



State of Wisconsin FY 2020-21 Financial Statements

The Department of Administration (DOA) prepares the Annual Comprehensive Financial Report (ACFR), which contains the financial statements of the State of Wisconsin prepared in accordance with generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). The ACFR includes financial information on state funds, including the State's General Fund, the Transportation Fund, the University of Wisconsin (UW) System, the Wisconsin Retirement System, and the Unemployment Reserve Fund.

We provided unmodified opinions on the financial statements and related notes of the State of Wisconsin as of and for the year ended June 30, 2021. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with GAAP. Our unmodified opinions are included in the State's ACFR, which may be found on DOA's website. We conducted the financial audit by auditing the State's financial statements in accordance with applicable government auditing standards, issuing our auditor's opinions, reviewing internal controls, and issuing our auditor's report on internal control and compliance.

We also reviewed certain aspects of the federal funding the State received for the public health emergency, and we include in our report certain other matters of interest related to the State's fiscal year (FY) 2020-21 activities.

The General Fund total fund balance improved from \$6.7 million as of June 30, 2020, to \$1.2 billion as of June 30, 2021

Total revenue increased by \$5.2 billion and was \$34.6 billion in FY 2020-21. This increase was largely the result of a \$3.9 billion increase in federal revenue and a \$1.2 billion increase in tax revenue. Total expenditures increased by \$4.6 billion and were \$31.4 billion in FY 2020-21. This increase was largely the result of increases in Medical Assistance expenditures and the State's expenditure of the federal funding it received related to the public health emergency.

The fund balance of the General Fund is made up of several components, and the largest is the committed fund balance. Committed fund balance includes the amount held in the statutory Budget Stabilization Fund, also known as the State's rainy day fund. The balance in the Budget Stabilization Fund increased from \$761.8 million as of June 30, 2020, to \$1.7 billion as of June 30, 2021, due to a \$967.4 million transfer that was initiated by law because tax revenues in FY 2020-21 exceeded the projections in 2019 Wisconsin Act 9, the 2019-21 Biennial Budget Act. The unassigned fund balance in the General Fund was a deficit of \$912.0 million as of June 30, 2021. This deficit indicates that more resources were spent and obligated from the General Fund than were received or anticipated to be received in the short term.

The State’s long-term debt decreased from \$13.2 billion as of June 30, 2020, to \$12.9 billion as of June 30, 2021

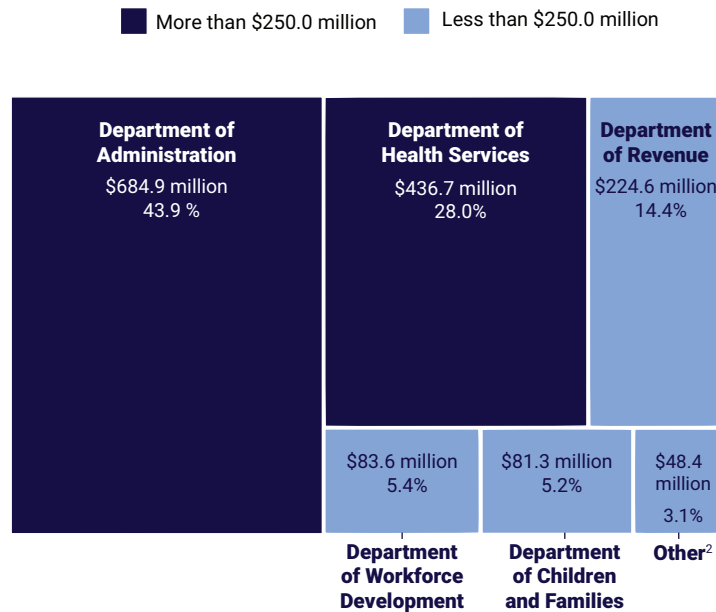
The State repaid long-term debt in excess of new debt issuances during FY 2020-21, resulting in the decrease in overall debt. Of the \$1.5 billion in new general obligation bonds and notes issued during FY 2020-21, \$569.4 million was for UW System academic facilities and \$297.7 million was for transportation projects.

In August 2021, Kroll Bond Rating Agency upgraded its long-term rating on the State’s general obligation bonds from AA+ to AAA with a stable outlook. Similarly, in August 2021, S&P Global Ratings upgraded its long-term rating for the State’s general obligation bonds from AA to AA+ with a stable outlook.

To address the public health emergency, the State expended federal funding under new and existing programs in FY 2020-21

In FY 2020-21, \$1.6 billion in expenditures at 30 state agencies were incurred and paid by the Coronavirus Relief Fund (CRF). According to amounts reported by DOA, the largest total expenditures were at DOA and the Department of Health Services (DHS).

Expenditures Incurred and Paid by the Coronavirus Relief Fund¹ | FY 2020-21



¹ As reported by DOA in the State’s accounting system for the fiscal year ended June 30, 2021.

² Includes state agencies that each had less than \$28.4 million in expenditures, as well as reallocated amounts. For more information, see Table 1 of report 21-23.

Separate from the CRF, the Coronavirus State and Local Fiscal Recovery Funds distributed money directly to state, local, tribal, and territorial governments. The State was allocated \$2.5 billion in funding and was advanced \$1.5 billion in May 2021, including \$205.8 million to be distributed to local governments. In FY 2020-21, \$478.5 million in expenditures at three state agencies were incurred and paid by the Coronavirus State and Local Fiscal Recovery Funds.

Wisconsin's federal medical assistance percentage (FMAP) is the percentage of medical assistance expenditures the federal government will fund for the State. The FMAP increased by 6.2 percent in March 2020. DHS reported the State received \$517.5 million in additional federal funding in FY 2020-21 as a result of the increased FMAP.

Unemployment insurance (UI) benefit payments of \$3.5 billion were reported in the Unemployment Reserve Fund for FY 2020-21. Federal assistance contributed \$2.5 billion in aid to fund UI benefits for individuals whose employment was affected by the public health emergency.

We reported four deficiencies in internal control over financial reporting

We reported three significant deficiencies in internal control related to information technology security at DOA, the Department of Workforce Development (DWD), and UW System. We again found that DOA did not comply with statutes that require it to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards (Finding 2021-001). Although UW System Administration had taken corrective actions as of June 30, 2021, related to our prior recommendations (report 20-29), none of its new information security policies were in effect in FY 2020-21 (Finding 2021-002). Finally, we reported concerns with access controls over computer programs used by DWD to administer the UI program (Finding 2021-004). We report an additional significant deficiency in internal control at DWD related to its use of a predictive analytics model for the UI program (Finding 2021-003). Specifically, we report concerns with DWD's monitoring of the ongoing accuracy of the model.

We make recommendations to these agencies to address the deficiencies we identified.

We identified five other matters of interest related to the State's FY 2020-21 activities

During our work, we identified five issues that did not meet the requirements for reporting under *Government Auditing Standards*, but that are matters of interest related to the State's FY 2020-21 activities. We communicated with the responsible state agencies on these matters, which include:

- a remaining balance as of June 30, 2021, in a clearing appropriation at the Department of Justice and a clearing appropriation at DOA;
- capitation payments made by DHS to managed care organizations in FY 2020-21;
- an insufficient balance in the General Fund interest and penalty account to fully fund certain UI benefit payments estimated by DWD;
- an increasing balance in the health insurance fringe benefit variance account, which DOA is responsible for resolving; and
- inaccurate balances for certain Department of Transportation appropriations in the State's accounting system.

We recommend that DOA report to the Joint Legislative Audit Committee by April 1, 2022, on the status of its efforts to resolve issues related to clearing appropriation balances. We will follow up on the status of these issues during our FY 2021-22 audit.

