

**Report 17-10  
June 2017**

# **Unemployment Reserve Fund**

*Department of Workforce Development*

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **Unemployment Reserve Fund**

*Department of Workforce Development*

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# STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman  
State Auditor

June 1, 2017

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

To help fulfill our audit responsibilities under s. 13.94, Wis. Stats., and at the request of the Department of Workforce Development (DWD), we have audited the financial statements of the State of Wisconsin Unemployment Reserve Fund, which accounts for regular unemployment benefits paid to eligible individuals and is funded primarily through taxes paid by employers. This audit report contains our unmodified opinion on the Unemployment Reserve Fund's financial statements and related notes as of and for the fiscal years ended June 30, 2016, and June 30, 2015.

The Fund's net position was \$1.2 billion as of June 30, 2016, an increase of \$905.0 million from the net position as of June 30, 2014. The increase in net position is a result of revenues from employer taxes and other sources exceeding benefit payments and transfers since fiscal year (FY) 2011-12. In FY 2015-16, employer taxes and other revenue totaled \$936.5 million, compared to total benefit payments and transfers of \$521.3 million.

Accompanying the financial statements is the Schedule of Cash Balance Related to Taxable Employers, which is used to determine the state unemployment tax rate paid by employers. Section 108.18 (3m), Wis. Stats., requires a certain tax rate schedule be applied for the calendar year based upon the Fund's cash balance as of June 30 of the preceding year. Because the cash balance continued to increase as of June 30, 2016, the second lowest tax rate schedule applies in calendar year 2017.

We appreciate the courtesy and cooperation extended to us by DWD staff during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Joe Chrisman'.

Joe Chrisman  
State Auditor

JC/CS/ss



## Introduction ■

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***The Unemployment Insurance program provides benefits to eligible individuals who become unemployed.***

Wisconsin's Unemployment Insurance program was enacted in 1932 and was the first such program in the United States. The program, which is accounted for in the State of Wisconsin Unemployment Reserve Fund, is managed by the Department of Workforce Development (DWD) and provides benefits temporarily to replace a portion of wages lost when individuals become unemployed and meet certain eligibility requirements. Administrative costs of the Unemployment Insurance program are funded primarily by federal grants that are accounted for in the State's General Fund.

The Unemployment Insurance Advisory Council (UIAC) advises DWD on matters related to unemployment insurance and makes recommendations for unemployment insurance changes to the Legislature. Statutes provide that the UIAC consists of five employer and five employee representatives who serve six-year terms and are appointed by the Secretary of DWD. The Secretary also appoints a DWD employee to serve as the nonvoting chairperson.

### **Employer Taxes**

Each employer has an account within the Unemployment Reserve Fund. Employers are subject to a basic tax and a solvency tax that together constitute their total state unemployment insurance tax.

The basic tax is credited to each employer's account and is based on each employer's unemployment experience rating. For example, employers with more employee layoffs pay more in basic taxes than

those with fewer layoffs. The solvency tax is credited to the Fund’s solvency account and is based on each employer’s unemployment experience rating, payroll size, and account balance. The solvency account is used to pay benefits that by state law cannot be charged to an employer’s account, such as unemployment benefits for unemployed workers of a bankrupt employer.

***The second lowest unemployment insurance tax rate schedule is in effect for calendar year 2017.***

Wisconsin Statutes include four unemployment insurance tax rate schedules, as shown in Table 1. One of four tax rate schedules is in effect for a calendar year based on the cash balance of the Fund as of June 30 of the preceding year. The highest tax rate schedule, Schedule A, was in effect for calendar years 2014 and 2015, and Schedule B was in effect for calendar year 2016. The second lowest tax rate schedule, Schedule C, is in effect for calendar year 2017.

Table 1

**Unemployment Insurance Tax Rate Schedules**

Schedule <sup>1</sup>	Cash balance <sup>2</sup>
Schedule A	Less than \$300.0 million
Schedule B	\$300.0 million but less than \$900.0 million
Schedule C	\$900.0 million but less than \$1.2 billion
Schedule D	At least \$1.2 billion

<sup>1</sup> In order from highest tax rate to lowest.

<sup>2</sup> Cash balance of the Unemployment Reserve Fund as of June 30 of the preceding year.

Based on the tax rate schedules, unemployment insurance tax rates are applied to each employee’s wages up to the taxable wage base established in statutes. Wisconsin’s taxable wage base was \$10,500 from 1986 to 2008. As part of a plan to improve the financial condition of the Fund, the taxable wage base was increased to:

- \$12,000 for 2009 and 2010;
- \$13,000 for 2011 and 2012; and
- \$14,000 for 2013 and to present.

## Unemployment Benefits

***The average weekly regular unemployment benefit payment was \$312 in 2016.***

Regular unemployment benefits are funded primarily by employer-paid taxes that are deposited to the Unemployment Reserve Fund. Eligible individuals may receive 26 weeks of regular unemployment benefits. However, not all unemployed individuals, such as those with a minimal prior work history, are eligible to receive unemployment benefits. Since January 2009, the minimum weekly regular unemployment benefit payment has been \$54, and since January 2014, the maximum payment has been \$370. Benefit recipients received an average weekly regular benefit payment of \$296 in 2015 and \$312 in 2016.

Unemployed individuals may file their initial benefit claim applications online or by telephone. DWD verifies the information provided in order to establish the eligibility of individuals and the amount of weekly benefits to pay. Subsequently, eligible individuals file weekly benefit claims either by telephone or online. Eligible individuals must generally be available to work and must certify that they are searching for work. Work-search requirements include at least four reasonable search actions for suitable work during a week of unemployment. A reasonable work-search action is defined by administrative rule, and may include submitting a job application to a suitable employer, registering with a placement agency, or participating in employment workshops. From 2004 to June 2015, work-search requirements were waived if the eligible individual was laid off, but there was a reasonable expectation of reemployment of the individual by the employer. Beginning in June 2015, s. DWD 127.02 (2), Wis. Adm. Code, limits the work-search waiver to individuals who are expected to return to employment within eight weeks, which could be extended an additional four weeks.

***The net receivable from overpayments to claimants declined 14.8 percent in FY 2015-16.***

Individuals are sometimes paid more unemployment benefits than they are entitled to receive. This can occur if the individual or employer intentionally or unintentionally provides incorrect information used to calculate weekly benefit amounts or if DWD makes an error in determining the amount of benefits paid. It may also occur through no fault if, for example, an individual was paid benefits based on accurate information but was later awarded back-pay from his or her employer, thereby reducing the amount of benefits that should have been paid. When an overpayment is identified, the Fund establishes a receivable for the amount of the overpayment. The net receivable reported by the Fund as a result of overpayments to claimants declined from \$68.8 million as of June 30, 2015, to \$58.6 million as of June 30, 2016, or by 14.8 percent. DWD staff indicated the net receivable from overpayments declined

in part due to the decrease in unemployment benefit payments since fiscal year (FY) 2009-10.

## Financial Position

***The U.S. Department of Labor recommends that states have sufficient reserves to sustain 12 months of benefit payments.***

Programs established for unemployment purposes are intended to accumulate resources during periods of low unemployment to ensure funds are sufficient to pay benefits during periods of high unemployment. The U.S. Department of Labor recommends that states have sufficient reserves to sustain 12 months of benefit payments estimated using specified criteria. For Wisconsin, DWD staff indicate this amount is approximately \$1.8 billion for 2016. As of June 30, 2016, the net position of the Unemployment Reserve Fund was \$1.2 billion, which was an increase of \$905.0 million since June 30, 2014.

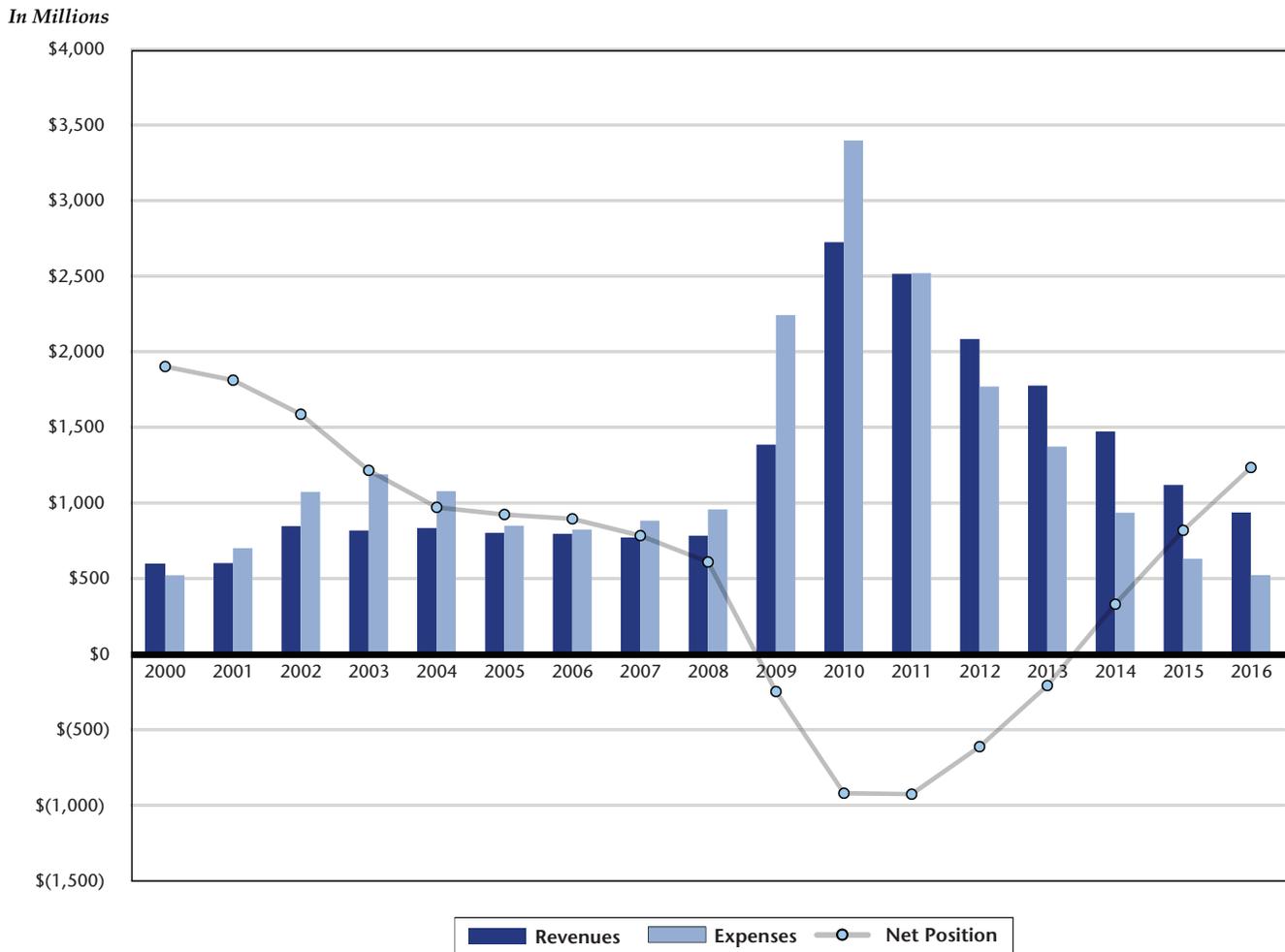
***The net position of the Fund has increased since June 30, 2011.***

Since June 30, 2011, the net position of the Fund has increased because employer taxes and other revenues began to exceed benefit payments and transfers, as shown in Figure 1. In FY 2015-16, employer taxes and other revenue totaled \$936.5 million, compared to total benefit payments and transfers of \$521.3 million. Prior to FY 2011-12, the net position of the Unemployment Reserve Fund declined because benefit payments and transfers exceeded employer taxes and other revenues.

The improved net position was partially a result of steps taken to improve the net position of the Fund, such as increasing the taxable wage base. In addition, the highest unemployment insurance tax rate schedule was in place for FY 2014-15 and the first six months of FY 2015-16. Further, during FY 2015-16 and FY 2014-15, employer-funded benefits decreased due to a decline in the unemployment rate and the exhaustion of regular benefits for some individuals. The Fund also earned \$17.0 million in interest in FY 2015-16 and \$5.6 million in interest in FY 2014-15 because the cash balance maintained in the Federal Unemployment Trust Fund has remained positive since July 2014.

Figure 1

**Unemployment Reserve Fund Revenues, Expenses, and Net Position<sup>1</sup>**  
 For Fiscal Year Ended June 30



<sup>1</sup> Revenues include employer taxes, Federal Unemployment Tax Act credit reduction, investment earnings, and federal funds received for certain benefits. Expenses include benefits paid to unemployed individuals and transfers to other funds.

**Federal Borrowing**

***The Fund has not borrowed from the federal government since July 2014.***

As we described in report 15-8, the Unemployment Reserve Fund began to borrow from the federal government when the Fund was depleted in February 2009. In May 2014, the outstanding loan balance was repaid. During our current audit period, additional borrowing of \$33.3 million was needed in July 2014 until second-quarter tax payments were received at the end of July. These receipts allowed the loan to be fully repaid. The cash balance has remained

positive since the loan repayment in July 2014, and the Fund has not borrowed from the federal government since that time. Under federal rules, interest accrues on any outstanding loan balance and is due each year on September 30. The final interest payment of \$5.9 million, which was paid in September 2014, was funded by general purpose revenue.

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## **Audit Opinion ■**

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## Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Mr. Ray Allen, Secretary  
Department of Workforce Development

### Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2016, and June 30, 2015, as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management of the Unemployment Reserve Fund is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on these financial statements.

### **Opinion**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Unemployment Reserve Fund as of June 30, 2016, and June 30, 2015, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the Unemployment Reserve Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2016, and June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

*Required Supplementary Information*—Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 15 through 22 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

*Accompanying Information*—Our audits were conducted for the purpose of forming an opinion on the financial statements of the Unemployment Reserve Fund. The Schedule of Cash Balance Related to Taxable Employers on page 35 and the related note on pages 37 through 38 are presented for purposes of additional analysis and are not a required part of the financial statements. This cash balance is used to determine the unemployment tax rate schedule to be used during the following calendar year. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and

other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2017, on our consideration of the Unemployment Reserve Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Unemployment Reserve Fund's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

May 24, 2017



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# Management's Discussion and Analysis ■

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## *Prepared by Management of the Unemployment Reserve Fund*

Management's Discussion and Analysis provides users of the State of Wisconsin Unemployment Reserve Fund's financial statements with an overview of the statements and an analysis of the Fund's financial performance during the fiscal years ended June 30, 2016, and June 30, 2015. The financial statements, notes, and this discussion are the responsibility of management of the Fund.

### **Financial Summary (Highlights)**

The assets of the Unemployment Reserve Fund exceeded liabilities at the close of fiscal year (FY) 2015-16 by approximately \$1.2 billion. With the exception of \$2.3 million in certain federal allocations, the Fund's net position, if positive, can be used only to pay unemployment benefits to eligible unemployed persons.

The Fund's net position increased by \$905.0 million during the two-year period from July 1, 2014, through June 30, 2016. Both benefits paid to unemployed workers and state unemployment taxes paid by employers decreased each fiscal year compared to the previous year.

### **Overview of the Fund**

The Fund was established under ch. 108, Wis. Stats., to account for unemployment tax contributions received from employers and benefits paid to unemployed workers. The Fund is administered by the State of Wisconsin Department of Workforce Development (DWD). The Unemployment Insurance Advisory Council,

consisting of labor and management representatives, advises DWD on the administration of unemployment insurance law and submits its recommended changes in the law to the Legislature during every biennial legislative session.

Generally, the principal source of revenue for the Fund is quarterly unemployment tax contributions paid by the approximately 133,000 employers subject to the taxing provisions of ch. 108, Wis. Stats. During prior years, the Fund has also received a significant amount of federal funding to pay for emergency unemployment benefits. Federal law requires the Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings on the Trust Fund may be used only to pay benefits. With the exception of certain federal allocations, the Fund's reserves may be used only to pay unemployment benefits or to refund tax and benefit overpayments to employers or, in the event benefits were federally funded, to the federal government. Federal Reed Act allocations, which are excess federal unemployment taxes collected by the federal government and paid to each state, may be used to pay costs associated with administering the Unemployment Insurance program or employment service programs. Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.

If the Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Trust Fund to continue paying benefits. With the exception of some short-term cash flow situations, federal borrowing currently carries interest charges. The interest charges may not be funded from the Unemployment Reserve Fund.

Administrative costs of the Unemployment Insurance program are accounted for in the State of Wisconsin's General Fund and are not reported within the Unemployment Reserve Fund's financial statements. In addition, interest on outstanding advances from the federal government is accounted for in the State of Wisconsin's Unemployment Interest Payment Fund and general purpose revenue appropriations and is not reported within these financial statements.

## **Financial Statements**

These financial statements are intended to show the Fund's financial position as of June 30, 2015, and June 30, 2016, and results of operations and cash flows for FY 2014-15 and FY 2015-16. The Statement of Net Position reports the Fund's assets and liabilities. The Statement of Revenues, Expenses, and Changes in Fund Net Position reports all Unemployment Reserve Fund revenues, expenses, and transfers regardless of when cash is received or paid. This statement also shows the Fund's net position and how it has changed. The Statement of Cash Flows provides information about the Fund's cash receipts and cash payments during the fiscal years and provides a reconciliation of net operating income to net cash flow provided by operating activities.

## Assets

The Fund's assets consist of cash and cash equivalents and receivables. Table A shows that total assets increased by \$479.5 million between June 30, 2014, and June 30, 2015, and by \$410.3 million between June 30, 2015, and June 30, 2016.

Table A

**Assets**  
(in millions)

	June 30, 2014	June 30, 2015	Change	June 30, 2016	Change
Cash and Cash Equivalents	\$ 9.7	\$515.2	\$505.5	\$ 987.0	\$471.8
Receivables	377.9	351.9	(26.0)	290.4	(61.5)
<b>Total Assets</b>	<b>\$387.6</b>	<b>\$867.1</b>	<b>\$479.5</b>	<b>\$1,277.4</b>	<b>\$410.3</b>

During FY 2008-09, the Fund depleted its reserves and began to borrow from the federal government. Starting on January 1, 2011, annual interest was incurred on the amount borrowed, and the Fund used excess cash to repay the advance. The Fund repaid the advance in total in May 2014. In July 2014, the Fund borrowed and then repaid an additional \$33.3 million. The Fund has not since borrowed from the federal government.

## Liabilities

Table B shows the Fund's liabilities decreased by \$10.3 million between June 30, 2014, and June 30, 2015, and by \$4.9 million between June 30, 2015, and June 30, 2016.

Table B

**Liabilities**  
(in millions)

	June 30, 2014	June 30, 2015	Change	June 30, 2016	Change
Benefit Overpayments Due Others	\$39.1	\$31.3	\$ (7.8)	\$25.1	\$(6.2)
Benefits Payable	7.8	7.0	(0.8)	7.7	0.7
Other Liabilities	11.3	9.6	(1.7)	10.2	0.6
<b>Total Liabilities</b>	<b>\$58.2</b>	<b>\$47.9</b>	<b>\$(10.3)</b>	<b>\$43.0</b>	<b>\$(4.9)</b>

In some instances, benefits are paid to claimants who ultimately are proven to be ineligible to receive all or a portion of those benefits. The Fund recognizes a receivable from these claimants when the benefit overpayment is identified. A related liability is established for the portion of the overpayments that, when collected, will be credited to reimbursable employers or the federal government. Overall, overpayments to claimants decreased by \$18.9 million between June 30, 2014, and June 30, 2016, resulting in a corresponding decrease of \$14.0 million in benefit overpayments due others during the same period.

### Net Position

Table C shows the Fund's net position increased by \$489.8 million between June 30, 2014, and June 30, 2015, and by \$415.2 million between June 30, 2015, and June 30, 2016.

Table C

**Net Position**  
(in millions)

	June 30, 2014	June 30, 2015	Change	June 30, 2016	Change
Employer Accounts	\$1,733.3	\$2,056.8	\$323.5	\$2,358.1	\$301.3
Solvency Account	(1,406.5)	(1,240.4)	166.1	(1,126.0)	114.4
Restricted for Administration	2.6	2.8	0.2	2.3	(0.5)
<b>Total Net Position</b>	<b>\$ 329.4</b>	<b>\$ 819.2</b>	<b>\$489.8</b>	<b>\$1,234.4</b>	<b>\$415.2</b>

Revenues credited to the solvency account exceeded charges to the account during each fiscal year. Most revenues for the solvency account are generated through employer solvency tax contributions and interest earnings from balances maintained in the Federal Unemployment Trust Fund. During years in which the federal government has reduced employers' Federal Unemployment Tax Act (FUTA) credit in order to reduce the Fund's outstanding loan, the revenue generated from such reduction is also credited to the solvency account. This amounted to \$3.2 million in FY 2014-15, and \$0.4 million in FY 2015-16.

A number of statutory provisions require certain benefit payments to be charged to the solvency account rather than directly to an employer's account. For example, benefits paid to certain workers who have quit employment are charged to the solvency account. Benefit payments charged directly to the solvency account were \$97.6 million during FY 2014-15 and \$77.7 million during FY 2015-16. In addition, positive and negative balances in the accounts of out-of-business employers or employers no longer covered under unemployment insurance law are transferred to the solvency account. Another statutory provision requires transferring to the solvency account a portion of benefits previously charged to the accounts of certain employers with large deficit balances in their employer accounts. These transfers amounted to \$113.9 million during FY 2014-15 and \$83.1 million during FY 2015-16, and are a significant reason for the increase to employer accounts during each fiscal year. Another factor contributing to the increase of employer accounts by \$624.8 million, or 36.0 percent, between June 30, 2014, and June 30, 2016, is the decrease in benefits charged directly to employer accounts during the period. These benefits decreased from \$599.3 million during FY 2013-14 to \$402.5 million during FY 2015-16, a change of \$196.8 million, or 32.8 percent. This decline in benefit charges combined with the transfers of deficit balances to the solvency account resulted in the significant improvement to employer accounts.

## **Operating Revenue**

The two major sources of operating revenue for the Fund are employer tax contributions and reimbursements for benefits paid on behalf of the federal government, other governmental units, and nonprofit organizations. A smaller amount of revenue is received from forfeitures and other sources. Table D shows that the Fund's operating revenues decreased by \$359.9 million during FY 2014-15, and by \$194.9 million during FY 2015-16.

Table D

**Operating Revenue**  
(in millions)

	FY 2013-14	FY 2014-15	Change	FY 2015-16	Change
Employer Contributions	\$1,102.3	\$1,050.4	\$ (51.9)	\$872.9	\$(177.5)
FUTA Credit Reduction	147.3	3.2	(144.1)	0.4	(2.8)
Benefit Reimbursements	215.5	52.5	(163.0)	40.6	(11.9)
Forfeitures and Other Revenues	7.2	6.3	(0.9)	3.6	(2.7)
<b>Total Operating Revenues</b>	<b>\$1,472.3</b>	<b>\$1,112.4</b>	<b>\$(359.9)</b>	<b>\$917.5</b>	<b>\$(194.9)</b>

Employer contributions decreased by \$229.4 million, or 20.8 percent, between FY 2013-14 and FY 2015-16 because the average tax rate decreased during this period. The average tax rate decreased from 3.60 percent in calendar year 2014 to 3.29 percent in 2015 and to an estimated 2.56 percent in 2016. An employer's tax rate can change from year to year depending on its unemployment experience. In addition, the rate schedule in use during any calendar year can change depending on the overall cash balance in the Fund on June 30 of the previous year. Since the Fund's cash balance on June 30, 2013, and June 30, 2014, was less than the \$300.0 million level specified in Wisconsin Statutes, the highest of four statutory rate schedules was in effect during calendar years 2014 and 2015. The second highest tax rate schedule was in effect during 2016 because the June 30, 2015 balance was greater than \$300.0 million but less than the \$900.0 million level specified in Wisconsin Statutes.

FUTA tax credit reductions decreased by \$146.9 million, or 99.7 percent, between FY 2013-14 and FY 2015-16 because the federal government ended the FUTA tax credit reduction for Wisconsin employers during this period. Employers subject to FUTA pay 6.0 percent to the federal government on the first \$7,000 of employee earnings, but receive a 5.4 percent tax credit if their state unemployment fund qualifies and their state unemployment taxes are paid timely. The federal government incrementally reduced the FUTA credit for Wisconsin employers for tax years 2011, 2012, and 2013 in order to recover the Fund's outstanding loan. Beginning for tax year 2014, the FUTA credit reduction was ended.

Benefit reimbursements decreased by \$174.9 million, or 81.2 percent, between FY 2013-14 and FY 2015-16 because temporary federally funded benefit programs ended on December 28, 2013, resulting in reductions of the maximum benefit period from a possible 70 weeks during part of FY 2013-14 to a possible 26 weeks during both FY 2014-15 and FY 2015-16.

## Nonoperating Revenues and Transfers

Table E shows the Fund's nonoperating revenues increased by \$6.3 million during FY 2014-15, and by \$10.6 million during FY 2015-16.

Table E  
Nonoperating Revenues and Transfers In  
(in millions)

	FY 2013-14	FY 2014-15	Change	FY 2015-16	Change
Investment Earnings	\$0.05	\$5.6	\$5.5	\$17.0	\$11.4
Special Federal Aid	0.0	0.8	0.8	0.0	(0.8)
<b>Total Nonoperating Revenue</b>	<b>\$0.05</b>	<b>\$6.4</b>	<b>\$6.3</b>	<b>\$17.0</b>	<b>\$10.6</b>
Transfer from the State of Wisconsin Interest Payment Fund	\$0.0	\$0.0	\$0.0	\$2.0	\$2.0

The increase in investment earnings was primarily because of the growth in the amount invested in the Federal Unemployment Trust Fund during FY 2014-15 and FY 2015-16. While the quarterly yield dropped slightly from 2.35 percent in the third quarter of 2014 to 2.24 percent in the second quarter of 2016, the amount invested increased from \$9.6 million on June 30, 2014, to \$986.7 million on June 30, 2016.

Section 108.155, Wis. Stats., set aside \$2.0 million in the solvency account in order to credit reimbursable employers for benefits erroneously paid due to identity theft fraud regardless of whether the Fund recovers the overpaid benefits from the identity thief. The State of Wisconsin Interest Payment Fund transferred \$2.0 million to the Unemployment Fund during FY 2015-16 in order to fund this set-aside.

## Expenses and Transfers

Table F shows the Fund's operating expenses decreased by \$302.7 million during FY 2014-15, and by \$107.6 million during FY 2015-16.

Table F

**Expenses and Transfers Out**  
(in millions)

	FY 2013-14	FY 2014-15	Change	FY 2015-16	Change
Benefits Paid on Behalf of:					
Taxable Employers	\$715.4	\$574.5	\$(140.9)	\$480.2	\$ (94.3)
Federal Government	161.7	2.1	(159.6)	2.3	0.2
Other Entities	54.0	51.8	(2.2)	38.3	(13.5)
<b>Total Operating Expenses</b>	<b>\$931.1</b>	<b>\$628.4</b>	<b>\$(302.7)</b>	<b>\$520.8</b>	<b>\$(107.6)</b>
Transfer to Pay Administrative Expenses in General Fund and Other Nonoperating Expenses	\$3.4	\$0.6	\$(2.8)	\$0.4	\$(0.2)

Benefits paid on behalf of taxable employers decreased by \$235.2 million, or 32.9 percent, between FY 2013-14 and FY 2015-16, because the average unemployment rate decreased from 6.1 percent in FY 2013-14 to 4.9 percent in FY 2014-15 and to 4.4 percent in FY 2015-16. Benefits paid on behalf of the federal government for benefit programs decreased by \$159.4 million, or 98.6 percent, because temporary federally funded benefit programs ended on December 28, 2013, resulting in reductions of the maximum benefit period from a possible 70 weeks during part of FY 2013-14 to a possible 26 weeks during both FY 2014-15 and FY 2015-16.

### **Contacting the Unemployment Reserve Fund's Management**

This financial report is designed to provide an overview of the financial results of the Fund's activities and to show the Fund's financial position. If you have questions on this report or need additional information, contact:

Wisconsin Unemployment Reserve Fund  
Department of Workforce Development  
Division of Unemployment Insurance  
201 East Washington Avenue  
Madison, Wisconsin 53702

General information relating to the Fund can be found on DWD's website, <http://dwd.wisconsin.gov/ui/>.

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## **Financial Statements ■**

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## Statement of Net Position June 30, 2016, and June 30, 2015

	June 30, 2016	June 30, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 3):		
Federal Unemployment Trust Fund	\$ 984,325,166	\$ 510,881,737
Cash in Bank	386,218	1,401,997
Current Cash and Cash Equivalents	<u>984,711,384</u>	<u>512,283,734</u>
Employer Accounts Receivable:		
Taxable Employers (net of allowances of \$26,494,451 and \$33,881,790, respectively)	216,297,195	267,268,900
Governmental Units and Nonprofit Organizations (net of allowances of \$100,000 and \$100,000, respectively)	2,100,621	2,920,348
Combined Wage Claim Receivables	<u>1,390,403</u>	<u>1,502,327</u>
Net Current Employer Accounts Receivable	<u>219,788,219</u>	<u>271,691,575</u>
Other Receivables:		
Overpayments to Claimants (net of allowances of \$41,817,804 and \$43,815,547, respectively)	12,537,997	14,293,366
Federally Funded Unemployment Benefit Programs	139,080	285,357
Due from State of Wisconsin (Note 4)	<u>405,969</u>	<u>432,654</u>
Net Current Other Receivables	<u>13,083,046</u>	<u>15,011,377</u>
Total Current Assets	<u>1,217,582,649</u>	<u>798,986,686</u>
Noncurrent Assets:		
Restricted Cash for Administration	2,351,584	2,963,435
Taxable Employer Accounts Receivable	11,451,850	10,709,439
Overpayments to Claimants	<u>46,044,392</u>	<u>54,481,333</u>
Total Noncurrent Assets	<u>59,847,826</u>	<u>68,154,207</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,277,430,475</u></b>	<b><u>\$ 867,140,893</u></b>
<b>LIABILITIES AND NET POSITION</b>		
Current Liabilities:		
Benefits Payable	\$ 7,733,171	\$ 7,032,388
Employer Overpayments	4,489,485	3,476,240
Benefit Overpayments Due Employers, Other States, and Federal Government	25,101,500	31,310,409
Combined Wage Claim Plan Liabilities	3,228,346	3,121,366
Due to Federal Government	445,443	729,105
Due to State of Wisconsin (Note 4)	1,948,146	2,145,749
Other	<u>99,920</u>	<u>148,284</u>
Total Current Liabilities	<u>43,046,011</u>	<u>47,963,541</u>
Net Position (Note 1):		
Employer Accounts	2,358,086,257	2,056,778,170
Solvency Account	(1,126,036,611)	(1,240,373,272)
Restricted for Administration	<u>2,334,818</u>	<u>2,772,454</u>
Total Net Position	<u>1,234,384,464</u>	<u>819,177,352</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 1,277,430,475</u></b>	<b><u>\$ 867,140,893</u></b>

**Statement of Revenues, Expenses, and Changes in Fund Net Position  
for the Years Ended June 30, 2016, and June 30, 2015**

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
<b>OPERATING REVENUES</b>		
Employer Contributions	\$ 872,866,574	\$ 1,050,422,007
Federal Unemployment Tax Act Credit Reduction	394,390	3,197,045
Benefits Reimbursed by:		
Federal Government for Benefit Programs	5,872,170	6,594,308
Federal Government for Former Employees	3,525,661	5,386,147
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations	25,728,795	34,147,461
Other States	5,512,662	6,371,675
Forfeitures and Other Revenues	3,570,160	6,277,528
<b>Total Operating Revenues</b>	<b>917,470,412</b>	<b>1,112,396,171</b>
<b>OPERATING EXPENSES</b>		
Benefits Paid or Provided on Behalf of:		
Taxable Employers	480,190,496	574,433,501
Federal Government for Benefit Programs	(1,198,065)	(3,246,428)
Federal Government for Former Employees	3,525,660	5,386,147
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations	25,728,767	34,320,051
Other States	5,512,662	6,371,675
Adjustment for Allowance—Claimants	8,847	1,280,391
Other	7,070,236	9,840,737
<b>Total Operating Expenses</b>	<b>520,838,603</b>	<b>628,386,074</b>
<b>OPERATING INCOME</b>	<b>396,631,809</b>	<b>484,010,097</b>
<b>NONOPERATING REVENUES</b>		
Investment Earnings	17,012,939	5,587,164
Special Federal Aids	0	777,396
<b>Total Nonoperating Revenues</b>	<b>17,012,939</b>	<b>6,364,560</b>
<b>INCOME BEFORE TRANSFERS</b>	<b>413,644,748</b>	<b>490,374,657</b>
<b>TRANSFERS</b>		
Transfer from the State of Wisconsin Interest Payment Fund	2,000,000	0
Transfer to State of Wisconsin General Fund	(437,636)	(628,607)
<b>CHANGE IN NET POSITION</b>	<b>415,207,112</b>	<b>489,746,050</b>
Net Position at the Beginning of the Year	819,177,352	329,431,302
Net Position at the End of the Year (Note 1)	<u>\$ 1,234,384,464</u>	<u>\$ 819,177,352</u>

## Statement of Cash Flows for the Years Ended June 30, 2016, and June 30, 2015

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from:		
Employer Contributions	\$ 924,118,518	\$ 1,062,916,674
Federal Unemployment Tax Act Credit Reduction	394,390	3,197,044
Benefit Reimbursements	41,634,837	55,056,706
Benefit Overpayment Recoveries	31,081,237	35,763,276
Other Operating Revenues	3,960,943	6,198,067
Cash Payments for:		
Benefits	(540,553,854)	(653,036,051)
Other Operating Expenses	(7,221,360)	(10,275,338)
<b>Net Cash Provided by Operating Activities</b>	<b>453,414,711</b>	<b>499,820,378</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfer from the State of Wisconsin Interest Payment Fund	2,000,000	0
Transfers to State of Wisconsin General Fund	(611,851)	(619,359)
Special Federal Aids	0	777,396
Advance from Federal Government	0	33,319,989
Repayment of Advance from Federal Government	0	(33,319,989)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>1,388,149</b>	<b>158,037</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Earnings	17,012,939	5,587,164
<b>Net Cash Provided by Investing Activities</b>	<b>17,012,939</b>	<b>5,587,164</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>471,815,799</b>	<b>505,565,579</b>
Cash and Cash Equivalents at the Beginning of the Year	515,247,169	9,681,590
Cash and Cash Equivalents at the End of the Year	<b>\$ 987,062,968</b>	<b>\$ 515,247,169</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 396,631,809	\$ 484,010,097
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Provision for Uncollectible Accounts	(9,385,082)	(4,711,217)
Changes to Assets and Liabilities:		
Decrease in Employer Accounts Receivables	58,548,285	21,218,627
Decrease in Other Receivables	12,363,014	9,565,130
Decrease in Liabilities	(4,743,315)	(10,262,259)
Total Adjustments	56,782,902	15,810,281
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<b>\$ 453,414,711</b>	<b>\$ 499,820,378</b>

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# Notes to the Financial Statements ■

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## 1. DESCRIPTION OF THE UNEMPLOYMENT RESERVE FUND

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

The Unemployment Insurance program follows the requirements of the Federal Unemployment Tax Act (FUTA), as amended. Therefore, covered employers in Wisconsin are permitted to offset their FUTA tax by a portion of the amount contributed to the Wisconsin Unemployment Reserve Fund. The net FUTA taxes paid by employers to the federal government are used, in part, 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's 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 enterprise fund in the State's basic financial statements, accounts for employer contributions and benefits paid to unemployed workers, as well as reimbursements of benefits paid or provided on behalf of the federal government, other governmental units, and nonprofit organizations. The Fund's net position, which is restricted for unemployment benefit payments or other purposes allowed by federal law, includes the following accounts:

**A. 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 for certain benefits paid from the Fund to the employer's former employees.

**B. Solvency Account**

The solvency account primarily accounts for solvency contributions from employers and earnings from deposits with the Federal Unemployment Trust Fund. During years in which the federal government has reduced employers' FUTA credit in order to reduce the Fund's outstanding loan, the revenue generated from such reduction is also credited to the solvency account. Charges to this account primarily include benefit payments that statutorily cannot be charged to a specific employer's account, such as benefits paid relating to out-of-business employers or benefits paid to certain employees who voluntarily terminate employment. In addition, the solvency account is charged for a portion of benefits previously charged to the accounts of certain employers with large deficit balances in their employer accounts.

**C. Restricted for Administration**

A portion of the Fund's net position has been restricted for administration of the unemployment insurance law and employment services.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Fund Accounting and Basis of Presentation**

The financial statements of the Unemployment Reserve Fund have been prepared in conformance with generally accepted accounting principles for proprietary funds. The Fund applies all applicable Governmental Accounting Standards Board (GASB) statements. The Fund is accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Position. The Fund is reported on the full accrual basis of accounting. This basis of accounting recognizes revenues and overpayment recoveries when they are measurable and due, regardless of when cash is received. Expenses are recognized in the period incurred, regardless of when cash is paid. The Statement of Revenues, Expenses, and Changes in Fund Net Position classifies revenues and expenses as either operating or nonoperating.

Transactions categorized as operating revenues and expenses are those relating to the Fund's principal operation of paying benefits to unemployed workers. Operating expenses include items such as benefits paid. Certain

revenues that are not related to the Fund's principal operation, such as investment earnings, are reported as nonoperating revenue.

**B. Accounting Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For example, allowances for doubtful collections are established for some receivables based on historical collection information. Actual results may differ from those estimates.

**C. Amounts Receivable from Taxable Employers**

Under the full accrual basis of accounting, employer contributions are recognized as revenues in the accounting period in which they become due and measurable. Contributions are reported based on employer self-declared payroll reports. However, some estimates are used to report contributions for employers who fail to file the required reports. In addition, historical collection information is used to estimate and establish an allowance for doubtful collections. Amounts expected to be collected, but not within twelve months, are reported as noncurrent assets on the Statement of Net Position.

**D. Amounts Receivable from Governmental Units and Nonprofit Organizations**

The federal government, the State of Wisconsin, electing local governmental units, and electing nonprofit organizations are referred to as "reimbursable employers" because they reimburse the Fund for benefits charged to their accounts, rather than contribute in advance of benefit payments. The Fund recognizes a receivable from these organizations when benefits are paid to their former employees. Historical collection information is used to estimate and establish an allowance for doubtful collections. All receivables, net of the allowance, are expected to be collected within twelve months. Amounts receivable from nonprofit organizations written off as uncollectible are recovered through a statutory assessment against active nonprofit employers who have elected reimbursement financing.

**E. Amounts Receivable from Claimants**

In some instances, benefits are paid to claimants who ultimately are proven to be ineligible to receive all or a portion of those benefits. The Fund recognizes a receivable from these claimants when the benefit overpayment is identified. A related liability is established for the portion of the overpayments that, when collected, will be credited to reimbursable employers or the federal government. Historical collection information is used to estimate and establish an allowance for doubtful collections. Amounts expected to be collected, but not

within twelve months, are reported as noncurrent assets on the Statement of Net Position.

**F. Amounts Receivable for Federally Funded Benefit Programs**

The federal government provides funding for certain unemployment benefit programs that either supplement or extend regular state-funded benefits. Some programs, such as Disaster Unemployment Assistance and Trade Readjustment Assistance, are ongoing while other programs, such as Emergency Unemployment Compensation and Extended Benefits, are temporary. The Fund recognizes a receivable from the federal government when benefits are paid under these programs.

**G. Benefits Payable to Claimants**

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

**3. DEPOSITS**

Deposits include cash and cash equivalents on deposit in banks or other financial institutions. The majority of the Fund's cash and cash equivalents consist of deposits with the Federal Unemployment Trust Fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act. The Federal Unemployment Trust Fund includes deposits from the unemployment insurance funds of all states. The Federal Unemployment Trust Fund is required by federal law to invest only in obligations guaranteed by the United States. The State of Wisconsin Unemployment Reserve Fund is credited quarterly with earnings only to the extent the Fund's deposit with the Federal Unemployment Trust Fund exceeds the Fund's outstanding advances, if any, from the Federal Unemployment Trust Fund, as computed on a daily basis. The deposit with the Federal Unemployment Trust Fund is not categorized in accordance with the criteria under GASB Statement Number 40, *Deposit and Investment Risk Disclosures— an Amendment of GASB Statement No. 3*, because it is neither a deposit with a financial institution nor an investment.

The remainder of the Fund's cash and cash equivalents consists of deposits in a bank. If the carrying amount of the deposit is negative, the Fund reports an overdraft on the Statement of Net Position.

For deposits held in financial institutions, custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. Most of the deposits that are held in financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The State of Wisconsin Public Deposit Guarantee Fund insures up to \$400,000 above the amount of federal insurance. The Fund's management monitors

the debt ratings of its bank as published by Moody’s, S&P, Fitch, and DBRS. The following amounts of the Fund’s bank balances of \$2,247,853 as of June 30, 2015, and \$740,301 as of June 30, 2016, were exposed to custodial credit risk:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Uninsured and Uncollateralized	\$1,597,853	\$90,301

**4. AMOUNTS DUE TO/FROM STATE OF WISCONSIN**

The amount reported as “Due to State of Wisconsin” consists primarily of state income taxes withheld from claimant benefit payments but not yet paid to the General Fund. It also consists of interest and penalty payments collected from employers and claimants but not yet paid to the General Fund.

The amount reported as “Due from State of Wisconsin” consists primarily of benefits paid on behalf of the State for its former employees that the State has not yet reimbursed the Fund. Part of the amount reported as “Due from State of Wisconsin” resulted from the time lag between when benefits were paid out of the Unemployment Reserve Fund and when reimbursements were received. Also, under certain circumstances, benefits paid to former employees of governmental units and nonprofit organizations are reimbursed by interest and penalty funds accounted for in a program revenue appropriation in the State of Wisconsin General Fund.

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## **Supplementary Information ■**

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**Schedule of Cash Balance Related to Taxable Employers  
June 30, 2016, and June 30, 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>CASH BALANCE</b>		
<b>Cash and Cash Equivalents</b>	<b>\$ 984,711,384</b>	<b>\$ 512,283,734</b>
<b>INCREASES</b>		
Employer Accounts Receivable		
Government Units and Nonprofit Organizations	1,566,848	2,367,884
Combined Wage Claim Plan Receivables	<u>1,281,918</u>	<u>1,430,508</u>
Total Employer Accounts Receivable	2,848,766	3,798,392
Other Receivables		
Federally Funded Unemployment Benefit Programs	49,941	189,800
Due from the State of Wisconsin	<u>291,027</u>	<u>340,157</u>
Total Other Receivables	<u>340,968</u>	<u>529,957</u>
<b>Total Increases</b>	<b><u>3,189,734</u></b>	<b><u>4,328,349</u></b>
<b>DECREASES</b>		
Employer Overpayments	7,292,913	5,953,216
Due to State of Wisconsin	1,931,379	1,954,769
Due to the Federal Government	445,443	729,105
Benefit Overpayments Due Other States	15,250	51,159
Other	<u>84,116</u>	<u>132,249</u>
<b>Total Decreases</b>	<b><u>9,769,101</u></b>	<b><u>8,820,498</u></b>
Cash Balance Related to Taxable Employers	<b><u>\$ 978,132,017</u></b>	<b><u>\$ 507,791,585</u></b>

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, 2015, and June 30, 2016, 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 A was in effect during 2015 because the June 30, 2014 balance was \$1,748,117, which is less than the \$300.0 million level specified in Wisconsin Statutes. Tax rate Schedule B was in effect during 2016 because the June 30, 2015 balance was \$507,791,585, which is between the \$300.0 million and the \$900.0 million levels specified in statutes. Tax rate Schedule C is in effect during 2017 because the June 30, 2016 balance was \$978,132,017, which is between the \$900.0 million and the \$1.2 billion levels specified in statutes.

#### A. Cash Balance

The current cash and cash equivalent balance reported in the Unemployment Reserve Fund's financial statements is reported as the cash balance. Restricted cash is not included because it is not available for the payment of benefits on behalf of taxable employers. The cash balance is then adjusted for balance sheet accounts that are unrelated to taxable employers to arrive at the cash balance related to taxable employers. Accruals that have no effect on the cash balance are removed from the balance sheet accounts.

**B. Increases**

The cash balance is increased for the cash payments to be reimbursed to the Fund by:

- local and federal governmental units and nonprofit organizations, gross of the allowance for uncollectible accounts, for benefits paid to their former employees;
- other states for combined wage claims;
- the federal government for federally funded unemployment benefit programs; and
- the State of Wisconsin for benefits paid to its former employees.

**C. Decreases**

The net cash balance is reduced for the cash receipts from:

- employers for overpayments of tax contributions;
- claimants and employers for interest and penalty assessments, state withholding taxes, and federal loan interest assessments to be remitted to the State of Wisconsin;
- the federal government for federally funded unemployment benefit programs in excess of the benefits paid;
- claimants for benefit overpayments to be remitted to other states; and
- claimants for other items to be remitted elsewhere, such as federal withholding taxes.

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## **Auditor's Report ■**

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Report 17-10

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Mr. Ray Allen, Secretary  
Department of Workforce Development

We have audited the financial statements and the related notes of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2016, and June 30, 2015, and have issued our report thereon dated May 24, 2017. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

Management of the Unemployment Reserve Fund is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered the Unemployment Reserve Fund's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Unemployment Reserve Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Unemployment Reserve Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Unemployment Reserve Fund's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Unemployment Reserve Fund's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of 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 or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the Unemployment Reserve Fund's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Unemployment Reserve Fund's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

May 24, 2017