

AN AUDIT

*Unemployment Reserve Fund*

*Department of Workforce Development*

*00-14*

*December 2000*

**1999-2000 Joint Legislative Audit Committee Members**

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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December 5, 2000

Senator Gary R. George and  
Representative Carol Kelso, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator George and Representative Kelso:

We have completed a financial audit of the State of Wisconsin Unemployment Reserve Fund for the years ended June 30, 2000 and 1999. We performed the audit at the request of the Department of Workforce Development and to meet our audit responsibilities under s. 13.94, Wis. Stats.

Our audit report contains our unqualified opinion on the financial statements and related notes, as well as on the Schedule of Adjusted Cash Balance Related to Taxable Employers. As shown in the Schedule, the available balance increased over \$83 million during the past fiscal year, to nearly \$1.8 billion as of June 30, 2000. This cash balance is used to determine the tax rate schedule that applies to taxable employers, and s. 108.18(3m), Wis. Stats., currently allows the lowest tax rate to be applied when the cash balance as of June 30 is at least \$1.2 billion. For each of the past 11 years, the June 30 cash balance has exceeded the amount that allows the Fund to apply the lowest tax rate schedule for taxable employers. The Legislature has periodically adjusted the tax rate schedules based on the available cash balance.

We appreciate the courtesy and cooperation extended to us by Department of Workforce Development staff during the audit.

Respectfully submitted,

Janice Mueller  
State Auditor

JM/BN/cm



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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE STATE OF WISCONSIN UNEMPLOYMENT RESERVE FUND

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We have audited the accompanying balance sheet of the State of Wisconsin Unemployment Reserve Fund as of June 30, 2000 and 1999, and the related statement of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of the management of the Unemployment Reserve Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Unemployment Reserve Fund and are not intended to present fairly the financial position of the State of Wisconsin and the results of its operations and changes in financial position in conformity with generally accepted accounting principles.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Unemployment Reserve Fund as of June 30, 2000 and 1999, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Cash Balance Related to Taxable Employers, which is supplementary information, is presented for the purpose of disclosing the calculation of the portion of the Unemployment Reserve Fund's cash balance related to taxable employers as of June 30, 2000 and 1999. This cash balance is used to determine the unemployment tax rate schedule for the following calendar year. The supplementary information is not a required part of the basic financial statements. The supplementary information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is presented fairly in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2000, on our consideration of the Unemployment Reserve Fund's internal control over financial reporting and our tests of its compliance with laws and regulations.

LEGISLATIVE AUDIT BUREAU

November 17, 2000

by

Bryan Naab  
Audit Director

**State of Wisconsin Unemployment Reserve Fund**  
**Balance Sheet**  
June 30, 2000 and 1999

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
<b>Assets</b>		
Cash and Cash Equivalents (Note 3):		
United States Treasury Unemployment Trust Fund	\$1,800,813,231	\$1,718,564,226
Employer Accounts Receivable:		
Taxable (less allowances for doubtful collections of \$1,250,685 for 2000 and \$946,314 for 1999)	117,886,246	122,330,907
Governmental units and nonprofit organizations	1,447,254	1,456,937
Other states	1,650,767	1,617,786
Federal government	110,691	142,395
Net Employer Accounts Receivable	121,094,958	125,548,025
Other Receivables:		
Overpayments to claimants (less allowances of \$14,688,552 for 2000 and \$14,651,262 for 1999)	5,075,739	4,787,310
State of Wisconsin	9,329	9,426
Net Other Receivables	5,085,068	4,796,736
Other Assets (Note 4)	158,984	173,329
Total Assets	\$1,927,152,241	\$1,849,082,316
<b>Liabilities and Fund Balance</b>		
Liabilities:		
Overdrafts (Note 3)	\$ 6,353,719	\$ 7,844,518
Benefits payable	9,660,634	7,357,393
Employer overpayments	3,527,454	3,204,949
Benefit overpayments due employers, other states, and federal government	571,460	605,736
Combined Wage Claim Plan liabilities	1,320,855	1,689,114
Advances under federal programs	31,971	34,600
Due to State of Wisconsin	756,079	793,621
Deferred revenue	2,643,134	2,584,545
Other	103,220	152,107
Total Liabilities	24,968,526	24,266,583
Fund Balance (Notes 1 and 4)	1,902,183,715	1,824,815,733
Total Liabilities and Fund Balance	\$1,927,152,241	\$1,849,082,316

The accompanying notes to the financial statements are an integral part of this statement.

**State of Wisconsin Unemployment Reserve Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance**  
for the Years Ended June 30, 2000 and 1999

	For the Year Ended <u>June 30, 2000</u>	For the Year Ended <u>June 30, 1999</u>
<b>Revenues</b>		
Employer Contributions	\$ 443,084,115	\$ 428,722,794
Benefit Reimbursements (Note 5)	36,180,664	35,727,303
Interest Earnings	114,826,939	111,048,959
Forfeitures and Other Revenues	<u>3,040,575</u>	<u>3,011,812</u>
Total Revenues	<u>597,132,293</u>	<u>578,510,868</u>
<b>Expenditures</b>		
Benefits Paid or Provided on Behalf of:		
Taxable employers	482,390,956	464,064,158
Governmental units, nonprofit organizations, and other organizations (Note 5)	36,180,664	35,727,303
Adjustment for allowance--claimants (Note 2D)	<u>1,192,691</u>	<u>1,132,924</u>
Total Expenditures	<u>519,764,311</u>	<u>500,924,385</u>
Excess of Revenues Over Expenditures	77,367,982	77,586,483
Fund Balance at Beginning of Year	<u>1,824,815,733</u>	<u>1,747,229,250</u>
Fund Balance at End of Year (Notes 1 and 4)	<u>\$ 1,902,183,715</u>	<u>\$ 1,824,815,733</u>

The accompanying notes to the financial statements are an integral part of this statement.

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# NOTES TO THE FINANCIAL STATEMENTS

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## 1. Description of the Unemployment Reserve Fund

The unemployment insurance (UI) program is authorized in ch. 108, Wis. Stats., which includes the creation of the Unemployment Reserve Fund to account for contributions received from employers and subsequent benefits paid to unemployed workers. The Unemployment Reserve Fund is administered by the State of Wisconsin Department of Workforce Development (DWD).

The UI program follows the requirements of the Federal Unemployment Tax Act (FUTA), as amended. Therefore, covered employers in Wisconsin are permitted a partial offset against the FUTA tax. The FUTA taxes paid by employers to the federal government are used to reimburse DWD for its costs to administer the Fund. These administrative costs, along with federal reimbursements, are accounted for in the State of Wisconsin General Fund and are not reported within the State of Wisconsin Unemployment Reserve Fund's financial statements.

The Unemployment Reserve Fund, which is part of the State of Wisconsin financial reporting entity and is reported as an expendable trust fund in the State's general purpose financial statements, accounts for the operations and unexpended resources of the UI program. The fund balance includes:

- A. Balances Attributable to Individual Employer Accounts - A separate account is maintained for each employer for the purpose of determining employer contribution rates. Each account is credited for a portion of the employer's contribution paid into the Fund and charged with certain benefits paid from the Fund to the employer's former employees, based on their past employment.
- B. Balances Not Attributable to Individual Employer Accounts - An omnibus account includes credits for solvency contributions, interest from deposits with the United States Treasury, and certain reimbursements from the federal government. Charges to this account include disbursements on behalf of the federal government and all benefits not charged to a specific employer's account, such as benefits paid relating to out-of-business employers or relating to statutory provisions regarding certain employees who have quit their employment.

## 2. Summary of Significant Accounting Policies

Except for other assets discussed in notes 2E and 4, the Fund is accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The operating statement presents revenues and expenditures. Other financing sources and uses are not currently applicable to the Fund.

The Fund is reported on the modified accrual basis of accounting. This basis of accounting recognizes revenues and overpayment recoveries when they become measurable and available to pay current reporting-period liabilities. Expenditures and related liabilities are recognized when obligations are incurred.

- A. Amounts Receivable from Employers - Under the modified accrual basis, employer contributions are recognized as revenue in the accounting period in which they became susceptible to accrual; that is, when they become both measurable and available to pay liabilities of the current period. Contributions are recorded based on employer self-declared payroll reports. However, some estimates are used to record contributions for employers who fail to file the required reports. Historical collection information has been used to estimate, and establish an allowance for, the amount for which collectibility is not reasonably assured. In addition, a deferred revenue liability has been established for the receivables outstanding that are not expected to be collected within the next 12-month period and, as such, are not available to finance current operations.
- B. Amounts Receivable from Governmental Units and Nonprofit Organizations - Governmental units and nonprofit organizations that are covered by the UI program may, at their option, reimburse the Fund for benefits charged to their accounts rather than use contribution financing. The Fund recognizes a receivable from these organizations when benefits are paid to their former employees. Management has established an allowance for the amount estimated as not collectible within the next 12 months.
- C. Amounts Receivable from Other States - Management bills other states for benefits paid from the Fund when all or a portion of such benefits are attributable to former employers in other states. Management records the amount due from other states for unemployment benefits paid under the Combined Wage Claim Plan at the time the related benefits are paid. This plan provides a convenient way to pay the claims of employees who have moved to Wisconsin but have claims against employers in other states.

- D. Amounts Receivable from Claimants - In some instances, benefits are paid to claimants who ultimately are proven to be ineligible to receive those benefits. Amounts are reported as due from claimants for specific benefit overpayments at the time the claimants are determined to be ineligible. A related liability is established for the portion of the overpayments that, when collected, will be credited to reimbursable employers or the federal government. Management has established an allowance for the amount estimated as not collectible within the next 12 months.
- E. Reed Act Funding - The federal Reed Act provides funds to states to purchase land and to build and improve employment security offices, to pay benefits, and to pay costs of administering the UI program. In Wisconsin, certain Reed Act funds have been used to construct and subsequently to upgrade local employment security offices and portions of certain state office buildings used to administer the program.

Under provisions of the Reed Act, the cost of these offices and buildings is amortized on a straight-line basis over a period of up to 20 years, and the program is entitled to receive reimbursement from the federal government for such amortization. The reimbursements are required to be used for any of the allowed purposes of the original Reed Act funds. In the event of sale of fully amortized Reed Act-funded land or buildings, any sale proceeds would revert to the federal government.

- F. Benefits Payable to Claimants - Benefits payable to claimants reflect benefits payable through June 30. The liability is recorded based upon known subsequent claim payments and other available information.

### **3. Cash and Cash Equivalents**

The amount reported as cash and cash equivalents consists of the Unemployment Reserve Fund's deposit with a U.S. Treasury trust fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act, which includes deposits from the unemployment insurance funds of various states. The trust fund is required by federal law to invest only in obligations guaranteed by the United States. The Unemployment Reserve Fund is credited quarterly with earnings only to the extent the Fund's deposit with the trust fund exceeds the balance of outstanding advances made to the program, as computed on a daily basis. The Fund's deposit with the Treasury trust fund is not subject to risk categorization under Governmental Accounting Standards Board (GASB) Statement Number 3 criteria.

The carrying amounts of the Fund's bank accounts were negative at the end of both fiscal years: (\$6,353,719) on June 30, 2000, and (\$7,844,518) on June 30, 1999. Therefore, these amounts are reported as "overdrafts" in the financial statements. The net bank balances were \$117,025 on June 30, 2000, of which \$100,000 was covered by federal deposit insurance and \$17,025 was

covered by a State of Wisconsin appropriation for losses on public deposits, and \$25,551 on June 30, 1999, which was covered by federal deposit insurance. Therefore, the net bank balances are categorized as risk category 1 in accordance with GASB Statement Number 3 criteria.

The Fund's bank balances on June 30 were significantly lower than the average balances throughout each year. The Fund normally maintains compensating balances in its bank accounts sufficient to cover the costs of bank services received. However, at the end of each quarter (March 31, June 30, September 30, and December 31), the Fund's bank accounts are drawn down by depositing or retaining the excess amounts in the U.S. Treasury trust fund. This is done to minimize FDIC insurance charges that are based on the Fund's total bank balance as of the end of each quarter.

#### **4. Other Assets**

Reed Act funds constitute \$1,044,619 of the June 30, 2000 fund balance. These funds can be used for purposes other than the payment of benefits. On June 30, 2000 and 1999, \$158,984 and \$173,329, respectively, were invested in buildings and were not available for expenditure.

#### **5. Benefit Reimbursements**

The amounts reported as benefits paid or provided on behalf of governmental units, electing nonprofit organizations, and other organizations, and the matching amount reported as benefit reimbursements, consist of several types of benefits:

<u>Type of Benefit</u>	<u>Fiscal Year 1999-00 (in millions)</u>	<u>Fiscal Year 1998-99 (in millions)</u>
Benefits reimbursed by the federal government for former federal employees and various supplemental benefits programs	\$ 9.9	\$ 8.4
Benefits reimbursed by governmental units and electing nonprofit organizations for benefits paid to their former employees	19.3	18.7
Amounts reimbursed by other states under the Combined Wage Claim Plan	7.0	6.8
Other types of benefits provided to claimants through various federal grant programs that are reimbursed by the federal government*	<u>0.0</u>	<u>1.8</u>
Totals	\$36.2	\$35.7

\* Benefits under these federal programs are not for unemployment insurance benefits; however, they were accounted for within the Fund for administrative convenience. Accounting for disbursements of these benefits within the Fund was discontinued during fiscal year 1998-99.

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**State of Wisconsin Unemployment Reserve Fund**  
**Schedule of Cash Balance**  
**Related to Taxable Employers**  
June 30, 2000 and 1999

	<u>June 30, 2000</u>	<u>June 30, 1999</u>
Cash and Cash Equivalents	\$ 1,800,813,231	\$ 1,718,564,226
Overdrafts	<u>(6,353,719)</u>	<u>(7,844,518)</u>
Net Cash Balance	1,794,459,512	1,710,719,708
Adjustments Related to Nontaxable Employer Activities:		
Accounts receivable balance related to reimbursable employers, other states, and benefit payments funded by interest and penalty money (Note 1A)	3,117,477	3,134,805
Net benefits to be funded by the federal government (Note 1B)	78,720	107,795
Cash Balance Related to:		
Employer tax overpayments not refunded (Note 1C)	(3,527,454)	(3,204,949)
Other non-taxable employer activities (Note 1D)	<u>(791,670)</u>	<u>(812,487)</u>
Cash Balance Related to Taxable Employers	<u>\$ 1,793,336,585</u>	<u>\$ 1,709,944,872</u>

The accompanying Note to the Schedule of Cash Balance Related to Taxable Employers is an integral part of this schedule.

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## NOTE TO THE SCHEDULE OF CASH BALANCE RELATED TO TAXABLE EMPLOYERS

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### 1. Summary of Significant Accounting Policies for Determining the Cash Balance

The Schedule of Cash Balance Related to Taxable Employers as of June 30, 2000 and 1999, is presented for informational purposes. Section 108.18(3m), Wis. Stats., provides for one of four tax rate schedules to be in effect during a particular calendar year, depending on the preceding June 30 cash balance in the Unemployment Reserve Fund. Tax rate schedule D was and will be in effect during 2000 and 2001 because the June 30, 2000 and the June 30, 1999 taxable employer cash balances of \$1,793,336,585 and \$1,709,944,872, respectively, are greater than the \$1.2 billion level specified in Wisconsin Statutes. In arriving at the cash balance related to taxable employers, the cash and cash equivalent balance reported in the Unemployment Reserve Fund financial statements is reduced by overdrafts to arrive at a net cash balance. The following adjustments to the net cash balance are then made:

- A. The net cash balance is increased by the net amount of unreimbursed benefit payment receivables outstanding on June 30 from nonprofit and governmental reimbursable employers, from other states, and for benefits partially funded with interest and penalty money.
- B. The net cash balance is increased by the net amount of unreimbursed cash payments under federally funded unemployment benefit programs.
- C. The net cash balance is reduced by the net amount of tax overpayments that will either be refunded to employers or applied to the employers' future tax liability.
- D. The net cash balance is reduced by the net amount of other non-taxable employer-related cash balances, including collections for court costs, interest and penalties, and special assessments and other amounts not yet paid to the State; withheld child support payments not yet distributed; and benefit overpayments recovered for other states.

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have audited the financial statements of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2000 and 1999, and have issued our report thereon dated November 17, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **Compliance**

As part of obtaining reasonable assurance about whether the Unemployment Reserve Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain laws and regulations, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Unemployment Reserve Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we will report to the management of the Unemployment Reserve Fund in a separate letter.

This report is intended for the information of the State of Wisconsin's Unemployment Reserve Fund management and the Wisconsin Legislature's Joint Legislative Audit Committee. This restriction is not intended to limit the distribution of this report, which, upon submission to the Joint Legislative Audit Committee, is a public document. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than those specified parties.

LEGISLATIVE AUDIT BUREAU

November 17, 2000

by

Bryan Naab  
Audit Director