



Performance and Accountability Audits

Performance Audit. This audit examines the scope of and reasons behind substantial fraud and customer service delays in the state’s unemployment benefits program during the COVID-19 pandemic.

No recommendations in the Performance Audit. This audit acknowledges the scope and scale of the crisis, the challenges faced and the steps and improvements the Employment Security Department (ESD) made to improve both customer service and fraud prevention. We appreciate the thorough work that went into this investigation and audit.

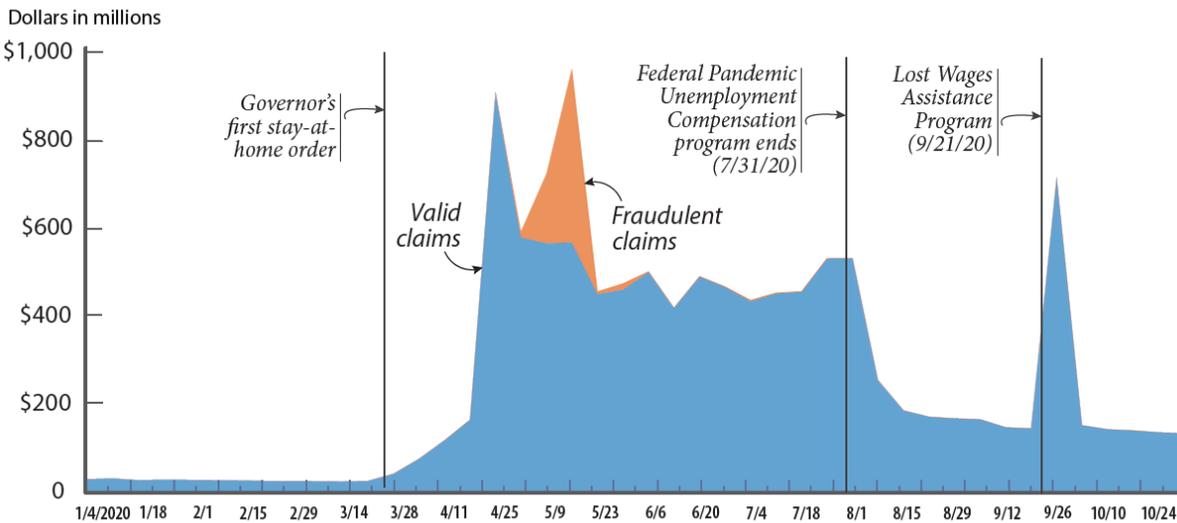
Accountability Audit (Fraud Audit). This audit investigates illegitimate unemployment claims and payments from Jan. 1, 2020 through Dec. 31, 2020.

Deep flaws, incorrect information, and a false accounting of possible imposter fraud loss. This audit contains deeply flawed and often incorrect information throughout. Unlike the other audits conducted by the State Auditor’s Office (SAO), ESD was not provided a draft report and allowed the opportunity to provide technical review in order to verify the information in this report.

Imposter fraud is largely stopped due to increased controls

From the SAO’s Performance Audit, April 2021: “Exhibit 3 shows that the wave of fraudulent payments were made when ESD was already struggling to manage the first wave of pandemic-related claims. The graph also shows that **ESD did not make significant payments to fraudsters after that time** despite high demand for unemployment assistance throughout 2020.”

Exhibit 3 – Total payments on Unemployment Insurance claims compared to payments on fraudulent claims



Source: Data provided by Employment Security Department.

Gross mischaracterization of possible imposter fraud in Accountability Audit

The SAO’s inclusion of “Questionable” claims in the Accountability Audit falsely and dramatically inflates the possible total imposter fraud. This category was notably not included in the SAO’s Performance Audit, which identified a loss of \$643 million plus \$4 million in administrative fraud, a figure the Department largely agrees with. This indicates the “Questionable” category cannot be verified as possible imposter fraud and should not be considered in the total.

What is included in the “Questionable” category in the Accountability Audit?

- Transitory population that changes daily as claims are flagged and cleared
- Claims that were investigated and found to not be fraudulent
- Claims that are still under investigation and payment has been stopped
- Claims that have been presumptively denied due to lack of response from the claimant

Why all “Questionable” claims aren’t fraud

Date the data was run	Categories of data, per SAO	Total amount
March 6, 2021	Questionable imposter fraud in 2020	\$458 million
April 8, 2021	Questionable imposter fraud in 2020	\$222 million

In one month, what the SAO deems as “Questionable” imposter fraud decreased by \$236 million. This is because the SAO is reporting claims flagged that need review but are ultimately found to not be imposter fraud. What hasn't increased is the roughly \$643 million in confirmed and probable fraud, a number that falls within the range the Department first reported and has been reaffirmed in this and other SAO reports.

Lack of technical review in Accountability Audit led to numerous inaccuracies

The lack of transparency and opportunity to provide technical review by ESD – something afforded in other audits so far – directly resulted in gross inaccuracies, incorrect information, and mischaracterization of key issues throughout the Accountability Audit report.

Examples of SAO inaccuracies

- **False claims of a backlog of 56,000.** Instead, there were 19,000 claims with new issues that were awaiting initial review – the rest had been investigated and determined and were therefore not part of a backlog.
- **Cleared claims counted as fraud.** Some claims the SAO categorizes as “claimant fraud” have in fact been investigated and cleared.
- **Lack of understanding of processes.** This led to numerous examples of incorrect information and confusion, including about eligibility and identity fraud and basics about how the unemployment programs work.
- **Payments to incarcerated individuals remains a low risk issue.** The Accountability Audit calls out 1,500 incarcerated individuals applied for unemployment insurance in 2020. What the findings fail to elaborate is that of the 1,500:
 - Only 67 were newly identified claimants that were determined to be committing fraud.
 - The rest had already been flagged, were legitimate claimants or otherwise found to be not fraudulent.

ESD was a committed partner in both of these audits

ESD deeply appreciates the role of SAO, and welcomes any new insights that will bolster the progress we have already made to reduce the risk of fraud and improve our customer service. As with any agency that delivers essential services, our constant challenge is in balancing service delivery and the safeguarding of public funds.

- **Hundreds of staff hours were dedicated to responding to the detailed requests from SAO.** These hours were spent gathering the required information and developing new reports requested by the SAO. Often requiring complex technical programming, this siphons hours otherwise spent implementing benefit extensions and customer service improvements.
- **ESD provided the SAO the data requested within their parameters.** The data ESD provided the SAO was timely and in the format investigators requested, as they confirmed during meetings with ESD staff. The only exception was a report that breaks the losses out by federal vs. state dollars. ESD shared in advance with the SAO that this takes extra development time, and agreed to a later delivery date.