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House Oversight & Reform Committee Presentation of Audit Findings

November 1, 2023

Division Employment Security (DES)

Untimely First Unemployment Benefit Payments

AUDIT OBJECTIVES:

- Determine if “First” Unemployment Benefit Payments were Timely
- If Not Timely, Determine Why

BACKGROUND:

3.5M Claims; 1.5M Claimants; \$11.6B Benefits;

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Untimely First Unemployment Benefit Payments

Scope:

- **January 1, 2020 Through March 31, 2021**
- **“First” Unemployment Payment to Claimant**
- **8 Unemployment Benefit Programs Administered**
 - **3 State Programs**
 - **5 Federal Programs**
- **3.67 of 3.69M “First” Time Payments**

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Untimely First Unemployment Benefit Payments

REQUIREMENTS:

- Each State Must Have Unemployment Compensation Law
- 87% “First” Benefit Payments Issued w/in 14/21* Days
 - *14 Days - Waiting Week
 - 21 Days - No Waiting Week

* North Carolina operates with waiting week but requirement was waived 4/4/2020 to 9/4/2021.

- 87% Federal Requirement “**was not**” waived.

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Untimely First Unemployment Benefit Payments

FINDINGS:

- Of 3.6M “First” Payments Only 2.2M (60%) Met Federal Requirement
- Of the \$1.2B Paid \$438M (36%) late
- Only 2 (25%) of 8 Programs Met Federal Requirement
- 1.19M (32%) of the 3.67M payments > 30 days
- 1.19M First Time Payments = \$342M Late

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FINDINGS:

Unemployment Benefit Program	Program Detail	# of First Payments	\$ Value of First Payments	First Payments Within Federal Timeliness Standard (%)
Extended Benefits (EB)	Appendix A	165,302	\$ 35,424,002	99%
Pandemic Emergency Unemployment Compensation (PEUC)	Appendix B	346,412	75,421,298	90%
Trade Readjustment Allowance (TRA)	Appendix C	122	39,133	85%
State UI Benefits	Appendix D	781,503	172,217,979	74%
Federal Pandemic Unemployment Compensation (FPUC)	Appendix E	1,323,072	726,768,693	71%
Increased Benefit Amount (IBA)	Appendix F	362,335	18,109,684	30%
Pandemic Unemployment Assistance (PUA)	Appendix G	255,847	42,072,874	17%
Lost Wages Assistance (LWA)	Appendix H	439,806	131,936,573	11%
Overall		3,674,399	\$ 1,201,990,236	60%

Red = State Programs

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FINDINGS:

# of Days to Payment	# of Untimely Payments	\$ Value	
15-21 days	1,916	\$ 522,758	
22-30 days	283,680	95,279,263	
31-60 days	928,836	253,262,598	Payments >30 Days
61-90 days	127,294	43,369,973	
91-120 days	57,236	19,422,310	1,189,941 \$342,203,709
121-180 days	47,938	16,086,765	
181-365 days	28,279	10,003,994	
>365 days	358	58,069	
Total:	1,475,537 (40%)	\$ 438,005,730 (36%)	

Source: DES data and auditor analysis.

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Untimely First Unemployment Benefit Payments

FINDINGS:

North Carolina Division of Employment Security Has **Not** Met Federal Requirement for **Nine Years Prior to COVID**

April 1, 2011 – March 31, 2021

Fiscal Year	% NC First Payments within Federal Timeliness Standard	% US First Payments within Federal Timeliness Standard (US Average)
2021	60.5	63.7
2020	70.3	88.3
2019	52.4	85.8
2018	72.8	83.3
2017	62.4	83.9
2016	69.3	83.7
2015	60.1	82.5
2014	69.3	79.0
2013	80.2	81.1
2012	79.4	83.8

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Untimely First Unemployment Benefit Payments

Effects:

- Inability to Pay Bills
- Food Scarcity
- Increased Debt
- Depleted Savings
- Homelessness
- Health & Safety Concerns

News Article: October 2020, abc11 Article, claimant waited 4 months, depleted savings.

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Untimely First Unemployment Benefit Payments

Causes:

- **Design of Claims Process**
 - **New Claims Processing System**
 - **Eligibility Issues – Manual Review**
 - **Manual Review Not Set Up to Meet Federal Requirement**
 - **Manual Review – no less than 40 days, up to 110 days**
- **Lack of Monitoring**
 - **Key Elements of Claims Processing, i.e., Manual Reviews**
 - **Contractor Performance (see Matters for Further Consideration)**
 - **Available Payment Timeliness Data**
- **Unprepared – National Bureau of Economic Research**
 - **US Entered Recession Every 5.5 years since 1950**
 - **No Preparations by DES**

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Untimely First Unemployment Benefit Payments



Questions

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Division of Employment Security Performance Audit Improper Unemployment Payments

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Improper Unemployment Benefit Payments

AUDIT OBJECTIVES:

- Determine if DES Limited Improper Payments to US Labor Required Threshold
- If Not Determine Impact and Cause

SCOPE:

- Improper Payments Reported by DES: April 1, 2016 - March 31, 2021
- Did Not Include Determining the Accuracy of the Reported Amounts
- Reported Amounts are From State's UI Program (no Pandemic \$)

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Improper Unemployment Benefit Payments

FINDINGS:

- **\$166M Improper Payments Over/Above Federal Limit**
- **Average Reported by NC was 18% over Period Covered by Audit**

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Improper Unemployment Benefit Payments

FINDINGS:

- \$166M Improper Payments Over/Above Federal Limit

Excessive Improper Payments – 4/1/2016 – 3/31/2021

Fiscal Year	State UI Claim Amounts	** Estimated Improper Payment Amounts	Estimated Improper Payment Amounts if Limited to 10% of Claims	Difference = Excessive Improper Payments
2021	\$1,430,884,971	\$ 226,303,067	\$ 143,088,497	\$ 83,214,570
2020	210,970,115	32,347,595	21,097,012	11,250,583
2019	124,099,670	23,154,082	12,409,967	10,744,115
2018	190,921,838	48,700,444	19,092,184	29,608,260
2017	<u>221,363,445</u>	<u>53,276,505</u>	<u>22,136,345</u>	<u>31,140,160</u>
Total	<u>\$2,178,240,039</u>	<u>\$ 383,781,693</u>	<u>\$ 217,824,005</u>	<u>\$165,957,688</u>

** Amounts are self reported.

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Improper Unemployment Benefit Payments

FINDINGS:

- Average Reported by NC was 18% over Period Covered by Audit

Improper Payments & Rates: 4/1/2016 – 3/31/2021

Fiscal Year	State UI Claim Amounts	** Estimated Overpayment Amounts	** Estimated Underpayment Amounts	Total Estimated Improper Payment Amounts (Overpayments + Underpayments)	Improper Payment Rate
2021	\$ 1,430,884,971	\$ 211,747,206	\$ 14,555,861	\$ 226,303,067	15.8%
2020	210,970,115	31,521,299	826,296	32,347,595	15.3%
2019	124,099,670	22,619,175	534,907	23,154,082	18.7%
2018	190,921,838	48,284,926	415,518	48,700,444	25.5%
2017	<u>221,363,445</u>	<u>52,307,604</u>	<u>968,901</u>	<u>53,276,505</u>	<u>24.1%</u>
Total	<u>\$ 2,178,240,039</u>	<u>\$ 366,480,210</u>	<u>\$ 17,301,483</u>	<u>\$ 383,781,693</u>	<u>17.6%</u>

** Amounts are self reported.

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Improper Unemployment Benefit Payments

- **NOTE:**

- **US DOL/UI Integrity Center**

- Reviews State Reported Causes of Improper Payments
- Develops Strategies/Recommendations/Corrective Action Plans for States to Implement

- **North Carolina UI Program Currently Designated as:**

- High Rate/High Impact
- Receives Additional Target Assistance & Strategies

- **Designated by US DOL**

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Improper Unemployment Benefit Payments

- **CAUSES:**
 - Failed to Implement Recommendations From US DOL

Overpayment Error Type	Overpayments	Overpayments Due to Primary 3 Causes
Work Search Requirements	\$ 91,371,596	\$343,895,639 94%
Benefit Year Earnings	140,983,931	
Separation Information Issues	111,540,112	
Other	22,584,587	
Total Overpayments	\$ 366,480,210	

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Improper Unemployment Benefit Payments

- **CAUSE:**
 - **Work Search Requirements**
 - Received UI Payments/Not Eligible/No Acceptable Evidence of Work Search
- **US DOL Recommendation:**
 - Capture Activities as Part of Weekly Certification
 - Monitor Requirement for Claimant Assessment Interviews

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Improper Unemployment Benefit Payments

- **CAUSE:**
 - **Benefit Year Earnings**
 - Claimants receive UI payments/not eligible/failed to report earnings after returning to work
- **US DOL Recommendation:**
 - **Cross-Match Claimant w/ State Directories of New Hires & National Directories**
 - **Implement Wage Calculator w/ Weekly UI Certification**

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Improper Unemployment Benefit Payments

- **CAUSE:**
 - **Separation Information Issues**
 - Claimants receive UI payments/not eligible/voluntarily quit work or discharged for cause
- **US DOL Recommendation:**
 - **Create Policies & Procedures for making separation determinations when claimant/employer's reason for separation conflict (currently based on professional judgment)**

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Improper Unemployment Benefit Payments



Questions?

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Planned Performance Audits for FY 2024

Planned Audits

- **Department of Health & Human Services**
- **Department of Public Instruction**
- **Division of Employment Security**
- **Information Technology Audits**
 - **AOC**

Audit Follow-Up

- **HB 471 Submitted**
- **"§ 147-64.6E. Corrective action. (a) If the Auditor finds that a State agency is deficient in the areas of examination provided by G.S. 147-64.6(b), the Auditor shall include, as part of the audit report, one or more recommendations to the State agency to correct each deficiency. One year after receiving the recommendation, the State agency shall submit a progress report to the Joint Legislative Oversight Committee on General Government and the Office of the State Auditor so they may determine whether the State agency has made significant progress in correcting any identified deficiency in a timely manner.**
- **(b) If the Joint Legislative Oversight Committee on General Government finds that the State agency has failed to make significant progress in correcting a deficiency in a timely manner, the Committee may direct the State agency to appear before a legislative committee to provide information regarding the deficiency and corrective action taken by the State agency."**