

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

---

**DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND  
Financial Statements  
Years Ended September 30, 2014, and 2013  
(With Independent Auditors' Report Thereon)**



**DANIEL W. LUCAS  
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



March 31, 2015

The Honorable Muriel Bowser  
Mayor  
District of Columbia  
Mayor's Correspondence Unit, Suite 316  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Phil Mendelson  
Chairman  
Council of the District of Columbia  
John A. Wilson Building, Suite 504  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

I am issuing the enclosed final report on the District of Columbia Unemployment Compensation Fund (Fund) financial statements for the years ended September 30, 2014, and 2013 (OIG No. 15-1-09BH). KPMG LLP (KPMG) submitted the report as part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2014.

In KPMG's opinion, the financial statements present fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. KPMG identified one significant deficiency: Lack of Sufficient Management Review Over the Calculation of the Claimant's Payable Accrual Estimate. (See Appendix A.)

If you have questions or need additional information, please contact Ronald W. King, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink, appearing to read 'D. Lucas', is written over the printed name.

Daniel W. Lucas  
Inspector General

DWL/sw

Enclosure

cc: See Distribution List

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Mayor Bowser and Council Chairman Mendelson  
Unemployment Compensation Fund  
Financial Statements (with Independent  
Auditors' Report Thereon) for FYs 2014  
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March 31, 2015  
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**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**Years Ended September 30, 2014 and 2013**

**(With Independent Auditors' Report Thereon)**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 and 2013**

*(in thousands)*

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KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

The Mayor and the Council of the Government of the District of Columbia  
Inspector General of the Government of the District of Columbia:

### Report on the Financial Statements

We have audited the Statements of Net Position of the Government of the District of Columbia Unemployment Compensation Fund (the Fund) as of September 30, 2014 and 2013, the Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. 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*, 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 auditors' 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 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 audit opinion.



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of September 30, 2014 and 2013 and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

As discussed in Note 1 the financial statements referred to above are intended to present the net position and the revenues, expenses, and changes in net position of the Fund. As a result, they do not purport to provide a complete presentation of the business-type activities and the related changes in financial position and cash flows of the Government of the District of Columbia for the years ended September 30, 2014 and 2013. Our opinion is not modified with respect to this matter

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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, which 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

**KPMG LLP**

Washington, DC  
February 11, 2015

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
UNAUDITED  
SEPTEMBER 30, 2014 AND 2013  
(in thousands)**

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This section of the annual financial report of the District of Columbia Unemployment Compensation Fund ("the Fund") presents our discussion and analysis of the financial performance of the fund during the fiscal year (FY) ended September 30, 2014 compared to the fiscal year ended September 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and note disclosures. The financial statements, footnote disclosures and management's discussion and analysis are the responsibility of management.

**Reporting Entity**

The Fund was established by the Government of the District of Columbia (the District) to account for its unemployment compensation program. The Fund is administered by the District's Department of Employment Services. Substantially all administrative costs of the program are paid by federal grants, which are recorded in the District's General Fund.

**Financial Statement Presentation**

The Fund's basic financial statements consist of (a) statement of net position; (b) statement of revenue, expenses, and changes in net position, and (c) statement of cash flows.

■ Statement of Net Position

The Statement of Net Position presents the Fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. The net position is comprised of three components: 1) net investment in capital assets; 2) restricted net position; and 3) unrestricted net position. Over time, increases or decreases in the Fund's net position may serve as a useful indicator of whether the Fund's financial position is improving or deteriorating.

■ Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the Fund's revenues and expenses. The difference between revenues and expenses is reported as "change in net position". All changes in the net position are reported as soon as the event underlying the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses reported in this statement also include items that will result in cash flow in future fiscal periods (for example, accrued revenues and accrued expenditures).

■ Statement of Cash Flows

The Statement of Cash Flows presents information on sources and uses of cash for operations, noncapital financing, and investing activities.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
UNAUDITED  
SEPTEMBER 30, 2014 AND 2013  
(in thousands)**

**Financial Highlight**

The District's average unemployment rate for the fiscal year ended September 30, 2014 was 7.6%, which was a 1.0% decrease compared to 8.6% at the end of FY 2013. The Fund's net position increased by \$18,693 or 7.73% in FY 2014 as compared to a \$12,022 or 5.23% increase in FY 2013.

**Overall Financial Analysis**

**Summary of Net Position**

	2014	2013	Change	2012	Change
<b>Assets</b>					
Cash Held with U.S. Treasury	\$317,172	\$311,814	\$5,358	\$309,802	\$2,012
Receivables	<u>12,621</u>	<u>21,133</u>	<u>(8,512)</u>	<u>18,012</u>	<u>3,121</u>
<b>Total Assets</b>	<u>\$329,793</u>	<u>\$332,947</u>	<u>(\$3,154)</u>	<u>\$327,814</u>	<u>\$5,133</u>
<b>Liabilities</b>					
Payables	\$36,924	\$55,539	(\$18,615)	\$63,767	(\$8,228)
Due to D.C. Government	<u>32,224</u>	<u>35,456</u>	<u>(3,232)</u>	<u>34,117</u>	<u>1,339</u>
<b>Total Liabilities</b>	<u>\$69,148</u>	<u>\$90,995</u>	<u>(\$21,847)</u>	<u>\$97,884</u>	<u>(\$6,889)</u>
<b>Net Position</b>					
Restricted for Unemployment					
Compensation Benefits	<u>\$260,645</u>	<u>\$241,952</u>	<u>\$18,693</u>	<u>\$229,930</u>	<u>\$12,022</u>

- The Fund's largest asset is the cash held with U.S. Treasury, which represented 96.17 % of the Fund's total assets. The FY 2014 cash balance increased by \$5,358 or 1.72% as a result of the cash receipts from employer taxes and governmental agencies exceeding the unemployment benefits payments. The FY 2013 cash balance increased by \$2,012 or 0.65% from FY 2012.
- For FY 2014 receivables, net of allowance for doubtful accounts, decreased by \$8,512 or 40.28% as a result of decrease in federal receivables. The Fund's receivables consist of amounts owed from the Federal government and other states for unemployment benefits paid, employers for unpaid taxes, and claimants for unemployment benefit overpayments. In FY 2013, there was a net increase in receivables of \$3,121 or 17.33% from FY 2012.
- The Fund's total liabilities for FY 2014 decreased by \$21,847 or 24.01% as compared to a decrease of \$6,889 or 7.04% in FY 2013. For FY 2014, claimants payable estimated at \$25,983 decreased by \$17,967 or 40.88% in comparison to FY 2013 as a result of a decline in the unemployment rate. For FY 2013, claimants' payable was estimated at \$43,950 and decreased by \$8,450 or 16.13% from FY 2012.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

UNAUDITED

SEPTEMBER 30, 2014 AND 2013

*(in thousands)*

- Due to D.C. Government represents amounts owed to the District for unemployment benefits, employer tax refunds paid on behalf of the Fund and unspent Reed Act funds. For FY 2014, the Fund's payables to DC Government decreased by \$3,232 or 9.12% as compared to September 30, 2013. At September 30, 2014, the total amount due to D.C Government was \$32,224 compared to \$35,456 as at September 30, 2013. The unspent Reed Act funds totaled \$1,803 in FY2014 compared to \$2,469 in FY 2013. The Reed Act fund was received from the Federal government through the Reed Act Account to pay for the trust fund's administrative costs other than benefit payments.
- For FY 2014, the Fund's current assets of \$329,793 were sufficient to cover current liabilities of \$69,148, a ratio of \$4.77 dollars in assets for every dollar in liabilities. For FY 2013, the total current assets and current liabilities of the Fund were \$ 332,947 and \$90,995 respectively; a ratio of \$3.66 in assets for every dollar in liabilities.

**Summary of Revenues, Expenses, and Changes in Net Position**

	2014	2013	Change	2012	Change
<b>Operating Revenues:</b>					
Employer Taxes	\$141,760	\$131,025	\$10,735	\$133,618	(\$2,593)
Governmental Contributions	<u>9,766</u>	<u>32,790</u>	<u>(\$23,024)</u>	<u>27,945</u>	<u>4,845</u>
<b>Total Operating Revenues</b>	<u>\$151,526</u>	<u>\$163,815</u>	<u>(\$12,289)</u>	<u>\$161,563</u>	<u>\$2,252</u>
<b>Expenses:</b>					
Unemployment Benefits	<u>\$160,403</u>	<u>\$255,645</u>	<u>(\$95,242)</u>	<u>\$344,913</u>	<u>(\$89,268)</u>
<b>Operating Loss</b>	(\$8,877)	(\$91,830)	\$82,953	(\$183,350)	\$91,520
<b>Non-operating Revenues:</b>					
Interest Revenue	\$7,326	\$7,691	(\$365)	\$8,495	(\$804)
Federal Contributions	20,244	96,161	(\$75,917)	182,552	(\$86,392)
Other Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>289</u>	<u>(\$289)</u>
<b>Total Non-operating Revenues</b>	<u>\$27,570</u>	<u>\$103,852</u>	<u>(\$76,282)</u>	<u>\$191,336</u>	<u>(\$87,485)</u>
<b>Change in Net Position</b>	\$18,693	\$12,022	\$6,671	\$7,986	\$4,036
Total Net Position - Beginning	<u>241,952</u>	<u>229,930</u>	<u>\$12,022</u>	<u>221,944</u>	<u>\$7,986</u>
<b>Total Net Position - Ending</b>	<u><u>\$260,645</u></u>	<u><u>\$241,952</u></u>	<u><u>\$18,693</u></u>	<u><u>\$229,930</u></u>	<u><u>\$12,022</u></u>

**Revenues**

Revenues from all sources (operating and non-operating) totaled \$179,096 in FY 2014 compared to \$267,667 for FY 2013 and \$352,899 for FY 2012.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
UNAUDITED  
SEPTEMBER 30, 2014 AND 2013  
(in thousands)

In FY 2014, the Fund's operating revenues totaled \$151,526 compared to \$163,815 in FY 2013. In FY 2012 the total operating revenue was \$161,563. Operating revenues decreased by 7.50% from FY 2013 to FY 2014 and increased by 1.39% from FY 2012 to FY 2013. This was due to a decrease in governmental contributions especially the Federal contributions. Federal and other governments reimburse the Fund 100% for benefits paid to their former employees. Operating revenue was derived primarily from employer taxes.

The schedule below shows sources of operating revenues for the Fund in FY 2014 and 2013:

<u>Operating Revenues by Source</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>Change</u>	<u>% change</u>
Employer Taxes	\$141,760	\$131,025	\$10,735	8.19%
Governmental Contributions:				
Other States' Contributions	4,483	5,464	(981)	(17.95%)
Federal Government Reimbursements	(1,337)	19,658	(20,995)	(106.80)%
D.C. Government Reimbursements	6,620	7,668	(1,048)	(13.67%)
<b>Total</b>	<b>\$151,526</b>	<b>\$163,815</b>	<b>\$(12,288)</b>	<b>(7.50%)</b>

Federal government reimbursements revenue shows a balance of (\$1.3 million) mainly due to the difference between the amounts of unemployment benefit payments accrued in FY2013 and amounts actually collected in FY2014 for eligible unemployed former civilian Federal employees (UCFE) and for ex-service members.

In FY2013, due to the federal shutdown, a significant number of federal employees applied for unemployment benefits and accruals were established for the full average expected periods of benefit payments. However, the shutdown ended after about two weeks. This coupled with a reduction in the unemployment rate resulted in a decrease in federal government reimbursement benefit payments and the corresponding revenues in FY2014.

In FY 2014, the Fund's sources of non-operating revenue consisted of interest income of \$7,326 and Federal extended benefits of \$20,244. Total non-operating revenue for FY 2013 consisted of interest income of \$7,691, extended benefits of \$96,157, and Federal stimulus contribution of \$4. Total non-operating revenue in FY 2014 was \$ 27,570 compared to \$103,852 in FY 2013. The net decrease in non-operating revenue is due to the fact that the federal extended benefit contribution lapsed with no extension to date.

Figures 1 and 2 show the percentage of revenues received from the Fund's different sources during FY 2014 and FY 2013. In FY 2014 and FY 2013, the largest source of revenue was from the taxes paid by employers which represent 79% and 49% of total revenues respectively.

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
UNAUDITED  
SEPTEMBER 30, 2014 AND 2013  
(in thousands)

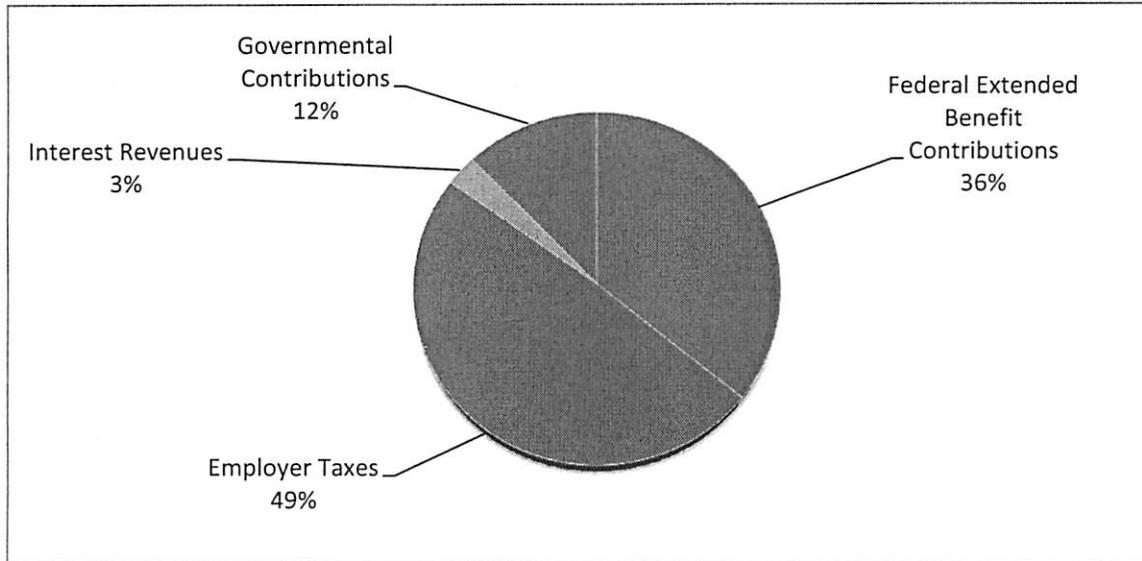
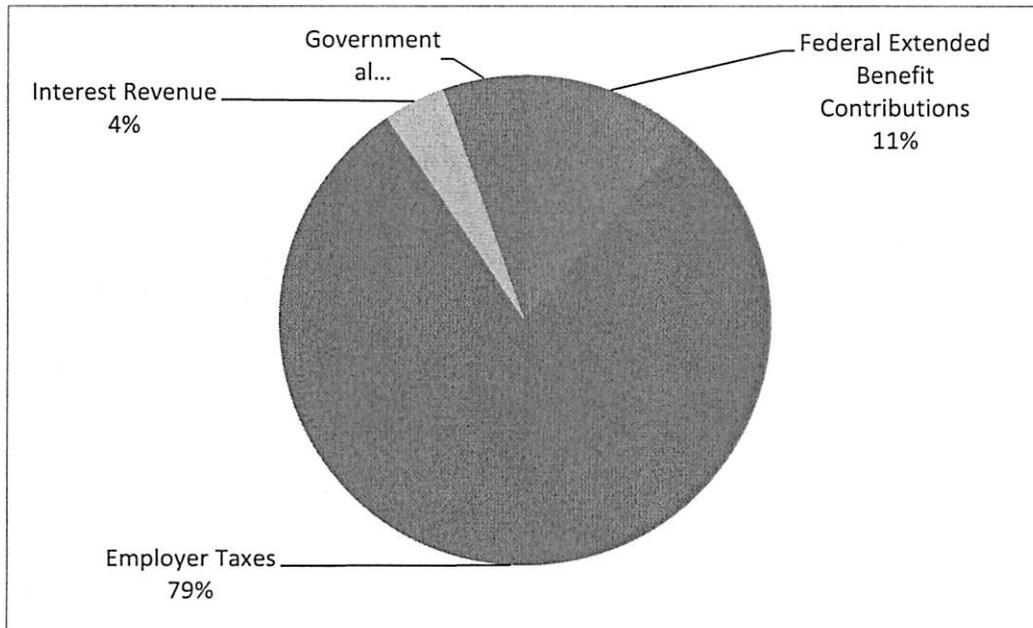


Figure 1: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2014



**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
UNAUDITED  
SEPTEMBER 30, 2014 AND 2013  
*(in thousands)*

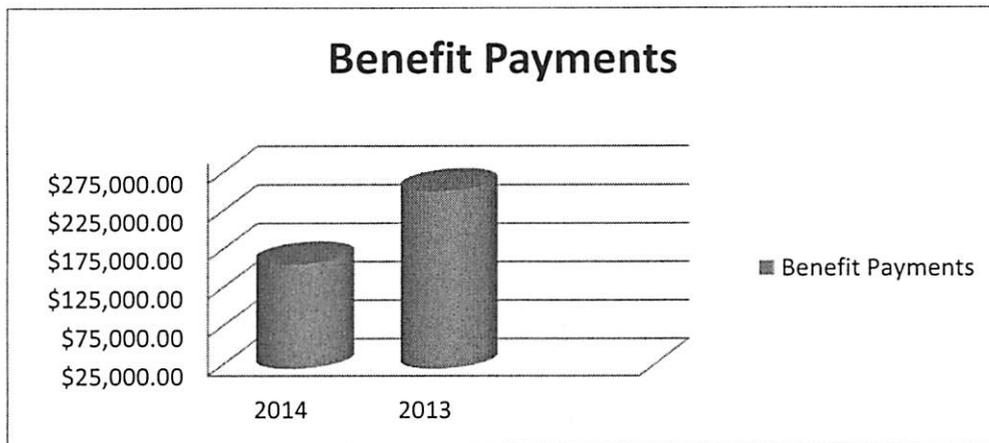
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**Figure 2: Total Revenues (Operating and Non-Operating) for the Year Ended September 30, 2013**

**Expenses**

The Fund's only operating expense is unemployment benefit payments. Figure 3 shows the comparison of benefits payments in FY 2014 and FY 2013.

**Figure 3: Total Operating Expenses for the Years Ended September 30, 2014 and September 30, 2013**



In FY 2014, the Fund's unemployment benefits (payments) decreased by \$95,242 or 37.26% as compared to a decrease of \$89,268 or 25.88% in FY 2013. The drop in benefits payments can be attributed to a decline in the overall average unemployment rate of approximately 1.0% and the reduction of federal extended benefits.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
UNAUDITED  
SEPTEMBER 30, 2014 AND 2013  
(in thousands)

*Figure 4: Shows District's unemployment rate by month for the year ended September 30, 2014*

<b>FY 2014 Average Unemployment Rate</b>					<b>7.6%</b>
<b>Current Year</b>	<b>Month</b>	<b>Labor Force</b>	<b>Number of Employed</b>	<b>Number of Unemployed</b>	<b>Unemployment Rate (%)</b>
2013	Oct	367,410	338,125	29,285	8.0
2013	Nov	367,687	339,115	28,572	7.8
2013	Dec	368,127	340,191	27,936	7.6
2014	Jan	369,529	342,302	27,227	7.4
2014	Feb	370,823	343,396	27,427	7.4
2014	Mar	370,625	342,778	27,847	7.5
2014	Apr	369,596	341,811	27,785	7.5
2014	May	370,201	342,423	27,778	7.5
2014	Jun	370,838	343,556	27,282	7.4
2014	Jul	371,204	343,723	27,481	7.4
2014	Aug	370,581	342,195	28,386	7.7
2014	Sept	373,854	345,042	28,812	7.7

*Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
UNAUDITED  
SEPTEMBER 30, 2014 AND 2013  
(in thousands)

*Figure 5: Shows District's unemployment rate by month for the year ended September 30, 2013*

<b>FY 2013 Average Unemployment Rate</b>					<b>8.6%</b>
<b>Current Year</b>	<b>Month</b>	<b>Labor Force</b>	<b>Number of Employed</b>	<b>Number of Unemployed</b>	<b>Unemployment Rate (%)</b>
2012	Oct	367,771	336,010	31,761	8.6
2012	Nov	369,320	337,835	31,485	8.5
2012	Dec	370,717	339,422	31,295	8.4
2013	Jan	372,240	340,227	32,013	8.6
2013	Feb	373,130	340,941	32,189	8.6
2013	Mar	373,138	341,229	31,909	8.6
2013	Apr	372,468	340,933	31,535	8.5
2013	May	372,177	340,562	31,615	8.5
2013	Jun	371,714	340,057	31,657	8.5
2013	Jul	369,356	337,536	31,820	8.6
2013	Aug	364,673	332,988	31,685	8.7
2013	Sept	363,784	332,442	31,342	8.6

*Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics*

**Contact Information**

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any information provided in this report, or requests for additional financial information, should be addressed to the Office of the Chief Financial Officer; Government of the District of Columbia; 1350 Pennsylvania Avenue, NW; Washington, D.C., 20004.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**UNEMPLOYMENT COMPENSATION FUND**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2014 AND 2013**  
*(in thousands)*

	<u>2014</u>	<u>2013</u>
<b>Current Assets:</b>		
Cash Held With U.S. Treasury (note 2)	\$317,172	\$311,814
Accounts Receivable, Net (note 3)	11,766	10,923
Due From Federal Government (note 4)	<u>855</u>	<u>10,210</u>
<b>Total Current Assets</b>	<u>\$329,793</u>	<u>\$332,947</u>
<b>Current Liabilities:</b>		
Accounts Payable (note 5)	\$10,941	\$11,589
Claimants Payable (note 6)	25,983	43,950
Due To D.C. Government (note 7)	<u>32,224</u>	<u>35,456</u>
<b>Total Current Liabilities</b>	<u>\$69,148</u>	<u>\$90,995</u>
<b>Net Position:</b>		
Restricted for Unemployment Compensation Benefits	<u>\$260,645</u>	<u>\$241,952</u>

*The accompanying notes are an integral part of these financial statements.*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**UNEMPLOYMENT COMPENSATION FUND**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014 AND 2013**  
*(in thousands)*

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues:</b>		
Employer Taxes	\$141,760	\$131,025
Governmental Contributions (note 8)	<u>9,766</u>	<u>32,790</u>
Total Operating Revenues	<u>\$151,526</u>	<u>\$163,815</u>
<b>Operating Expenses:</b>		
Unemployment Benefits	<u>160,403</u>	<u>255,645</u>
Total Operating Expenses	<u>\$160,403</u>	<u>\$255,645</u>
<b>Operating Loss</b>	(\$8,877)	(\$91,830)
<b>Non-operating Revenues:</b>		
Federal Extended Benefit Contributions	\$20,244	\$96,157
Interest Revenues	7,326	7,691
Federal Stimulus Contributions	-	4
Total Non-Operating Revenues	<u>\$27,570</u>	<u>\$103,852</u>
<b>Change in Net Position</b>	\$18,693	\$12,022
Total Net Position – Beginning	<u>241,952</u>	<u>229,930</u>
Total Net Position - Ending	<u>\$260,645</u>	<u>\$241,952</u>

*The accompanying notes are an integral part of these financial statements.*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**UNEMPLOYMENT COMPENSATION FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014 AND 2013**  
*(In thousands)*

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Receipts from Employers	\$140,917	\$137,790
Cash Receipts from Governmental Contributions	19,121	22,904
Cash Payments for Other Liabilities	(3,880)	1,561
Cash Payments to Claimants	<u>(\$178,370)</u>	<u>(\$264,095)</u>
<b>Net Cash Used in Operating Activities</b>	<u>(\$22,212)</u>	<u>(\$101,840)</u>
 <b>Cash Flows from Investing Activities:</b>		
Interest Income Received	<u>7,326</u>	<u>7,691</u>
<b>Net Cash Provided by Investing Activities</b>	<u>\$7,326</u>	<u>\$7,691</u>
 <b>Cash Flows from Noncapital Financing Activities:</b>		
Federal Extended Benefit Contributions	\$20,244	\$96,157
Federal Stimulus Contributions	<u>-</u>	<u>4</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>\$20,244</u>	<u>\$96,161</u>
 <b>Net Increase/(Decrease) in Cash</b>	<b>\$5,358</b>	<b>\$2,012</b>
 <b>Cash, Beginning of Year</b>	<u>\$311,814</u>	<u>\$309,802</u>
 <b>Cash, Ending of Year</b>	<u><u>\$317,172</u></u>	<u><u>\$311,814</u></u>
 <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating Loss	(\$8,877)	(\$91,830)
 Decrease/(Increase) in Assets:		
Receivables	(843)	6,765
Due from Federal Government	9,355	(9,886)
(Decrease) in Liabilities:		
Payables	<u>(21,847)</u>	<u>(6,889)</u>
<b>Net Cash Used in Operating Activities</b>	<u>(\$22,212)</u>	<u>(\$101,840)</u>

*The accompanying notes are an integral part of these financial statements.*

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014 AND 2013**

*(In thousands)*

**NOTE 1      NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES**

*Nature of Activities:* Pursuant to Federal law, the Government of the District of Columbia (the District) maintains an Unemployment Compensation Fund (the Fund). The Fund pays up to 26 weeks of regular statutory benefits to eligible unemployed former employees of the District of Columbia or the Federal government. The Fund does not currently pay any additional weeks of benefits to eligible claimants who have exhausted their regular 26 weeks of benefits.

The Fund's Operating Revenue consists of employer taxes and reimbursements from governmental agencies for regular unemployment benefits paid to former employees.

Included in the Non-operating Revenue is the Emergency Unemployment Compensation benefit (EUC), which is a 100% federally funded program that provides benefits to individuals who have exhausted regular state benefits. The EUC program was created on September 30, 2008 and has been modified several times and extended to December 28, 2013. The extended benefits payments beyond the 26 weeks base period have to be authorized by the Federal Government. When this happens, the states are reimbursed by the Federal Government to cover the benefits. Also, included in the Non-operating Revenue is the interest generated by the Fund.

The Fund is administered by the Director of the District's Department of Employment Services. Substantially all administrative costs of the program are paid by a Federal grant, which is recorded in the District's General Fund. These financial statements present only assets, liabilities, revenues, and expenses of the Fund and are not intended to present the financial position and results of operations of the Government of the District of Columbia taken as a whole.

*Basis of Presentation:* The Fund's financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

*Basis of Accounting:* The accompanying financial statements are prepared on the accrual basis of accounting. Under this accounting method, all revenues are recognized when earned and expenses are recognized as incurred in the production of that revenue.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013  
(In thousands)**

**Measurement Focus:** The financial statements are accounted for on a flow of economic resources measurement focus, wherein all assets and liabilities are included in the Statement of Net Position. The related Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in net position.

**Use of Estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 CASH HELD WITH U.S. TREASURY**

The Fund's cash is held at the U.S. Department of Treasury (the Treasury) in a trust fund in the District's name. Pursuant to the Social Security Act, the funds held at the Treasury earn interest quarterly based on the interest rates of the Treasury's Certificates of Indebtedness. Interest earned for the years ended September 30, 2014 and 2013 was \$7,326 and \$7,691 respectively. At September 30, 2014, cash held at the Treasury was \$317,172 compared to \$311,814 at September 30, 2013.

**NOTE 3 ACCOUNTS RECEIVABLE, NET**

The Fund's accounts receivables consists of the following at September 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Employer Receivables	\$ 16,208	\$ 12,541
Claimant Receivables	17,021	14,831
Due from Other Funds/States	3,514	4,608
Total Receivables	36,743	31,980
Less: Allowance for Doubtful Accounts	(24,977)	(21,057)
Accounts Receivable, Net	<b>\$ 11,766</b>	<b>\$ 10,923</b>

Employer contributions are recognized as revenues in the accounting period in which they become due and measurable. Any contributions not received within the accounting period are recognized as Employer Receivables. Claimants receivable are benefits 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 benefits overpayment is identified. Due from other funds is the amount owed to the Fund from the

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013  
(In thousands)**

District. *The percentage of ending accounts receivable method* is used to estimate and establish an allowance for doubtful accounts for the employers and claimants receivables.

**NOTE 4 DUE FROM FEDERAL GOVERNMENT**

As of September 30, 2014 the amount due from the federal government is \$855 as compared to \$10,210 on September 30, 2013. The balances of due from federal government represents benefits payments accrued for eligible unemployed former civilian federal employees (UCFE) and for eligible ex-military personnel (UCX).

**NOTE 5 ACCOUNTS PAYABLE**

As at September 30, 2014 and 2013, the Fund has payables to employers for taxes overpaid, various States for unemployment benefits paid to former District employees and others for Fund related activities.

	<b>2014</b>	<b>2013</b>
Employer Tax Refund Payable	\$4,879	\$4,581
Income Tax Payable	167	438
Due to Other States	2,823	3,548
Others	3,072	3,022
Total Accounts Payable	\$10,941	\$11,589

**NOTE 6 CLAIMANTS PAYABLE**

Claimants Payables are estimated amounts due to claimants for the remaining periods of eligibility that are payable in the following period. The Claimant Payables as of September 30, 2014 and 2013 were \$25,983 and \$43,950 respectively.

**NOTE 7 DUE TO D.C. GOVERNMENT**

The amounts reported as “Due to D.C. Government” consist of Reed Act funds obligated for administrative costs, and interest and penalties assessed and collected from employers for late tax payments but not yet paid to the District. The amounts payable to the District as of September 30, 2014 and 2013 are \$32,224 and \$35,456 respectively.

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013  
(In thousands)**

**NOTE 8 GOVERNMENTAL CONTRIBUTIONS**

Governmental contributions consist of the following as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Other States Contribution	\$4,483	\$5,464
Federal Reimbursements	(1,337)	19,658
District Reimbursements	<u>6,620</u>	<u>7,668</u>
Total Governmental Contributions	<u>\$9,766</u>	<u>\$32,790</u>

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

As at September 30, 2014 and September 30, 2013, there were no matters of litigation involving the Unemployment Compensation Trust Fund which would materially affect the Unemployment Trust Fund's financial position should any court decisions on pending matters not be favorable to the Fund.



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**Independent Auditors' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Mayor and the Council of the Government of the District of Columbia  
Inspector General of the Government of the District of Columbia:

We have audited, 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* issued by the Comptroller General of the United States, the financial statements of the Government of the District of Columbia Unemployment Compensation Fund (the Fund) as of and for the years ended September 30, 2014 and 2013, and have issued our report thereon dated February 11, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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, or 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 entity's financial statements will not be prevented, or 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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting that we consider to be a significant deficiency and is described in Appendix A to this report.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

The Fund's response to the finding identified in our audit is described in Appendix A. We did not audit the Fund's response described in Appendix A and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

**KPMG LLP**

Washington, DC  
February 11, 2015

## **Appendix A – Significant Deficiency in Internal Control Over Financial Reporting**

### *Finding 2014-DOES-03 – Lack of Sufficient Management Review over the Calculation of the Claimant's Payable Accrual Estimate*

#### **Background**

The District of Columbia Department of Employment Services (DOES) records an estimate to accrue for benefit payments for claimants that have applied for unemployment insurance as of September 30, 2014. As part of the process, DOES management utilizes an ad hoc report (i.e., ETA 5159 Claims and Payment Activities) created by the DOES IT Team that details the 'number of first payees' approved to receive benefits as a key data element used to calculate the accrual amount.

#### **Condition**

During our testing over the Fiscal Year 2014 claimant's payable accrual, we noted inaccurate data was used in the calculation of the estimate. Specifically, we noted the incorrect 'number of first time payees' receiving state unemployment insurance was used in the calculation of the accrual for the claimants that filed for unemployment benefits as at September 30, 2014 and that the calculation improperly excluded the 'number of first payees' receiving Federal benefits.

#### **Criteria**

The COSO Internal Control Framework identifies the five components of internal control, which include Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. With regard to Control Activities and Monitoring, the COSO Internal Control Framework states:

**Control Activities** – Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achieve the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

**Monitoring** – Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

#### **Cause**

DOES management did not thoroughly review the underlying data used in the estimate to ensure it was complete, accurate, and reasonable prior to recording the liability. Additionally, we noted that management's review of the estimate is not designed at a precise enough level to identify errors in the calculation.

**Effect**

DOES management overstated the claimant liability and unemployment benefit expense by approximately \$11.9 million and understated the “Due from the Federal Government” and Federal Reimbursements by approximately of \$31.4 thousand. The misstatement was corrected by management.

**Recommendation**

We recommend that DOES management improve existing controls to ensure that underlying data elements used to determine estimates are complete, accurate, and reasonable. In addition, we recommend that DOES management implement a more precise review process related to the claimant’s payable accrual to ensure that amounts are accurately calculated and recorded in the general ledger.

**Management’s Response**

DOES concurs with the findings and recommendations. However, there are adequate control activities in place as is documented in the Statement of Position for estimating accruals. The related policies and procedures as well as the basic assumptions and the methodology used to estimate accrued benefit liabilities are reasonable and have been applied consistently in the previous and current fiscal years.

Further, this year isolated incident of error in extracting number of first-time payees’ data had been corrected prior to the issuance of the final financial statements of FY2014.

With the objective of further strengthening internal controls, Management will continue to update its existing policies and procedures to validate ad hoc data used for such specialized reports against standard federal reports, and to ensure its accuracy and completeness for accounting and financial reporting purposes.