



**Department of Legislative Services
Office of Legislative Audits**

Maryland Department of Labor (MDL)

Division of Unemployment Insurance (DUI)

Part 2 – Unemployment Benefits

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Presentation to Joint Audit and Evaluation Committee

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Report Overview

- DUI administers the State's Unemployment Insurance Program that includes the following primary responsibilities:
 - Collecting unemployment insurance tax contributions from employers
 - **Processing applications for, and disbursing unemployment benefits**
 - This segment of our presentation addresses our report on Part 2 of our audit, which examined the processing of claimant applications and the disbursement of unemployment benefits.
 - Our Part 2 report contains 13 findings, of which 3 from the prior report are repeated in the current report as 4 findings. Based on the findings included in our Part 1 and Part 2 reports, we determined that DUI's accountability and compliance level was unsatisfactory in accordance with the rating system we established in conformity with State law.
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COVID-19 Impact and Response

- According to DUI records, in fiscal year 2021, unemployment insurance benefit **payments totaling approximately \$8.8 billion** were made to **more than 642,000 claimants**. The vast majority of these funds came from federal programs, such as those provided under the Coronavirus Aid, Relief, and Economic Security Act.
- DUI awarded two emergency staffing contracts to assist with the increased volume of unemployment insurance claims resulting from the COVID-19 pandemic:
 - Augmenting DUI's claims centers (amended to ultimately provide **1,975 staff** totaling \$356 million).
 - Augmenting DUI's adjudication staff (up to **675 supplemental staff** based on a contract totaling \$70.9 million).



Key Findings

- DUI did not conduct certain critical matches used to identify potentially fraudulent or improper claims.
- DUI did not have comprehensive procedures to ensure the eligibility of individuals filing claims from foreign Internet Protocol addresses (**Repeat**).
- DUI did not have procedures to help prevent and detect duplicate benefit payments.
- DUI did not conduct timely verifications of income reported by applicants for Pandemic Unemployment Assistance benefits; a temporary federal program providing benefits to normally ineligible individuals, such as the self-employed.
- DUI did not conduct required supervisory reviews of regular claims and adjudications (**Repeat**), and did not have procedures to ensure that claims processed by staffing vendor employees were subject to review.



Key Findings (continued)

- DUI did not establish sufficient controls over reissued benefit debit cards, and did not ensure the proper disposition of funds remaining on expired cards (**Repeat**).
- DUI did not properly account for potentially fraudulent benefits totaling \$493.9 million that were removed from claimants' benefit debit cards.
- DUI did not ensure that amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments, since a reconciliation between Fund and bank records had not been performed since August 2020.



Benefit Payments (Finding 1)

DUI did not conduct certain monthly or quarterly **critical data matches** it has historically conducted between its records and other available independent records to help detect benefit payments made to ineligible claimants and to identify potential fraud; such as:

- active State employees from the State's Central Payroll Bureau
 - incarcerated individuals from the State's Department of Public Safety and Correctional Services
 - deceased individuals from the Maryland Department of Health
- Between September 2020 and January 2021, DUI only performed one of nine matches it has historically performed, and as of December 2021, two matches had not been performed since March 2020.
- Matches that were performed between April 2020 and September 2020 used incomplete data, which accounted for just \$1.3 billion of the \$8.4 billion in claim payments for the period.



Benefit Payments (Finding 1 continued)

- DUI management advised us that they could not conduct the aforementioned matches at the time because of BEACON system deficiencies. Although DUI was subsequently able to restart certain matches in BEACON, there was no plan to retroactively conduct matches for the periods matches were not performed.
- We conducted three matches for periods during which the matches were either not performed by DUI, or the matches were performed, but did not include all claims paid. We found:
 - at least **\$22.6** million in payments to over 6,200 named recipients that were **active State employees** when the benefits were paid.
 - at least **\$7.1** million in payments to over 1,200 named recipients that were **incarcerated** when the benefits were paid.
 - at least **\$2.6** million in payments to 402 named recipients who were **deceased** when the benefits were paid.

In all cases the named recipient did not necessarily receive the payment, but may have been, for example, a victim of identify theft.



Benefit Payments (Finding 2)

DUI did not have comprehensive procedures in place to ensure that individuals filing for claims using a **foreign IP address** were eligible to receive benefits.

(Repeat Finding)

- Based on DUI records for the period from September 2017 through April 2020 (prior to implementation of BEACON), there were **3,724 claimants** with benefit **payments totaling \$3.6 million**, whose weekly certifications were filed from a foreign IP address.
- Although with the implementation of BEACON automated controls were added to block certain foreign IP addresses, these controls did not block all foreign IP addresses. Our analysis disclosed that, of the 3,724 claimants identified above, the added controls in place **as of March 2021 would not have blocked 988.**
- At a minimum, individuals filing from a foreign IP address may be residing outside the country and unavailable for work, which could affect their eligibility for benefits.



Benefit Payments (Finding 3)

DUI did not ensure claimants who were **full-time students** were eligible for benefits, and that all claimants were enrolled in the **Maryland Workforce Exchange System**, as required. (**Repeat Finding**)

- DUI did not obtain data to identify claimants who may not be eligible for benefits because they were full-time students and were not available for work.
- DUI did not use available data in MABS to ensure that claimants had enrolled in the Maryland Workforce Exchange System. Specifically, no verification was performed from April 2017 until the Secretary of Labor suspended the requirement in March 2020 due to COVID-19.



Claims Processing (Finding 4)

DUI did not have procedures to help prevent and detect **duplicate benefit payments**. Our analysis of BEACON records disclosed \$43.3 million in potentially duplicate payments made to 12,500 claimants between April 2020 and December 2021. We could not determine that DUI had identified or investigated these payments.

- Our further analysis of certain of these payments disclosed, for example, one claimant who received **19 payments for one benefit week** totaling \$5,210, and another who received **16 payments for one benefit week** totaling \$7,616. These claimants should have received only \$374 and \$476, respectively, for the applicable benefit week.
- Our analysis also disclosed that certain data in BEACON appeared to indicate that duplicate payments had been made, but these results were not always supported by other evidence. Consequently, we could not readily determine how much of the aforementioned \$43.3 million represented actual duplicate payments.



Claims Processing (Finding 5)

DUI did not conduct timely **verifications of income** reported by applicants for **Pandemic Unemployment Assistance (PUA) benefits**. DUI paid benefits based on the reported income, but required support from the applicant for subsequent verification.

- According to DUI records, as of January 31, 2021, DUI had not verified income for 40,265 of the 198,990 individuals who received PUA benefits between May and November 2020, even though supporting documentation had been submitted by the applicant.
- Most cases were verified by January 2022, but the delays resulted in certain overpayments because of adjustments caused by discrepancies between the reported income and the verified income. For example, the verification of one claimant's income 281 days after claim submission resulted in an adjustment of the weekly benefit from \$430 to \$278. DUI could not readily provide us with the total amount of overpayments identified as a result of delayed verifications.

In addition, DUI did not ensure that manual adjustments processed by DUI and contract employees were proper.



Claims Processing (Finding 6)

Finding 6 - Required **supervisory reviews** of regular claims and adjudications processed were not always performed. (**Repeat Finding**)

- One claims center had not conducted required reviews of adjudications since December 2016, or required reviews of manual claims since October 2019.
- DUI did not ensure that claims processed by staffing vendor employees were subject to review to ensure propriety.
- Output reports of manual wage entries could not be generated from BEACON for verification purposes. Consequently, DUI was unable to ensure all manual wage entries were subject to review, and we were unable to quantify the extent of manual wage entries since the system was implemented.



Claims Processing (Finding 7)

Finding 7 - DUI did not establish sufficient controls over **reissued benefit debit cards**, and did not ensure the proper disposition (return to DUI or report as unclaimed property) of funds remaining on expired cards. (**Repeat Finding**)

- 354,445 debit cards were reissued during the period July 2017 through January 2021.
- The reissued cards included 1,970 relating to 1,170 claimants, which were reissued to an address not included in DUI's unemployment insurance system.
- As of October 2020, there were approximately 30,000 cards that were expired or never activated with a remaining value of **\$23.1 million**.



Claims Processing (Finding 8)

DUI did not properly account for **potentially** fraudulent benefits totaling \$493.9 million that were removed from claimants' benefit debit cards.

- In July 2020, DUI canceled debit cards for 46,986 claimants with benefits totaling \$493.9 million because the claims originated from out of State, and accordingly were considered potentially fraudulent.¹ Applicable claimants were instructed to provide documentation to support their identify and the validity of their claim to have the claim reprocessed and repaid.
- **DUI did not update BEACON to reflect the cancelation of these payments.** As a result, claimants who did not submit the requested documentation received overpayment notices even though they never received the funds. In addition, DUI was unable to provide documentation of how much, if any, of the \$493.9 million was subsequently repaid to claimants.

¹ – Amount deemed potentially fraudulent pending receipt of claimant documentation. Due to incomplete records, we were unable to determine the existence or amount of actual losses.



Unemployment Insurance Trust Fund (Finding 9)

DUI did not ensure amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments. Specifically, as of May 2021, DUI had not performed a reconciliation of its record of **Trust Fund activity** to the corresponding bank records since August 2020.

- Disbursements from the Trust Fund totaled approximately \$5.0 billion during the period from October 2020 through May 2021 and are generally made daily.
- In response to our inquiries, in May 2021 DUI prepared the reconciliation for September 2020, which showed unresolved reconciling items totaling approximately \$81.4 million dating back to 2019.



Cybersecurity (Findings 10 - 13)

Redacted cybersecurity-related findings.
See **confidential** addendum.



Conclusions

DUI should:

- Require the BEACON vendor to promptly resolve system deficiencies noted in our report;
 - Conduct all matches for periods not performed to identify improper benefit payments;
 - Continue to develop automated controls to block foreign IP addresses;
 - Identify and take corrective action for all duplicate payments, including those noted in our report;
 - Ensure that critical applicant data, such as income, is verified and accurately adjusted if necessary in a timely manner;
 - Ensure that all required supervisory reviews of claims processed and adjudications completed are conducted on a timely basis;
 - Ensure the propriety of all reissued benefit payments and the proper disposition of funds remaining on expired cards and cards never activated;
 - Ensure that all transactions impacting claimant accounts are properly recorded in BEACON; and
 - Prepare periodic reconciliations on a timely basis of its record of Trust Fund activity to the corresponding bank records, with resolution of any differences.
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