State agencies continually seek out ways to reduce spending while maintaining or increasing services. Among the accepted methods employed to reduce costs is to enter into contracts with vendors to "privatize" agency functions. However, with this privatization comes a tendency to incorrectly believe that the privatized functions are no longer agency functions that must be appropriated. And, that as long as the fees charged by the vendor for their services are paid to the vendor by the program’s customers, and are never deposited into a State bank account, that the agency is not required to 1) have statutory authorization for the vendor to charge the fees; and to 2) record the revenues collected and retained by the vendor as state revenues and state expenditures. Figure 1 below depicts the conventional process whereby the state agency pays the vendors fees directly. Figure 2 depicts the process whereby the state agency pays the vendor fees indirectly, through an agency-approved fee that the vendor charges the program customers and retains.

**Figure 1 - Contract Fees Paid Directly by the State Agency**

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State Agency  Contractual Relationship  Vendor
             Contract Fees Paid By Agency
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**Figure 2 - Contract Fees Paid Indirectly by the State Agency**
(via a fee that the State Agency enables the vendor to charge to the program customers)

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State Agency  Contractual Relationship  Vendor
             Contract Fees Paid by Program Customers
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Policies

1. Before a state agency enters into a contractual obligation with a vendor that allows for the indirect payment of vendor fees, the state agency must have the statutory authority in place that allows the vendor to assess fees to the program customers. In addition, Section 20.903(1), Wisconsin Statutes requires that the state agency records the indirect fees paid to the vendor within a state appropriation:

20.903(1) Forestalling appropriations.

Liabilities created only by authority of law. Except as provided in s. 20.002 (11), no state agency, and no officer or employee thereof, may contract or create, directly or indirectly, any debt or liability against the state for or on account of any state agency, for any purpose, without authority of law therefor, or prior to an appropriation of money by the state to pay the debt or liability, or in excess of an appropriation of money by the state to pay such debt or liability….. Any person who violates this section may be required to forfeit not less than $200 nor more than $1,000.

Procedures

At least monthly, the contracting state agency must:

1) Record any vendor fees collected by the vendor as revenues within a state appropriation.
2) Record any vendor fees retained by the vendor as expenditures within a state appropriation.

Agencies must always record gross revenues and gross expenditures, and must never net contractor fees from their revenues.

If the vendor is collecting other state agency receipts in addition to their vendor fees, those receipts must be deposited to a state bank account on a daily basis.