

Sen. Cowles and Rep. Kerkman: Audit Shows Decline in Net Position of the Unemployment Reserve Fund

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MADISON - Today, the nonpartisan Legislative Audit Bureau (LAB) released its audit of the Unemployment Reserve Fund for fiscal year (FY) 2018-19 and FY 2019-20 (report 21-9). Wisconsin's Unemployment Insurance (UI) program is accounted for in the Fund, which is managed by the Department of Workforce Development (DWD). LAB provided an unmodified opinion on the financial statements of the Fund as of and for the years ended June 30, 2020, and June 30, 2019.

The UI program reported \$2.4 billion in federal reimbursement for FY 2019-20. From June 30, 2019, to June 30, 2020, the net position of the Fund decreased by \$345.4 million, and was \$1.7 billion as of June 30, 2020. LAB notes that the decline was not more significant because federal funding was received to provide benefits. Based on the cash balance of the Fund as of June 30 of the preceding year, one of four tax rate schedules is in effect for each calendar year. The lowest tax rate schedule has been in effect since calendar year 2018 and continues to be in effect for 2021.

LAB found that DWD did not properly consider the significant backlog of claims that resulted from the public health emergency when assessing the potential unemployment benefits that were payable as of June 30, 2020. LAB considered this to be a material weakness in internal control over financial reporting in both report

21-9 and in report 20-30, which was the audit of the State of Wisconsin's financial statements for FY 2019-20. LAB recommended that DWD revise its procedures for calculating benefits payable in the future.

DWD reported that it must perform a manual process to review regular unemployment benefit payments made during the public health emergency to determine whether these payments relate to the public health emergency, could be reimbursed by the federal government, could be charged to the solvency account, or could be charged to the interest and penalty account. LAB notes that until DWD completes its determination, the relief provided to employers cannot be known.

LAB recommended DWD report to the Joint Legislative Audit Committee on the status of its efforts to continue to process and pay benefits under new or continuing federal programs; to determine the relief that will be provided to employers for regular unemployment benefits provided during the public health emergency; and to complete reviews DWD identified to assess if payments were incorrectly provided and establish an overpayment amount, as appropriate.

"This audit highlights a handful of concerns that could have a significant impact on Wisconsin's business community during a very uncertain time. While, the audit recommendation requests that DWD respond in the month of September, I feel it's imperative to quickly begin a dialog on how DWD will determine relief be provided to employers' solvency accounts through federal reimbursement. These businesses deserve to know how they could be impacted as soon as possible," said Sen. Robert Cowles (R-Green Bay).

"Although I appreciate the difficulty of the process DWD faces in reviewing regular unemployment benefits, it is critical to Wisconsin's employers that the determination be completed as soon as possible," said Rep. Samantha Kerkman (R-Salem Lakes). "I also have concerns with the potential for UI fraud triggered by the pandemic and significantly higher weekly benefit amounts. Although claims skyrocketed during 2020, the fraud report DWD sent to the Unemployment Insurance Advisory Council reported a decrease in fraud of 4.0 percent. This seems unlikely and I look forward to DWD completing its reviews to get the full picture."

Copies of LAB's report (report 21-9) may be obtained from its website at www.legis.wisconsin.gov/lab or by calling (608) 266-2818. Report concerns related to state government activities to LAB by calling the toll-free hotline at 1-877-FRAUD-17.