



STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor  
Joel Brennan, Secretary

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April 15, 2021

State Senator Robert Cowles  
Co-chair, Joint Legislative Audit Committee  
118 South, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882

State Representative Samantha Kerkman  
Co-chair, Joint Legislative Audit Committee  
315 North, State Capitol  
P.O. Box 8952  
Madison, Wisconsin 53708-8952

Dear Co-Chairpersons Cowles and Kerkman:

The Department of Administration (DOA) herein submits to the Joint Legislative Audit Committee (Committee) an update on the status of its efforts to implement recommendations related to concerns identified by the Legislative Audit Bureau (LAB) in Audit Report 20-30 "State of Wisconsin FY 2019-20 Financial Statements" (Report). We thank the LAB for the opportunity to act on these recommendations and their work in highlighting these important issues.

On December 22, 2020, the LAB completed the financial audit of the State of Wisconsin as of and for the fiscal year that ended June 30, 2020. In the report, LAB recommended that by April 15, 2021, DOA develop a written plan and timeline for resolving existing balances in clearing appropriations and provide training to state agencies on the appropriate use of clearing appropriations.

As noted in our February 2, 2021, testimony provided to the Committee, the State Controller's Office (SCO) was working to identify agencies that needed to make corrections during prior year reviews and was contacting them to provide specific training and instruction to avoid similar issues. Since that time, the SCO also identified agencies that needed additional assistance to overcome obstacles that prevent agencies from meeting certain deadlines. SCO worked to help find appropriate solutions to those obstacles and to develop written plans for resolving balances in clearing appropriations. SCO also contacted affected agencies to better understand how they are using clearing appropriations and to provide training to ensure clearing appropriations are being used properly.

To date, of the 36 clearing appropriations identified by the LAB that required corrections, 19 appropriations existing balances have been resolved and 13 appropriations are being actively reviewed by staff at the appropriate agencies and will be cleared by June 30, 2021. Only four appropriations remain that require additional discussion to determine the appropriate resolution.

Enclosed the Committee will find additional information on DOA's plans and timelines for addressing existing balances and the training provided to state agencies on the appropriate use of clearing appropriations. We appreciate the opportunity to provide this update to the Committee on DOA's improvements to executive branch operations and financial management.

Sincerely,

Joel T. Brennan  
Secretary

Attachment

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# DOA RESPONSE TO LAB Report 20-30 RECOMMENDATIONS

April 15, 2021

## SUMMARY

In Audit Report 20-30 "State of Wisconsin FY 2019-20 Financial Statements," the Legislative Audit Bureau (LAB) recommended the Department of Administration (DOA) comply with Wisconsin Statutes and enforce its policies in the Wisconsin Accounting Manual by developing a written plan and timeline for resolving existing balances in clearing appropriations and providing training to state agencies on the appropriate use of clearing appropriations (20-30, p.8).

DOA is committed to complying with statutory requirements and has already undertaken measures to meet the LAB's recommendations. Prior to April 1, 2021, the State Controller's Office (SCO) contacted each of the state agencies that had existing balances in their clearing appropriations. In these communications, the SCO staff provided training to the agency staff on the appropriate use of clearing appropriations.

By working directly with each agency individually, the State Controller's Office has gathered information on how each agency is using the clearing appropriations and how the existing balances developed. This has also allowed the State Controller's Office to develop a plan for resolving existing balances with each agency and tailor its training on the use of these appropriations.

As a result of these efforts, of the 36 clearing appropriations identified by LAB that had a balance of a positive or negative \$1.00 or more:

- 19 appropriations' existing balances have already been resolved;
- 13 appropriations are being actively reviewed by staff at the appropriate agencies, and will be cleared by June 30, 2021; and
- 4 appropriations present challenges that require additional discussion to determine the appropriate resolution.

Written responses for resolving existing balances by June 30, 2021, in specific clearing appropriations are included below.

## BACKGROUND

The Department of Administration (DOA) is responsible for maintaining the State's accounting records in the State Transforming Agency Resources (STAR) system, approving all payments, and ensuring budgetary control is enforced. Under s. 20.904, Wis. Stats. and Section 03-07 of the Wisconsin Accounting Manual, agencies are required to clear all

revenues and expenditures from their clearing appropriations before the close of the accounting records for the fiscal year, and at such other times as determined by DOA.<sup>1</sup>

In 2016, the State Controller’s Office created a checklist to guide agencies through a month-end review of financial information to help ensure accuracy in their accounting records. One of the tasks on this monthly checklist directs agencies to clear out revenues and expenditures recorded to clearing appropriations during the month.

The State Controller’s Office also completes an annual review of clearing appropriations and counsels agencies to clear revenues and expenditures from those appropriations before year-end. This review concentrates on revenues and expenditures but does not highlight balances that might exist in balance sheet accounts. These balances are often a result of timing issues that clear themselves up shortly after the fiscal period ends. Agencies certify the balances reflected in their appropriations annually.

## CLEARING APPROPRIATIONS

As identified by LAB in Audit Report 20-30, at the close of the accounting records for fiscal year (FY) 2019-20, 36 of approximately 100 clearing appropriations in STAR had a balance of a positive or negative \$1.00 or more. The SCO contacted all the agencies that had existing balances in one of their clearing appropriations on June 30, 2020. Through virtual meetings and email exchanges, the SCO gathered information on how each clearing appropriation is being used, provided training on the proper use of a clearing appropriation, and coordinated with the agencies to develop plans for how to resolve the existing balances.

Of the 36 clearing appropriations noted by LAB:

The following 19 appropriations have already been addressed and the balances that existed on June 30, 2020, have been resolved and cleared out of the appropriation.

	Business Unit		Appropriation
1	11500	Dept of Ag, Trade & Cons Protc	96700
2	11500	Dept of Ag, Trade & Cons Protc	99100
3	16500	Dept of Safety & Prof Services	97100
4	23500	Higher Educational Aids Board	99000
5	25500	Dept of Public Instruction	96700
6	28500	University of Wisconsin System	99100

<sup>1</sup> 20.904 Transfer of appropriation charges. (1) CLEARING ACCOUNTS PERMITTED. Whenever for economy or convenience, any materials or services are purchased, or expense is incurred and the same is properly apportionable and chargeable to more than one appropriation, within a single state agency, the responsible state agency may, subject to the approval of the department of administration, direct payment of the same out of one of the appropriations chargeable with some part of such materials, services or expense or out of a separate clearing account. (2) REIMBURSEMENT OF CLEARING ACCOUNTS. In any such case the state agency making the purchase or incurring the expense shall determine prior to the closing of the books for the fiscal year, and at such other times as may be determined by the secretary of administration, the amounts chargeable to the several appropriations and shall issue transfer vouchers, setting forth in each voucher the reason therefor. The department of administration shall credit the appropriation or account from which payment was originally made and shall debit the appropriation directed to be charged by the transfer voucher in the amount named therein.”

7	43500	Department of Health Services	96700
8	43500	Department of Health Services	96700
9	43700	Dept of Children and Families	99000
10	45500	Department of Justice	97100
11	46500	Department of Military Affairs	93500
12	48500	Department of Veterans Affairs	99000
13	50500	Department of Administration	90300
14	58500	Office of the State Treasurer	93000
15	66500	Judicial Commission	97100
16	76500	Legislature	96300
17	76500	Legislature	97100
18	76500	Legislature	99700
19	86500	Program Supplements	99000

The following 13 appropriations are being actively reviewed by staff at the appropriate agencies. Agencies are working to complete these corrections and SCO is working closely with agencies to provide support as needed. Agencies have confirmed to SCO that these balances will be resolved by June 30, 2021.

	Business Unit		Appropriation
1	37000	Dept of Natural Resources	99401
2	37000	Dept of Natural Resources	99401
3	37000	Dept of Natural Resources	99401
4	37000	Dept of Natural Resources	99401
5	39500	WI Dept of Transportation	93300
6	39500	WI Dept of Transportation	96800
7	43500	Department of Health Services	90300
8	43500	Department of Health Services	93400
9	43500	Department of Health Services	96500
10	43500	Department of Health Services	97500
11	44500	Dept of Workforce Development	19800
12	50500	Department of Administration	91600
13	50500	Department of Administration	93500

The following four appropriations require additional discussion or action to determine the appropriate resolution.

**Department of Workforce Development – Business Unit 44500, Clearing Appropriation 19800**

The Wisconsin Department of Workforce Development’s (DWD) appropriation 19800 is a clearing appropriation set up in accordance with §20.904, Wis. Stats. The fiscal year 2020 equity account balance for DWD’s appropriation

19800 in balance sheet 3990000 (Undesignated Fund Balance) is \$975,858.71. This balance was generated by two transactions that occurred in the 1990s (during the fiscal year 1994 and fiscal year 1997, appropriation 19800 closed with balances remaining).

In the fiscal year 1994, a transaction was created for \$204,507.71, which was most likely processed to establish balances from the Central Accounting System (CAS) onto WiSMART. In 1994, the State converted to the WiSMART system. The State no longer has the detail to research where this balance should have been recorded.

In 1997, Wisconsin Act 3, s. 20.445, Wis. Stats., was modified to change the name of the Department of Industry, Labor and Job Development to the Department of Workforce Development. In that year, a transaction was created in the amount of \$771,351.00. SCO believes that this transaction was processed as part of the closing of the Department of Industry, Labor and Job Development. Again, the State no longer has the detail to research where this balance should have been recorded.

**Response:**

Since the State is unable to determine the correct appropriation in which these balances should have been recorded, and DWD's activity is primarily grant-funded, the Governor's 2021-23 biennial budget bill includes a one-time budget recommendation to clear up this outstanding balance using General Fund resources. The balance will remain in appropriation 19800 until the time that this legislative change can be made.

**Department of Administration – Business Unit 50500, Clearing Appropriation 91300**

The Department of Administration (DOA) administers the Central Fuel Procurement Program, which allows the State to consolidate fuel purchases for utilities and bargain for better utility rates by providing utilities in bulk. This includes administration of contracts with utility companies, approval of utility invoice payments, and billing of program participants, including state agencies and municipalities, on a monthly basis. The delivery of the program administration services is accomplished via Chapter 20 appropriation s. 20.505(1)(kc), Wis. Stats., while the amounts collected from agencies for payments to utility companies have been transacted through the central fuel clearing appropriation 91300.

**Department of Administration - Business Unit 86500, Clearing Appropriation 99400**

The unemployment compensation clearing appropriation is used to pay unemployment compensation billed by the Department of Workforce Development (DWD) to Business Unit 86500, which is then rebilled to state agencies, including the University of Wisconsin System (UWS).

The balance as of the end of FY 2019-20 was due to the timing of payments from other state agencies not occurring before June 30, 2020. DOA's Bureau of Financial Management follows 16.52(5)(a), Wis. Stats. when expenses are posted to the month of which services were received. Expenses posted at the end of the fiscal year are not billed out

to agencies until July, resulting in a temporary outstanding receivable balance until the payments are received early in the following fiscal year.

Response:

**WI Stat § 20.904 Transfer of appropriation charges.**

*(1) Clearing accounts permitted. Whenever for economy or convenience, any materials or services are purchased, or expense is incurred and the same is properly apportionable and chargeable to more than one appropriation, within a single state agency, the responsible state agency may, subject to the approval of the department of administration, direct payment of the same out of one of the appropriations chargeable with some part of such materials, services or expense or out of a separate clearing account.*

Clearing appropriations provide agencies the opportunity to temporarily record an expense in one appropriation until the information is available to allocate the expenses to the proper appropriations. The statute limits use of a clearing appropriation to only be used when the expenses will be allocated “within a single state agency.” Both programs managed by DOA pass-through expenses to other state agencies. Since at least fiscal year 2000 and most likely the implementation of WISMART, DOA has managed these programs by making payments and then billing other state agencies and municipalities for their share of the related charges through a clearing appropriation. If DOA were to administer these programs through a Chapter 20 appropriation, they would be required to request full budget authority to cover these payments. Doing this could disrupt other agencies’ spending.

The SCO is continuing to consult with the LAB and the DOA Bureau of Financial Management to consider all possible options and determine the best solution. The balances will remain in appropriations 91300 and 99400 until a resolution for this issue is identified.

**Department of Justice – Business Unit 45500, Clearing Appropriation 90300**

The Department of Justice’s (DOJ) use of clearing appropriation 90300 relates to its ongoing disagreement with the Joint Committee on Finance (JFC) about the scope of funds subject to s. 165.10 Wis. Stats., which requires all “settlement funds” to be transferred by the Attorney General to the General Fund. In correspondence between DOJ and JFC throughout 2019, DOJ and JFC outlined their differing interpretations of the statute. The question of the scope of s.165.10 has also previously been the subject of litigation, although the Wisconsin Supreme Court has so far declined to take up the question of the scope of this provision.<sup>2</sup> While the statute’s interpretation remains unresolved, DOJ continues to record revenue in appropriation 90300.

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<sup>2</sup> See *Kaul v. Wis. State Legislature*, No. 2020AP1928-OA (Wis. Mar. 24, 2021) (unpublished order denying respondents’ cross-petition for leave to commence an original action, which had sought a declaratory judgment on whether Section 27 of 2017 Act 369 is “not limited by Section 26 in any respect”); *Vos v. Kaul*, No. 2019AP1389-OA (Wis. Sept. 22, 2020) (unpublished order denying petition for leave to commence an original action, which had sought a declaratory judgment that the Attorney General’s interpretations of Section 27 of 2017 Act 369 were incorrect).

Response:

DOA has been in contact with DOJ regarding its use of clearing appropriation 90300 and has expressed its desire to have the account cleared out by June 30, 2021. SCO also recognizes that resolution by this date may not be possible because there are genuine questions of law that DOJ and JFC must resolve to identify the proper destinations for the funds. SCO will continue to monitor DOJ's use of the clearing appropriation and the status of the dispute, with the intent of seeking action from DOJ on the funds once the legal questions are resolved. Pending action from DOJ, the balance will remain in appropriation 90300.