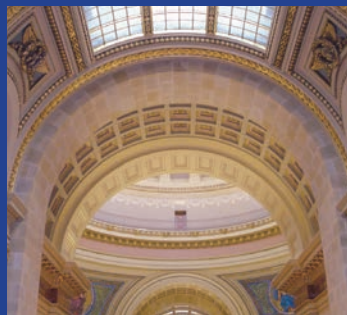


Report 19-7
May 2019

Unemployment Reserve Fund FY 2016-17 and FY 2017-18

Department of Workforce Development

STATE OF WISCONSIN



Legislative Audit Bureau ■

Unemployment Reserve Fund FY 2016-17 and FY 2017-18

Department of Workforce Development

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Joe Chrisman
State Auditor

May 17, 2019

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

Dear Senator Cowles and Representative Kerkman:

To help fulfill our audit responsibilities under s. 13.94, Wis. Stats., and at the request of the Department of Workforce Development (DWD), we have audited the financial statements of the State of Wisconsin Unemployment Reserve Fund, which accounts for regular unemployment benefits paid to eligible individuals and is funded primarily through taxes paid by employers. This audit report contains our unmodified opinion on the Unemployment Reserve Fund's financial statements and related notes as of and for the fiscal years ended June 30, 2018, and June 30, 2017.

The Fund's net position was \$1.8 billion as of June 30, 2018, an increase of \$549.5 million from the net position as of June 30, 2016. The increase in net position is a result of revenues from employer taxes and other sources exceeding benefit payments and transfers. In fiscal year 2017-18, employer taxes and other revenue totaled \$662.1 million, compared to total benefit payments and transfers of \$411.7 million.

Accompanying the financial statements is the Schedule of Cash Balance Related to Taxable Employers, which is used to determine the state unemployment tax rate paid by employers. Section 108.18 (3m), Wis. Stats., requires a certain tax rate schedule be applied for the calendar year based upon the Fund's cash balance as of June 30 of the preceding year. Because the cash balance continued to increase as of June 30, 2018, the lowest tax rate schedule continues to apply in calendar year 2019.

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

Respectfully submitted,

Joe Chrisman
State Auditor

JC/ES/ss

Introduction ■

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

Wisconsin's Unemployment Insurance program was enacted in 1932 and was the first such program in the United States. The program, which is accounted for in the State of Wisconsin Unemployment Reserve Fund, is managed by the Department of Workforce Development (DWD) and provides benefits temporarily to replace a portion of wages lost when individuals become unemployed through no fault of their own and meet certain eligibility requirements. Administrative costs of the Unemployment Insurance program are funded primarily by federal grants that are accounted for in the State's General Fund.

The Unemployment Insurance Advisory Council (UIAC) advises DWD on matters related to unemployment insurance and makes recommendations for unemployment insurance changes to the Legislature. 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.

Employer Taxes

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

The basic tax is credited to each employer's account and is based on each employer's unemployment experience rating. For example,

employers with more employee layoffs pay more in basic taxes than those with fewer layoffs. The solvency tax is credited to the Fund’s solvency account and is based on each employer’s unemployment experience rating, payroll size, and account balance. The solvency account is used to pay benefits that by state law cannot be charged to an employer’s account, such as unemployment benefits for unemployed workers of an employer that went out of business.

The lowest unemployment insurance tax rate schedule is in effect for calendar year 2019.

Wisconsin Statutes include four unemployment insurance tax rate schedules, as shown in Table 1. One of four tax rate schedules is in effect for a calendar year based on the cash balance of the Fund as of June 30 of the preceding year. The highest tax rate schedule, Schedule A, was in effect for calendar year 2015, Schedule B was in effect for calendar year 2016, and Schedule C was in effect for calendar year 2017. The lowest tax rate schedule, Schedule D, was in effect for calendar year 2018 and continues to be in effect for calendar year 2019.

Table 1

Unemployment Insurance Tax Rate Schedules

Schedule ¹	Cash balance ²	Calendar Year in Effect
Schedule A	Less than \$300.0 million	2015
Schedule B	\$300.0 million but less than \$900.0 million	2016
Schedule C	\$900.0 million but less than \$1.2 billion	2017
Schedule D	At least \$1.2 billion	2018 and 2019

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.

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

- \$12,000 for 2009 and 2010;
- \$13,000 for 2011 and 2012; and
- \$14,000 for 2013 and continues to remain at that amount.

Unemployment Benefits

The average weekly regular unemployment benefit payment was \$320 in 2018.

Regular unemployment benefits are funded primarily by employer-paid taxes that are deposited in the Unemployment Reserve Fund. Eligible individuals may receive 26 weeks of regular unemployment benefits. However, not all unemployed individuals, such as those with a minimal prior work history, are eligible to receive unemployment benefits. Since January 2009, the minimum weekly regular unemployment benefit payment has been \$54, and since January 2014, the maximum payment has been \$370. Benefit recipients received an average weekly regular benefit payment of \$317 in 2017 and \$320 in 2018.

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. Eligible individuals must generally be available to work and must certify that they are searching for work. Work-search requirements include at least four reasonable search actions for suitable work during a week of unemployment. A reasonable work-search action is defined by administrative rule, and may include submitting a job application to a suitable employer, registering with a placement agency, or participating in employment workshops. Under s. DWD 127.02 (2), Wis. Adm., a work-search waiver may be granted to individuals who are expected to return to employment within eight weeks, which could be extended an additional four weeks.

From June 30, 2017, through June 30, 2018, the net receivable from overpayments to claimants declined by 15.9 percent.

Individuals are sometimes paid more unemployment benefits than they are entitled to receive. This can occur if the individual or employer intentionally or unintentionally provides incorrect information used to calculate weekly benefit amounts or if DWD makes an error in determining the amount of benefits paid. It may also occur through no fault if, for example, an individual was paid benefits based on accurate information but was later awarded back-pay from his or her employer, thereby reducing the amount of benefits that should have been paid. When an overpayment is identified, the Fund establishes a receivable for the amount of the overpayment. The net receivable reported by the Fund as a result of overpayments to claimants declined from \$47.9 million as of June 30, 2017, to \$40.3 million as of June 30, 2018, or by 15.9 percent. DWD staff indicated the net receivable from overpayments continued to decline in part due to the continued decrease in unemployment benefit payments since fiscal year (FY) 2009-10.

Financial Position

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

Programs established for unemployment purposes are intended to accumulate resources during periods of low unemployment to ensure funds are sufficient to pay benefits during periods of high unemployment. The U.S. Department of Labor recommends that states have sufficient reserves to sustain 12 months of benefit payments estimated using specified criteria. For Wisconsin, the U.S. Department of Labor indicates this amount is approximately \$1.9 billion for 2018. As of June 30, 2018, the net position of the Unemployment Reserve Fund was \$1.8 billion, which was an increase of \$549.5 million since June 30, 2016.

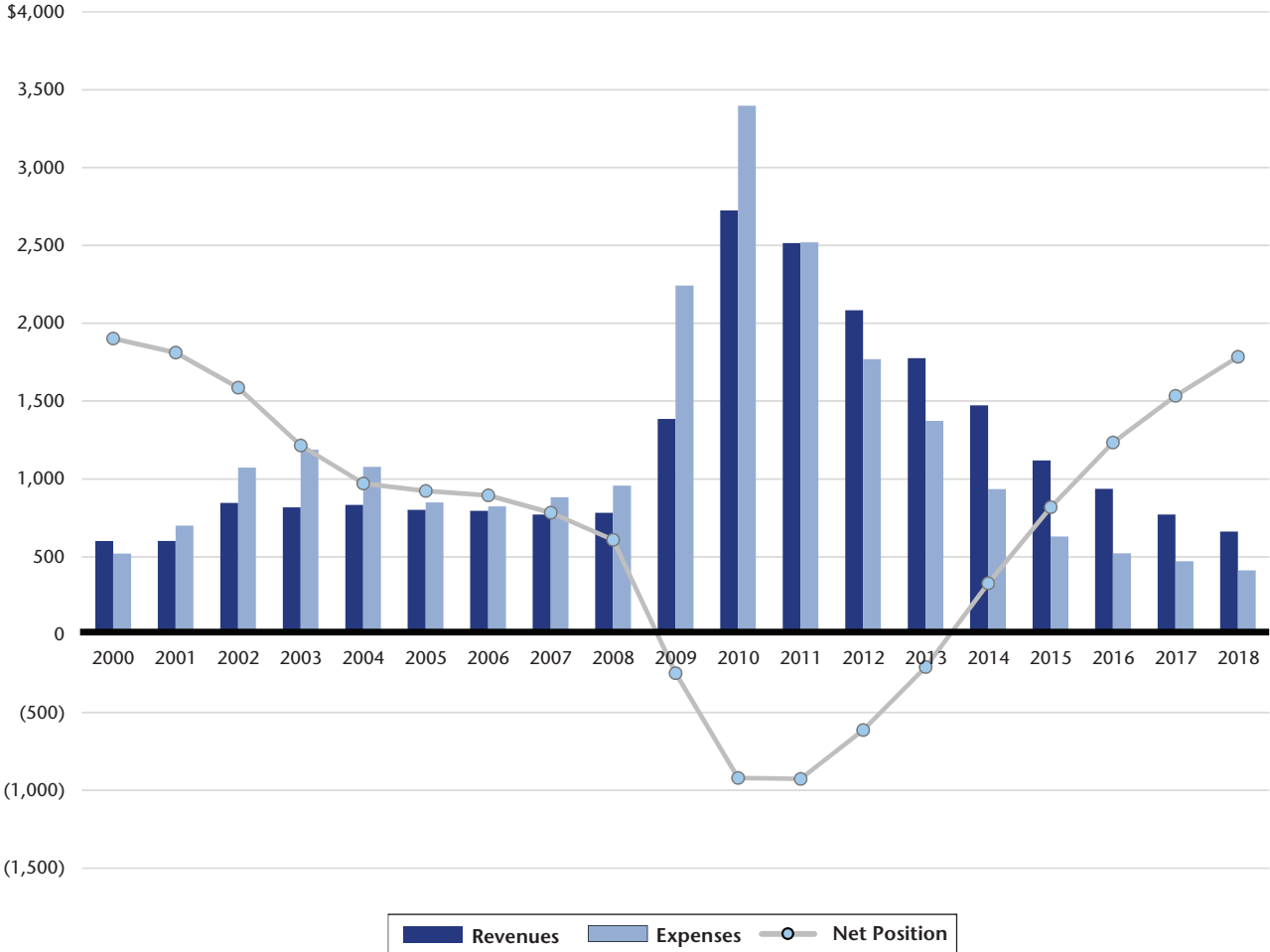
The net position of the Fund has increased since June 30, 2011.

Since June 30, 2011, the net position of the Fund has increased because employer taxes and other sources have exceeded benefit payments and transfers in each year, as shown in Figure 1. In FY 2017-18, employer taxes and other revenue totaled \$662.1 million, compared to total benefit payments and transfers of \$411.7 million. Prior to FY 2011-12, the net position of the Unemployment Reserve Fund declined because benefit payments and transfers exceeded employer taxes and other revenues.

During FY 2016-17 and FY 2017-18, the improved net position was partially a result of employer-funded benefits decreasing due to a decline in the unemployment rate and the exhaustion of regular benefits for some individuals. In addition, the second-highest unemployment tax rate schedule was in place for the last six months of FY 2015-16 and the first six months of FY 2016-17. The Fund also earned \$33.2 million in interest in FY 2017-18 and \$26.1 million in interest in FY 2016-17 on the cash balance maintained in the Federal Unemployment Trust Fund.

Figure 1

Unemployment Reserve Fund Revenues, Expenses, and Net Position¹
For Fiscal Year Ended June 30
(in millions)



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





Audit Opinion ■





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

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

Mr. Caleb Frostman, Secretary
Department of Workforce Development

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2018, and June 30, 2017, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Unemployment Reserve Fund as of June 30, 2018, and June 30, 2017, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the Unemployment Reserve Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2018, and June 30, 2017, the changes in its financial position, or where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 14, 2019, on our consideration of the Unemployment Reserve Fund's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Unemployment Reserve Fund'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 when considering the Unemployment Reserve Fund's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

May 14, 2019

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 ended June 30, 2018, and June 30, 2017. 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) 2017-18 by approximately \$1.8 billion. With the exception of \$2.0 million in certain federal allocations, the Fund's net position, if positive, can be used only to pay unemployment benefits to eligible unemployed persons.

The Fund's net position increased by \$549.5 million during the two-year period from July 1, 2016, through June 30, 2018. Both benefits paid to unemployed workers and state unemployment taxes paid by employers decreased each fiscal year compared to the previous year.

Overview of the Fund

The 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 unemployment insurance law and submits its recommended changes in the law to the Legislature during every biennial legislative session.

Generally, the principal source of revenue for the Fund is quarterly unemployment tax contributions paid by the approximately 138,000 employers subject to the taxing provisions of ch. 108, Wis. Stats. During prior years, the Fund has also received a significant amount of federal funding to pay for emergency unemployment benefits. Federal law requires the Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings on the Trust Fund may be used only to pay benefits. With the exception of certain federal allocations, the Fund's reserves may be used only to pay unemployment benefits or to refund tax and benefit overpayments to employers or, in the event benefits were federally funded, to the federal government. Federal Reed Act allocations, which are excess federal unemployment taxes collected by the federal government and paid to each state, may be used to pay costs associated with administering the Unemployment Insurance program or employment service programs. Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.

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

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

Financial Statements

These financial statements are intended to show the Fund's financial position as of June 30, 2018, and June 30, 2017, and results of operations and cash flows for FY 2017-18 and FY 2016-17. 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 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 and cash equivalents and receivables. Table A shows that total assets increased by \$298.6 million between June 30, 2016, and June 30, 2017, and by \$244.3 million between June 30, 2017, and June 30, 2018.

Table A

Assets
(in millions)

	June 30, 2016	June 30, 2017	Change	June 30, 2018	Change
Cash and Cash Equivalents	\$ 987.1	\$1,341.9	\$354.8	\$1,625.9	\$284.0
Employer Receivables	231.2	185.8	(45.4)	153.7	(32.1)
Overpayments to Claimants	58.6	47.9	(10.7)	40.4	(7.5)
Other Receivables	0.5	0.4	(0.1)	0.3	(0.1)
Total Assets	\$1,277.4	\$1,576.0	\$298.6	\$1,820.3	\$244.3

Cash received from employer contributions continued to exceed cash payments for benefits during both FY 2016-17 and FY 2017-18. Calendar year 2018 marked the first year since 2003 that employers covered under unemployment insurance law were taxed at the lowest of four available rate schedules specified in Wisconsin Statutes. Calendar year 2018 also marked continuing low unemployment rates in the state, averaging 3.0 percent during FY 2017-18.

Liabilities

Table B shows the Fund's liabilities decreased by \$0.5 million between June 30, 2016, and June 30, 2017, and by \$6.1 million between June 30, 2017, and June 30, 2018.

Table B

Liabilities
(in millions)

	June 30, 2016	June 30, 2017	Change	June 30, 2018	Change
Benefit Overpayments Due Others	\$25.1	\$20.7	\$(4.4)	\$16.7	\$(4.0)
Benefits Payable	7.7	8.6	0.9	7.1	(1.5)
Other Liabilities	10.2	13.2	3.0	12.6	(0.6)
Total Liabilities	\$43.0	\$42.5	\$(0.5)	\$36.4	\$(6.1)

In some instances, benefits are paid to claimants who ultimately are proven to be ineligible to receive all or a portion of those benefits. The Fund recognizes a receivable from these claimants when the benefit overpayment is identified. A related liability is established for the portion of the overpayments that, when collected, will be credited to reimbursable employers or the federal government. Overall, overpayments to claimants decreased by \$18.2 million between June 30, 2016, and June 30, 2018, resulting in a corresponding decrease of \$8.4 million in benefit overpayments due others during the same period.

Net Position

Table C shows the Fund's net position increased by \$299.1 million between June 30, 2016, and June 30, 2017, and by \$250.4 million between June 30, 2017, and June 30, 2018.

Table C

Net Position
(in millions)

	June 30, 2016	June 30, 2017	Change	June 30, 2018	Change
Employer Accounts	\$2,358.1	\$2,585.2	\$227.1	\$2,751.4	\$166.2
Solvency Account	(1,126.0)	(1,053.7)	72.3	(969.5)	84.2
Restricted for Administration	2.3	2.0	(0.3)	2.0	0.0
Total Net Position	\$1,234.4	\$1,533.5	\$299.1	\$1,783.9	\$250.4

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

A number of statutory provisions require certain benefit payments to be charged to the solvency account rather than directly to an employer's account. For example, benefits paid to certain workers who have quit employment are charged to the solvency account. Benefit payments charged directly to the solvency account were \$69.7 million during FY 2016-17 and \$60.8 million during FY 2017-18. In addition, positive and negative balances in the accounts of out-of-business employers or employers no longer covered under unemployment insurance law are transferred to the solvency account. Another statutory provision requires transferring to the solvency account a portion of benefits previously charged to the accounts of certain employers with large deficit balances in their employer accounts. These transfers amounted to \$63.2 million during FY 2016-17 and \$54.2 million during FY 2017-18, and are a significant reason for the increase to employer accounts during each fiscal year. Another factor contributing to the increase of employer accounts by \$393.3 million, or 16.7 percent, between June 30, 2016, and June 30, 2018, is the decrease in benefits charged directly to employer accounts during the period. These benefits decreased from \$402.5 million during FY 2015-16 to \$321.3 million during FY 2017-18, a change of \$81.2 million, or 20.2 percent. This decline in benefit charges combined with the transfers of deficit balances to the solvency account resulted in the significant improvement to employer accounts.

Operating Revenue

The two major sources of operating revenue for the Fund are employer tax contributions, including those collected through the 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 forfeitures and other sources. Table D shows that the Fund's operating revenues decreased by \$172.9 million during FY 2016-17, and by \$115.7 million during FY 2017-18.

Table D

Operating Revenue
(in millions)

	FY 2015-16	FY 2016-17	Change	FY 2017-18	Change
Employer Contributions ¹	\$873.3	\$706.9	\$(166.4)	\$597.1	\$(109.8)
Benefit Reimbursements	40.6	35.8	(4.8)	30.4	(5.4)
Forfeitures and Other Revenues	3.6	1.9	(1.7)	1.4	(0.5)
Total Operating Revenues	\$917.5	\$744.6	\$(172.9)	\$628.9	\$(115.7)

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

Employer contributions decreased by \$276.2 million, or 31.6 percent, between FY 2015-16 and FY 2017-18 because the average tax rate decreased during this period. The average tax rate decreased from 2.55 percent in calendar year 2016 to 2.06 percent in 2017 and to an estimated 1.72 percent in 2018. An employer's tax rate can change from year to year depending on its unemployment experience. In addition, the rate schedule in use during any calendar year can change depending on the overall cash balance in the fund on June 30 of the previous year. Since the Fund's cash balance on June 30, 2015, was greater than \$300.0 million but less than the \$900.0 million level specified in Wisconsin Statutes, the second highest of four statutory rate schedules was in effect during calendar year 2016. The rate schedule in effect for 2017 moved down to the third highest available because the June 30, 2016 balance was between the \$900.0 million and the \$1.2 billion levels specified in Wisconsin Statutes. The rate schedule in effect for 2018 was the lowest schedule available because the June 30, 2017 balance was greater than the \$1.2 billion threshold specified in Wisconsin Statutes.

Nonoperating Revenues

Table E shows the Fund's nonoperating revenues increased by \$9.1 million during FY 2016-17, and by \$7.1 million during FY 2017-18.

Table E

Nonoperating Revenues
(in millions)

	FY 2015-16	FY 2016-17	Change	FY 2017-18	Change
Investment Earnings	\$17.0	\$26.1	\$9.1	\$33.2	\$7.1

The increase in investment earnings was primarily because of the growth in the amount invested in the Federal Unemployment Trust Fund during FY 2016-17 and FY 2017-18. While the quarterly yield rose slightly from 2.23 percent in the third quarter of 2016 to 2.27 percent in the second quarter of 2018, the amount invested increased from \$986.7 million on June 30, 2016, to \$1.6 billion on June 30, 2018.

Expenses and Transfers

Table F shows the Fund's operating expenses decreased by \$49.5 million during FY 2016-17, and by \$59.6 million during FY 2017-18.

Table F

Expenses and Transfers Out
(in millions)

	FY 2015-16	FY 2016-17	Change	FY 2017-18	Change
Benefits Paid on Behalf of:					
Taxable Employers	\$480.2	\$436.4	\$ (43.8)	\$382.1	\$(54.3)
Federal Government	2.3	1.5	(0.8)	0.7	(0.8)
Other Entities	38.3	33.4	(4.9)	28.9	(4.5)
Total Operating Expenses	\$520.8	\$471.3	\$(49.5)	\$411.7	\$(59.6)
Transfer to Pay Administrative Expenses in General Fund and Other Nonoperating Expenses	\$0.4	\$0.3	\$(0.1)	\$0.0	\$(0.3)

Benefits paid on behalf of taxable employers decreased by \$98.1 million, or 20.4 percent, between FY 2015-16 and FY 2017-18, because the average unemployment rate decreased from 4.2 percent in FY 2015-16 to 3.6 percent in FY 2016-17 and to 3.0 percent in FY 2017-18.

Contacting the Unemployment Reserve Fund's Management

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

Wisconsin Unemployment Reserve Fund
Department of Workforce Development
Division of Unemployment Insurance
201 East Washington Avenue
Madison, Wisconsin 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, 2018, and June 30, 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3):		
Federal Unemployment Trust Fund	\$ 1,622,415,915	\$ 1,338,498,828
Cash in Bank	1,491,323	1,383,742
Current Cash and Cash Equivalents	<u>1,623,907,238</u>	<u>1,339,882,570</u>
Employer Accounts Receivable:		
Taxable Employers (Net of Allowances of \$19,865,539 and \$21,309,070, respectively)	142,747,067	172,465,961
Governmental Units and Nonprofit Organizations (Net of Allowances of \$100,000)	1,881,554	2,214,272
Combined Wage Claim Receivables	<u>994,338</u>	<u>1,072,473</u>
Net Current Employer Accounts Receivable	<u>145,622,959</u>	<u>175,752,706</u>
Other Receivables:		
Overpayments to Claimants (Net of Allowances of \$35,812,710 and \$38,726,495, respectively)	14,017,015	18,704,742
Federally Funded Unemployment Benefit Programs	52,671	84,783
Due from State of Wisconsin (Note 4)	<u>247,846</u>	<u>305,250</u>
Net Current Other Receivables	<u>14,317,532</u>	<u>19,094,775</u>
Total Current Assets	<u>1,783,847,729</u>	<u>1,534,730,051</u>
Noncurrent Assets:		
Restricted Cash for Administration	2,014,936	2,014,936
Taxable Employer Accounts Receivable	8,096,903	10,112,435
Overpayments to Claimants	<u>26,322,333</u>	<u>29,166,363</u>
Total Noncurrent Assets	<u>36,434,172</u>	<u>41,293,734</u>
TOTAL ASSETS	<u>\$ 1,820,281,901</u>	<u>\$ 1,576,023,785</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Benefits Payable	7,154,551	8,624,044
Employer Overpayments	7,098,641	7,606,430
Benefit Overpayments Due Employers, Other States, and Federal Government	5,973,433	8,456,513
Combined Wage Claim Plan Liabilities	3,002,525	3,189,392
Due to Federal Government	289,065	366,052
Due to State of Wisconsin (Note 4)	2,065,934	1,929,909
Other	<u>105,667</u>	<u>113,718</u>
Total Current Liabilities	<u>25,689,816</u>	<u>30,286,058</u>
Noncurrent Liabilities:		
Benefit Overpayments Due Employers, Other States, and Federal Government	10,683,112	12,262,109
Total Liabilities	<u>36,372,928</u>	<u>42,548,167</u>
Net Position (Note 1):		
Employer Accounts	2,751,405,698	2,585,209,690
Solvency Account	(969,502,790)	(1,053,749,008)
Restricted for Administration	<u>2,006,065</u>	<u>2,014,936</u>
Total Net Position	<u>1,783,908,973</u>	<u>1,533,475,618</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,820,281,901</u>	<u>\$ 1,576,023,785</u>

**Statement of Revenues, Expenses, and Changes in Fund Net Position
for the Years Ended June 30, 2018, and June 30, 2017**

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
OPERATING REVENUES		
Employer Contributions	\$ 597,035,040	\$ 706,844,256
Federal Unemployment Tax Act Credit Reduction	37,200	81,450
Benefits reimbursed by:		
Federal Government for Benefit Programs	3,065,118	4,476,064
Federal Government for Former Employees	2,053,675	2,601,644
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations	21,487,087	23,999,255
Other States	3,842,879	4,686,009
Forfeitures and Other Revenues	1,402,691	1,952,856
Total Operating Revenues	628,923,690	744,641,534
OPERATING EXPENSES		
Benefits Paid or Provided on Behalf of:		
Taxable Employers	382,084,006	436,376,667
Federal Government for Benefit Programs	(1,347,609)	(1,091,657)
Federal Government for Former Employees	2,053,675	2,601,644
State of Wisconsin, Electing Local Governments, and Electing Nonprofit Organizations	21,487,811	23,966,123
Other States	3,842,879	4,686,009
Adjustment for Allowance—Claimants	(851,184)	(765,163)
Other	4,412,727	5,567,721
Total Operating Expenses	411,682,305	471,341,344
OPERATING INCOME	217,241,385	273,300,190
NONOPERATING REVENUES		
Investment Earnings	33,200,841	26,110,845
Total Nonoperating Revenues	33,200,841	26,110,845
INCOME BEFORE TRANSFERS	250,442,226	299,411,035
TRANSFERS		
Transfer to State of Wisconsin General Fund	(8,871)	(319,881)
CHANGE IN NET POSITION	250,433,355	299,091,154
Net position at the Beginning of the Year	1,533,475,618	1,234,384,464
Net position at the End of the Year (Note 1)	<u>\$ 1,783,908,973</u>	<u>\$ 1,533,475,618</u>

Statement of Cash Flows for the Years Ended June 30, 2018, and June 30, 2017

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from:		
Employer Contributions	\$ 628,289,120	\$ 755,162,562
Federal Unemployment Tax Act Credit Reduction	37,200	81,450
Benefit Reimbursements	30,947,927	36,057,234
Benefit Overpayment Recoveries	20,802,648	24,520,679
Other Operating Revenues	1,784,312	2,630,441
Cash Payments for:		
Benefits	(426,547,234)	(483,745,853)
Other Operating Expenses	(4,490,146)	(5,646,172)
Net Cash Provided by Operating Activities	250,823,827	329,060,341
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to State of Wisconsin General Fund	0	(336,648)
Net Cash Used by Noncapital Financing Activities	0	(336,648)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	33,200,841	26,110,845
Net Cash Provided by Investing Activities	33,200,841	26,110,845
NET INCREASE IN CASH AND CASH EQUIVALENTS	284,024,668	354,834,538
Cash and Cash Equivalents at the Beginning of the Year	1,341,897,506	987,062,968
Cash and Cash Equivalents at the End of the Year	\$ 1,625,922,174	\$ 1,341,897,506
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 217,241,385	\$ 273,300,190
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Provision for Uncollectible Accounts	(4,357,315)	(8,276,690)
Changes to Assets and Liabilities:		
Decrease in Employer Accounts Receivables	33,588,808	50,560,310
Decrease in Other Receivables	10,535,059	13,957,609
Decrease in Liabilities	(6,184,110)	(481,078)
Total Adjustments	33,582,442	55,760,151
Net Cash and Cash Equivalents Provided by Operating Activities	\$ 250,823,827	\$ 329,060,341

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, which is restricted for unemployment benefit payments or other purposes allowed by federal law, includes the following accounts:

A. Employer Accounts

A separate account is maintained for each employer for the purpose of determining employer contribution rates. Each account is credited for a portion of the employer's contribution paid into the Fund and charged for certain benefits paid from the Fund to the employer's former employees.

B. Solvency Account

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

C. Restricted for Administration

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

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

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

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

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

B. Accounting Estimates

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

C. Amounts Receivable from Taxable Employers

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

D. Amounts Receivable from Governmental Units and Nonprofit Organizations

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

E. Amounts Receivable from Claimants

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

within twelve months, are reported as noncurrent assets 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 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.

H. Deferred Outflows of Resources and Deferred Inflows of Resources

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance for deferred outflows of resources and deferred inflows of resources as required elements of the financial statements. GASB standards identify certain circumstances under which deferred outflows of resources and deferred inflows of resources must be reported. The Fund has no deferred outflows or inflows of financial resources to be reported on the Statement of Net Position.

3. DEPOSITS

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

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

For deposits held in financial institutions, custodial credit risk is the risk that in the event of a failure of a depository financial institution, deposits may not be returned. Most of the deposits that are held in financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The State of Wisconsin Public Deposit Guarantee Fund insures up to \$400,000 above the amount of federal insurance. The Fund’s management monitors the debt ratings of its bank as published by Moody’s, S&P, Fitch, and DBRS. The following amounts of the Fund’s bank balances of \$762,917 as of June 30, 2017, and \$1,304,339 as of June 30, 2018, were exposed to custodial credit risk:

	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Uninsured and Uncollateralized	\$112,917	\$654,339

4. AMOUNTS DUE TO/FROM STATE OF WISCONSIN

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

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



Supplementary Information ■

**Schedule of Cash Balance Related to Taxable Employers
June 30, 2018, and June 30, 2017**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
CASH BALANCE		
Cash and Cash Equivalents	\$ 1,623,907,238	\$ 1,339,882,570
INCREASES		
Employer Accounts Receivable:		
Government Units and Nonprofit Organizations	1,335,334	1,548,263
Combined Wage Claim Plan Receivables	<u>912,797</u>	<u>973,290</u>
Total Employer Accounts Receivable	2,248,131	2,521,553
Other Receivables:		
Federally Funded Unemployment Benefit Programs	3,888	6,238
Due from the State of Wisconsin	<u>166,627</u>	<u>199,917</u>
Total Other Receivables	<u>170,515</u>	<u>206,155</u>
Total Increases	<u>2,418,646</u>	<u>2,727,708</u>
DECREASES		
Employer Overpayments	9,644,561	11,156,387
Due to State of Wisconsin	2,057,063	1,929,909
Due to the Federal Government	289,065	366,052
Benefit Overpayments Due Other States	15,740	4,626
Other	<u>88,783</u>	<u>90,630</u>
Total Decreases	<u>12,095,212</u>	<u>13,547,604</u>
Cash Balance Related to Taxable Employers	<u>\$ 1,614,230,672</u>	<u>\$ 1,329,062,674</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, 2017, and June 30, 2018, 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 C was in effect during 2017 because the June 30, 2016 balance was \$978,132,017, which is between the \$900.0 million and the \$1.2 billion levels specified in Wisconsin Statutes. Tax rate Schedule D was in effect during 2018 because the June 30, 2017 balance was \$1,329,062,674, which is more than the \$1.2 billion level specified in Wisconsin Statutes. Tax rate Schedule D will be in effect again during 2019 because the June 30, 2018 balance was \$1,614,230,672.

A. Cash Balance

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

B. Increases

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

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

C. Decreases

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

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

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Auditor's Report ■



Report 19-7

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

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

Mr. Caleb Frostman, Secretary
Department of Workforce Development

We have audited the financial statements and the related notes of the State of Wisconsin Unemployment Reserve Fund as of and for the years ended June 30, 2018, and June 30, 2017, and have issued our report thereon dated May 14, 2019. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

May 14, 2019