



STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor  
Kathy Blumenfeld, Secretary  
Paul Hammer, Deputy Secretary

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**Wisconsin Department of Administration February 6, 2024 Testimony on the Legislative Audit Bureau's Report 23-26 on the State of Wisconsin's FY 2022-23 Financial Statements.**

Good afternoon, Co-Chairs Wimberger and Wittke, and Committee Members.

My name is Kathy Blumenfeld, and I am honored to serve as Secretary of the Department of Administration. Seated next to me are Colleen Holtan, our Bureau of Financial Management Director, Trina Zanow, the State's Chief Information Officer, and Troy Stairwalt, the State's new Chief Information Security Officer.

Thank you for the invitation to speak with you today regarding the Legislative Audit Bureau's report 23-26 on the State's FY 2022-2023 financial statements. I am pleased that the Audit Bureau provided an unmodified opinion, with no identified material weaknesses in internal controls, and that we were able to present such strong financial statements for the past fiscal year.

As noted in the most recent Annual Comprehensive Financial Report (ACFR), the state's Generally Accepted Accounting Principles (GAAP) surplus was over \$6.7 billion at the end of fiscal year 2023, by far the highest it has ever been. And after 30 consecutive years with a GAAP deficit, we've now had four consecutive years with a GAAP surplus.

The state Budget Stabilization Fund has a record high balance of roughly \$1.84 billion (as of December 2023) and is currently over five times higher than it was at the end of fiscal year 2018.

Additionally, under GAAP, the state's total long-term debt decreased by over \$175 million in fiscal year 2023, which indicates the state repaid existing debt in excess of new debt being issued last year.

I'm also proud that we now hold our first AAA bond rating on our General Obligation Bonds since 1982 from the Kroll Bond Rating Agency.

I'm grateful for the work state employees do daily to ensure strong fiscal stewardship of the State's funds and I am appreciative of the Audit Bureau's work in reviewing our financial statements and other related matters for this audit. While we all can feel good about the State's strong financial position, LAB did identify areas where we can improve and areas that require more clarification. I look forward to continued collaboration as we address the Audit Bureau's recommendations.

## *Information Technology*

As you know, DOA agrees with the Audit Bureau's recommendations with regards to our information security processes and oversight responsibilities. Our work to implement these recommendations and continually improve our cybersecurity posture is ongoing. We look forward to providing an update to this Committee on the status of our efforts to implement the Audit Bureau's recommendations by March 1, 2024.

## *Annual Appropriation Certifications*

When it comes to timely annual certification of appropriations, we agree with the Audit Bureau's recommendation regarding compliance with the relevant provision of Wisconsin Statute Chapter 16 (s. 16.52(5)(b), Wis. Stats.). DOA is required to certify approximately 3,300 appropriations, of which only three were not complete by their certification deadline. We will continue to strive to complete all annual appropriation certifications in a timely manner moving forward.

## *SLFRF (State and Local Fiscal Recovery Funds) Interest Earnings*

The financial management of the state's COVID relief funds has been a large undertaking for DOA since the start of the pandemic. It has significantly increased the volume of transactions overseen by DOA and the State Controller's Office and I am proud of the work DOA has done to be prudent fiscal managers of this money.

Part of that prudent fiscal management is to take advantage of earned interest where possible. With respect to both the Coronavirus Relief Funds under the CARES Act, and the State and Local Fiscal Recovery Funds under the American Rescue Plan Act, DOA placed advanced funds from the federal government in interest-bearing accounts, collecting the interest earnings to carry out the purposes for which they were received.

DOA's treatment of such interest earnings has been consistent throughout, which is to record interest earnings in the federal appropriation from which they are derived. With respect to the interest earned on SLFRF, DOA has treated these interest earnings consistently since 2021 when they began accruing, showing earned interest on SLFRF advances on its financial statements for fiscal years 2021 and 2022. DOA also answered an inquiry from LAB regarding this interest in February 2023 during LAB's field work on the federal single audit, but LAB didn't offer any observations at that point regarding DOA's treatment of it.

December 2023 was the first time DOA became aware of LAB's position that DOA should deviate from its historic practice with respect to treatment of the interest earnings on its SLFRF allocation, instead urging the transfer of the earnings to the general fund.

As I described in my January 12 letter, when DOA became aware of LAB's position in December 2023, we immediately reached out to the Treasury Department to request more specific guidance and have been awaiting that feedback as we determine next steps. In addition, we have conducted

further analysis, which I outlined in a January 23 letter. I hope you found this letter helpful in understanding the Department's current position as to why the interest earned on SLFRF funds should remain in DOA's federal aid appropriation in respectful disagreement with the Audit Bureau's argument that they should be treated as general purpose revenue.

Fundamentally, the interest earned on the SLFRF is federal in nature and should therefore remain in DOA's federal appropriation under DOA's Chapter 20 Federal Appropriation (s. 20.505(1)(mb) Wis. Stats.). While LAB disagrees that these funds were "received by the federal government," these funds would not exist without the federal allocation, and under federal law the interest earnings by default belong to the federal government; the state can only use the funds if authorized. The language of the appropriation statute also does not require that there be "program restrictions" on funding in order for it to be federal in nature. So, while we anticipate Treasury's guidance will confirm their intent to exercise oversight of these funds, a lack of program restrictions does not in and of itself require transfer of the earned interest to the general fund.

We will continue to work closely with LAB on this and other issues.

Again, thank you for the opportunity to speak with you today. I am pleased to share that our financial status remains strong, and I welcome any questions you may have regarding my January 23 letter, the fiscal year 2023 financial statements report, or other related correspondence.

