information

For a copy of report 03-11, which includes a response from State Fair Park's chief executive officer, call **(608) 266-2818** or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

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Telecommunications, Radio, and Television

Highlights

- **Universal Service Fund** *(Reports 04-9 and 03-9)*

  The Fund supports telecommunications services and access, including Internet access in schools and libraries and programs to assist low-income and disabled individuals. It is funded through assessments on telecommunications providers. We completed two audits, which included unqualified auditor's opinions on the Fund's financial statements for FYs 2002-03, FY 2001-02, and FY 2000-01. Our 2003 report also discusses some effects of the 2003-05 Biennial Budget Act.

Other Reports

- **Wisconsin Educational Communications Board Radio Network** *(Reports 04-17 and 03-15)*

  These reports include unqualified opinions on the radio network's financial statements for FY 2003-04 and FY 2002-03. In FY 2003-04, the radio network received $8.3 million in support and revenue that included state funding, member contributions, funding from the Corporation of Public Broadcasting, and various other grants. In FY 2002-03, its support and revenue from these sources was $9.3 million.

- **Wisconsin Educational Communications Board Television Network** *(Reports 04-16 and 03-16)*

  These reports include unqualified opinions on the television network's financial statements for FY 2003-04 and FY 2002-03. In FY 2003-04, the television network received $11.9 million in support and revenue that included state funding, member contributions, funding from the Corporation of Public Broadcasting, and various other grants. In FY 2002-03, its support and revenue from these sources was $17.1 million.

- **Wisconsin Public Broadcasting Foundation** *(December 2004 and December 2003)*

  These reports include unqualified opinions on the Foundation's financial statements for FY 2003-04 and FY 2002-03.

- **WHA Radio** *(Reports 03-18 and 03-1)*

  These reports include unqualified opinions on WHA Radio's financial statements for FY 2002-03 and FY 2001-02. In FY 2002-03, WHA Radio received $8.9 million in support and revenue that included state funding, member contributions, funding from the Corporation of Public Broadcasting, and various other grants. In FY 2001-02, its support and revenue from these sources was $8.8 million.

- **WHA Television** *(Reports 03-17 and 03-2)*

  These reports include unqualified opinions on WHA Radio's financial statements for FY 2002-03 and FY 2001-02. In FY 2002-03, WHA Television received $16.1 million in support and revenue that included state funding, member contributions, funding from the Corporation of Public Broadcasting, and various other grants. In FY 2001-02, its support and revenue from these sources was $16.2 million.

03-9

An Audit:

Universal Service Fund

Public Service Commission

July 2003

Report Highlights ■

The Fund supports Internet access in schools and libraries.

PSC-operated programs increase telecommunications access.

Almost $4 million was lapsed to the General Fund during the 2001-03 biennium.

Several provisions in the 2003-05 Biennial Budget Act affect the Fund.

The Universal Service Fund was established under 1993 Wisconsin Act 496 to ensure that all state residents receive essential telecommunications services and have access to advanced telecommunications capabilities.

The Fund supports telecommunications services and access programs that are provided by several state agencies, including the Public Service Commission (PSC), the Technology for Educational Achievement (TEACH) Board, the University of Wisconsin System, and the Department of Public Instruction. It is funded through assessments paid by telecommunications providers, which totaled $22.3 million in fiscal year (FY) 2001-02.

At the request of the PSC, we completed a financial audit of the Universal Service Fund. Our audit report contains our unqualified opinion on the Fund's financial statements and related notes for the fiscal years ending June 30, 2002 and 2001.

Key Facts and Findings

The Universal Service Fund is funded through assessments paid by telecommunications providers.

Telecommunications providers paid a total of $22.3 million in FY 2001-02.

We have issued an unqualified opinion on the Fund's FY 2001-02 financial statements.

Fund expenditures and transfers totaled $18.9 million during FY 2001-02.

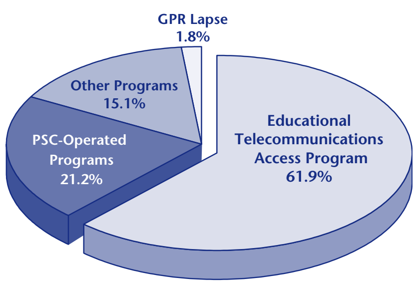
Subsequent to GPR lapses, the Fund had a balance of $4.8 million as of June 30, 2003.

Subsidies and grants have provided for 834 data lines and video links throughout the state.

Educational Telecommunications Access Program

The largest program supported by the Universal Service Fund is the Educational Telecommunications Access Program, which subsidizes new and existing data lines and video links to public and private K-12 schools, colleges, public libraries, and others. The program has been operated by the TEACH Board.

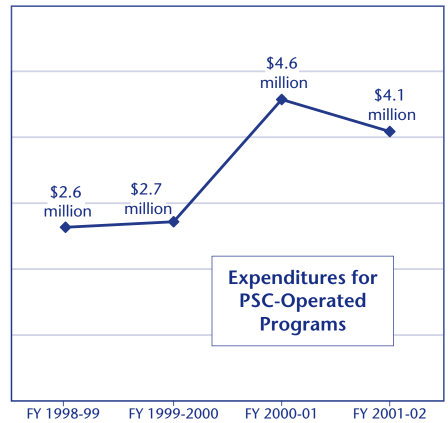
In FY 2001-02, Educational Telecommunications Access Program expenditures were $11.7 million, which was 61.9 percent of the Universal Service Fund's total expenditures and transfers.



PSC-Operated Programs

Eight other programs supported by the Universal Service Fund help people with disabilities acquire special telecommunications equipment, lessen the financial effect of rate increases on users, and serve low-income individuals. These programs are operated by the PSC.

Until recently, the PSC-operated programs spent significantly less than their budgets. However, with the addition, expansion, and promotion of these programs, expenditures for their operation and administration have increased.



During FY 2001-02, expenditures for PSC-operated programs included:

- $1.6 million for the Telecommunications Equipment Purchase Program, which provides financial assistance to help persons with disabilities in acquiring special telecommunications equipment;
- $1.5 million for the Lifeline and Link-up America programs, which provide support for low-income individuals to establish and receive basic telephone services;

- $275,000 for the Medical Telecommunications Equipment Program, which awards grants on a competitive basis to nonprofit medical clinics or public health agencies for the purchase of medical telecommunications equipment;

- $235,000 for the Access Program or Project by Nonprofit Groups program, which provides grants to nonprofit groups for programs or projects that facilitate affordable access to telecommunications and information services;

- $130,000 for the Public Interest Pay Telephone Program, which ensures that pay telephones remain or are installed at locations where there is a public need;

- $101,000 for the Rate Ceiling Credit Program, which lessens the financial effects of rapid rate increases on users;

- $850 for the Two-Line Voice Carryover Program, which provides a second telephone line for hearing-impaired customers for teletype service; and

- $200,000 for administrative expenses.

Under limits established in 2001 Wisconsin Act 16, the 2001-03 Biennial Budget Act, the assessments that fund these programs have been reduced to $5.0 million in FY 2003-04 and $6.0 million in FY 2004-05 and each year thereafter.

Lapses to the General Fund

In response to projected budget deficits for the 2001-03 biennium, several bills were enacted that required state agencies to lapse funds to the General Fund. A total of $340,000 was lapsed from the Universal Service Fund in FY 2001-02, and $3,639,000 was lapsed in FY 2002-03.

Required Lapses to the General Fund

Act	FY 2001-02	FY 2002-03
2001 Act 16	$200,000	$ 200,000
2001 Act 109	140,000	200,000
2003 Act 1	0	3,239,000
Total	**$340,000**	**$3,639,000**

First, the 2001-03 Biennial Budget Act required the Department of Administration (DOA) to recommend lapses from various agencies to the General Fund totaling $18.8 million each year in both FY 2001-02 and FY 2002-03. DOA's recommendations included lapses of $200,000 from the Universal Service Fund in both years.

Second, 2001 Wisconsin Act 109 required the Fund to lapse another $340,000 to the General Fund: $140,000 in FY 2001-02, and $200,000 in FY 2002-03.

Finally, subsequent budget adjustment legislation, 2003 Wisconsin Act 1, required the Universal Service Fund to lapse another $3,239,000 during FY 2002-03. Following these lapses, the Universal Service Fund had a balance of approximately $4.8 million as of June 30, 2003.

New Budget Provisions

Under 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, the TEACH Board is eliminated and administration of the Educational Telecommunications Access Program is moved to DOA.

Other Universal Service Fund–related provisions in the 2003-05 Biennial Budget Act include:

- shifting $4.2 million of public school library aid payments from general purpose revenue (GPR) funding to the Universal Service Fund for the 2003-05 biennium and allowing the PSC to assess telecommunications providers for the library aid payments; and

- specifying that public museums are eligible for the Educational Telecommunications Access Program.

Additional Information

For a copy of report 03-9,
call **(608) 266-2818**
or visit our Web site:

www.legis.state.wi.us/lab

Address questions regarding this report to:

Diann Allsen
(608) 266-2818

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Legislative Audit Bureau

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Janice Mueller
State Auditor

Audit Opinions and Certifications

▪ Annual Audits of the State's Financial Statements

Independent Auditor's Report on the FY 2003-04 Financial Statements of the State of Wisconsin *Dated December 21, 2004*

Independent Auditor's Report on the FY 2002-03 Financial Statements of the State of Wisconsin *Dated December 12, 2003*

This annual effort requires on-site audit work at the Department of Administration and every major state agency from September to December. Our audit opinion and the related financial statements are presented in the State's Comprehensive Annual Financial Report (CAFR), which is published by the Department of Administration. These statements are intended to provide the most complete and revealing picture of the State's financial position and operating results. We provided an unqualified opinion in each year. In part because of our unqualified opinions, the State has earned the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association of the United States and Canada.

▪ Independent Audits of the University of Wisconsin's Financial Statements

Independent Auditor's Report on the FY 2003-04 Financial Statements of the University of Wisconsin System *Dated December 21, 2004*

Independent Auditor's Report on the FY 2002-03 Financial Statements of the University of Wisconsin System *Dated January 7, 2004*

Independent Auditor's Report on the FY 2001-02 Financial Statements of the University of Wisconsin System *Dated January 10, 2003*

Although we audit the University of Wisconsin System as a major element of our audit of the State's overall financial statements, at the request of university management we also provide a separate audit opinion on the university's stand-alone financial statements. These statements provide considerable additional detail on its finances, which allow comparisons to other major university systems and a more thorough evaluation by the Board of Regents and other interested parties. We provided unqualified opinions on the statements audited during the biennium.

▪ Independent Audits of the State of Wisconsin Investment Board

Independent Auditor's Report on the FY 2002-03 and FY 2003-04 Financial Statements of the State of Wisconsin Investment Board's Retirement Investment Trust Funds *Dated November 19, 2004*

Independent Auditor's Report on the FY 2002-03 and FY 2003-04 Financial Statements of the State of Wisconsin Investment Board's Various Funds *Dated November 19, 2004*

Independent Auditor's Report on the FY 2002-03 and FY 2003-04 Financial Statements of the State of Wisconsin Investment Fund
Dated August 27, 2004

Independent Auditor's Report on the FY 2001-02 and FY 2002-03 Financial Statements of the State of Wisconsin Investment Board's Retirement Investment Trust Funds *Dated November 24, 2003*

Independent Auditor's Report on the FY 2001-02 and FY 2002-03 Financial Statements of the State of Wisconsin Investment Board's Various Funds *Dated November 24, 2003*

Independent Auditor's Report on the FY 2001-02 and FY 2002-03 Financial Statements of the State of Wisconsin Investment Fund
Dated August 28, 2003

Our annual audits of the investments managed by the State of Wisconsin Investment Board provide assurance to governments and individuals as to the overall value of investments and the income earned by the investments. We have provided unqualified opinions on the statements audited during the biennium.

▪ Independent Audits of the Department of Employee Trust Funds

Independent Auditor's Report on the 2002 Financial Statements of the Department of Employee Trust Funds *Dated March 17, 2004*

Independent Auditor's Report on the 2001 Financial Statements of the Department of Employee Trust Funds *Dated June 11, 2003*

Our audits of the pension funds and other accounts managed by the Department of Employee Trust Funds help provide assurance to contributing governments, covered government employees, and annuitants concerning the financial status of the funds and their ability to fulfill future obligations. We have provided unqualified opinions on the statements audited during the biennium.

▪ Statutorily Required Certifications

Certification of the State's Net Indebtedness as of January 1, 2004

Certification of the State's Net Indebtedness as of January 1, 2003

Biennial Certification of Cash and Securities in the Custody of the State Treasurer as of June 30, 2003

These certifications were completed during the course of the annual audit of the State's financial statements. They are used to determine compliance with annual debt limits and to ensure the accuracy of the State Treasurer's records.

Audit Committee Action

- ☑ *Informational Hearings on the State of Wisconsin Comprehensive Annual Financial Report (CAFR), February 13, 2004, and April 1, 2003*

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Reports Issued in 2004 ■

Numbered Reports

04-1 An Evaluation: Air Management Programs, *Department of Natural Resources*

04-2 An Audit: State of Wisconsin, 2002-03 (Single Audit)

04-3 An Audit: Health Insurance Risk-Sharing Plan (HIRSP), *Department of Health and Family Services*

04-4 An Audit: Wisconsin Lottery, *Department of Revenue*

04-5 An Audit: State Fair Park

04-6 An Evaluation: Restorative Justice Programs, *Milwaukee and Outagamie Counties*

04-7 A Review: Credentialing Fees, *Department of Regulation and Licensing*

04-8 An Audit: Wisconsin Mental Health Institutes, *Department of Health and Family Services*

04-9 An Audit: Universal Service Fund, *Public Service Commission*

04-10 An Evaluation: University of Wisconsin System Staffing

04-11 An Evaluation: Medical Assistance Eligibility Determinations, *Department of Health and Family Services*

04-12 An Audit: Injured Patients and Families Compensation Fund, *Office of the Commissioner of Insurance*

04-13 An Evaluation: State of Wisconsin Investment Board

04-14 An Evaluation: Assessment of Manufacturing Property, *Department of Revenue*

04-15 An Audit: Petroleum Inspection Fee Revenue Obligations Program

04-16 An Audit: Wisconsin Educational Communications Board Television Network

04-17 An Audit: Wisconsin Educational Communications Board Radio Network

Unnumbered Reports

Use of Emergency Department Services by Medical Assistance Recipients (January 2004)

Nursing Staff Issues at the Wisconsin Veterans Home (February 2004)

Comprehensive Annual Financial Report (CAFR) Compliance Issues (March 2004)

Best Practices: Local Government User Fees (April 2004)

Milwaukee Brewers Baseball Club (May 2004)

State Fair Park FY 2001-02 Financial Statements (June 2004)

Veterans Assistance Program (July 2004)

Green Bay/Brown County Professional Football Stadium District (August 2004)

Environmental Cooperation Pilot Program (September 2004)

Opportunities Industrialization Center of Greater Milwaukee, Inc. (OIC-GM) (November 2004)

Wisconsin Public Broadcasting Foundation, Inc. (December 2004)

Audit Opinions and Certifications

Certification of the State's Net Indebtedness as of January 1, 2004

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Independent Auditor's Report on the FY 2002-03 and FY 2003-04 Financial Statements of the State of Wisconsin Investment Board's Various Funds

Independent Auditor's Report on the FY 2002-03 Financial Statements of the University of Wisconsin System

Independent Auditor's Report on the FY 2003-04 Financial Statements of the University of Wisconsin System

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Reports Issued in 2003 ■

Numbered Reports

03-1 An Audit: WHA Radio

03-2 An Audit: WHA Television

03-3 An Evaluation: Use of Tobacco Control Board Funds, *Tobacco Control Board*

03-4 An Evaluation: Milwaukee Area Technical College District

03-5 An Audit: State of Wisconsin, 2001-02 (Single Audit)

03-6 An Evaluation: Wisconsin Center for the Blind and Visually Impaired, *Department of Public Instruction*

03-7 An Audit: Wisconsin Lottery, *Department of Revenue*

03-8 A Review: State Purchasing Cards, *Department of Administration*

03-9 An Audit: Universal Service Fund, *Public Service Commission*

03-10 An Audit: Wisconsin Mental Health Institutes, *Department of Health and Family Services*

03-11 An Evaluation: State Fair Park

03-12 An Audit: Health Insurance Risk-Sharing Plan (HIRSP), *Department of Health and Family Services*

03-13 An Evaluation: Major Highway Program, *Department of Transportation*

03-14 An Audit: Petroleum Inspection Fee Revenue Obligations Program

03-15 An Audit: Wisconsin Educational Communications Board Radio Network

03-16 An Audit: Wisconsin Educational Communications Board Television Network

03-17 An Audit: WHA Television

03-18 An Audit: WHA Radio

Unnumbered Reports

Environmental Cooperation Pilot Program (February 2003)

Office of Justice Assistance (April 2003)

Budgetary Issues (June 2003)

Milwaukee Retirement Systems Error (July 2003)

Family Care Final Evaluation (July 2003)

Food Stamp Program (September 2003)

Pesticide and Fertilizer Fees (September 2003)

Management of Inmate Property (October 2003)

Chronic Wasting Disease (October 2003)

Legislative Technology Services Bureau (November 2003)

Wisconsin Public Broadcasting Foundation, Inc. (December 2003)

Audit Opinions and Certifications

Certification of the State's Net Indebtedness as of January 1, 2003

Biennial Certification of Cash and Securities in the Custody of the State Treasurer as of June 30, 2003

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Independent Auditor's Report on the FY 2001-02 and FY 2002-03 Financial Statements of the State of Wisconsin Investment Fund

Independent Auditor's Report on the FY 2001-02 and FY 2002-03 Financial Statements of the State of Wisconsin Investment Board's Various Funds

Independent Auditor's Report on the FY 2001-02 Financial Statements of the University of Wisconsin System

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Appendix 1

Statutory Responsibilities for Recurring Audits

Under s. 13.94, Wis. Stats., and other statutory provisions, the Legislative Audit Bureau is responsible for conducting annual financial audits of:

- the Department of Employee Trust Funds;
- the Capital Improvement Fund;
- the Bond Security and Redemption Fund;
- the State of Wisconsin Investment Board;
- the Division of Gaming within the Department of Administration;
- the Wisconsin Lottery;
- State Fair Park;
- student loans and notes in the possession of the Higher Educational Aids Board;
- grants for dental services at the Marquette University School of Dentistry; and
- the Green Bay/Brown County Professional Football Stadium District's efforts to meet contracting and hiring goals for minorities and women in the Lambeau Field reconstruction project.

We also conduct biennial or more frequent financial audits of:

- the accounts of the Department of Administration;
- deposits in the state treasury or state depositories;
- expenditures from the state appropriation to the Medical College of Wisconsin;
- expenditures under the Higher Educational Aids Board contract for dental education services; and
- the financial status of the local professional baseball park and football stadium district.

Annual program audit responsibility for area cooperation compacts under which municipalities collaborate to provide governmental services such as law enforcement, fire protection, and emergency services, began in 2004.

We have biennial program audit responsibility for the State Lottery, the State of Wisconsin Investment Board, and the Division of Gaming within the Department of Administration. In addition, we are required to periodically audit divisions in the Department of Commerce that are responsible for inspections of multifamily housing, to conduct county and municipal best practices reviews, and to monitor the Department of Natural Resources' environmental cooperation pilot program.

Statutes require that we audit the State Life Insurance Fund, the Local Government Property Insurance Fund, and the Patients Compensation Fund at least once every three years. In recent years we have performed these audits every three years and have performed interim work each year for purposes of our annual audit of the State of Wisconsin's financial statements.

At least once every five years, we are required to examine the extent to which state agencies purchase materials, supplies, or equipment manufactured outside the United States. We are also responsible for conducting special examinations of the accounts and financial transactions of any department or office as the Governor, the Legislature, the Joint Legislative Audit Committee, or the Joint Committee on Legislative Organization directs. Finally, as directed by the Joint Legislative Audit Committee, we may audit any county, city, village, town, or school district.

Appendix 2

Legislative Audit Bureau Organization Chart