

Rep. Johnson, Chair: I call to order today's House Oversight Committee meeting. First, I'd like to thank our Sergeants-at-Arms for taking care of us today: Mr. Mark Douglas (Mark), Russell Salisbury, Thomas Terry (yep, there), and David Layton. Thank y'all so much for being here. We have Division of Employment Security Assistant Secretary Antwon Keith. [00:00:30] Antwon, thank you for being here, and State Auditor Beth Wood with us today. The Division of Employment Security is responsible for ensuring unemployed workers receive proper benefits for which they qualify, no more and no less.

The system has long had problems with overpayments, underpayments, and the timeliness of first payments. The thousands of North Carolinians laid off during the pandemic shutdown overwhelmed the system and brought new urgency to fixing those chronic flaws. Now that unemployment [00:01:00] rates are again near three percent, it is a good time to look at improving the system. The U.S. Department of Labor made recommendations to address those flaws. To assess improvements, State Auditor Beth Wood led the performance audits with recommendations in 2022. Today, she and we will hear what DES has done to implement those recommendations.

Auditor Wood will also discuss [00:01:30] other areas of oversight and accountability. First, we'll hear from Secretary Keith. We had asked for your written testimony by noon Wednesday. We received your extensive testimony on Thursday. That testimony is online, so everyone has had a chance to read it. In the interest of time, please keep your opening comments this afternoon to five minutes, then we'll jump into questions. As we've done in the past, we will give members five minutes for questions and additional time with follow-up questions [00:02:00] after all members have had a chance to speak and use their additional five minutes.

Is everybody clear on that? So, what we'll do is we'll go through, and once everyone's had that chance, if you want to yield your time back to the Chair, certainly feel free to do that. You are more than welcome. You can yield that back. If the presenters answer your question and it exceeds the time but we're still getting relevant information and we feel like it merits a follow-up, we'll certainly [00:02:30] use the Chair's discretion to have some leeway on that, as well.

Secretary Keith, if you stand and raise your right hand, please. Do you affirm that your testimony is the truth, the whole truth, and nothing but the truth?

Secretary Keith: I do.

Rep. Johnson: Perfect. Thank you so much. I'll let you have the floor for your presentation. Thank you so much for being here.

Secretary Keith: Thank you, Chairman Johnson, Chairman Warren, members of the committee. I'd like to thank [00:03:00] you for allowing North Carolina Department of

Commerce, Division of Employment Security to come before you to talk about unemployment insurance and all that we've accomplished in mitigating some of those issues. Hopefully, I can address all of your concerns today and maybe, just maybe, dispel a myth or two as we go along the way. Mr. Chairman, if you're okay, I'd like to introduce my team.

Rep. Johnson, Chair: Yes, absolutely.

Secretary Keith: Okay. Bob Collins, director of performance and policy; Jeanette Kennedy, [00:03:30] chief deputy of programs; Laura Leonard, our communications manager; and Kevin Carlson, chief financial officer and chief of staff. So, we at DES have been completely absorbed with righting the UI ship in the midst and aftermath of a worldwide pandemic, second only to the Great Depression in terms of unemployment rate. We went from 2,500 claims a week to a max [00:04:00] of 54,000 in one day. Over a million claims were filed in a 10-week span.

We administered nine state and federal programs. One in four individuals in our workforce was filing for UI, and many of them were first-time filers. Paid out over \$14 billion. Absolutely unheard of. The bulk of that money coming from the federal coffers, \$1.8 billion coming from state unemployment benefits. [00:04:30] Most of our units are back down to pre-pandemic levels. We've implemented several solutions in all facets of our business to address identified needs and future downturns.

"People, process, technology," that's our mantra, "People, process, technology." We implemented push text notifications, multifactor authentication, overhauled our website to make it more mobile friendly. Implemented a status update bar, which is the brainchild of Jeanette Kennedy. [00:05:00] As she said, we need to give individuals an opportunity to be able to see what's the status of their claim without having to call us and get that. I think her exact words were, "We need to do what Domino's does and get a tracker up, like Domino's Pizza." So, kudos to our team. That Tracker actually has been nationally recognized, as we have presented it multiple times to different groups within DOL as well as to different states.

[00:05:30] We do cross-matching. We hired a data scientist to usher in fraud risk scoring. We block foreign IP addresses. We block use of debit cards, implemented 106 fraud rules. And in the midst of this, we're undertaking a major metric dashboards project to provide real-time data at the sublevel to drive decision making. We've prevented \$68 million going out of the coffers so far [00:06:00] this year, \$142 million last year, \$264 million in 2021. We're working towards reducing our improper payment rates as we get back on a downward trajectory, which we were on prior to the pandemic.

Department of Labor has two indicators when it comes to first payment, 14, 21 days paying, which you must meet at 87 percent, and 35 days, which you must

meet at 93 percent. While we're only at 64 percent [00:06:30] on the 14, 21 days. We're at 88 percent individuals are being paid within those first 35 days, when it comes to first payment promptness. We obviously have a lot of work to do, but just to level set, there's no state in our region that's meeting that 14, 21 day [goal] in the southeast region.

I'm happy to inform you that our quality scores remain high. We're somewhere in the [00:07:00] top 10 in the nation for the quality scores, top 10, 12, somewhere around in there. We've stepped up our recovery efforts, as we've recouped over \$130 million-plus over the past three years. We continue to work with a multitude of law enforcement agencies during their fraud investigations to include, but not limited, in Secret Service, Office of Inspector General, U.S. Department of Justice, and county DAs.

And when it comes to Department of Labor and our own State Auditor's [00:07:30] suggestions to shore up holes, I can say that we've implemented most of those recommendations and are working on developing the ones not yet in production. We continue to adopt best practices and learn from past mistakes.

The North Carolina Department of Commerce Division of Employment Security remains vigilant and dedicated to addressing fraud and improper payment. It is our top priority. And I can say the rest of the nation recognizes North Carolina as a state that has done many things right, [00:08:00] as we are continuing to be asked to present to national groups to tell our story of how we adapted and overcame amid this storm. At this point, Mr. Chairman, I'll stop and by your leave, will allow for questions.

Rep. Johnson, Chair: Perfect. Thank you so much. Anyone wanting to ask questions, if you could please let the Chair know, and we'll go ahead and get you in the queue. I see Representative McNeely. I see Representative Dahle, see Representative Chesser. [00:08:30] I see Representative Cleveland, Representative Cervania. Can we assume, is that everyone present? Perfect. Okay. Well, we'll go ahead and get started and if you'd like to be added to the queue, please let the Chair know, and we will add in. Representative, right here, Chesser you're recognized.

Rep. Chesser: Thank you, Mr. Chair and thank you Secretary Keith for coming out. I have a few questions. I'm going to focus on improper payments, so you can go [00:09:00] ahead and get your mind in the right box here. And I'm going to start with, it's been expressed to us that there have been complaints from your agency about the Benefit Accuracy Measurement. Is that federally mandated on you guys, that particular formula?

Secretary Keith: Yes, sir. It is. So, hopefully, you didn't hear the complaint from me.

Rep. Chesser: Nah.

- Secretary Keith: But it's a pet peeve of mine a little bit when it comes to improper payment. [00:09:30] The reality is is that the 10 percent threshold that the federal government had laid down, it's been around for a minute, but during the Obama administration is when they put it on federal agencies to be at that 10 percent or do something about it. And, of course, they put that back on the states. When we look at the benefit, when we look at improper payment, part of that that's utilized is the Benefit Accuracy Measurement.
- So that Benefit Accuracy Measurement survey, [00:10:00] which is done quarterly in all the states. In North Carolina, we do 130 paid claims surveyed, 39 denied claims surveyed, each quarter, regardless of the number of claims out there. We've done over 72,000 claims this year, 99,000 last year, 467,000 the year before. It goes on and on, but we're still at that same threshold. But all the states have to do it, but it is [00:10:30] created by the United States Department of Labor, so, we have to take the car that they give us to drive.
- Rep. Chesser: So, would it be accurate to state that this is just a statistical analysis of the claims that you guys pay out? The sample size is the same every year?
- Secretary Keith: It is.
- Rep. Chesser: Okay. And if I'm reading between the lines correctly, I won't say complaint, your pet peeve, as you said, it might be that you believe that that sample size should change?
- Secretary Keith: [00:11:00] I believe-
- Rep. Chesser: ... or a static sample size is...
- Secretary Keith: So, couple of things.
- Rep. Chesser: And my time's limited. I'm notorious for reclaiming my time. I don't want to have to do that to you, so, I'd ask you be brief with your responses.
- Secretary Keith: I think it needs to be reevaluated. BAM, when it first came out many, many moons ago, it was devised as an internal tool for states to help them drive. It was not meant to be the end-all and be-all in whether or not your state is up or down.
- Rep. Chesser: All right, [00:11:30] I've got one question I'm going to save to the end to let you expand on that. So, with this, there are two charts in here, and what was provided as part of your testimony. I believe it's on slide, probably 20, if you're clicking through the slides here. And on the one chart, you're talking about improper payment rates, and we get to see a four-year span. There's an asterisk in 2022 for the improper rate. Down at the bottom it says 9.67, excluding work search. [00:12:00] Does that mean that 9.7, or roughly 9.7 percent should be added to that 16 percent?

Secretary Keith: Oh Lord, no.

Rep. Chesser: Okay.

Secretary Keith: I'm sorry. You made me knock my water over on that.

Rep. Chesser: That's all right.

Secretary Keith: So, what we're saying right here is, as you look down at the top causes, the top drivers for our improper payment rate, work search, benefit-year earning, separation issues. Every year prior to the pandemic, work search has always been a top driver. What we're [00:12:30] saying simply is that that 16.67 percent that we have for 2022, if you remove work search, then the improper payment rate is 9.67. That's all we're saying.

Rep. Chesser: But work search is included in all the previous years as well, so there's no need to remove it for 2022.

Secretary Keith: Work search is included in all the years, but the reality is is that it's an unequal playing field. So, work search in North Carolina, we have a definitive policy when it comes to work search, you have to look for work three places every [00:13:00] week. Some states don't have a definitive [inaudible 00:13:04]. Department of Labor just says work search should be whatever a reasonable person would do in order to get back to work.

We don't have a work search waiver in North Carolina. A lot of states have a work search waiver. That's basically you hold people no harm for that first instance that they're identified as work search not being accurate. Department of Labor [00:13:30] indicated to me some eight years ago that they were going to get rid of that waiver for states, and then last year, they told me they're looking to put it in there so that it's part of the law.

Rep. Chesser: There's also two charts in your provided testimony, and you've made reference to it. Over the last three years, your organization's been able to recover about \$130 million worth of overpayments.

Secretary Keith: Mm-hmm.

Rep. Chesser: What would be the total amount of overpayments over that same time period?

Secretary Keith: \$735 million out of \$14 billion.

Rep. Chesser: Okay.

Secretary Keith: [00:14:00] We had an overpayment of... And if you want to look at it in terms of percentage, you're talking about 5 percent of our total payout was in overpayments. That's \$735 billion.

Rep. Chesser: What would be the percentage of the recovery funds over the overpayments?

Secretary Keith: Say that one more time?

Rep. Chesser: What's the percentage in relation from recovered funds to overpayments?

Secretary Keith: Oh, wow. We've recovered...

Rep. Chesser: \$130 million out of seven hundred and what?

Secretary Keith: ... \$135 million. We paid out some \$730 million. So [00:14:30] one out of seven? [actually 17.7% or about 1/6]

Rep. Chesser: Okay. I believe I... Do I have time for one more question, Mr. Chair?

Rep. Johnson, Chair: We'll come back. We'll hold on to that one and come right back so we're not rushed on getting a response there. Representative Dahle, you're recognized for five minutes.

Rep. Dahle: Thank you, Mr. Chair, and thank you, Secretary Keith. I'm going to talk about improper payments as well. And I just wondered to what extent has DES progressed in exploring [00:15:00] the use of artificial intelligence? Are you using that to expedite the adjudication determination process? And if you are, what specific applications or methods are being considered for that implication?

Secretary Keith: So, currently, right now, we're in the process of developing a chatbot that's driven by AI. We are also... And what that chatbot, what the hope is, [00:15:30] is that as individuals are getting confused as to what they need to do when they're going through the application process, that chatbot helps them further understand the process. But if your earnings is a major problem when it comes to improper payments, not as big as work search, but it is a major problem when it comes to improper payments.

We are also exploring AI within our appeals process, doing those functions that individuals have to currently do so that we can help as far as, [00:16:00] we can pull those hands off and get a few more hands on doing the stuff that traditionally we would... Let me take it back one step. So, we're limited as to our staffing, right? We can only have so many staff. So basically our AI, we're exploring ways to reduce staff time. That's basically what we're looking at when it comes to AI.

Rep. Dahle: So, I would take it's like when I [00:16:30] go shopping and they say, "Can I help you? This is on sale right now." So, your AI would be, if somebody gets stumped or if they leave it for too long, they would come on and say, "Is there something that's stumping you?" and it's formulaic.

Secretary Keith: Exactly.

Rep. Dahle: Okay.

Secretary Keith: Exactly.

Rep. Dahle: So, another question is, why I think, could DES provide further details on how it plans to incorporate robotic process [00:17:00] automation in its work and clarify which task or responsibilities that DES are most suited for robot?... I don't want to say it... Yeah. Because I can't.

Secretary Keith: Yeah. Yeah, that's fine. Let me call up Jeanette Kennedy, chief of benefits programs.

Jeanette Kennedy: Jeanette Kennedy, chief deputy of programs. The question about [00:17:30] robotic process automation [RPA], what we are considering is whether or not we can use RPA to do some of the discrete tasks, repetitive tasks. So, we're looking at areas of appeals, where we have to send, collate information together and send it out to the parties that would be a party to the hearing. We are thinking that we might be able to use RPA to do those types of things. That's one use case. We're also looking at possibly using it to extract information from one system and then use it to drive data entry into another system, things [00:18:00] of that nature.

Rep. Dahle: One more question.

Secretary Keith: Mm-hmm.

Rep. Dahle: When do you anticipate your dashboard project to be, that it may be completed?

Secretary Keith: So, the dashboard, it's been a work in progress. We already have some of those dashboards that's been completed and staff is already using them. We are, it totally won't be completed until [00:18:30] first part of 2024. But we have great hope for that as we get more clarity and more seamless views of where claims are and what the snag points are within the claim processing.

Rep. Dahle: I'm not going to yield the rest of my time [inaudible 00:18:52].

Rep. Johnson, Chair: Thank you so much, Representative Dahle. Representative McNeely, you are recognized for five minutes.

Rep. McNeely: Thank you, Mr. [00:19:00] Chairman. Secretary Keith, nice to have you in front of us. Thank you, sir, for coming. Couple questions I got. After all you-know-what broke loose in March of 2020, that initial 14-day meltdown. Looking on slide number 10, got to find it myself, because I've been playing back through things here. Of course, [00:19:30] May 2020 doesn't shock anybody, other than I felt like maybe there should've been the left hand talking to the right hand, the executive branch is in charge of Commerce, which is in charge of y'all.

I think they knew they were going to shut the economy down, but unfortunately, they forgot to let everybody else know that till that exact moment, which really made things difficult. I think that's why you're in your job and the last person's not. But [00:20:00] I'm looking at the spikes in January 2021 and then also April 2021, July 2021. What happened there?

Secretary Keith: Yep. Good question, Mr. Representative. So, this chart, if you look at it, you see what the flat line is in March '20, right? And then you see the spikes and, of course, that April '20 spike, which is 54,000 in one day. As you go through, you see periodic spikes. [00:20:30] You obviously see the surge and how it goes down, but the quarter change is what you're looking at. Those are quarter changes.

Traditionally, when you have quarter changes, you have an increase in claims, because it's a new base period that individuals have to meet. Basically, a base period is a 12-month period in which you have to have earned a set amount of money in order to establish a claim for unemployment benefits. So, every quarter, that claim that may not have went through [00:21:00] in the prior quarter, it comes back through and it tries to see if it could set up. January '21—

Rep. McNeely: Basically, every quarter is a reboot on all the old claims that couldn't get in and maybe they finally do?

Secretary Keith: You have a ton of claims that come through at that quarter change, and you have some fraudulent claims that come through at the quarter change. That January '21 spike you're looking at, that's when those COVID programs were reauthorized. If you remember, in the latter part of 2020, the COVID [00:21:30] programs ended, and then D.C. decided to reauthorize it in '21. And if you remember, that's when that \$600, that was on top of all UI payments, went down to \$300. And so, that's why you have that big spike. So, all of those individuals who had exhausted in '20, they came back in, and we started putting those claims in, in '21.

Rep. McNeely: So, as I was saying, every time we make poor policy, as federal or state government, [00:22:00] we get rewarded by people chiming in, looks like, and taking advantage of our poor policies. But anyway, one of the things that I found myself, as a small business owner, was the inability for people who were working—or weren't working, I should say—to come back to the workforce because of the amount of money that was being paid to them.

And I guess my question in all this is, is why didn't we have everybody submit [00:22:30] their pay stubs? A lot of people made twice, maybe even three times the wages they were making when they were employed, when they were laid off in the pandemic. And that, to me, makes no sense to the fact that you shouldn't have been paid any more than you were already receiving, up to that max. So, why did we go about doing what we did to make it so impossible for even people to go back to work if they wanted to?

Secretary Keith: [00:23:00] Mr. McNeely, you are preaching to the choir here. Let me just say that during the Great Recession, there was a kicker put on unemployment insurance benefits—it was \$25. During the pandemic, that kicker was \$600, and of course, we allowed individuals who were self-employed. The question about showing pay stubs. Department of Labor, when they first rolled out this program, [00:23:30] a lot of the, the starting and stopping, not necessarily on us here in the state of North Carolina, but a lot of that was on the Department of Labor, as they kept piecemealing out to states guidance for how to implement.

Initially, when they rolled it out, they said all you need to do is do an attestation. Long as somebody said “yes,” put their hand on the Bible, raised it to the sky and said, “Yes, I was working. Please give me my money.” [00:24:00] That’s what some states did. The State of North Carolina, I’ve got to say the State of North Carolina, we did not do that. And it’s one of the reasons why our overall unemployment rate is so much less than a lot of other states.

We already was asking certain individuals that we just could not verify that you were self-employed. We were already asking. Department of Labor did not plug in a mandatory that you ask for those check stubs until January 2021. That’s [00:24:30] when they made it mandatory for states to check to ensure that individuals are who they say they are.

Rep. Johnson, Chair: Representative McNeely, your time has expired, but if you have additional questions, would you like to be added to the follow-up queue?

Rep. McNeely: Please, sir.

Rep. Johnson, Chair: Absolutely.

Rep. McNeely: Thank you.

Rep. Johnson, Chair: You’ve been added to that. Representative Cleveland, you are recognized for up to five minutes.

Rep. Cleveland: The 14, 21 day, I don’t understand why you can’t work [00:25:00] within that timeframe. What is the problem that the State cannot get their payments out?

Secretary Keith: So, let me just, I guess, level-set for a little bit, as we look at the history of the first payment timeliness. And, sir, we had always hovered around that first payment rate until the recession hit us. And as you can see, we took a dip and then we took a tremendous [00:25:30] over... We went down a hill around 2013. And if you recall, that’s when we had a rewrite of chapter 96. And during that rewrite of chapter 96, essentially, employer claims were taken out of the mix.

And the reason was because a lot of employers were taking advantage of the way the system was set up, and they were just signing their people up using

unemployment [00:26:00] as a supplement, basically, as a supplement to people's salaries. We started coming back up... And those employer claims they weren't claims that we had to touch. So, when they went away, we're having to touch a lot more claims. We're having to depend on our people to touch a lot more claims. We started to come up, and then we fall back down the hill because we were getting ready to go live with a new system. And then a little thing called Hurricane Florence hit us. We started to try to come back up the hill carrying our pail, and [00:26:30] then the pandemic came and touched us.

Right now, I thought I was going to have some good information to come and tell you last year because I saw us making incremental increases. And then December 2022 comes, and we lose about 45 percent of our folks that was putting hands on. 148 years of experience we lost. So, we're hiring new people, but obviously, I'm sure all of you business owners can attest, [00:27:00] it is not the same as it was before. It's a lot more difficult hiring people, getting them in to work and that sort of thing. But we are totally committed, Mr. Representative. We're pushing ahead. We're looking for ways to improve. And by the grace of God, I think we will get there.

Rep. Cleveland: So, you're telling me you do have a plan going forward?

Secretary Keith: Yes sir.

Rep. Cleveland: When do you expect to see improvement with that plan?

Secretary Keith: So, [00:27:30] mitigating steps when it comes to first payment. If you look at second quarter to third quarter, we've gone up from 59 percent to 64 percent. So, the steps, we're moving up a little bit, it's just very incremental, though. We're putting in different items to help staff. As Representative Dahle had alluded to, obviously, the AI, the robotic, we're looking [00:28:00] at ways that we can reduce cycle time.

We're looking at ways we can automate things to make it so that staff doesn't have to make decisions on all of these items. And understand, for a lot of states, we can meet that number tomorrow, Mr. Representative, if you want us to, we can meet it. Well, next week if you want us to. If we just didn't care about the quality, we can meet that number. But it's not about going fast, it's about doing the right thing. And-

Rep. Cleveland: About doing your [00:28:30] job.

Secretary Keith: Exactly right, sir. And we are pushing forward. I think we have a good handle on it. I think we have a good handle on it, but it's not as easy as one would think. As I stated earlier, there's no state in the southeast that's meeting that number as of yet, as of right now, as of the quarter that's just ended, June 30.

Rep. Cleveland: Would you say within a year you'll be able to meet it?

Secretary Keith: I would not say that, Mr. Representative.

Rep. Cleveland: On the [00:29:00] slide you have up there, is USPS, the postal service?

Secretary Keith: Yes, sir.

Rep. Cleveland: They actually have an ID verification pilot?

Secretary Keith: They have come up with a program, and North Carolina, along with South Carolina, has joined with them to do a pilot to do an in-person ID verification. We have a online verification piece, and we have a piece where people can call and have a staff person, but we wanted to put [00:29:30] this in, this pilot program in, and so, that's what we're in the process of doing.

Rep. Cleveland: Okay. On the same slide, why would we talk-

Secretary Keith: It's new, it's new for them. It is new for them. Yes, sir.

Rep. Cleveland: Okay. They haven't really done a lot with it. We're picking it up, but what are we stepping into? But anyway, AI, I'm not a fan of AI. I'm an old person. I like physical presence. Are [00:30:00] we going to set up an AI system that's going to be the governing body and nobody's going to have recourse? That worries me.

Secretary Keith: It worries me as well. Mr. Representative, it took me a long time to do self-checkout at the grocery store.

Rep. Cleveland: I don't do it.

Secretary Keith: But the reality is is that we just had an increase in salary [00:30:30] across the board. We don't get any money from the General Fund. We don't get any money from the General Fund. We just had an increase that comes out of our budget, and because of that increase, we're going to have to decrease some of our staffing to offset the additional salary. We have no choice but to look at AI. But the question that you're asking, is it going to be the governing body? Not as long as I'm here. We are not going to have AI drive the car and we sit in the backseat. [00:31:00] We're not going to do that.

Rep. Cleveland: I have a-

Rep. Johnson, Chair: Representative Cleveland, your time has expired. Would you like to be added to the queue for follow-up questions?

Rep. Cleveland: Yeah, just in case I decide to keep asking.

Rep. Johnson, Chair: That's good. Perfect. Representative Cervania, you're recognized for up to five minutes. Thank you.

Rep. Cervania: Thank you, Chair, and thank you, Director Keith and team, for coming here today. This has been actually a concern [00:31:30] for my constituents for a long time prior to COVID, and like everyone says, it put a microscope on it so much more. I do want to ask, I'm a data person, and I'm going to do a complement to my colleague here, Representative Chesser on the untimely payment side. And I want to have a perspective and vision of going forward. So, how did DES perform its internal controls or change their internal controls and compliance [00:32:00] with performance measures after the result of Auditor Wood's reports?

Secretary Keith: Okay, so, let's skip over the recommendations. So, first and foremost, we have been audited and reviewed up, down, and side to side. We are on task, I believe it's about six or seven federal audits come in next month. And of course, I [00:32:30] mean Auditor Wood's team comes in on a yearly basis and audits us. They're our check and balance. Along with that, with the UI Oversight Committee, they're our check and balance, and what we have done, some of the items that they had identified, we had already implemented. Our internal, let me [00:33:00] get it straight for you. Our internal processes and procedures, we have done a lot of stuff to kind of shore in things that were going on. So, we are not going to, we hired a vendor during the pandemic that came in, [00:33:30] and we standardized, we updated all our operating procedures.

We hired that vendor to come in, and every team, every unit went through updating standard operating procedures and ensuring that individuals are going along that process, are utilizing that process. We have some of the items that Auditor Wood, her team had pointed out to us, been a benefit [00:34:00] calculator that was already in, state director of new hire we plugged it in, we didn't plug it in soon enough, but it is in currently. And of course, the biggest thing, the work search repository, which Auditor Wood's team has been on us to put into play. It was a recommendation that came in, I believe back in '19 or '18, 2018. And we've gotten some money from the federal government currently to get that plugged [00:34:30] in.

Rep. Cervania: Just follow up on that. There's recommendations and you've implemented performance measures. Did you allot time to these things? Following up on my colleague, Representative Cleveland's question, it's good to have measures, but it's good to have a timeframe towards accomplishing that and having it being consistent [00:35:00] in that level of measure. Are those measurements having an attached time to them?

Secretary Keith: Representative, Madam Representative, every year, we do a plan with the federal government, and we attach timeframes to that plan. As they say the best laid plans of mice and men.... So, every year, we plug in a plan. Every year, we [00:35:30] identify timeframes to get that knocked out.

Rep. Cervania: If it's not too much, it would be great to see your performance measurement list with those times.

Secretary Keith: Sure thing.

Rep. Cervania: Okay. If we can receive that.

Secretary Keith: Sure thing.

Rep. Cervania: Chair, do I still have an allotted amount of time?

Rep. Johnson, Chair: You've got a minute.

Rep. Cervania: A minute. Okay. So, I wanted to ask about your recommendations to us as a legislative body in implementing the enterprise [00:36:00] risk management system. Can you elaborate more on what you're asking of us, and what would help you all to implement that process?

Secretary Keith: Can I see that recommendation? Let me call the Chief of Staff Kevin Carlson. He seems to be chomping at the bit on that question.

Kevin Carlson: I don't know about that. Kevin Carlson, [00:36:30] chief of staff, DES. I believe that was a recommendation that was in State Auditor Wood's report about that. And as far as this is concerned, we have not been given a plan in order to implement any of that. Okay. Thank you.

Rep. Johnson, Chair: Representative Cervania, would you like to be put in the queue for follow-up questions?

Rep. Cervania: Yes sir, I would like to. Thank you.

Rep. Johnson, Chair: Thank you. [00:37:00] Has everyone spoke for the first time that would request to speak? Representative Quick, you're recognized for up to five minutes.

Rep. Quick: Thank you Mr. Chair. And alluding to our conversation this morning, you move the meetings to Greensboro. I'll probably be a little early.

Rep. Johnson, Chair: Closer to me.

Rep. Quick: Good afternoon, and thank you for being here, Secretary Keith, I just have a few questions, and please forgive me if there's something you've gone over before. What specific challenges did your department face in implementing SCUBI, [00:37:30] and how has it affected the timeliness of the payments?

Secretary Keith: So, SCUBI is our unemployment insurance system that we shared with the state of South Carolina we implemented in 2018. Probably some of the biggest challenges in implementation was that when we went live, it was during the midst of Hurricane Florence. So, it threw a lot of, we had to actually shut down during the midst of right after the hurricane had hit. We had [00:38:00] to shut down for three days to do the switchover as part of getting this system up.

Some of the things that SCUBI has done for us, it has implemented automation that we did not have in the old system that was built in the 1980s. It implemented automation that we did not have.

What we're doing currently is, and one thing for the pandemic, when it came to, you saw the chart with all those claims [00:38:30] coming in, because we had this cloud product, we were able to expand the capacity very quickly. Something that we never could have done when we did the recession. It was just a matter of just put all hands on and keep chopping this tree, everybody take turns with the ax. So, automation that's in place and those are some of the things that we're looking to shore up, make that automation much better so that individuals that are going through the system itself [00:39:00] can make a decision as opposed to staff having to make every decision.

Rep. Quick: Second question, perhaps my final question to you, can you provide more details on the texting and push notifications initiative?

Secretary Keith: Sure thing. So, it just went in a couple of weeks ago actually. One of the things that we know folks file a claim some stuff like, for instance, doing your weekly certification. Weekly certification [00:39:30] is that thing that gets your check to you. So, if you're not doing the weekly certification, in the State of North Carolina, if you haven't done a weekly certification, we don't even adjudicate, your claim just sits on the shelf. Some states, they adjudicate everything that comes through their state. We don't do that. Why? Because you don't want a bunch of claims going into appeals that doesn't have any money attached to it. And then appeals is doing all the spinning around.

[00:40:00] With the text notification, we plugged it out, we sent 34,000 emails out to individuals who are currently filing. We had 16,000 individuals sign up within the first four days, 16,000 out of 34,000 signed up within the first four days. And essentially what it is is prearranged notices that we can kick to individuals saying do your weekly search, that sort of thing, work search, what have you, that's what we're looking at. We're just looking at ways that we [00:40:30] can better reach out and touch folks because what we've learned is that folks are doing this with their mobile devices. Not a lot of folks are sitting there at a computer. So, if you can't reach them on that mobile device, you're going to be lagging.

Rep. Quick: Thank you. No further questions, Mr. Chair. I do not need to come back.

Rep. Johnson, Chair: Great, thank you Representative Quick. Representative Chesser, did you have a follow-up on your series of questions, or did they get answered? You do have a follow. You are recognized [00:41:00] for up to three minutes for your legal pad full of questions there.

Rep. Chesser: All right, bear with me here, sir. We'll see how far we get. So, just as a follow-up on the SCUBI, do you have any inclination as to why two states dropped out of SCUBI? I believe Georgia and Tennessee dropped out.

Secretary Keith: Certainly, and I don't want to be talking out of school here, but I was there. So, SCUBI started [00:41:30] out with four states, Tennessee, Georgia, North Carolina, South Carolina. It was essentially a handshake between four UI directors. Anybody that's ever been in a consortium, the one thing you got to realize is that it comes down to trust. Those four directors, by the time SCUBI went live, only one of those directors was still there and that was for the state of Georgia. Tennessee had decided that they had a relationship with another [00:42:00] vendor. Right when we were choosing our vendor, they got a brand new secretary in, and they had a relationship with another vendor.

Department of Labor came down, we had to meet in Asheville. It's a very long story, but they realized that this situation, untenable, will let Tennessee go. I do believe, however, Tennessee was of the belief that the money for SCUBI was tied to the states. [00:42:30] The money for SCUBI is tied to the consortium. So, dropping out, just go on your own. And just for your knowledge, Tennessee is currently actively in the midst of getting a new system as of now. Georgia, who dropped out, is actively in the midst of trying to get a new system as of now.

Rep. Chesser: Okay. So, a brief follow up to the AI questions. That seems to be a common reply to us whenever we talk about what organizations are going to do to improve performance, they want to throw back [00:43:00] AI. I think people will use it kind of as a catchall term right now. So, I would like if you could expand on what phase of the planning are you guys in and as far as implementing AI, are we just in the brainstorming phase or are you getting close to implementation? When can we expect some form of implementation? Who's going to host your AI and what services will be offset through your AI?

Secretary Keith: Yeah, Mr. Representative-

Rep. Chesser: I had to ask all this quickly. I know my [00:43:30] time's about to elapse.

Secretary Keith: Right, right. And I think it would be best if we got that information back to you. I think that would be best if we got that information back to you.

Rep. Johnson, Chair: Perfect. We can have our staff follow up, and we can hopefully get that in the next couple of weeks and do a follow-up with the whole committee on it.

Secretary Keith: Certainly. I do not want anybody to think that AI is some sort of catchall for us. It is not. Something down the road. We got a few pieces that we're doing currently. We'll see what happens. [00:44:00] But we're concerned about what can we do right here and now.

Rep. Johnson, Chair: Representative McNeely, do you have a follow-up?

Rep. McNeely: I do. Mr. Chairman.

Rep. Johnson, Chair: You are recognized for up to three minutes.

Rep. McNeely: All right, two things real quick. They're different. But you talked a little bit about on recovery of overpayment, not overpayment, but false payments. Are we doing this in-house? Is this done outhouse out, out of house with [00:44:30] a collection agency? Not outhouse but out of house. Both of them could be the same.

Secretary Keith: I've been to many outhouses but starting we're doing it in-house.

Rep. McNeely: In-house.

Secretary Keith: We're doing it in-house.

Rep. McNeely: And our success rate, do we have any idea of we, how well we're doing in-house collecting this money back?

Secretary Keith: So, one of the State Auditor's, items that they had pointed out to us was that we were not utilizing all the tools at our disposal. Garnishment was not being implemented at that time. [00:45:00] We have since just went live with garnishment this past summer; we've gotten about \$360,000. We delayed garnishment during the pandemic simply because did not think it was fair to toss that on people as far as everything else that we're doing to toss that on people as well. But currently, that is in place. The pieces that are in here, UC TOP, which is federal government offset, [00:45:30] we do that ourselves obviously in conjunction with the federal government. State revenue, we take offsets on that. Court system, we don't do as much of that quite frankly. Of course, lottery winnings. So, some of this stuff is very much automated, sir. And it's not like we have to grab a cab and go down to go to D.C. and say, "Give me my money." So, a lot of it's very much [00:46:00] automated.

Rep. McNeely: I'm sure I'm out of time, but I'd love the chair to give me-

Rep. Johnson, Chair: You're recognized for a follow-up.

Rep. McNeely: Yeah, this is a follow-up. Are we going to be ready the next time? There will be another time.

Secretary Keith: And Mr. Representative, you're exactly right. And that was one of the other items that Auditor Wood and her team had pointed out to us. What about next time? Because this time [00:46:30] it caught us, I don't want to say it caught us unaware, but I was there for the Great Recession, and I honestly thought that was as bad as it could get. Evidently it could always get worse.

Rep. McNeely: We're back to the outhouse part now.

- Secretary Keith: Back to the outhouse. No doubt about that. And so, yeah, we have been working on a readiness plan at the behest of the State Auditor's group. We've been working on a readiness plan, we've done interviews with staff, what went right, what went wrong during the pandemic, with managers, [00:47:00] supervisors as well, executive management to prepare, putting together a living document that's looked at on a semi-annual basis and to ensure that all the teams are prepared for the next downturn.
- Rep. McNeely: In the immortal words of Andy Griffith, "Fool me once, shame on you, fool me twice, shame on me." So, we've got once, this will be twice. Whenever it comes again the next time, we've got to be ready.
- Secretary Keith: Exactly right, sir. I agree wholeheartedly.
- Rep. Johnson, Chair: [00:47:30] Always quoting the great philosophers of our time. Representative Cleveland, did you have a follow-up?
- Rep. Cleveland: Yeah, I like to get in the weeds. When a claimant fails to show proof of seeking work, what kind of proof does a claimant have to provide?
- Secretary Keith: So, we're talking improper payments now. So, we're talking improper, so, when we are doing [00:48:00] the survey, and we pull your card, you have to not only show us where you've been looking for work at, but we will do everything within our power to get proof. We will contact that employer. If you have email verification, like if you use one of those surveys, they sent you back some sort of confirmation, you can utilize that. We will do everything within our power to get proof that you, yes indeed. Now a lot of states don't do that. A lot of states take [00:48:30] the attestation, you just say, "Hey, I did it." They take it, they move on, but we do a little bit more.
- Rep. Cleveland: So, what percentage do you actually verify or try to verify?
- Secretary Keith: We try to verify all of them. All of them.
- Rep. Cleveland: From what I hear you saying this is self-reporting from the individual?
- Secretary Keith: Yes.
- Rep. Cleveland: And then you attempt to verify with an employer that they actually applied for a job.
- Secretary Keith: Right. Or even if they [00:49:00] say this particular employer wasn't hiring, we will contact that employer and ask.
- Rep. Cleveland: So, who handles these 13,000– 16,000 people every, what is it, every month you have to do this, or how often do you have to do this?

- Secretary Keith: So, we do it quarterly, 130 paid claims, 39 denied claims. So, our quality control unit are the ones that take care of it.
- Rep. Cleveland: And [00:49:30] you're telling me they touch every one of them?
- Secretary Keith: They got to. That's what they get paid to do, sir.
- Rep. Cleveland: Okay. I see you use the Social Security Administration for cross matches in your fraud and detection activities. I'd worry about that one, too. They're full of illegal aliens with American Social Security numbers and other things.
- Secretary Keith: Social Security Administration. Let me just real quick. [00:50:00] So, when the pandemic hit, there was a lot of talk about SCUBI breaking down, SCUBI breaking down, SCUBI breaking down. The reality is that SCUBI was built to do a simultaneous check with the Social Security Administration. We send off the request, they send it right back to us and say thumbs up, thumbs down. And then the person keeps going through their claim. What occurred was all of these...Social Security Administration is a, you alluded to a little bit of it's an antiquated system at best, [00:50:30] it's antiquated. And I was on a call with them about five, six years ago. I got so frustrated I hung up. But that's beside the point. But the reality is that it was us, our system was waiting on that response from SSA, and it didn't come. We had to uncouple that interface and do nightly batches to prove SSA. And that brought up a few other issues basically.
- Rep. Cleveland: I'm sure you learned early they're not reliable.
- Secretary Keith: [00:51:00] I learned early.
- Rep. Cleveland: Mr. Chairman, that's all I have.
- Rep. Johnson, Chair: Thank you Representative Cleveland, and I'm going to keep working hard. So, those checks keep coming. And what we have now is representative or Co-Chair Warren, you are recognized for a series of questions as well.
- Rep. Warren: Excuse me. Thank you. First of all, I'd like to thank you for being here. Excuse me one second. I had my Marco Rubio moment there.
- Secretary Keith: That's okay. I got some water if you need it.
- Rep. Warren: I [00:51:30] just want to make a few points and maybe ask a question along the way based on some of the questions my colleagues have asked. And some of this is just for clarification for them, as well as for myself. We're no longer accepting as a job search online applications, is that correct?
- Secretary Keith: No. You can still do online applications? Yes.

- Rep. Warren: How do you validate that?
- Secretary Keith: So, if a person filed a claim, did [00:52:00] an application online, so, most of the online services kind of the easiest because you get some sort of acknowledgement back, an email acknowledgement back, and we request that they show us that acknowledgement.
- Rep. Warren: Thank you. So, how do we validate, or do we need to validate, the application for a job someone's not qualified for [00:52:30] so that they apply for a job that they know they're not qualified for, so they know they won't get that job. Is there any weight to that? Is that any consideration in the application?
- Secretary Keith: Chairman Warren, everybody got to have a dream, I guess. If we pull that person's work search, and they are saying that they have been checking at Duke Hospital for some brain surgery [00:53:00] work, and then it comes down to qualifications.
- Rep. Warren: Yeah, I understand. I'm not trying to be facetious, but back in 2013, Representatives Howard, Starnes, and I worked on reforming the unemployment compensation program. We actually started out with the knowledge of over 150 people in jail applying online to meet that requirement and have the benefits sent home. I know we've gotten far away from that, but it still seems like there should be some concern for online applications [00:53:30] and applying for work that when you're qualified for that job, I know you have to be available and actively searching. So, that criteria—
- Secretary Keith: If they're in jail, they're not available for work.
- Rep. Warren: I know we're not doing that now. We're not, I'm positive that's not happening now. Well, you had mentioned a dollar amount on overpayments. Do you have a number of unique claims that constitute that amount of money, and is there an average amount [00:54:00] of that claim?
- Secretary Keith: So, the individuals, So, 735 (give or take) million-dollar overpayment, 171,000 individuals. The average overpayment is around \$4,200. \$165 million of that \$735 million is fraudulent. The rest, the bulk of that overpayment is regular Joe Blow, regular friends, neighbors, and countrymen, [00:54:30] your constituents who, for whatever reason, got a little bit confused when they were filing for UI. And that first question that says, did you do any work? Yes or no? Evidently, it's a stumper because a lot of folks are still working part-time and not reporting those earnings.
- Identity theft had about, I can't recall the number for identity theft Chairman Warren, but on average it was about \$4,200 [00:55:00] was the average. And if you look at the recovery, you see a pretty high rate of recovery from individuals just paying the unemployment benefits back. And that's reasonable to believe because you had \$4,200, and a lot of people when it comes to that intercepting

your state and federal refund check, it's [00:55:30] not a simple task. It holds up the whole check until we get ours and whoever else got to get theirs. And then it goes out to the people.

Rep. Warren: One of the things we looked at was what constitutes fraud? And one of the things that fall in that category is actually not fraud or intentional fraud but fraud from let's say ignorance of the law or ignorance of the question [00:56:00] being asked, did you receive any compensation for work last week? And people go back to work, they work a week, maybe two weeks, and a pay is held back. So, they did not receive any money in their mind. So, they misunderstand the question, does that constitute some of the money that falls into the overpayment category?

Secretary Keith: Yes. Yes. Mr. Chairman, and obviously you've been doing this thing for a long time, so, you know the rules better than I do, but that will be what we [00:56:30] would call non-fraud, not fraud, but non-fraud. As I said, of that \$735 million number, only \$165 million was fraud. The rest of it was those individuals. And you can get, because in North Carolina you report earnings during the week that you did the work, not when you receive payment. So, just like you said, a person goes back to work, they might have to put a week in the hole. So, they don't think they keep filing, they don't think I need to report any money because I haven't received any [00:57:00] money. But in UI terms, if you've done the work, you're due the money. You have to report the money.

Rep. Warren: Right. So, the Trust Fund in your overview, you have the Trust Fund's now at \$4.1 billion. Does that not reach a point where the employers are relieved from paying into that Trust Fund and then it doesn't go into effect again until it hits the trigger? I think like \$600 million or something. Am I remembering that incorrectly?

Secretary Keith: So, [00:57:30] as far as I know, there's no cap on where that Trust Fund can go. As far as relief for employers. If you recall during the pandemic, the governor, he provided relief twice, two years for employers during the pandemic. But as to my knowledge, there is nothing in the law that guarantees relief at a certain cap at a certain point.

Rep. Warren: And do you feel like these funds are still pretty [00:58:00] well protected from any other purpose than what it was created for?

Secretary Keith: They are protected, yes, sir.

Rep. Warren: I noticed in the overview too that you had down the maximum benefit duration is 12 week, which is true. Will we not be getting a Department of Labor, our unemployment rate for October, based on the employment rate, does that [00:58:30] not set a new duration of benefits going forward then?

Secretary Keith: Our duration is tied to the unemployment rate. However, and don't hold me to this, I don't have a law book in front of me. I believe the floor is around four percent. So, that 12 [weeks] is the floor, it's got to get up over four percent or maybe might be even a little bit higher before it even goes up to 13 weeks. And then the max of [00:59:00] course is 20 weeks. And just speaking openly and honestly, if the unemployment rate ever gets to the point where we are jumped back into 20 weeks, we'll probably all be grabbing an oar and trying to row this thing home.

Rep. Warren: I think the last comment I want to make, and it's just a comment, that the average weekly benefit you have estimated \$297. Back in 2013, it was about \$280. Much hasn't changed except the inflation rate [00:59:30] and the purchasing power of \$290.

Secretary Keith: But one thing to remember, Chairman Warren, is that the way we calculate was changed. So, even though that rate looks like it hasn't gone anywhere, the way we calculate it was changed a bit. So, that's why it's sort of, I guess, kept compressed.

Rep. Warren: Again, thank you for your time.

Secretary Keith: Thank you, sir.

Rep. Johnson, Chair: Are there any other members who have any questions or comments for the presenter? Representative Dahle, you're recognized [01:00:00] for a second time.

Rep. Dahle: I just want to clarify some things. I think, so, I don't know if anybody else on this board has ever claimed unemployment, but I have several times and so have family members and that system is some of it, when I claimed it was based on trust, it's no longer based on that I realized we got to double check things. But in here, in your Department of Commerce, it says the average [01:00:30] weekly benefit is \$297 per week.

Secretary Keith: Yes ma'am.

Rep. Dahle: Okay. I know by statute, is that all you can give by statute? Is that correct?

Secretary Keith: No, the max is \$350.

Rep. Dahle: Okay.

Secretary Keith: That's the average. \$297 is the average. And of course, we have some, the max is \$350. That's for people. On average, you're going to get about a little less than 50 percent of what you earn. That's [01:01:00] if you're making \$36,000 or less. Anybody making over 36 grand, they're going to get a lot less than that 50 percent.

Rep. Dahle: Now, do you by any chance, have any way to help me compare that to what the cost of living is in the state of North Carolina? An average cost of living.

Secretary Keith: Representative Dahle. That's outside of my purview.

Rep. Dahle: I just thought, I mean, what I'm getting at is, and this is a statement, not a question. What I'm getting at here is that this [01:01:30] \$350 a week, I don't know many families or many people that could live off of that. And that's where the confusion I do believe comes from because they haven't received that money. So, as you've said, they haven't received it, so, they're going to claim. And I think we also have a system that is based on word-of-mouth information because you no longer, when I first claimed unemployment, I had to go into the office and then the second [01:02:00] time I was able to do it by computer. But when you go into the office it changes things, but the system must have been much larger at that point. Has your employment rate gone down? I mean your employees that you have?

Secretary Keith: Oh, certainly. So, two things. When we were doing it in the office, we were one big agency, now we're Division of Employment Security, Division of Workforce, and LEAD. [01:02:30] So, we're still under Commerce, but it's three separate divisions, and I have managed, I manage the office in Shelby, Kings Mountain. I managed the office in Winston-Salem. I've managed the three offices in Charlotte.

So, I've been that local office manager and I can tell you that having people coming into the office was challenging. During the Great Recession, we had people, one thing I know, [01:03:00] they're not going to work but so late in them offices. And so, you have a line of individuals standing trying to get in to do a claim. And the unfortunate thing is somebody has to come out there and say, "At this point you got to go home."

I had to go somewhere early in Charlotte. I came in about 6:30, there was a gentleman standing in line. I said, "What you doing here?" He said, "I got to make sure I get in today." And that, one of the first things I did when I came up here was, during the recession, is ensure [01:03:30] that that call center is taking every claim. They said they weren't taking those extended claims because they weren't taught. I said, "Heck, nobody was taught." You grabbed the guidance and said, you make it happen, so, we were doing it by the end of the week.

Rep. Johnson, Chair: Representative Cervania, you're recognized for up to three minutes.

Rep. Cervania: Thank you, Chair. I wanted to follow up. I have two questions, but I sort of wanted to help you out with Representative Dahle's question. If we [01:04:00] paid max on UI, it would be with the \$350, it would be \$16,800 a year. Our AMI, our median income in North Carolina is \$45,000 a year and it is \$72,000 in Raleigh. So, it pairs the compare of how standard of living is, so, just I'm—

Secretary Keith: Thank you.

Rep. Cervania: So, quick two questions. One, I wanted to follow up on the Benefit Accuracy Measurement. As a data scientist [01:04:30] I'm very uncomfortable with the sample size of 103 and 39 and especially since we have an increasing, compressing increasing, but very much a bigger universe than 103 in a sample size. So, what is your, because it could over, the overpayment could be happening without that check. I was wondering what is your recommendation on how to improve that? Because although U.S. DOL has a requirement, [01:05:00] I think we can do better as a state to really get to a better accurate number. So, what is your recommendation on that?

Secretary Keith: Madam Representative, I don't actually have a recommendation. Benefit Accuracy Measurement is brought down from the Department of Labor, and it's sent back up. They work, and it's a different group up there and they work behind their closed doors. And the reality is, when it comes to improper payment rate, [01:05:30] I put this map up here just to level set. This is improper payment rate right now. The states in green are the ones that are meeting the 10 percent, and no disrespect to Idaho, Montana, and the Dakotas, but the rest of the nation is certainly struggling to meet that improper payment rate.

Rep. Cervania: So, I offer that we can do better, and I would offer that you should [01:06:00] probably explore that because it could help a lot. We can be number one from all of this. We don't have to be 10 or 12. Let's try to strive to improve that sample size and not be handcuffed by federal. You can report that federal number, but I think for our purposes it could be very good to look at a different way of analyzing that in terms of measure.

Secretary Keith: I thank you, Madam Representative, and we certainly will look into it. [01:06:30] And one thing I will say, I know I stated it before, but this seems like an opportune time to say again, we don't get any funding from general funds here, so, if we want to do more, it'd be great to have a few more bodies.

Rep. Cervania: Second question, I'm going to follow up with the Enterprise Risk Management because this is another opportunity, too, to improve the possible overpayment and timeliness. I know that Deputy [01:07:00] Director Klassen had said there's no plan in place, but is there an effort to create a plan and to be submitted to us alongside with a legislative fiscal request to add on that with numbers of employees to supplement?

Secretary Keith: We will work on it, certainly. We'll work on it. Take a look, and we will work on it.

Rep. Cervania: Very good. Thank you. And I'm going to follow up with you all with those two things in the future. Thank you.

Rep. Johnson, Chair: [01:07:30] Perfect. Yes. And on those follow-up materials, as the chairs get those, we'll disperse those out to the committee as well. Does anyone who has not spoken a second time like to or have not spoken a first time? Seeing none, Chair just had a couple of follow-up comments. I know Representative Dahle's question about the max amount that it could be given from the state, that was 350, if I remember. During COVID, during peak COVID. Was there not federal payments also supplementing that coming from [01:08:00] the feds?

Secretary Keith: Chairman Johnson, during COVID, the max was \$950.

Rep. Johnson, Chair: Nine hundred and fifty. Is that per individual or household?

Secretary Keith: Individual.

Rep. Johnson, Chair: Individual. And that's I assume non-taxable.

Secretary Keith: Oh no. The only thing certain in this life.

Rep. Johnson, Chair: Okay. Okay.

Secretary Keith: We'll pay taxes on that.

Rep. Johnson, Chair: And what was, I guess, the timeline as far as when those phased out? I know you might not have that off top of your head, but [01:08:30] when the federal money phased out?

Secretary Keith: So, the programs themselves I believe ended in, I want to say '21. Did they end in '21? Yeah, September '21. On this chart, you can see, you see how we paid, the dark blue is a state regular UI. The light blue is the extended benefits. That was the federal program, the really, really light blue, Carolina blue, [01:09:00] that's the regular extended benefits that was already a part of UI. And then the, I'm not really good at colors. I had the eight-pack as a kid, I didn't have the 64-pack. So, whatever that color is on top, coral, that's the PUA, which is the federal program that came in to rep for individuals who were self-employed.

First time that we had ever was paying self-employed individuals like that during disasters. We have a program, but unfortunately, [01:09:30] we were not allowed to apply all of the restraints that we would normally apply to the disaster stuff.

Rep. Johnson, Chair: Yep. And one of the questions you heard come up more than once today was about the work search requirement and really the details on that, how we verify that, and my office and when I go to the grocery store, I hear it, but my office gets so many inquiries from employers saying someone called and set up an interview, went through the process and then they never showed up, and we've got help wanted signs in the window; [01:10:00] we're struggling; we're having

to limit hours; we're having to not serve certain things on the menu; we're having to not provide certain services because we can't find people to work.

And they say it's so frustrating when they go through the trouble to line up these interviews and then it's not verified that the people come in. And they wonder. They say, "Are they able to get these benefits having went through the process of me being part of it?" And contributing to this and is there any way a good way to report that back? If people [01:10:30] are habitually not coming to interviews is there a way to cross-reference that? What would you tell them if reached out and posed that question?

Secretary Keith: I would say to them, and what I have said to employers, we've held conference calls with employers during the pandemic who was having trouble getting people. What I say to them is, utilize your Workforce. Utilize your Workforce, your career centers in your area. Because if they refer individuals to that job, and they don't show up, then [01:11:00] we have a means to stop their benefits, otherwise it's really about work refusal.

Rep. Johnson, Chair: And we have tossed around the idea in the past of a mandatory without penalty, we'll call it reporting back, reporting back to you all, if someone is not showing up for those interviews that the employer has to, so that there's no retribution from the employer or potential employee coming after the employer, they can say, "Hey, [01:11:30] it's in statute that if you don't show up for this, we have to let the unemployment office know that you are not showing up for these interviews. We have to report that back to them. It's in statute." We've tossed around that idea before. Is that something you would look at as a tool or a potential liability for employers?

Secretary Keith: So, Chairman Johnson, what I would love for employers to do is respond when that notice comes out about why people are no longer [01:12:00] working there. If I can get employers to respond and respond properly, that goes a long way. What I want employers to do is if that person refused work to respond to my adjudicators when they're trying to call and get information back. When we're talking about interviews and whether somebody showed up or didn't show up, obviously, it's up to this [inaudible 01:12:24] body if that's something that you want to do.

But it'll be a tremendous lift [01:12:30] on employers because you got to think the number of people that you hire predicates on how many people you interview. I got employers that can't track who they hired, let alone who might've interviewed. And so, the reality is that I think it'd be very difficult on a lot of employers, but what I tell employers, what we need to do right now, work towards retention. That's what we need to do. That's what we're trying to do at DES. You saw the numbers with 148 [01:13:00] years of experience done walked out the door. We're trying to do everything in our power for retention.

Rep. Johnson, Chair: And what is the capabilities, and I'm asking for a comment I have, what are the capabilities of the new way of doing the work search requirement? Hopefully a new way of reporting that back. You said the online sometimes is actually easier to report back. What are our capabilities to improve there, and what capacity do we have to maybe look at other programs we can use that on?

Secretary Keith: [01:13:30] So, right now, what we're in the process of doing, as State Auditor's [staff] have pointed out, we're in the process of developing a work search repository so individuals can report on a weekly basis where they looked for work at and that sort of thing. We hope, knock on wood, we hope that it provides some good benefits. We'll wait to see. Some states have had good success. Some states not so good. Some states have the [01:14:00] same, but I think it's something that we need to have in the state of North Carolina.

Rep. Johnson, Chair: Perfect. And this is more of a statement than a question to you. And the reason I asked that is we passed one of the, in my opinion, one of the largest expansions we've done in a long time with the Medicaid expansion this time. It was currently, I don't know if it's in lawsuit or the current state, the folks that run it in D.C. said you can't have a workforce requirement in there. That was something that was ruled [01:14:30] on this time. It's not been that way in the past, but it was this time.

If that changed in the future, where could we potentially house that work search requirement and what could we potentially do there that able body of folks that are actually working or looking for work could report that back to be able to receive the benefits until they're employed. And just looking forward and us brainstorming, if that ever changed what that would look like. And you don't have to comment on that. [01:15:00] That was just my opinion, two cents.

Representative Torbett, you have not asked a question. You're recognized for up to five minutes.

Rep. Torbett: Thank you. While you were talking, just I've been meaning to ask every department head that comes through here this same question. Today, of your full complement of employees, do you have what percentage of working in the office or working at home?

Secretary Keith: So, Mr. Representative, we have our staff, we have a probably maybe around 20 percent that's in the [01:15:30] office all the time. The rest are in the office one week. They work remote one week. So, everybody's in at some point, but we do one week in, one week out.

Rep. Torbett: One follow up, Mr. Chairman.

Rep. Johnson, Chair: Recognized for a follow-up. Up to five minutes.

Rep. Torbett: Thank you. And I think this'll be my final question. That being said, I can only assume you are somehow tracking efficiency of workforce based on those home versus office based on some previous time [01:16:00] period prior to that occurring.

Secretary Keith: Yeah, Mr. Representative, the folks that are working from home, we're widget makers. We have full purview as to whose doing what. We're widget makers. If they're on the phones, then we got purview into calls that they've received, what's been said, the whole nine. If they're doing adjudication, we see how many adjudications are getting done. We score them on the quality of their adjudications. We're widget makers.

Rep. Torbett: [01:16:30] Thank you.

Rep. Johnson, Chair: Thank you Representative Torbett. Does anyone else have any follow-up questions or comments? Seeing none, Secretary Keith, thank you so much for being here. We appreciate answering the questions. Do you have any follow-up comments for the committee?

Secretary Keith: First and foremost, let me say thank you for allowing us to come, and we have plugged in a lot of stuff. We have done a lot of doggone work [01:17:00] when it comes to the recommendations that the State Auditor's [team] have provided, Department of Labor has provided. We're in a different world though, make no mistake about it. We are in a different world.

The pandemic, as I say, one in four, we had a 10 percent recipient rate pre-pandemic. We have a lot of folks that came into the system for the first time, and the expectation that they have, that expectation is still there. They expect quality service. The fraud [01:17:30] that's out here, I think we were first introduced to identity theft back in 2015. The Anthem breach, 78 million individuals, LinkedIn had 700 plus million individuals.

Those people, those, Facebook 500 [million], those compromised identities don't go away. Even if an individual gets caught, it does not go away. [01:18:00] The work that we're doing today, it's not only to meet Department of Labor standards, but it's also to make sure that we're doing our due diligence with this program for the people of North Carolina.

Rep. Johnson, Chair: Perfect.

Secretary Keith: Thank you all.

Rep. Johnson, Chair: Thank you so much, Secretary Keith. And we look forward to hearing back on those follow-ups. What we're going to do is take a brief, and I mean brief, probably we'll come back at 2:30 if anybody needs to run to the restroom real quick and then we'll come back and swear in the next [01:18:30] speaker.

[01:27:30] We'll now hear from State Auditor Beth Wood. Just a reminder, Madam Auditor, you'll be limited to five minutes on your opening presentation. Then we'll have questions and then we can do a follow-up statement at the end. If you would please raise your right hand. Do you affirm in your testimony to tell the truth, the whole truth, and nothing but the truth?

Auditor Wood: I do.

Rep. Johnson, Chair: [01:28:00] Thank you. You can proceed with your presentation. Thank you, ma'am.

Auditor Wood: Thank you, Mr. Chairman. I'm not going to run through a lot of what has already been done. I just want to speak to a couple of the audits, the audit objectives, and the first unemployment benefit payments. We were trying to determine if they were timely and if not, why. And then I can see I've shown you some of the claims information that is in the background of our audit report.

I also talked about [01:28:30] the scope, the 15 months that we were looking at the first-time payments. Again, we were looking at the first-time payments because once you lost your job, obviously the checks, the bills are due 30 days later, and so, those first-time payments are important.

Also, one of the reasons behind this was some of the phone calls that the State Auditor's office received once we were into COVID and unemployment had happened. And it was simple things like they just couldn't [01:29:00] get a phone call back from DES. They'd been months without a check, and they could not, for that first check, they could not get any help. Evidently, there were some problems with their application. And if things as simple as I put my Social Security number in wrong, I hit a number, and I couldn't get back into the system to change my Social Security number and get it right, I'd call over to DES. They would really have to go into the programming and fix those kinds of issues.

[01:29:30] Also, I kept getting phone calls about "nobody will return my calls, nobody will return my calls." So, I called over to the Secretary and said, "There are people that have gone weeks, they've called in and nobody will answer their call." And what I was told is that it was a phone issue. It was a cable issue. There's so many phone calls coming in that the telephone company, the telephone lines were kicking people out.

So, it just so happened my niece-in-law was one of the ones that called in and said, "I can't get anybody [01:30:00] to help me." And so, I said, "Just give me all your information. I'm going to walk through the steps myself," because I'm thinking people are impatient. They don't want to have to push all the buttons they have to push to get through to get the help they need so, I thought, "I'm going to give this a try."

So, I took her Social Security number, I took her claim number, took all the above, went through all the steps, and when I got to where I thought I was going to get some help, I got the voice message. "We can't take your call right now. We're too busy, or we have too much [01:30:30] volume," whatever. "Please call back later. And thank you for calling the North Carolina Division of Employment Security."

And I'm thinking to myself, "That's no phone line issue," because they put a message on the back of the message, there was no times to call back, so, that's what instigated this audit was what did we do as a state to help our citizens in a time of crisis? And absolutely, COVID was a crisis.

[01:31:00] So, our findings, looking at the requirements, so, we've already talked about, but the findings we found, mainly the thing to look at is that of the \$1.2 billion that were made in first-time payments, \$342 million were anywhere from two months to 365 days late. And again, that was going back to that paying out the 87 percent in first-time payments [01:31:30] within 14 to 21 days.

And the other thing that we wanted to show in our findings is that we kind of looked at what was the history, and we found that the State of North Carolina had not hit the benchmark in 10 years. In 10 years, we had not hit the benchmark. And there's the list of the years on that slide, and it shows just how bad we were. And it [01:32:00] was nine years before COVID ever hit that we were not making the 87 percent.

The slide here is showing us, so, you'll see at the very top, there's a 15 to 21 days. Well, that's taking into account the 14-day window that we had, those that were late 15 to 21 days. But what we truly tried to pull this into was that 30-day window, because after you've lost your job, after 30 days, the bills are due [01:32:30] again, the mortgage, the house payment, whatever, car payment. And so, we found there were over \$342 million again, that was over 30 days late.

The thing I wanted to talk about and touch on here, number one, and I think this is critical for this committee, is the design of the claims process. Yes, they went into SCUBI, [01:33:00] they became a part of that consortium and yes, it's supposed to streamline, but what we found is that... And in those cases, those simple cases, like I said, where I put in something wrong, I didn't check a box or I didn't sign something or whatever the case may be, in that automated, more streamlined system, what they didn't do was have a methodology that helps when the computer kicks me out. So, when the computer kicks me out, [01:33:30] the review goes manual. So, when they built their manual system, they used the estimated times of when the system was manual, and there could be several different phases that my review would have to go through before it could be approved, and the least phase for that manual review was built on 40 days metrics.

[01:34:00] The biggest one, longest one was 110. So, the review process, once it went manual, didn't even take into account the 14, 21 days. And if I needed more than one phase for my review, it could push it out to as much as a year for that claim that got kicked out from something as simple as my Social Security number went in wrong. Again, our manual review was not built [01:34:30] to stay within that 87 percent timeline. And again, the manual review was built on estimated times by staff back when they were doing all this manually. We went with SCUBI supposedly to streamline things, but we did not build the manual review to meet those deadlines.

The lack of monitoring, there are key elements of the claim processing, like the manual reviews, and there were reports that would show you where [01:35:00] these applications were, and nobody was paying any attention to how long it was taking some of these applications to get reviewed and get them met and back out the door and people paid. We had several contractors; we had a contractor for the help desk, we had somebody to train our contractors on the help desk. And then we had a contractor who was helping us with the verification of people. And we [01:35:30] found that during that timeframe, these contractors were not being monitored. They were not being checked for performance, their progress or what they were supposed to be accomplished was not being monitored. And then the next thing was we were totally unprepared.

The National Bureau of Economic Research has basically said that since 1950, we've had an economic downturn every five and a half years. And of course, we know we feel some [01:36:00] a lot worse than others. The Great Recession was the worst last one that we had before COVID. And so, since 1950, we know every five and a half years we're going to have an economic downturn. When there's an economic downturn, we're going to see a rise in unemployment, and yet, there was no preparation by DES, none since the Great Recession in 2009 and '10. So, when I'm listening to y'all talk about metrics [01:36:30] and timelines and timeframes, that is exactly what needs to be because metrics, the manual review, how long should it take you to get through these? And not all of them are the same, but given the complexity and the simplicity, there should be a range of some sort. And then we talk about how many staff do we need? We need more staff. Again, what are we accomplishing with the staff that we have, and what should we be accomplishing?

And then I'm hearing about putting in new systems and putting in robotics. The State [01:37:00] Auditor's office has implemented a lot of robotics to handle mindless repetitive task, so, my staff can go off and do the critical thinking. So, while you may not have to... Again, I'm getting uncomfortable with AI because of the things I'm hearing about it, but at the same time, robotics, again, the computer that can just perform mindless, repetitive tasks that staff had to do, [01:37:30] I now have robotics programmed and performing those in the Office of State Auditor. So, again, it can free up the staff that I have. So, again, looking back through this, I think probably the biggest issue that we need to talk about

was the lack of preparedness for what happened. Then when we look at the improper payments, the thing I wanted to speak to here, we did not audit BAM.

We did not look to see if [01:38:00] that computation was being as programmed or being done accurately. So, the numbers that we used in our audit were based on what their system gave us. And then for the five-year period, they were averaging over 18 percent. And then again, I hear a lot of conversation around where we're not as bad as everybody else in the Southeast. Well, it's not good enough for North Carolina. I'm loving that. We should be pushing to be better than North Carolina. And then I'm just kind of listing, [01:38:30] we found over that five-year period, \$166 million of improper payments here we just showed...

And in this audit, we only looked at the state UI program that was in place; we didn't look at all the federal programs. A lot of what we spoke to in our recommendations were what the U.S. Department of Labor had already been talking to the State of North Carolina about. [01:39:00] They review our numbers; they review our causes of improper payments, and they develop and help us with strategic recommendations, corrective action. The state of North Carolina, at the time this audit was released, we were designated by U.S. DOL as a high-rate, high-impact state, which means we get remedial help. We get additional help because our numbers [01:39:30] are so bad.

And then, we again are showing you, y'all have talked about the work search, the benefit year earnings, the separation information issues, the work search, the U.S. DOL had spoken to DES, I think it was back in 2016, '17, about bringing in this repository because you're exactly right and that you don't know if people are applying for jobs [01:40:00] that are over and above what they could ever do. So, nobody's ever going to hire them, and there's no way to match that up. It would help with figuring out the improper payments when you go back, if you could go ahead and catch this stuff up front. But what we were told at the time is that we don't know how much this is going to cost, but nobody did an analysis to see if it made any sense to put this in place or not. The benefit year earnings, this is where people are working [01:40:30] and drawing unemployment, too.

And again, there could be some automation there that would help. I think they did implement as we were finishing up some of the recommendations by U.S. DOL that would help with that issue. And then the separation information issues, we spoke to that one in that if an employer said, "this person quit" and they said, "I got fired," now you've got to have somebody at DES to remediate and decide. And we found that [01:41:00] there was no criteria by which these employees were to make their decisions, and there was no help. There was no policies, no procedures, and we found that the majority of the time they reviewed and were in this mediation, they would decide in the favor of the employer.

I think that's pretty much, again, the recommendations from U.S. DOL. We found [01:41:30] that most of those had not been implemented, and a lot of

what members asked about were spot on for the kinds of things that the U.S. DOL had recommended. And the thing I heard a lot is “we’re working on, we’re working on, we’re working on.” What we need to see are timelines when you plan to get this done, and then somebody say, “no, that’s too long.” And then I think the question asked here today was spot on, and that was, and I forget who asked it, “Are we going to be ready for the next one?” Again, [01:42:00] the National Bureau of Economic Research says there’s one every five and a half years. Whether the next one looks like COVID or the Great Recession, we can’t predict that, but we know it’s coming. And so, are we ready?

Rep. Johnson, Chair: Thank you so much. I know we went a little bit over, but I think all that was very—

Auditor Wood: Sorry.

Rep. Johnson, Chair: No, I think all that was very relevant. So, we covered some good things there. Who would like to be put in the queue for the first round of questions and/or comments? Representative Willingham, [01:42:30] Representative McNeely, Cleveland, Chesser, Quick, Cervania. Any others wishing to be recognized for their first up to five minutes. Representative Willingham, you are recognized for up to five minutes.

Rep. Willingham: Thank you, sir. Thank you for showing [01:43:00] today, Auditor Beth. Let me ask a general question first. Do you audit all the departments in the state each year, or you got a schedule?

Auditor Wood: Oh, that’s a great question. I am required to audit the financial statements of the State of North Carolina. So, a lot of the agencies will come into that audit, but it’s just an audit of financial information. Then there are a lot of... And the UI program is one [01:43:30] of them that come into the... We get \$21 billion in federal grant monies, and so, we audit some of those. And again, the UI comes into it, but the UI audits requested by the feds are not as thorough as what we did here, and that is this was a performance audit. They are discretionary.

Rep. Willingham: Oh, okay. Thank you, all right. My question is this, according to your office review, overpayment is the most typical form of improper payments when comparing this with other [01:44:00] states or the experience with other states that have it.

Auditor Wood: Are you asking me how do we compare?

Rep. Willingham: Well, yeah, that could be part of it, but what I’m asking is what you are doing? If you compare with other states, then how does this compare? How does North Carolina compare with that?

Auditor Wood: You mean this type of audit?

Rep. Willingham: This type of audit.

Auditor Wood: There are quite a few states across the nation state auditor shops who are auditing the UI. A lot of it because of, you heard, through COVID, [01:44:30] there was a lot of fraud. And so, there are quite a few states across the nation auditing the UI.

Rep. Willingham: Okay, but comparing North Carolina with those states, what's the difference?

Auditor Wood: I'm not sure I understand the question. We look to other states for something they may be auditing that the State of North Carolina might need to take a look at, but we start with the state, and it's kind of probably that part of that enterprise risk management. What are we doing [01:45:00] that would affect the citizens that if not being done well would affect the citizens negatively? So, when I say our performance audits are discretionary, that's what I mean. We're looking at what would affect our citizens because an audit in another state may not have any impact if we did the same thing here in North Carolina.

Rep. Willingham: Okay, let me ask you this then. Can you elaborate on the delays observing, implementing, cross matching [01:45:30] with the state directories of new hires and the national directory of new hires, and how these delays were attributed to COVID or if they were attributed to COVID?

Auditor Wood: The national cross match is, I think those numbers only come out weekly. And then the state cross match, you could do that daily. And the DES just decided not to do the state cross [01:46:00] match until they had been doing the national one since 2012. But for whatever reason, they didn't do the state one until sometime in 2021.

Rep. Willingham: Was that taken into consideration of what you were looking at?

Auditor Wood: When you say taken into consideration, I mean the numbers are the numbers, whether improper payments were, how late they were on their first-time payments. I mean those numbers are the numbers. It is part of...probably why there was some improper payments is because [01:46:30] they were not using the most recent data where they would've gotten that in the state match. But I couldn't pull that out and say it was exactly this amount that contributed to that.

Rep. Willingham: Okay, based on your research, what is the best practice for validating and resolving separation information issues?

Auditor Wood: Our recommendations were to... See the [01:47:00] separation issues were.... Separation benefit earnings. I'm sorry, hang on just a second. Let me take a look at this. I apologize.

Rep. Willingham: That's okay.

Auditor Wood: Just want to make sure I answer the right one. [01:47:30] So, the separation issues would be to make sure they should have put together policies and procedures, DES, to guide their staff if they're going to leave their staff to moderate or mitigate or decide who's right or who's wrong, the employer or the employee. There should be some criteria established and some guidance for them to make their decisions by instead of just kind of leaving it up to the [01:48:00] employee's judgment.

Rep. Willingham: So, they didn't have any criteria at this point?

Auditor Wood: None, and our recommendation was to put in some policies and procedures and criteria and train the staff on them.

Rep. Willingham: Okay, let me get back to the U.S. Department of Labor improper payment threshold of 10 percent. Now, from your knowledge, is that based on normal economic conditions, and does the fluctuation address the recessions or other kind of [01:48:30] disasters, for instance, COVID and other things that happened during that time?

Auditor Wood: I don't know that disasters were brought into that 10 percent. I just know that during COVID, the 18 percent was not waived. I mean, the 10 percent was not waived.

Rep. Willingham: So, there are no adjustments?

Auditor Wood: No.

Rep. Willingham: Okay, okay. One other question. According to your office review, the over-payments, [01:49:00] were these the most typical forms of improper payments when comparing the experiences of other states? When you looked at what we were doing and as far as over-payments and then looking at other states with overpayment?

Auditor Wood: We didn't particularly look at the other states and what they were doing. What we concentrated on was what the issues were and what the recommendations from U.S. DOL were that we didn't take.

Rep. Willingham: Okay, so, we had some unique kinds [01:49:30] of issues that we were dealing with?

Auditor Wood: I'm not sure they're unique. The work search, the benefit earnings at the year-end, people were still working and still drawing unemployment. I'm not sure that's unique to North Carolina, so, I'm not sure they were unique. I am saying we didn't go and check out what the other issues in other states were.

Rep. Willingham: Yeah, I guess what I was asking that of course it's not unique, but at the same time, looking at other states having overpayments, what did they do? I mean,

were there anything that you could have drawn from anything that they were doing, that [01:50:00] would've helped us and what we were trying to accomplish over here?

Auditor Wood: We probably could do that. However, what we were going with were what U.S. Department of Labor have recommended that would've prevented these issues, some of these issues, most of these issues that DES did not do.

Rep. Willingham: Okay, and I'm going to close with this. This is returning to the opening statement when you were talking about people calling the [01:50:30] department and getting these...

Auditor Wood: Voicemail.

Rep. Willingham: Yeah, voicemails. And that was one of the reasons, actually, I got into politics. I wanted to run for office and come up here because of the experience of calling. And I think you'll find even today, we still have that same issue with not just this department, but most of the departments, you get a voicemail then once you get through to that voicemail, it sends you to another [01:51:00] voicemail. And then when you finally get somebody, they'll say, I can't help you. You need to give you another number to call. And I've experienced that, and I know that's some of the biggest calls or the largest number of calls I get people complaining about, can't get through. So, that's something that I think we can kind of look at for all our departments up here. And so, hopefully when you're doing your audit and you're looking at other departments, that would be something that you would check [01:51:30] just to make sure about communication because that is an issue and that is still a problem. I've been here almost 10 years now, and people still calling about the same problem.

Auditor Wood: I would agree with that, Representative Willingham. I certainly would agree with that. And we will take a look at that, how much that plays into the things that we're finding. Thank you.

Rep. Willingham: Thank you.

Rep. Johnson, Chair: Thank you, Representative Willingham. Representative McNeely, you are recognized for up to five minutes.

Rep. McNeely: I'm going to try to talk quick because I got a lot. All right. Performance audits, this really [01:52:00] entices me here. Is that a decision made by your Department, possibly you, or who gets performance audited in a year's time? Any certain rhyme or reason to the different departments?

Auditor Wood: Yes, we step back and take a look at, again, where there's a lot of money spent or a lot of impact. We did an audit on DPI. It was the online [01:52:30] courses for kids that are gifted or going off to college, a \$20 million program, but it was online courses, so, it impacted students all across the nation. So, we're looking

at where monies are spent and the impact it could have directly on the citizens of North Carolina.

Rep. McNeely: About how many performance audits do y'all do a year in your department?

Auditor Wood: Depends on how many staff I can keep, but we're probably putting out six a year.

Rep. McNeely: Okay, legislators may have some recommendations, some ideas for you. But anyway, [01:53:00] getting on into the nuts and bolts of this, I've still dumbfounded that if you knew you were going to put a couple million people out of work next week, would you not have maybe notified Employment Security to get ramped up and get ready because it looked like nobody knew a thing, and it happened overnight?

Auditor Wood: I would have to say that I hope I would think that far ahead. The other piece I would say is that we don't [01:53:30] know when a disaster's going to happen, so, I would've expected DES to be more ready than they were.

Rep. McNeely: And that's kind of my next step. Let me ask you this. In the 10 years you saw where they did not hit their benchmark of that 87 percent?

Auditor Wood: 87 percent.

Rep. McNeely: Yes ma'am, had y'all performance audited them before or during that time?

Auditor Wood: We had not. As I said, because of the federal work that we do on grants, we're required to look at the UI program, but it's just not as [01:54:00] in-depth as you would want it to be. So, the performance audit, this is the first one we've done.

Rep. McNeely: Well, let me ask you this. We've asked a whole lot of questions of Secretary Keith and now you; what have we overlooked? What is it we've overlooked that we should be looking at or thinking about in regards to Employment Security Commission?

Auditor Wood: Oh, I definitely think... So, there's got to be some readiness and we can't hire enough people to take care [01:54:30] of unemployment in a pandemic or a Great Recession. So, what robotics, what automation can we do? And then, I have to step back and question, if we paid the money that we did to be in this consortium with SCUBI, why does this system not let me go back in and correct mistakes that I've made? So, I'm just, again, not sure how well SCUBI really is functioning. And then the other piece of it is we know unemployment is going to rise when there's an economic downturn. So, what are we going to do to be ready? [01:55:00] We were out there trying to find somebody to man the help desk, train somebody to man the help desk, try to write contracts with all of these three vendors that we used, and that took up valuable, valuable time on the side of the citizens who needed their check.

Rep. McNeely: As far as the General Assembly, us legislators, does something need to be passed to put these things into place [01:55:30] to make people move, to get things done? Or is this going to just naturally occur now that we've seen our mistakes?

Auditor Wood: No, it's not going to naturally occur. I've been at this for 15 years now and it is not going to naturally occur unless you gentlemen and ladies step in and help it occur. And things like, again, I just applaud you talking about the metrics and making sure, because I hear in a lot of meetings I'm in, "I need more staff, I need more resources, I need more staff, I need more resources." Well, [01:56:00] what are you getting out of the ones you got? And I mean, I had a lady one time work with me for so many years that she was able to take 40 hours a month in vacation time. I can't afford that. We cannot afford that. So, we have in a budget for our man hours per year, y'all pay us 2,080 [hours]. Well, my staff are required to work 80 percent of those in a productive audit or investigation.

And we track that every [01:56:30] month. And then, so that you don't just dump that time into an audit or investigation, those audits and investigations have budgets and they have deadlines, and we track that. And so, again, until you start working with metrics like that, you're just not going to get out of the agencies. You're not going to be able to make the best decisions you need to make from the agencies. But I think you're going to have to legislatively mandate some of this. In my audits, we require... So, I do the audit, have the findings, we require them to sit down and tell us [01:57:00] where we're wrong. If they can tell us where we're wrong, then the finding goes away. But if they can't, they then have to say, I agree with it. Here's what we're going to do to fix it. Here's what I'm doing to have it fixed. And here's who's responsible.

They don't always do that. And to keep from holding an audit up, in fact, I think DPI didn't respond at all to say we disagree, but then it's a roadmap for the General Assembly. That process is a roadmap for the General Assembly to hold them to. And then, I was going to [01:57:30] talk about it later, but there's a bill, [HB]471 I think it is, that requires these agencies to have a progress report on everything that we find.

Rep. Johnson, Chair: My crystal ball says one of our members will ask something about that in the future.

Rep. McNeely: Just one quick follow up. I mean I think we all realize that we're going to have to make people do their job. They're not seeming want to volunteer. As my grandfather, another great quote philosopher said, "After [01:58:00] it's all said and done, there's a whole lot more said than done."

Auditor Wood: Than done. Wise man.

Rep. McNeely: All right, thank you madam.

Rep. Johnson, Chair: All right, Representative Cleveland, you're recognized. I think that'll be a good transition.

Rep. Cleveland: Thank you, Mr. Chairman, I'd like to speak first to the page 18 on your Employment Security report or your presentation; work search requirements and separation information issues. [01:58:30] I've already talked about work search requirement when the agency was up here, I honestly believe that the system they're using begs to be abused, and they have to change the system. They have to have accountability and they don't have it. But in the separation information, it's my understanding that an individual that loses their job has to be fired to get unemployment. [01:59:00] If that's not true, someone can correct me, but they have a disagreement between the employer and the employee. I think the solution is the employer be mandated that he gives a letter to the employee stating why he was separated and that disagreement goes away. I don't know if that has to be legislatively done. I'm not sure it could be.

Auditor Wood: Or either in a policy from DES, yes,

Rep. Cleveland: It [01:59:30] would have to come from the Employment Security Division. But that thought just came to me, and it's something that I think that should be done. House Bill 471, passed the House unanimously, passed through Senate Rules, Senate Judiciary Committee and the Rules Committee made a summary to have it heard and then all of a sudden somebody put the brakes on it. I [02:00:00] was very disturbed to see that. I've asked Speaker's Staff to work on getting the bill moved. They won't pay any attention to me over in the other House. But it is something I think you as the Auditor of the state desperately need to start holding agencies accountable and to have us move forward so that our government itself would be more accountable to the people that it's supposed to serve. [02:00:30] And if you'd like to make any statements on that.

Auditor Wood: Two. I would say first, nobody wants to come in here and explain to y'all they haven't done anything. So, I would tell you to issue a report, you read it, and find out, well, we haven't done a whole lot. Nobody's going to want to do that. So, I think it is just because you require it, it is going to start making people start doing what they should.

The other piece of it is that I always thought back when I became State Auditor, we would do the audit and then we do a follow-up audit. Number one, we don't have [02:01:00] time, because there's so many first-time things that need to be done. And then secondly, it doesn't make sense to use our resources to go and tell you what we've already told you and that is they hadn't done anything. So, the findings are the same. So, it makes more sense to have them prepare a progress report based on the things they told us they were going to do and then make a progress report. So, again, the Senate Bill or House Bill, whichever it was, 471 is the answer. You're absolutely right.

Rep. Cleveland: [02:01:30] Yes, and I've also discovered in my short time here in the General Assembly, 98 percent of the people don't read reports, which is a problem. And I am not sure how that can be solved, but I know I've solved it within my area. But reports are fine, and people work on them and we get a bunch of them. But until people read them and then take action if required, [02:02:00] it's really not doing as much good. But I think [HB] 471 will force agencies in doing reports saying, "Hey, if this is true, it's better for us to address the issue and get things done corrected."

Auditor Wood: Well, and I would just say either the State Auditor's Office or staff for this committee or this committee to start looking at them and say, yes, they look like they're making great progress, but if not, then you get to bring them in here. Well, nobody, like I said, wants to come in here. [02:02:30] You guys are tough. So, nobody wants to come in here and have to report to you, "We hadn't done a whole lot." So, I think just that in and of itself will get them moving more than they are right now because no consequences on not fixing anything.

Rep. Cleveland: Moving on to something different. Payroll deductions, the employee associations have been required since 2014 to report their membership numbers to your office. [02:03:00] Are they doing that?

Auditor Wood: Yes, but it's self-reported.

Rep. Cleveland: So, do you think the validity of the reports is in doubt?

Auditor Wood: Possibly.

Rep. Cleveland: Okay.

Auditor Wood: I'm reporting what I'm given. And there's one association I'm not allowed in to, so, I don't verify sir.

Rep. Cleveland: Is that the NCAE by any chance?

Auditor Wood: Yes, sir.

Rep. Cleveland: They did report this year, did they not?

Auditor Wood: They report every year.

Rep. Cleveland: [02:03:30] Okay, do you have any recourse when an agency doesn't provide a report to you or just...

Auditor Wood: I may have now given some laws that have been implemented. I haven't looked. And again, I have to go back and check. I'm just not sure I can go in and verify that the numbers are true.

Rep. Cleveland: Okay, my understanding is the state law requires an agency to have so many an [02:04:00] association to have so many employees before they can have automatic deductions. The last report I looked at, I don't think any of them meet that requirement, do they?

Auditor Wood: It's been a while since I've looked at it. I'm sorry.

Rep. Cleveland: Okay. That's all I have, Mr. Chairman.

Rep. Johnson, Chair: Thank you, Representative Cleveland. I think we need to get somebody with a really nice voice to record them in an audio book. So, with those long drives [02:04:30] like I got, I can listen to them.

We have three more people left in the queue. Does anyone like to be added that has not spoken for the first time? All right. Seeing no one else will be added to the queue. Representative Quick, you have the floor for up to five minutes.

Rep. Amos Quick: Thank you, Mr. Chair. Good afternoon, Madam Auditor. Always good to see you.

Auditor Wood: Thank you.

Rep. Amos Quick: Some of my questions, at least two of my questions, and I have four, may be similar to what was asked before. The 87 percent is [02:05:00] 87 percent federal requirement [unemployment] compensation law and that your report says we met 60 percent at one point in time. Is there a penalty if we don't meet that 87 percent?

Auditor Wood: No.

Rep. Amos Quick: Is that penalty to the state? Okay. Secondly, to Representative McNeely's question, does anything trigger for you or your office [02:05:30] a performance audit?

Auditor Wood: In this case, the phone calls that came into my agency triggered the first-time payment one. But again, we just take a look at the agencies where a lot of the money's being spent, the impact on the citizens. I would tell you we are transferring some of our man-hours over now to audits that directly impact the citizens of North Carolina. The classes we looked at at DPI, they directly affect [02:06:00] the kids. We found 21 doctors practicing in the State of North Carolina seeing Medicaid patients without a license or their license was suspended, directly affects the citizens. And then this unemployment, people's check being late directly affects the citizens. So, we are looking to do more work that is not so pie in the sky, but that it really directly affects the citizens of North Carolina.

Rep. Amos Quick: Okay. How long does a performance audit take?

- Auditor Wood: The one at DPI [02:06:30] took a year and a half because we couldn't get the data. The improper payments, one of the two audits that we just did, it took three months for us to ever get the data out of DES. And so, technology issues may not add to the hours on the audit, but it will stretch the calendar time because we can't get [02:07:00] data out of these agency systems.
- Rep. Amos Quick: And thank you for that. And to Representative Cleveland's question, can an audit be refused or lack cooperation?
- Auditor Wood: Nobody has yet. We have subpoena power, so, if they try to hold us up from giving us data or people talking to us, we have subpoena power. But normally, normally nobody tries to stop us from doing an audit, but they certainly can drag one out.
- Rep. Amos Quick: [02:07:30] Again. Thank you. And Mr. Chair, I don't have any other questions in either round.
- Rep. Johnson, Chair: Thank you, Representative Quick. Representative Cervania, you're recognized for up to five minutes.
- Rep. Cervania: Thank you, Chair, and thank you, Auditor Wood, for attending here today. And thank you for the work for the citizens and the people of North Carolina. It's very valuable. I do want to ask, Representative Cleveland's HB 471 with the progress [02:08:00] reports. Is there a potential actually to put that online and having our people in North Carolina see the ask and also the progress?
- Auditor Wood: I mean, absolutely it would be because all that information would be public. My reports, all my reports are public. And obviously I would assume that those progress reports could be public unless it involves, IT issues, IT security issues.
- Rep. Cervania: Thank you. I think [02:08:30] sometimes we come from a place that audit is a bad thing, but actually audit is an awesome thing, and especially in line with the fact that there's an ask for additional general revenue and workforce. This is a great baseline on how we can provide resources and do improvement.
- So, in specific, this is a second question. You were mentioning the manual review, and I want [02:09:00] you to explain more about why that there was not ... Let me just ask it how we wrote it. Could you explain the DES manual review process? Did contracting out of the processing of the claims impact the manual review process at all? And did this apply to only the claims that were automatedly processed, and did it have eligibility impact at all?
- Auditor Wood: [02:09:30] So, it's my understanding from the audit report is that the SCUBI, if you go into the system and you're deemed to be eligible, then you get your check once you've done your application. But the issue is that if, again, it didn't seem to take much to kick an application out, and then it has to go into a manual review, and it could be trying to get additional information [02:10:00]

from the applicant or trying to verify something from the applicant. And again, that process is set up in different phases and the least amount was the phase for it to get through. That person who is doing these could spend up to 40 days. That application could sit on their desk up to 40 days before their metric was not met. And then if I have to have several phases, like I said, the total amount of the process. But when we went [02:10:30] to SCUBI, and the manual process was set up, the 87 percent and the 14, 21 was not taken into account, obviously.

Rep. Cervania: So, what percentage of total applicants could go into this potential manual [review]?

Auditor Wood: We did not ... I don't have that number for you, but we can find it.

Rep. Cervania: That would be great. Because if it's significant, and then, the timeliness is not, this could be a big black hole when it comes to providing.

Auditor Wood: Absolutely.

Rep. Cervania: [02:11:00] And so, thank you for that and I'll probably ask you more questions when we receive that information. Thank you.

Rep. Johnson, Chair: Thank you, Representative Cervania. Representative Chesser, you're recognized for up to five minutes.

Rep. Chesser: Thank you, Mr. Chair. Madam Auditor, thank you for coming.

Auditor Wood: Absolutely.

Rep. Chesser: Wonder if you might follow me down a rabbit hole. We're going to change hats for a second.

Auditor Wood: All right.

Rep. Chesser: But I deeply appreciate your willingness to protect the citizens and research things that directly [02:11:30] affect citizens. So, if we could change hats, I want to talk about some of the work you've done with local government.

You've been quite active in this particular area and have done what I appreciate, which is calling for more accountability and transparency in local government. What in your opinion, would be some of the greatest vulnerabilities or concerns that you have within the practices of local governments that maybe some reoccurring themes that you've seen [02:12:00] that are concerning to you through your audits?

Auditor Wood: Well, I think it's the lack of financial oversight in the local governments and the smaller ones. And it has to do a lot with, you just can't find a good finance officer, using computers now. Procurement's more difficult than it used to be.

Financial statements, putting them together. And I'm finding when we go in and do investigations, [02:12:30] (we don't do audits, we do investigations in the local governments) what we're seeing is a lack of controls that elected officials and others can work around. They don't even understand what a bank reconciliation is. And so, if they don't have bank reconciliations being done timely, I don't know how the elected officials know how much cash they've got in the bank.

They're not that familiar with budget versus actual. We set this budget, they're not familiar with [02:13:00] you got all these expenses, so, we're going to say we've got this revenue coming in the door to balance that out when in reality there's no way you're going to make that kind of revenue in your property taxes or your utility bills or whatever.

So, it's just an overall lack of financial understanding and sort of a business acumen, if you will, of how to run a business to run these particularly small towns and poorer counties.

What we have been working towards is the League of Municipalities, [02:13:30] and there's a couple of CPA firms that are stepping in and doing the books for the local governments and then providing the elected officials with meaningful reports that they can read, budget versus actual, "This is what we budgeted for, this is what we ..." And they don't even understand that "If my balance doesn't budget well, I'm just going to stick in fund balance." Well, we tell them that's like taking out of your savings account. You can't.

So, it is [02:14:00] keeping them educated. But if we could use CPA firms across the state to kind of step in. Not make the decision for them, but to run and get the books right and make them be up-to-date monthly and then, give the elected officials reports that they can understand and read and make decisions from.

We went in one small town that was in a lot of trouble, almost went bankrupt, and they were giving their elected [02:14:30] officials five account balances every month. And that was it. And what it was, it was bank accounts, but one of them said credit card and it was over \$300,000. And I'm like, "Oh my gosh, [inaudible 02:14:42] be sure." But it's where they were making utility payments with a credit card and this money was going into the bank and then they had to take and parse it out to everybody's individual [account]. I mean, they just need help from a financial management perspective. And I think these CPA firms that are starting to take this [02:15:00] on are going to do a good job.

Rep. Chesser: Well, thank you for that. And fund balance is something that I hear quite a bit in my community when it's budget season, and it's a scary term, scarier than a lot of people realize. But if you had the microphone, and you do, what steps would you encourage local governments to take to shore up those financial and operational burdens that they have that they're currently struggling with, that

you see them struggling with? And then, if you would expand, [02:15:30] if there was some way that the General Assembly could assist them in that or assist you in your endeavor, what recommendations or what ask would you make?

Auditor Wood: One of the things that we're seeing is their budgeting process. So, G.S. 159 requires them to start with the department head and the department head is supposed to lay out what that department needs that month, I mean, that next year. And then pluses or minuses should go [02:16:00] into that.

Well, what you find in many, many local governments, and this is the big ones and the little ones, they just take last year's budget and add something to it, get an increase, and that's how they go up the taxes or whatever. When in reality, they should be starting with, if people are leaving town, do you need that many people in the utility department anymore? If people are leaving town, do you need that many people in the garbage department anymore? Whatever. But nobody's starting to budget that way with what the needs are and then going from there.

So, budgeting, just appropriate budgeting [02:16:30] in accordance with G.S. 159 is huge. And then obviously once you get past the right budget, then the financial part that comes with that, the collection of revenues and making sure the proper approvals before they pay a bill. We find a lot of bills getting paid, and there's no documentation to back it up.

So, again, we went down the path and we made some headway on that years [02:17:00] ago. One of the things we were hearing: "Well, we can't get our bank reconciliations done and we can't get our audit report done because we lost our finance officer." So, there's a law now that says if you don't have a finance officer, the LGC can do something about that. So, there's a requirement that you have to have a finance officer, whether you hire it or it's somebody in house.

The other piece of it is that G.S. 159, speaks to what a finance officer should be able to do. It doesn't really talk about their qualifications, [02:17:30] but you can get there if you look at what they're supposed to be able to do. And auditors are not really...their CPAs that come and do their annual audits are not really speaking to that because, again, bank reconciliation is not getting done: "I don't know how to do them" or "I thought I did and they're not right." All of that speaks to the lack of qualifications of their finance officer.

One of the things that I'm personally working on right now is, so, when you get a financial statement audit, somebody's just handing you [02:18:00] a bunch of numbers, balance sheet, income, cashflow statement, and an auditor, whether it's us or the local auditors are just going to go through and say, "Yep, those are in the right bucket." And they're not materially wrong; they're not errorless, they're not materially wrong, but that's all that is. And so, what you're really

looking for is, did they budget appropriately in accordance with the law? Does their finance officer have the qualifications to do that job? Are they looking at getting the right reports [02:18:30] every month, elected officials?

So, I have almost got finished a compliance supplement that would be added to the annual audit. In fact, I think it's more important than the financial statement audit that would tell you these things. Bank reconciliations being done, done monthly on all accounts, yes or no. It's a compliance audit. And then, did they do their budget in accordance with G.S. 159? Did you comply with it? Yes or no? Can your finance officer do what she's supposed to do or he's supposed to do? Yes [02:19:00] or no? So, you go through and answer these questions and then we'll have a better idea of where these local governments are failing their citizens from running that town.

But I'm working on that with the Local Government Commission as we speak. We have almost a final draft finished, and then, hopefully that'll get added to the financial statement audit. That would really tell you more about whether this group of people can run that town or not.

Rep. Chesser: [02:19:30] Perfect.

Rep. Johnson, Chair: Thank you so much, Representative Chesser. Representative Torbett, you're recognized for up to five minutes.

Rep. Torbett: Thank you Madam Auditor. And I don't know that there's going to be a question in here, but once again, your work, due diligence has brought just a good degree of concern. And I'd like for all of us to think that what if, during normal course of our work, that our company, when they came to payroll day, the only accuracy in our receiving a proper payroll amount was 87 percent [02:20:00] accurate?

What about our bank when we managed the money in our bank's account that our bank would only be 87 percent accurate? What about a doctor's diagnosis? What if we went to a doctor knowing that the doctor may only be 87 percent right? Or maybe when you get in your car or truck, knowing that there's an 87 percent chance that it's going to start and take you to where you need to go?

And then what about our schools? What [02:20:30] if our kids in our schools, we knew there was only an 87 percent right that our children would be educated? Guys, I think we need a new mindset. We're dealing with the people's money. We need to implement operational techniques, rules, and standards more in line with financial institutions so we can get much, much, much closer to a hundred percent of taking care of the people's monetary needs. Thank you, Mr. Chairman, thank you for bringing this up.

Rep. Johnson, Chair: Thank you. [02:21:00] I think that was just a series of comments. I don't think there was a question. No, thank you so much for your comments. We appreciate it. Representative McNeely, you are recognized for a second time. Is

there anyone wishing to speak who has not been recognized for a first time?
Representative McNeely, you're recognized for up to three minutes.

Rep. McNeely: Just want to jump in on the Division of Workforce Solutions.

Auditor Wood: Yeah.

Rep. McNeely: There's three of them within five miles just right here of the NCGA. I don't know how many's in the Raleigh [02:21:30] area or Wake County. Spent about \$158 million of our tax dollars. And it's not state, it's federal, but it's still my money.

Auditor Wood: That's right.

Rep. McNeely: Don't change. I write checks to both. That's to 21,000 people, got \$158 million. That's about \$7,500 per person. What did we get for that?

Auditor Wood: I believe I have an audit on my website that speaks to that. [02:22:00] There are definitely some issues in that arena. I apologize, I don't recall off the top of my head what the results of that audit were.

Rep. McNeely: That's fine. I don't think they would be well or good at what we spent and what happened there.

Auditor Wood: I would also say that when I start down a path, if we find that we picked a topic that's not going to yield anything, we stop. So, I wouldn't take it all the way to the end just to say this program's doing great because there are too many programs [02:22:30] that are not that we need to be working on. So, if I put an audit out, it wasn't good.

Rep. McNeely: I mean it looks like from what your audit said on your website, that money was being spent, but they have no idea on what and where.

Auditor Wood: That's right.

Rep. McNeely: No oversight at all, I guess.

Auditor Wood: That's right.

Rep. McNeely: I just maybe close with a—

Auditor Wood: May I also address, there's some kind of oversight board at the state level, if I'm remembering this appropriately. And they say they have no ability [02:23:00] to oversee or do anything about or ask for metrics on what these Workforce Solutions groups are doing. So, it was one of our recommendations that there be a board that may have more teeth, if you will, because if they're not producing and helping these people get a job then maybe these organizations don't need to be in existence.

Rep. McNeely: I agree wholeheartedly. I just want to say, I'm sure when people see you pull up in their parking [02:23:30] lot, they're nervous for a couple reasons. But anyway, that being said, we on Gov Ops appreciate the job you and your Department do. Your Department gives us the information that allows us to make inquiries into the problems that plague government. So, without your digging, your findings, we don't have a lot of basis. So, we appreciate what you do. You allow us to function, in my opinion, as a committee. And that's why we would love to make [02:24:00] suggestions to you on your performance audits in the future.

Auditor Wood: We absolutely, we watch the laws that get passed all the time during session to see which ones are going to specify an audit that they would like to have done. The one we did on the truancy and the school system during COVID came from a legislative request.

Rep. McNeely: We thank you.

Auditor Wood: Thank you.

Rep. Johnson, Chair: And I'd like to ask staff if they can include in emails on follow-ups [02:24:30] that a link to that if they haven't already, and maybe I just missed it. But a link to that. Representative Cleveland, you are recognized for a second time for up to three minutes.

Rep. Cleveland: Thank you, Mr. Chairman. Representative Chesser's questioning rang a little bell in my head. Many years ago, we authorized the Local Government Commission to conduct schools to train local finance people. If memory serves me right, [02:25:00] at least two times after we set them up, we increased people and the ability for them to do that. And we've also gone so far as to allow them to take over local governments' finances. I was just curious as to whether you had ever looked into or are familiar with the training that they do and whether it has provided [02:25:30] any benefit to the state, which I'm beginning to believe it didn't.

Auditor Wood: The training gets provided by the School of Government in Chapel Hill. The Local Government Commission can make people go, but I don't think they do. And the problem with training people is, particularly if you're talking about a finance officer, by the time you get them trained and they know what they're doing, they leave. So, having something more [02:26:00] sustainable like a CPA firm that does nothing but keep the books and provides the reports to the elected officials so that they can understand them, knowing that with every election there's going to be turnover. And when that turnover or finance officers are hard to find, once you find one, they don't stay long, particularly if the books are in shambles.

And so, I think the better solution is working towards finding CPA firms that [02:26:30] can spend two days this week keeping the books for this small town,

a day this week keeping them for somebody else a day this week. They can pay more money and hire the talent that's needed.

Again, the elected officials have to make the decisions, vote, make the decisions about how the money gets spent. But as far as keeping the books, somebody other than trying to hire a finance officer. But I'm not sure how many times the LGC has made an elected official or a finance officer or a county or city manager [02:27:00] go to school. And for all practical purposes, those that want to do a good job, send their staff to that school at School of Government. They offer it I don't know how many times a year, but it's usually full when they offer it. But those that don't care, will never send their staff to that school unless made to.

Rep. Cleveland: Thank you.

Rep. Johnson, Chair: Thank you, Representative Cleveland. Representative Cervania, you are recognized for a second time for up to three minutes.

Rep. Cervania: Thank you [02:27:30] so much, Chair. Just to follow up with some of the other questions from my colleagues. Here in Wake County, I was involved with the workforce development. And from what I saw, it was a good collaboration between our Chamber [of Commerce], our community college, and then from a result of that good outcome that it became more of a regional workforce [02:28:00] development grouping. Is that a result of your audit, that reorg?

Auditor Wood: No.

Rep. Cervania: Okay.

Auditor Wood: Not that I'm aware of. I mean, it could have been, and I wouldn't know about it, but not that I'm aware of.

Rep. Cervania: Thank you. And then so, going into local government, I know even being in Wake County as a local elected official, it was difficult to acquire an auditor to actually ... And we have to change auditors, [02:28:30] not frequently, but periodically to make sure there's, what is it, neutrality. Is that still prevalent when it comes to ...

Auditor Wood: It's getting worse. Because the books are in such bad shape when the auditors get there, and they quote an audit fee based on coming in, somebody handing them a set of financials and auditing them. But when you go in and the financials are a mess, bank reconciliation's not done, months and months of utility payments not [02:29:00] posted, bills not posted, expenses not posted. And back in the day when I audited, and I audited a lot of local governments, we would go in and do the books for them because we'd never get out of there if we didn't. So, we would post everything that didn't get posted, and then, we would tie the books out and then we'd audit them.

Well, the GAO said decades ago, "You can't do that. You can't audit your own work." Fine. So, now they've got nobody to put [02:29:30] their books together for them so the auditors show up, and you keep handing it to them and saying, "This isn't right, this account's not right, this account's not right." And they go into the negative on their audit fee. So, there are many CPA firms getting out of the government audit business because the books are in such shambles when they get there, and they just lose money.

Rep. Cervania: And then on that, too, we were always concerned on bond rating. So, this is a big [02:30:00] area. So, what are these local cities who can't even do bank reconciliation?

Auditor Wood: They're not going to the bond market, that's for sure. They're not going to the bond market.

Rep. Cervania: What can we do?

Auditor Wood: Again, requiring them.... So, the local government commission has now, and this was another problem for years and years, these local governments that did not get their audits done. And that was a problem in I think [02:30:30] Spring Lake, that was a problem there is that they hadn't had an audit for three years. And that's why \$474,000 got embezzled.

So, now if you don't have an audit within a year of your year-end, you will have a portion of your sales tax withheld. That law just got passed this session. So, now there's some teeth into making these local governments, and you can't get your audit done if your books are not done. Your utility bills posted, your utility [02:31:00] payments posted, your bank reconciliation done. So, I think that's going to go some way. But then if you don't have a finance officer that can do it, it doesn't matter what the law says.

So, again, that's where the League of Municipalities is putting together a program to help these local governments that don't have a competent finance officer as well as there are a couple of CPA firms that this is all they do. So, keeping their feet to the fire that they cannot go more than 12 months without having their audit [02:31:30] done. And for decades, the LGC allowed them Treasurer Falwell and myself got that changed. And so, now getting more teeth into a law that will not let them, I mean, I couldn't understand. "The law said you have to have an annual audit and you're three years behind. This makes no sense." But that law has now passed. So, hopefully withholding some of their sales tax will make them think twice.

Rep. Johnson, Chair: [02:32:00] Thank you, Representative Cervania. Does anyone else wish to speak for a first or second time? I had a follow-up question. You mentioned that if they could not find one, one would be assigned to them by the LGC or one would be ... How does that process work if they just come and say, "I can't find one." How does that work?

- Auditor Wood: Then the Local Government Commission can, how do I want to say this, get them to hire. They have to at least hire a [02:32:30] CPA firm.
- Rep. Johnson, Chair: Okay. So, they can go outside to a private firm. And that's kind of what I figured. Okay, perfect.
- Well, seeing no other questions, Madam Auditor, I want to thank you so much for being here. This has been extremely insightful to not only the scope of what you do, but ways we can certainly improve going forward. And I think you summed it up very well at the beginning. We don't pass bills out of this committee. What we do is identify these issues, we put them out in the open, we dig into them so that when we go back into [02:33:00] session where we are passing laws, we can do things to find the solution and write bills that solve these problems. So, thank you so much for being here. I want to thank you members for the respect you showed our guest and the questions you asked. I want to thank Secretary Keith and Auditor Wood for your testimony. Seeing no other questions or comments, committee's adjourn— Oh, thank you. Follow up statement.
- Auditor Wood: Yes. Yes, I do. I just wanted to take this time today to announce to this [02:33:30] committee who many members are near and dear to my heart and I enjoy working with them, that I'm announcing this afternoon that I am not running for reelection.
- Rep. Johnson, Chair: Wow.
- Auditor Wood: There are some circumstances that are in my life, and I've recognized four years from now I'll be 74 years old. And so, if there's some things I want to do, I need to get them done now. So, again, loved working with you. [02:34:00] Representative Torbett, it's been a pleasure and an honor to work with you. And I just thank you so much. But this is the first public announcement that I've made is here today that I will not be seeking reelection in 2024.
- Rep. Johnson, Chair: I would not just thank you for being here, but thank you for years of service to the state. We thank you for that. Thank you.
- Auditor Wood: But I also want you to remember, we got 14 months to kick some butt.
- Rep. McNelly: Amen.
- Auditor Wood: [02:34:30] So, we will get it done over the next 14 months.
- Rep. Johnson, Chair: We appreciate your attitude and continued willingness to serve. Thank you so much. Seeing no further questions or comments. Committee adjourned. Thank you.