



STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 23-8
June 2023

Unemployment Reserve Fund

FY 2020-21 and FY 2021-22

Department of Workforce Development



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Unemployment Reserve Fund
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STATE OF WISCONSIN

Legislative Audit Bureau

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June 23, 2023

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

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 Wisconsin's Unemployment Insurance program benefits paid to eligible individuals. This audit report contains our unmodified opinion on the Fund's financial statements and related notes as of and for the years ended June 30, 2022, and June 30, 2021.

In response to the public health emergency, additional federal funds were made available. Federal programs provided almost \$2.8 billion in benefits paid to eligible individuals during fiscal year (FY) 2020-21, and FY 2021-22. The net position of the Fund was \$1.4 billion as of June 30, 2022, which was an increase of \$202.9 million (17.6 percent) from the net position as of June 30, 2021. The primary factors affecting the Fund's net position include the employer tax rate and the amount of unemployment benefit payments provided.

Since June 30, 2019, which was prior to the public health emergency, the net position of the Fund decreased by \$668.5 million, or 33.0 percent. The decrease was not more significant during the public health emergency because federal reimbursement was received to provide for both federal benefit payments and for certain regular unemployment benefit payments. Further, the Fund received \$69.8 million in reimbursement from the interest and penalty account in the General Fund and received a \$60.0 million transfer from the General Fund in FY 2021-22.

Section 108.18 (3m), Wis. Stats., requires a certain tax rate schedule to be in effect for the calendar year based upon the Fund's cash balance as of June 30 of the preceding year. Under the provisions of 2021 Wisconsin Act 59, the lowest tax rate schedule—Schedule D—was in effect for calendar year 2022 and calendar year 2023 without regard to the cash balance as of June 30 of the preceding year.

We identified significant deficiencies in internal control over financial reporting for FY 2020-21 related to DWD's use of predictive analytics and access controls over Unemployment Insurance program systems. Because the Fund's financial statements are included in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR) for FY 2020-21, these significant deficiencies were also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin's financial statements (report 21-23). DWD addressed these reported deficiencies in FY 2021-22.

A response from DWD follows our report.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/LK/ss

Introduction

The Unemployment Insurance program provides benefits to eligible individuals who become unemployed through no fault of their own.

Wisconsin's Unemployment Insurance program was enacted in 1932 and was the first such program in the United States. The program, which is authorized in ch. 108, Wis. Stats., is accounted for in the State of Wisconsin Unemployment Reserve Fund and is managed by the Department of Workforce Development (DWD). The program provides benefits temporarily to replace a portion of lost wages for eligible individuals who become unemployed through no fault of their own. Administrative costs of the program are funded primarily by federal grants, and these costs 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. Section 15.227 (3), Wis. Stats., provides 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.

In March 2020, in response to the public health emergency, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act established additional federal programs to fund benefits to unemployed individuals and to provide funding for certain regular unemployment benefits. Further, Wisconsin enacted statutory changes, including 2019 Wisconsin Act 185 and 2021 Wisconsin Act 4, and emergency administrative rule changes to increase flexibility and to accommodate changes in federal law. Federal benefits established through the federal CARES Act were extended by the federal Continued Assistance Act of 2020 and the American Rescue Plan Act (ARPA) of 2021. These programs provided benefits for individuals whose employment was affected by the public health emergency and included the Federal Pandemic Unemployment

Compensation program and the Pandemic Unemployment Assistance program. These federal benefit programs ended on September 4, 2021.

Employer Taxes and Employer Reimbursements

Each employer has an account within the Unemployment Reserve Fund. The federal government, the State of Wisconsin, electing local governmental units, and electing nonprofit organizations reimburse the Unemployment Reserve Fund for benefits charged to their accounts, rather than contribute in advance of benefit payments, and are referred to as reimbursable employers. All other employers are considered taxable employers that 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 a taxable employer's account and is based on each employer's unemployment experience rating. For example, taxable employers with more employee layoffs pay more in basic taxes than those with fewer layoffs. The solvency tax is credited to the Unemployment Reserve Fund's balancing, or solvency account, and this tax is based on each employer's unemployment experience rating, payroll size, and account balance. The solvency account, which is reported as part of the Unemployment Reserve Fund's net position, is used to pay benefits that by state law cannot be charged to an employer's account, such as unemployment benefit expenditures for unemployed workers of an employer that went out of business.

The lowest unemployment insurance tax rate schedule has been in effect since calendar year 2018.

Wisconsin Statutes designate that one of four unemployment insurance tax rate schedules, which are shown in Table 1, is in effect for a calendar year based on the cash balance of the Unemployment Reserve Fund as of June 30 of the preceding year. For calendar year 2022 and calendar year 2023, 2021 Wisconsin Act 59 required the lowest tax rate schedule—Schedule D—to be in effect without regard to the cash balance as of June 30 of the preceding year. Schedule D has been in effect since 2018.

Table 1

Unemployment Insurance Tax Rate Schedules
2015 through 2023

Schedule ¹	Cash Balance ²	Calendar Year in Effect
Schedule A	Less than \$300.0 million	2015
Schedule B	At least \$300.0 million but less than \$900.0 million	2016
Schedule C	At least \$900.0 million but less than \$1.2 billion	2017
Schedule D	At least \$1.2 billion	2018, 2019, 2020, and 2021
Schedule D	Not Applicable ³	2022 and 2023

¹ In order from highest tax rate to lowest.

² Cash balance of the Unemployment Reserve Fund as of June 30 of the preceding year.

³ Under provisions of 2021 Wisconsin Act 59, Schedule D was used without regard to the cash balance as of June 30 of the preceding year.

Based on the tax rate schedule, unemployment insurance tax rates are applied to each employee's wages up to the taxable wage base established in Wisconsin Statutes. Wisconsin's taxable wage base has been \$14,000 since 2013.

Employer Relief

Programs were established to provide relief to employers, including federal reimbursement of certain regular unemployment benefits.

In response to the public health emergency, federal and state programs provided relief to both taxable and reimbursable employers for regular unemployment benefits. For example, the CARES Act provided federal reimbursement for regular unemployment benefits for states that did not require individuals to wait one week to receive benefits. 2019 Wisconsin Act 185 temporarily suspended the one-week waiting period, which allowed federal funding to be received for the first week of benefits for weeks beginning April 19, 2020. Federal reimbursement was also provided for a portion of regular unemployment benefits provided to employees of reimbursable employers and benefits provided under the work-share, or short-term compensation, program. The work-share program provides prorated unemployment benefits for employees of employers who voluntarily make an agreement with the state to reduce work hours instead of laying off workers.

State relief was provided through the provisions of 2019 Wisconsin Act 185 and 2021 Wisconsin Act 4 through:

- the use of the Fund's solvency account for regular unemployment benefits provided to employees of taxable employers; and

- the use of funds in the interest and penalty account, which is a program revenue appropriation established under s. 20.445 (1) (gd), Wis. Stats., and maintained in the General Fund, for regular unemployment benefits provided to employees of reimbursable employers.

DWD completed its review of regular unemployment benefit payments made during the public health emergency to determine the funding source for these payments.

During fiscal year (FY) 2021-22, DWD completed its review of approximately \$1.5 billion in regular unemployment benefit payments provided to former employees of both taxable and reimbursable employers during the public health emergency to determine whether the benefit payments could be funded by federal reimbursements, be funded by the interest and penalty account, or be transferred to the solvency account. As a result of this review, DWD determined:

- \$183.7 million could be funded through reimbursements from the federal government;
- \$69.8 million could be funded through the interest and penalty account in the General Fund; and
- \$1.3 billion could be transferred from employer accounts to the Fund's solvency account.

For taxable employers, regular unemployment benefit payments reimbursed from other sources or transferred to the Fund's solvency account do not directly affect an employer's account and would not be considered in determining the employer's experience, which is used to determine employer specific contribution rates. For reimbursable employers, the regular unemployment benefit payments reimbursed from other sources created credits in the employer's account, reducing amounts due from the employer.

The review of regular unemployment benefit payments reimbursed from other sources increased the deficit balance in the solvency account and created an overdraft in the interest and penalty account in the General Fund. The June 30, 2022 balance of the Fund's solvency account was a deficit balance of \$1.7 billion, which when combined with the \$3.1 billion balance in the employer accounts, resulted in the Unemployment Reserve Fund net position of \$1.4 billion, as of June 30, 2022. The June 30, 2022 balance in the interest and penalty account in the General Fund was in a deficit, or overdraft, position of \$49.2 million. Based upon a review of the annual historical net revenues received into this account, DWD reported to the Department of Administration that it will take approximately 24 years before the overdraft would be eliminated.

Unemployment Insurance Benefits

The average weekly regular unemployment benefit payment was \$327 in 2022.

Unemployed individuals file their initial benefit claim applications and subsequent weekly benefit claims online. DWD verifies the information provided in order to establish the eligibility of individuals and the amount of weekly benefits to pay them. Eligible individuals may receive 26 weeks of regular unemployment benefits. The minimum weekly regular unemployment benefit payment has been \$54 since January 2009. The maximum payment has been \$370 since January 2014. Benefit recipients received an average weekly regular unemployment benefit payment of \$305 in 2021 and \$327 in 2022.

Benefits provided under federal programs were \$2.5 billion during FY 2020-21 and \$338.0 million during FY 2021-22.

In addition to regular unemployment benefits, federal program benefits totaling almost \$2.5 billion were provided during FY 2020-21. These programs ended on September 4, 2021, and federal program benefit payments during FY 2021-22 were \$338.0 million, a reduction of almost \$2.2 billion.

Eligible individuals are generally required to be available to work and certify that they were searching for work or were granted a waiver. Work-search requirements included 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. This requirement was temporarily suspended through an emergency rule for the period May 2020 through May 2021.

The net receivable from overpayments to claimants has increased from \$32.0 million as of June 30, 2020, to \$130.1 million as of June 30, 2022.

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, a receivable is established for the amount of the overpayment. As benefit payments increase, it would generally be expected that overpayments would also increase. The net receivable reported by the Unemployment Reserve Fund as a result of overpayments to claimants has increased from \$32.0 million as of June 30, 2020, to \$130.1 million as of June 30, 2022. Overpayments collected for federal benefit programs are reimbursed to the federal government.

DWD reported that a total of \$27.3 million in overpayments as a result of fraud were identified during calendar year 2022.

DWD is statutorily required to report annually to the UIAC on its activities related to detecting and prosecuting program fraud in the previous calendar year. DWD's 2022 report, which was submitted on March 15, 2023, indicated that a total of \$27.3 million in overpayments as a result of fraud were identified during calendar year 2022, with 94.0 percent of those related to payments that first occurred during 2020 and 2021. This is an increase from DWD's 2020 report, which

indicated a total of \$4.5 million in overpayments as a result of fraud. To detect and prevent programmatic overpayments, including those that may be indicative of fraud, DWD reported that it uses multiple methods, including comparing or cross-matching information provided by individuals with employment, immigration, and incarceration records.

Financial Position

The U.S. Department of Labor reported that, as of January 1, 2023, the Unemployment Reserve Fund's Average High Cost Multiple (AHCM) was 0.55, which is about half of the recommended level of 1.0.

Programs established for unemployment benefits 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 (DOL) calculates the Average High Cost Multiple (AHCM) that measures the amount of time the trust fund balance could pay benefits at the average of a state's three highest years of benefit payments in the previous twenty years, or the last three recessions, whichever time period is longer. DOL recommends that a state maintain trust fund balances to support at least an ACHM of 1.0, which represents that the trust fund could provide for one year of benefits at this average high benefit rate. For Wisconsin, DOL reported that the Unemployment Reserve Fund's trust fund balance of approximately \$1.4 billion as of January 1, 2023, resulted in an AHCM of 0.55, which is about half of the recommended level.

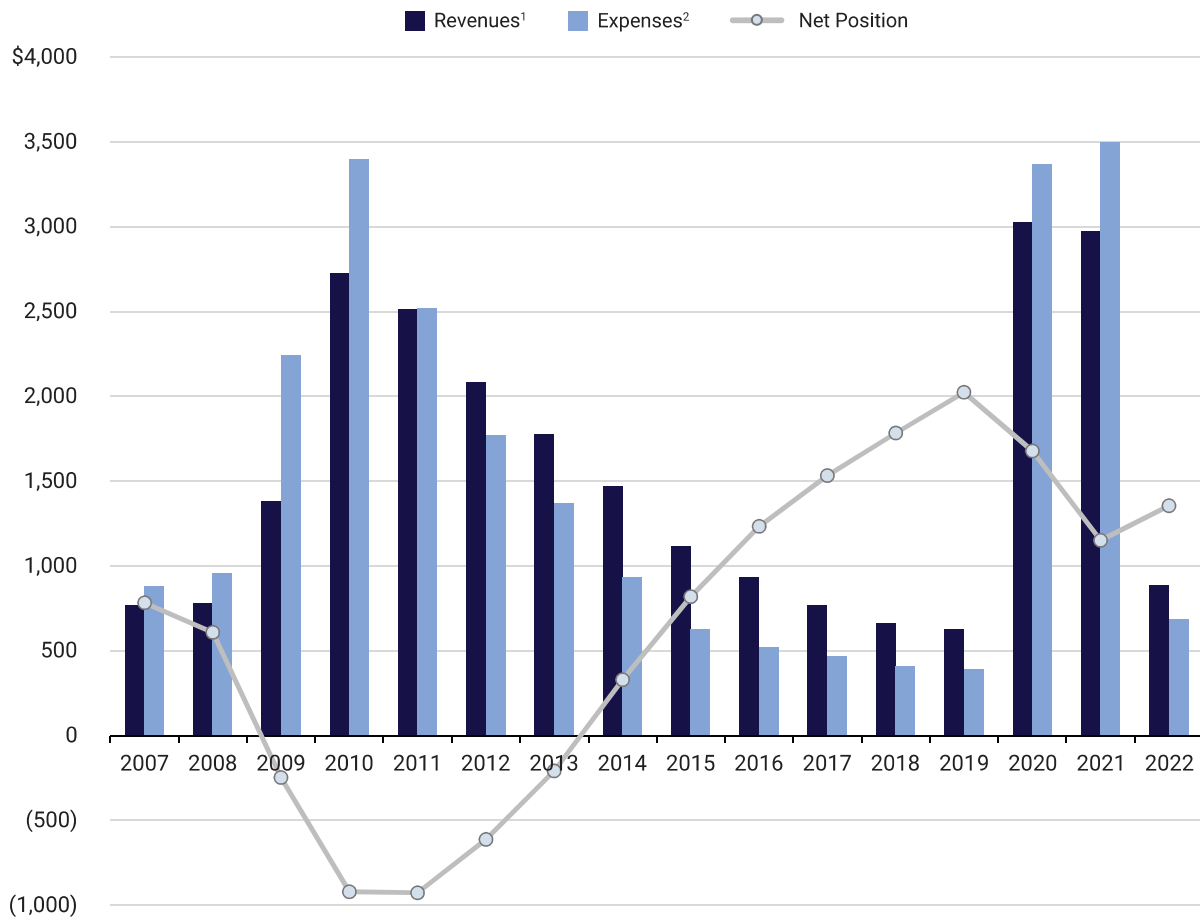
As of June 30, 2022, the net position of the Unemployment Reserve Fund was \$1.4 billion. The net position, as reported in accordance with generally accepted accounting principles, represents the value of the plan's assets that are available to meet unemployment benefit obligations as they become due. The primary factors affecting the Fund's net position include the employer tax rate and the amount of unemployment benefit payments provided. In years when the resources provided through employer taxes and other revenue exceeds unemployment benefit payments and transfers, the net position will increase. When unemployment benefit payments and transfers exceed the resources provided, the net position will decrease.

The net position of the Unemployment Reserve Fund decreased by \$668.5 million since June 30, 2019, to \$1.4 billion as of June 30, 2022.

As shown in Figure 1, the Unemployment Reserve Fund's net position was \$1.4 billion as of June 30, 2022, an increase of \$202.9 million, or 17.6 percent, from the net position as of June 30, 2021. Since June 30, 2019, which was prior to the public health emergency, the net position of the Fund decreased by \$668.5 million, or 33.0 percent. The decrease was not more significant during the public health emergency because federal reimbursement was received to provide for both federal benefit payments and for certain regular unemployment benefit payments. Further, the Unemployment Reserve Fund also received \$69.8 million in reimbursement from the interest and penalty account in the General Fund during FY 2021-22. In addition, 2021 Wisconsin Act 58 provided for a transfer of \$120.0 million from the General Fund to the Unemployment Reserve Fund over the 2021-2023 biennium, of which \$60.0 million was transferred during FY 2021-22.

Figure 1

Unemployment Reserve Fund Revenues, Expenses, and Net Position
 For Fiscal Year Ended June 30
 (in millions)



¹ Revenues include employer contributions, Federal Unemployment Tax Act (FUTA) credit reduction, investment earnings, reimbursements, federal funds received for certain benefits, and transfers in from other funds.

² Expenses include benefits paid to unemployed individuals and transfers to other funds.

Audit Results

We provided an unmodified opinion on the financial statements of the Unemployment Reserve Fund as of and for the years ended June 30, 2022, and June 30, 2021.

We performed an audit of the Unemployment Reserve Fund financial statements, which are prepared by DWD using generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB). To complete our audit of the financial statements, we reviewed DWD’s internal controls over financial reporting, tested financial transactions, and reviewed the financial statements, notes, and supplementary information that were prepared by DWD management. We provided an unmodified opinion on the

financial statements and related notes as of and for the years ended June 30, 2022, and June 30, 2021. Our opinion begins on page 13 and the related financial statements begin on page 26.

We reported two significant deficiencies in internal control over financial reporting for FY 2020-21.

Our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters begins on page 43. As discussed in this report, our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses. In this report, we discuss two internal control deficiencies related to DWD’s use of predictive analytics and access controls over Unemployment Insurance program systems that were identified for FY 2020-21 that we considered to be significant deficiencies. 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. In comparison, a material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State’s financial statements will not be prevented, or will not be detected and corrected, on a timely basis.

Because the Unemployment Reserve Fund’s financial statements were also included in the State of Wisconsin’s Annual Comprehensive Financial Report (ACFR) as of and for the fiscal year ended June 30, 2021, these significant deficiencies were included in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin’s financial statements (report 21-23). DWD addressed these reported deficiencies in FY 2021-22.

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Audit Opinion



STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

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

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Amy Pechacek, Secretary
Department of Workforce Development

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements and the related notes for the State of Wisconsin Unemployment Reserve Fund, administered by the Department of Workforce Development (DWD), as of and for the years ended June 30, 2022, and June 30, 2021, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Unemployment Reserve Fund as of June 30, 2022, and June 30, 2021, and the 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.

Basis for Opinions

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of DWD and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2022, and June 30, 2021, 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance. Therefore, reasonable assurance is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercised professional judgement and maintained professional skepticism throughout the audit. We also identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, and designed and performed audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

In addition, we obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DWD's internal control. Accordingly, no such opinion is expressed. We also evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluated the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 through 24 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) that considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit 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 express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the Unemployment Reserve Fund. The Schedule of Cash Balance Related to Taxable Employers for June 30, 2022, and June 30, 2021, on page 37, which includes the related note on pages 39 through 40, is presented for purposes of additional analysis and is not a required part of the financial statements. 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 audit 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 Schedule of Cash Balance Related to Taxable Employers 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 June 19, 2023, which begins on page 43, on our consideration of DWD's internal control over financial reporting; our testing of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is solely 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 effectiveness of DWD's 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 in considering DWD's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



June 19, 2023

Management's Discussion and Analysis

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 ending June 30, 2022, and June 30, 2021. 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) 2021-22 by almost \$1.4 billion. Except for \$19.2 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 decreased by \$526.1 million during FY 2020-21, but increased by \$202.9 million during the most recently completed fiscal year, FY 2021-22. Unemployment taxes paid by employers decreased each fiscal year compared to the previous year. Benefits paid to unemployed workers increased between FY 2019-20 and FY 2020-21, but substantially decreased between FY 2020-21 and FY 2021-22, given record low unemployment rates and the end of federally funded unemployment benefits provided in response to the COVID-19 pandemic, especially in FY 2021-22. The average unemployment rate decreased from 5.0 percent during FY 2020-21 (which reflects an adjusted rate) to 3.1 percent during FY 2021-22.

Overview of the Fund

The Wisconsin Unemployment Reserve 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 the Unemployment Insurance program and submits its recommended changes in the law to the Legislature during every biennial legislative session.

The principal source of revenue for the Fund is quarterly unemployment tax contributions paid by the approximately 159,000 employers subject to the taxing provisions of ch. 108, Wis. Stats. During FY 2020-21, the Fund also received a significant amount of federal funding to pay for various pandemic unemployment benefit programs. Federal law requires the Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States. Except for 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 special administrative allocations, which are special distributions to each state, may only be used for administration of the program and are not available for the payment of unemployment benefits.

If the Fund exhausts all its reserves, it may borrow from the Federal Unemployment Trust Fund to continue paying benefits. Except for some short-term cash flow situations, and the period from March 18, 2020, through September 6, 2021, federal borrowing normally carries interest charges. Payment of these 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, if any, 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, 2022, and June 30, 2021, and results of operations and cash flows for FY 2021-22 and FY 2020-21. 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 the Fund's 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 operating income to net cash provided by operating activities.

Assets

The Fund's assets consist of cash, cash equivalents, and receivables. Table A shows that total assets decreased by \$1,062.2 million between June 30, 2020, and June 30, 2021, driven by the payment of pandemic unemployment program benefits. It also shows that total assets increased by \$14.4 million between June 30, 2021, and June 30, 2022.

Table A

Assets
(in millions)

	June 30, 2020	June 30, 2021	Change	June 30, 2022	Change
Cash and Cash Equivalents	\$ 1,585.9	\$1,031.9	\$ (554.0)	\$1,278.2	\$246.3
Employer Receivables	127.2	130.2	3.0	117.9	(12.3)
Overpayments to Claimants	32.0	86.7	54.7	130.1	43.4
Other Receivables	833.0	267.1	(565.9)	4.1	(263.0)
Total Assets	\$2,578.1	\$1,515.9	\$(1,062.2)	\$1,530.3	\$ 14.4

Cash payments for benefits exceeded cash received from employer contributions during FY 2020-21 as the COVID-19 pandemic continued. However, as the average unemployment rate decreased from 5.0 percent during FY 2020-21 (which reflects an adjusted rate) to 3.1 percent during FY 2021-22, cash payments for benefits significantly decreased.

In addition, the amount receivable from the federal government for federally funded benefits, reported as part of other receivables in Table A, decreased from \$805.4 million as of June 30, 2020, to \$0.02 million as of June 30, 2022.

Detection of overpayments to claimants increased significantly between June 30, 2020, and June 30, 2022, which corresponds to the dramatic increase in benefit payments during the COVID-19 pandemic.

Liabilities

Table B shows the Fund's liabilities decreased by \$536.1 million between June 30, 2020, and June 30, 2021, and by \$188.6 million between June 30, 2021, and June 30, 2022.

Table B

Liabilities
(in millions)

	June 30, 2020	June 30, 2021	Change	June 30, 2022	Change
Benefit Overpayments					
Due Others	\$ 13.6	\$ 54.4	\$ 40.8	\$ 94.4	\$ 40.0
Benefits Payable	761.6	142.2	(619.4)	15.4	(126.8)
Due to State of Wisconsin	69.0	35.9	(33.1)	3.7	(32.2)
Overdrafts	20.1	0.0	(20.1)	1.0	1.0
Other Liabilities	35.9	131.6	95.7	61.0	(70.6)
Total Liabilities	\$900.2	\$364.1	\$(536.1)	\$175.5	\$(188.6)

The Fund accrues a liability for benefits that relate to claims of unemployment for weeks on or before June 30 of each year that have not yet been paid as of that date. DWD resolved a backlog of unemployment claims during FY 2020-21 that contributed to the \$746.2 million decrease of the Benefits Payable liability from \$761.6 million as of June 30, 2020, to \$15.4 million as of June 30, 2022.

Claimants may choose to have federal and/or state income taxes withheld from their unemployment payments. The Fund remits tax withholdings to the Internal Revenue Service and the Wisconsin Department of Revenue. While federal tax withholding is required to be transferred several times a week, state tax withholding is only required to be transferred every three months and, therefore, results in a payable due to the State of Wisconsin. The Fund held \$1.6 million in state tax withholding as of June 30, 2022, a decrease of \$66.7 million from the \$68.3 million held as of June 30, 2020. This is attributed to the decrease in benefit payments made during the last three months of the fiscal year and, therefore, resulting in the decrease in tax withholding.

The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act established programs to provide relief to employers through federal reimbursement of certain regular unemployment benefits. 2019 Wisconsin Act 185 and 2021 Wisconsin Act 4 provided additional employer relief. As a result, the amount due to governmental units and nonprofit organizations, reported as part of other liabilities in Table B, increased by \$102.5 million between June 30, 2020, and June 30, 2021. During FY 2021-22, DWD completed its review of regular unemployment benefit payments made during the COVID-19 pandemic to determine the amount of employer relief from the federal government and through Act 185 and Act 4, resulting in a decrease of \$98.5 million in the amount due to governmental units and nonprofit organizations between June 30, 2021, and June 30, 2022.

Net Position

Table C shows the Fund's net position decreased by \$526.1 million between June 30, 2020, and June 30, 2021, and increased by \$202.9 million between June 30, 2021, and June 30, 2022.

Table C

Net Position
(in millions)

	June 30, 2020	June 30, 2021	Change	June 30, 2022	Change
Restricted for Benefit Payments	\$1,657.5	\$1,125.7	\$(531.8)	\$1,335.5	\$209.8
Restricted for Administration	20.4	26.1	5.7	19.2	(6.9)
Total Net Position	\$1,677.9	\$1,151.8	\$(526.1)	\$1,354.7	\$202.9

Net position represents the value of the Fund's assets that are available to meet unemployment benefit needs. The primary factors affecting the Fund's net position are the tax rate and the unemployment rate, which are analyzed further in the discussions about Operating Revenue and Expenses.

Operating Revenue

The two major sources of operating revenue for the Fund are employer tax contributions, including those collected through the Federal Unemployment Tax Act (FUTA) tax credit reduction, 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 penalties and other sources. Table D shows that the Fund's operating revenues decreased by \$14.9 million during FY 2020-21 and by \$2,135.5 million during FY 2021-22.

Table D

Operating Revenue
(in millions)

	FY 2019-20	FY 2020-21	Change	FY 2021-22	Change
Employer Contributions ¹	\$ 514.3	\$ 463.6	\$(50.7)	\$451.3	\$ (12.3)
Benefit Reimbursements	2,446.3	2,477.6	31.3	354.5	(2,123.1)
Penalties and Other Revenues	1.0	5.5	4.5	5.4	(0.1)
Total Operating Revenues	\$2,961.6	\$2,946.7	\$(14.9)	\$811.2	\$(2,135.5)

¹ Amount includes employer contributions and Federal Unemployment Tax Act (FUTA) credit reduction.

Employer contributions decreased by \$63.0 million, or 12.2 percent, between FY 2019-20 and FY 2021-22 because the average tax rate decreased during this period. During this time period, 2019 Wisconsin Act 185 also shifted charging from the employer account to the Fund's solvency account and the State experienced record low unemployment rates, affecting employer tax rates which are based on the experience of individual accounts. The average tax rate decreased from 1.53 percent in calendar year 2020 to 1.35 percent in 2021 and to an estimated 1.17 percent in 2022. 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. The rate schedule in effect for 2020 was the lowest schedule available because the June 30, 2019 balance was greater than the \$1.2 billion threshold specified in Wisconsin Statutes. The lowest rate schedule continued in 2021, and in 2022, as required by 2021 Wisconsin Act 59, regardless of the Fund's cash balance.

Benefit reimbursements decreased by \$2,123.1 million during FY 2021-22 because the federal programs enacted to provide additional unemployment benefits in response to the COVID-19 pandemic expired on September 4, 2021.

Nonoperating Revenues and Transfers

Table E shows the Fund's nonoperating revenues decreased by \$37.9 million during FY 2020-21 and by \$9.5 million during FY 2021-22.

Table E

Nonoperating Revenues and Transfers In (in millions)

	FY 2019-20	FY 2020-21	Change	FY 2021-22	Change
Investment Earnings	\$46.3	\$27.3	\$(19.0)	\$17.8	\$(9.5)
Special Federal Aids	18.9	0.0	(18.9)	0.0	0.0
Total Nonoperating Revenue	\$65.2	\$27.3	\$(37.9)	\$17.8	\$(9.5)
Transfer In from General Fund	\$0.0	\$0.6	\$0.6	\$60.0	\$59.4

Investment earnings decreased by \$28.5 million between FY 2019-20 and FY 2021-22 because both the yield rate and the amount invested decreased during this period. The quarterly yield decreased from 2.4 percent during the second quarter of 2020 to 1.6 percent during the second quarter of 2022.

2021 Wisconsin Act 58 required a \$60.0 million transfer from the State of Wisconsin General Fund to the Unemployment Reserve Fund during FY 2021-22 for the purpose of paying benefits.

Expenses and Transfers

Table F shows the Fund's operating expenses increased by \$128.6 million during FY 2020-21 and decreased by \$2,815.9 million during FY 2021-22.

Table F

Expenses and Transfers Out (in millions)

	FY 2019-20	FY 2020-21	Change	FY 2021-22	Change
Benefits Paid on Behalf of:					
Taxable Employers	\$ 926.6	\$1,022.6	\$ 96.0	\$319.8	\$ (702.8)
Federal Government	2,398.0	2,459.1	61.1	340.0	(2,119.1)
Other Entities	47.2	18.7	(28.5)	24.7	6.0
Total Operating Expenses	\$3,371.8	\$3,500.4	\$128.6	\$684.5	\$(2,815.9)
Transfer to Pay Administrative Expenses in General Fund and Other Nonoperating Expenses					
	\$0.4	\$0.3	\$(0.1)	\$1.5	\$1.2

Benefits paid on behalf of taxable employers decreased by \$606.8 million between FY 2019-20 and FY 2021-22, because the average unemployment rate decreased from 5.2 percent (as adjusted) in FY 2019-20 to 3.1 percent in FY 2021-22. Benefits paid on behalf of the federal government decreased by \$2,058.0 million between FY 2019-20 and FY 2021-22 due to the expiration of the federal unemployment programs enacted to address the COVID-19 pandemic on September 4, 2021.

Currently Known Facts, Decisions, and Conditions

2021 Wisconsin Act 59 retains the lowest tax rate schedule through the end of calendar year 2023, regardless of the Fund's cash balance. 2021 Wisconsin Act 58 requires a \$60.0 million transfer from the State of Wisconsin General Fund to the Unemployment Reserve Fund during FY 2022-23 for the purpose of paying benefits.

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. Questions concerning this report or additional information needs should be directed to:

Wisconsin Unemployment Reserve Fund
Department of Workforce Development
Division of Unemployment Insurance
201 East Washington Avenue
Madison, Wisconsin 53703

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

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Financial Statements

Statement of Net Position
June 30, 2022, and June 30, 2021

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3):		
Federal Unemployment Trust Fund	\$ 1,259,001,657	\$ 1,008,437,508
Restricted Cash for Administration	9,704,823	0
Cash in Bank	0	2,736,215
Current Cash and Cash Equivalents	<u>1,268,706,480</u>	<u>1,011,173,723</u>
Employer Accounts Receivable:		
Taxable Employers (Net of Allowances of \$16,955,293 and \$15,553,996, respectively)	108,442,238	118,846,360
Governmental Units and Nonprofit Organizations (Net of Allowances of \$100,000 and \$0, respectively)	809,161	280,231
Combined Wage Claim Receivables	929,236	3,227,579
Net Current Employer Accounts Receivable	<u>110,180,635</u>	<u>122,354,170</u>
Other Receivables:		
Overpayments to Claimants (Net of Allowances of \$57,796,269 and \$43,441,541, respectively)	46,991,423	33,063,452
Concealment Penalty Due from Claimants (Net of Allowances of \$1,257,933 and \$486,769, respectively)	1,525,029	450,937
Federally Funded Unemployment Benefit Programs	15,796	200,914,033
Due from State of Wisconsin (Note 4)	48,168	64,909,757
Net Current Other Receivables	<u>48,580,416</u>	<u>299,338,179</u>
Total Current Assets	<u>1,427,467,531</u>	<u>1,432,866,072</u>
Noncurrent Assets:		
Restricted Cash for Administration	9,494,534	20,704,948
Taxable Employer Accounts Receivable	7,721,478	7,804,539
Overpayments to Claimants	83,101,612	53,688,394
Concealment Penalty Due from Claimants	2,545,930	822,163
Total Noncurrent Assets	<u>102,863,554</u>	<u>83,020,044</u>
TOTAL ASSETS	<u>\$ 1,530,331,085</u>	<u>\$ 1,515,886,116</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Benefits Payable	15,386,676	142,176,701
Overdrafts	998,254	0
Employer Overpayments	37,141,585	12,184,100
Benefit Overpayments Due Employers, Other States, and Federal Government	35,252,162	21,918,145
Combined Wage Claim Plan Liabilities	2,685,918	635,570
Due to Federal Government	2,851,667	182,952
Due to Government Units and Nonprofit Organizations	17,429,638	115,883,949
Due to State of Wisconsin (Note 4)	3,714,830	35,916,491
Other	931,350	2,728,890
Total Current Liabilities	<u>116,392,080</u>	<u>331,626,798</u>
Noncurrent Liabilities:		
Benefit Overpayments Due Employers, Other States, and Federal Government	59,189,699	32,499,829
Total Liabilities	<u>175,581,779</u>	<u>364,126,627</u>
Net Position (Note 1):		
Restricted for Benefit Payments	1,335,549,465	1,125,652,107
Restricted for Administration	19,199,841	26,107,382
Total Net Position	<u>1,354,749,306</u>	<u>1,151,759,489</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,530,331,085</u>	<u>\$ 1,515,886,116</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Position for the Years Ended June 30, 2022, and June 30, 2021

	For the Year Ended June 30, 2022	For the Year Ended June 30, 2021
OPERATING REVENUES		
Employer Contributions	\$ 451,288,929	\$ 463,583,691
Federal Unemployment Tax Act Credit Reduction	3,467	9,911
Benefits Reimbursed by:		
Federal Government for Benefit Programs	334,097,063	2,460,041,960
Federal Government for Former Employees	2,034,438	6,318,175
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations (Note 6)	15,868,422	0
Other States	2,513,708	11,216,534
Penalties and Other Revenues	5,362,128	5,499,076
Total Operating Revenues	811,168,155	2,946,669,347
OPERATING EXPENSES		
Benefits Paid or Provided on Behalf of:		
Taxable Employers	319,812,767	1,022,647,230
Federal Government for Benefit Programs	337,968,320	2,452,748,517
Federal Government for Former Employees	2,034,438	6,318,175
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations (Note 6)	16,594,840	440,165
Other States	2,513,708	11,216,534
Adjustment for Allowance—Claimants	4,034,893	5,146,042
Other	1,550,215	1,871,191
Total Operating Expenses	684,509,181	3,500,387,854
OPERATING INCOME (LOSS)	126,658,974	(553,718,507)
NONOPERATING REVENUES		
Investment Earnings	17,816,913	27,305,539
INCOME (LOSS) BEFORE TRANSFERS	144,475,887	(526,412,968)
TRANSFERS		
Transfer from State of Wisconsin General Fund (Note 5)	60,000,000	582,374
Transfer to State of Wisconsin General Fund (Note 5)	(1,486,070)	(323,786)
CHANGE IN NET POSITION	202,989,817	(526,154,380)
Net Position at the Beginning of the Year	1,151,759,489	1,677,913,869
Net Position at the End of the Year (Note 1)	<u>\$ 1,354,749,306</u>	<u>\$ 1,151,759,489</u>

Statement of Cash Flows for the Years Ended June 30, 2022, and June 30, 2021

	For the Year Ended June 30, 2022	For the Year Ended June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from:		
Employer Contributions	\$ 506,632,547	\$ 459,111,115
Federal Unemployment Tax Act Credit Reduction	3,467	9,911
Benefit Reimbursements	429,134,125	3,191,837,727
Benefit Overpayment Recoveries	39,075,033	46,426,610
Other Operating Revenues	2,109,606	1,551,098
Cash Payments for:		
Benefits	(806,302,548)	(4,258,263,594)
Other Operating Expenses	(1,639,463)	(1,862,505)
Net Cash Provided (Used) by Operating Activities	169,012,767	(561,189,638)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Overdraft Implicitly Financed	998,254	(20,079,231)
Transfers from State of Wisconsin General Fund	60,000,000	582,374
Transfers to State of Wisconsin General Fund	(1,505,591)	(684,111)
Net Cash Provided (Used) by Noncapital Financing Activities	59,492,663	(20,180,968)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	17,816,913	27,305,539
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	246,322,343	(554,065,067)
Cash and Cash Equivalents at the Beginning of the Year	1,031,878,671	1,585,943,738
Cash and Cash Equivalents at the End of the Year	\$ 1,278,201,014	\$ 1,031,878,671
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 126,658,974	\$ (553,718,507)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Provision for Uncollectible Accounts	16,627,190	12,160,609
Changes to Assets and Liabilities:		
Decrease in Employer Accounts Receivables	10,755,299	(1,645,684)
Decrease (Increase) in Other Receivables	204,494,886	497,658,569
Increase (Decrease) in Liabilities	(189,523,582)	(515,644,625)
Total Adjustments	42,353,793	(7,471,131)
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	\$ 169,012,767	\$ (561,189,638)

Notes to the Financial Statements

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 includes the following restrictions:

A. Restricted for Benefit Payments

Except as noted below, the Fund's net position, if positive, can be used only to pay unemployment benefits to eligible unemployed persons.

B. 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. Operating revenues include employer contributions and federal funding for benefit payments. 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. In addition, collections that exceed the amount due are reported as part of the Employer Overpayments liability.

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. In addition, reimbursements to the Fund that exceed the amount due are reported as part of the Due to Governmental Units and Nonprofit Organizations liability.

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 and noncurrent liabilities 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 Trade Readjustment Assistance, are ongoing while other programs, such as Pandemic Emergency Unemployment Compensation and Disaster Unemployment Assistance, 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 according to risk 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 \$7,424,030 as of June 30, 2021, and \$1,836,527 as of June 30, 2022, were exposed to custodial credit risk:

	<u>June 30, 2021</u>	<u>June 30, 2022</u>
Uninsured and Uncollateralized	\$6,774,030	\$1,186,530

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 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. As of June 30, 2021, it also consists of reimbursement due from the State of Wisconsin General Fund for benefits paid under the provision of 2019 Wisconsin Act 185 and 2021 Wisconsin Act 4.

5. INTERFUND TRANSFERS

Transfers are typically used to move the revenues from special federal administrative allocations to the State of Wisconsin General Fund in which the related expenses are incurred. During FY 2021-22, the General Fund transferred \$60.0 million to the Unemployment Reserve Fund for the purpose of paying benefits.

6. STATE OF WISCONSIN, ELECTING LOCAL GOVERNMENTS, AND ELECTING NONPROFIT ORGANIZATIONS

During FY 2020-21, DWD received \$105.9 million in reimbursement and paid \$101.8 million in benefits on behalf of the State of Wisconsin, electing local governments, and electing nonprofit employers. The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act established programs to provide relief to these employers through federal reimbursement of certain regular unemployment benefits. 2019 Wisconsin Act 185 and 2021 Wisconsin Act 4 provided additional employer relief. The amounts reported as operating revenues and expenses related to these employers on the Statement of Revenues, Expenses, and Changes in Net Position were adjusted to \$0, and \$440,165, respectively, for FY 2020-21 to reflect that these amounts would be reimbursed by other sources and amounts paid by these employers were payable back to them. During FY 2021-22, DWD completed its review of regular unemployment benefit payments made during the COVID-19 pandemic.

7. CONTINGENCIES

The Fund accrued a liability for benefits paid through October 31 that were related to weeks prior to June 30 in both 2021 and 2022. An estimate of payments related to the outstanding workload, totaling 12,431 adjudication issues and 13,043 appeals as of October 2021 and 5,926 adjudication issues and 1,369 appeals as of October 2022, cannot be made and, therefore, a liability for these claims has not been reported.

8. LITIGATION

A class action lawsuit alleging discrimination under the Rehabilitation Act and the Americans with Disabilities Act (ADA) as well as a violation of the “when due” clause of the Social Security Act and the Due Process Clause of the Fourteenth Amendment was filed against DWD in September 2021. The plaintiffs seek to invalidate Wis. Stat. 108.04(12)(f) and 108.04(2)(h) which prohibit recipients of social security disability insurance payments from receiving regular unemployment compensation benefits. In addition to an injunction, the plaintiffs seek back payments for any weeks that members of the class would have been eligible for regular unemployment benefits, excluding the weeks for which they received pandemic unemployment assistance instead, and reimbursement for any collection costs and penalties.

The case was pled as a class action, but the State successfully moved for an order allowing the district court to rule on a summary judgement motion first. That summary motion is now pending, which seeks complete dismissal of the case. The ultimate disposition and any potential loss amount relating to an unfavorable outcome could not be reasonably determined.

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Supplementary Information

**Schedule of Cash Balance Related to Taxable Employers
June 30, 2022, and June 30, 2021**

	June 30, 2022	June 30, 2021
CASH BALANCE		
Cash and Cash Equivalents	\$ 1,259,001,657	\$ 1,011,173,723
Cash Restricted for Benefit Payments Unrelated to Taxable Employers	(11,503,450)	(88,970,677)
Overdrafts	(998,254)	0
Net Cash Balance	1,246,499,953	922,203,046
INCREASES		
Employer Accounts Receivable:		
Government Units and Nonprofit Organizations	505,167	34,590,575
Combined Wage Claim Plan Receivables	772,120	2,741,412
Total Employer Accounts Receivable	1,277,287	37,331,987
Other Receivables:		
Federally Funded Unemployment Benefit Programs	3,671	3,745,425
Due from State of Wisconsin	48,168	101,630
Total Other Receivables	51,839	3,847,055
Total Increases	1,329,126	41,179,042
DECREASES		
Employer Overpayments	40,197,074	15,147,756
Government Units and Nonprofit Organizations	17,627,998	471
Due to State of Wisconsin	3,774,777	21,250,057
Due to Federal Government	124,257	182,952
Benefit Overpayments Due to Other States	6,793	29,614
Other	174,917	718,608
Total Decreases	61,905,817	37,329,458
Cash Balance Related to Taxable Employers	<u>\$ 1,185,923,262</u>	<u>\$ 926,052,630</u>

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

Note to the Schedule of Cash Balance Related to Taxable Employers

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR DETERMINING THE CASH BALANCE

The Schedule of Cash Balance Related to Taxable Employers as of June 30, 2022, and June 30, 2021, 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 in effect during 2020 and 2021 because the preceding June 30 balances were more than the \$1.2 billion level specified in Wisconsin Statutes. Tax rate Schedule D is in effect again during 2022 and 2023 because 2021 Wisconsin Act 59 provides as such, regardless of the Fund's cash balance.

A. Cash Balance

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. 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 or are based upon estimated amounts 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;

40 › NOTE TO THE SCHEDULE OF CASH BALANCE RELATED TO TAXABLE EMPLOYERS

- 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





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

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Amy Pechacek, Secretary
Department of Workforce Development

We have audited the financial statements and the related notes of the State of Wisconsin Unemployment Reserve Fund, administered by the Department of Workforce Development (DWD), as of and for the years ended June 30, 2022, and June 30, 2021, and have issued our report thereon dated June 19, 2023. 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.

Report on 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 DWD's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DWD's internal control. Accordingly, we do not express an opinion on the effectiveness of DWD'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Findings and Responses Schedule, as Finding 1 and Finding 2, to be significant deficiencies for fiscal year (FY) 2020-21.

Because the Unemployment Reserve Fund's financial statements are also included in the State of Wisconsin's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2021, these significant deficiencies were also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin's financial statements (report 21-23) as Findings 2021-003 and 2021-004, respectively.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Unemployment Reserve Fund are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Department of Workforce Development's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DWD's written responses to the findings identified in the audit. DWD's responses and corrective action plans were included in report 21-23. DWD's responses were not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 DWD'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 DWD's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



June 19, 2023

FINDINGS AND RESPONSES SCHEDULE

This schedule includes two deficiencies in internal control over financial reporting that we considered to be significant deficiencies for FY 2020-21 for the Unemployment Reserve Fund. These deficiencies in internal control over financial reporting are required to be reported by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Finding 1: Monitoring and Use of Predictive Analytics for the Unemployment Insurance Program

Background:

The Department of Workforce Development (DWD) administers the Unemployment Insurance program, which pays monetary benefits to certain individuals who have lost a job. Unemployed individuals file initial benefit claim applications and subsequent weekly benefit claims. When an initial claim or weekly claim is filed, DWD is required to verify the information provided in order to establish the statutory eligibility of individuals and the amount of weekly benefits to pay them. At times, DWD cannot verify the eligibility of an individual with the current information the individual filed. In these cases, it is DWD's process to review the issue and place a "hold" on the individual's account for each eligibility issue identified. A hold stops the processing of the claim until DWD staff review the hold. Holds are typically assigned for review to a claims specialist or an adjudicator, who is responsible for obtaining additional information to determine whether the hold can be removed or the claim should be denied.

In March 2020, the public health emergency resulted in a significant increase in unemployment insurance claims being filed. In addition, DWD began making payments through several new federal programs, created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, that were aimed at providing additional benefits to unemployed individuals. DWD experienced a significant backlog of claims that needed to be processed, including claims that had holds in need of review. As of November 28, 2020, DWD reported a backlog of claims for 65,348 individuals with 98,915 holds requiring review.

To address the backlog of claims, DWD contracted with Google/SpringML to develop a predictive analytics model that DWD could use to remove eligibility holds. DWD provided the contractor with historical data, including information on holds related to claims and whether the holds had been removed. Using this data, the contractor developed the predictive analytics model that predicted whether or not a hold could be removed from an individual's account and assigned a confidence score to the prediction, which represented the level of confidence in the prediction. DWD reported that it reviewed the results of the predictive analytics model developed by the contractor through various analyses, including a comparison of the model's results with manual processes for holds removed in November 2020. DWD worked with the contractor to establish an acceptable confidence score threshold and then worked to refine the model through December 11, 2020.

In December 2020, DWD provided all outstanding holds to the contractor, which processed the information through the predictive analytics model. Beginning in January 2021 and each week thereafter, DWD loaded all outstanding holds to the contractor's platform, and DWD processed this information through the predictive analytics model. The predictive analytics model provided the results to DWD, including an assessment of the holds that could be removed and the assigned confidence score for each hold. DWD staff assessed the results; determined, in aggregate, which holds would be removed; and calculated an overall projected error rate using the assigned confidence scores and the results from the review performed in November 2020. DWD staff

recommended the aggregate number of holds to be removed and the projected error rate for those holds to DWD management for approval.

Holds not removed through this process remained on the individual's account. DWD indicated that no individuals were denied benefits based upon the results of the predictive analytics model. According to DWD staff, holds for individuals who had applied for benefits under the Pandemic Unemployment Assistance program were not removed through the predictive analytics model due to insufficient history with this program.

Criteria:

DWD is responsible for ensuring the Unemployment Insurance program adheres to federal statutes and federal regulations when determining the eligibility of an individual, including making this determination in a timely and accurate manner. Unemployment Insurance Program Letter (UIPL) 12-01, issued by the U.S. Department of Labor (DOL) in December 2000, states that the determination of an individual's eligibility for benefits involves determining the facts of an individual's situation and the adjudication of issues identified. Both of these actions are considered to be inherently governmental functions as they each require discretion in the interpretation of state law. An inherently governmental function is defined as a function that is so intimately related to the public interest as to mandate performance by governmental employees.

DOL released an update to UIPL 12-01 in January 2021, which indicates that states may outsource automated data processing functions provided the related activities:

- do not require the use of discretion in applying governmental authority; and
- do not affect decisions concerning whether or not an individual is eligible to receive unemployment insurance benefits.

To ensure outsourced functions operate correctly, it would be expected that procedures would be developed and implemented to adequately monitor the ongoing accuracy and reliability of the outsourced functions.

Condition:

DWD's approval process did not establish a projected error rate above which the removal of holds would not be approved. In addition, when making decisions to remove holds that could affect an individual's eligibility to receive benefits, DWD did not demonstrate that its predictive analytics model involved a review of each individual or each individual hold. Further, DWD did not adequately monitor the ongoing accuracy of the predictive analytics model, such as by reviewing and testing a sample of removed holds for accuracy. Instead, DWD relied on the review of the predictive analytics model that had been completed using the November 2020 data.

Context:

We interviewed DWD staff to gain an understanding of the process used to develop the predictive analytics model with the contractor, the process used to provide data to and receive data from the contractor, and the approval process for removing holds. Based on documentation provided by DWD staff, 169,257 holds were removed from individual accounts through the use of the predictive analytics model between December 2020 and June 2021. During FY 2020-21, DWD reported a total of 3.0 million holds were removed from individual accounts through both manual review and the predictive analytics model.

Questioned Costs:

Questioned costs cannot be determined because the removal of a hold from an individual's account may or may not result in a benefit payment.

Effect:

In data provided by DWD, the projected error rate that was calculated during the weeks in December 2020 to June 2021 ranged from a high of 26.8 percent to a low of 5.5 percent. For the period of December 11, 2020, to December 18, 2020, DWD removed 45,913 holds with calculated projected error rates that ranged from 22.7 percent to 23.7 percent. Therefore, while the removal of a hold from an individual's account may or may not have resulted in a benefit payment, it is likely that some payments were made to ineligible individuals as a result of a hold removed through the predictive analytics model. Collection of overpayments that were paid because of a hold removed through this process is limited since s. 108.22 (8) (c), Wis. Stats., would classify such overpayments as department error for which collection is not permitted.

DOL requires DWD to perform quarterly reviews of a sample of benefit payments to assess the accuracy of DWD's processes. As a result of these reviews, DWD staff indicated errors were identified that were the result of department error and, since the predictive analytics model was implemented, these types of errors have increased.

In the absence of adequate monitoring over the predictive analytics model, and because DWD is not reviewing the facts and circumstances of each individual's eligibility in removing holds, it may be difficult for DWD to demonstrate that it retained its inherently governmental function, while outsourcing automatic data processes, as required by DOL.

Cause:

The predictive analytics model was implemented to address the backlog of claims that had holds in order to better meet DOL's timeliness requirement, as discussed in DOL's UIPL 04-01. However, DWD did not implement adequate procedures to monitor the ongoing accuracy of the predictive analytics model in assessing whether a hold could be appropriately removed.

☑ Recommendation

We recommend the Wisconsin Department of Workforce Development:

- *seek written assurance from the U.S. Department of Labor that the predictive analytics model is meeting federal requirements for DWD to review the facts and circumstances when making decisions that affect whether or not an individual is eligible to receive benefits; and*
- *implement and document adequate procedures to monitor the ongoing accuracy of the predictive analytics model in assessing whether a hold could be appropriately removed.*

Response and Corrective Action Plan from the Wisconsin Department of Workforce Development:

DWD's response and corrective action plan were included in report 21-23 as part of Finding 2021-003 but are not included here because DWD has taken actions to address the recommendations and, as of the end of FY 2021-22, DWD indicated it was no longer using the predictive analytics model for the removal of holds.

Finding 2: Access Controls over Unemployment Insurance Program Systems

Background:

DWD relies on information technology (IT) systems to administer its programs, including the Unemployment Insurance program. DWD uses several IT systems to maintain employer accounts and contributions, determine eligible program participants, and process Unemployment Insurance program benefit payments. For example, DWD uses the State Unemployment Insurance Tax Enterprise System (SUITES), which is used to maintain employer accounts and contributions. DWD is responsible for ensuring the security of SUITES.

We first identified concerns with access controls over DWD's IT systems during our FY 2018-19 audit, and we recommended DWD make improvements, including by completing required access reviews and removing access for terminated employees in a timely manner. During our FY 2019-20 audit, DWD noted that corrective actions were delayed due to the public health emergency. As a result, we continued to identify concerns related to the review of access controls over the SUITES system. We also identified concerns related to semiannual reviews of access to federal tax information. We recommended DWD improve controls (report 21-6).

Criteria:

As required by 2 CFR 200.303, DWD is responsible for establishing and maintaining effective internal control over its federal programs to provide reasonable assurance that the federal programs are administered in compliance with federal statutes and regulations. Controls over the security, maintenance, and processing of information in IT systems that are used to administer the Unemployment Insurance program are part of an effective internal control system.

DWD is also required to follow Internal Revenue Service (IRS) Code regulations. Under 26 US Code 6103, every six months the IRS requires a review of staff access to federal tax information. In addition, DWD is required to follow the Wisconsin *IT Security Policy Handbook* and associated standards established by the Department of Administration (DOA). DOA standards require that access to all accounts be reviewed on an annual basis and access to privileged accounts must be reviewed every six months to determine whether access is still needed and remains appropriate. Further, the Wisconsin *IT Security Policy Handbook* and associated standards require that user accounts be disabled within a maximum of three days from the employee termination date.

Condition:

In response to the concerns identified in our prior audit, DWD developed a corrective action plan to review access to SUITES and federal tax information, establish a process to review access for both privileged and non-privileged accounts, and improve controls related to timely notification for employee terminations to allow for user accounts to be disabled.

Because implementation of the corrective action plan was delayed, we identified exceptions in our FY 2020-21 testing that were consistent with our prior concerns. For instance, access reviews for both privileged and non-privileged accounts, including employees with access to SUITES, were not completed during FY 2020-21. Although DWD completed a review of access to federal tax information in March 2021, the previous review was completed in FY 2018-19, which was less frequent than the required six-month period for these reviews. We also continued to identify accounts that were not disabled in a timely manner as a result of delays in notification of employee terminations to the IT staff. Finally, we identified a new concern related to DWD's monitoring of the IT system access granted to certain disabled accounts.

We determined that the detailed results of our review, both related to our findings identified in prior audits and the new concern related to monitoring of access, were too sensitive to communicate publicly. Therefore, we communicated the detailed results to DWD in a confidential communication.

Context:

We reviewed DWD IT procedures and compared them to federal regulations, state IT policies and standards issued by DOA, and National Institute of Standards and Technology (NIST) guidance. We requested an update from DWD on the status of planned corrective actions related to the concerns communicated as part of our prior audit. In addition, we interviewed DWD staff, requested information necessary to complete our testing, and performed testing to determine whether the concerns we identified in prior years continued into FY 2020-21.

Questioned Costs:

None.

Effect:

Procedures that do not align with federal regulations and state IT policies and standards weaken the level of security of IT systems. For example, not properly managing and maintaining appropriate access, or not performing access reviews for IT systems used to administer the Unemployment Insurance program, could result in the issuance of erroneous or fraudulent payments, ineligible program participants, or inappropriate viewing of confidential data.

Cause:

DWD delayed implementation of the corrective action plan it created in response to the recommendations we made in prior audits. DWD attributed this delay to the public health emergency. In addition, DWD indicated it did not monitor access granted to certain disabled accounts because DWD did not consider it necessary to monitor disabled accounts.

Recommendation

We recommend the Wisconsin Department of Workforce Development:

- *complete full implementation of its corrective action plan by March 2022; and*
- *address the specific concerns included in the confidential communication by June 2022.*

Response and Corrective Action Plan from the Wisconsin Department of Workforce Development:

DWD's response and corrective action plan were included in report 21-23 as part of Finding 2021-004 but are not included here because DWD has taken actions to address the recommendations, as of the end of FY 2021-22.

Responses

Date: Wednesday, June 21, 2023

To: Joe Chrisman, State Auditor of the Legislative Audit Bureau

From: Amy Pechacek, Department of Workforce Development Secretary-designee



Subject: Response to Draft Legislative Audit Bureau's Audit of the Unemployment Reserve Fund

The Wisconsin Department of Workforce Development (DWD) appreciates the opportunity to respond to the Legislative Audit Bureau's (LAB) review of the State of Wisconsin Unemployment Reserve Fund's financial statements for the fiscal years ending on June 30, 2021, and June 30, 2022. The audit, which **contains no findings**, provides an opportunity to highlight the department's ongoing dedication to accurate and transparent financial reporting.

1

DWD participated in the most recent audit to advance awareness and understanding of its actions, which were completed at the end of FY 2021-2022, to address the audit recommendations from that time period. The prior recommendations pertained to internal controls over financial reporting related to predictive analytics and access controls over the Unemployment Insurance (UI) program systems and were previously covered by LAB in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021. [See LAB Report 21-23, pp. 28-34 \(Findings 2021-003 and 2021-004 and corresponding response\)](#). When that report was made available to DWD, DWD submitted a detailed response to LAB on December 7, 2021 to clarify its use of predictive analytics. As noted in the draft report that DWD commissioned LAB to undertake, Findings 2021-003 and 2021-004 were not included in the current report because DWD has taken actions on both of the 2021 findings to address the recommendations as of the end of FY 2021-2022. Thus, there were no new findings, only a restatement of previous findings that have been timely corrected.

2

Beyond addressing the pandemic-related challenges with the UI system, the department has continued its overarching modernization efforts and implemented strategies that have contributed to a thriving Wisconsin economy, with a record low unemployment rate, record high number of jobs, and a labor participation rate that has remained a full 2 percentage points above the national average.

LEGISLATIVE AUDIT BUREAU COMMENTS ON THE AUDIT RESPONSE FROM THE DEPARTMENT OF WORKFORCE DEVELOPMENT

To help the Joint Legislative Audit Committee evaluate the audit response from the Department of Workforce Development (DWD), we offer some clarifying comments. The numbers below correspond to the numbers we placed in the margin of the audit response.

- ① Report 23-8 does contain two findings that appear in the [Findings and Responses Schedule](#), which begins on page 45.
- ② As report 23-8 is a financial audit containing comparative financial statements for fiscal year (FY) 2020-21 and FY 2021-22, both Finding 2021-003 and Finding 2021-004 from report 21-23 were included in the [Findings and Responses Schedule](#), which begins on page 45.