

WA Unemployment Benefit Programs in 2020:

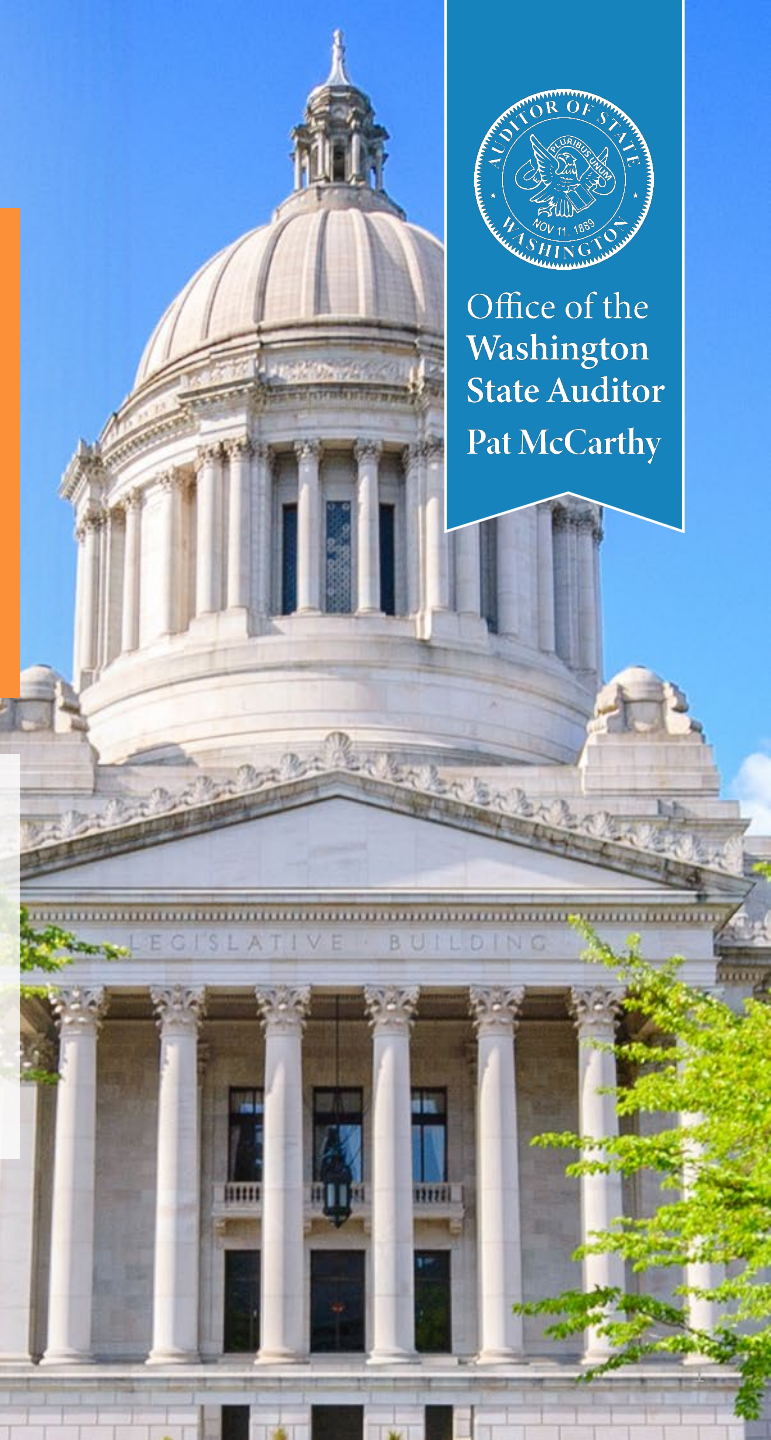
Understanding improper
payments and service delays
during the COVID-19 pandemic



Office of the
Washington
State Auditor
Pat McCarthy

Deborah Stephens, *Senior Performance Auditor*
Diana Evans, *IT Auditor*

Joint Legislative Audit & Review Committee
April 28, 2021



Multiple audits examined Washington's Unemployment Insurance (UI) programs



Our Office looked at issues arising during the 2020 pandemic at the Employment Security Department from many angles:

- Federal and state financial audits
- Accountability audit
- Fraud audit
- IT systems audit
- Performance audit

This presentation addresses results from the IT systems and performance audits.

Today's presentation



The IT systems audit examined ESD's Unemployment Tax and Benefits System (UTAB)

The performance audit was designed to understand

- Extent of and causes behind the Unemployment Insurance benefits fraud and customer service issues
- How Washington's experiences compared to other states

IT systems audit looked at selected application controls



- What the Unemployment Tax and Benefits (UTAB) system is designed to do:
 - Determine eligibility
 - Calculate benefit amount
 - Process payments
 - Store claim and claimant data
- Some background
 - Replaced legacy payment system
 - Developed by a third-party vendor
 - Implemented January 2017

IT systems audit objective and results



Were selected controls governing ESD's Unemployment Tax and Benefits System (UTAB) adequately designed and implemented to provide reasonable assurance of complete, accurate, secure and available data?

Results

- Agency could make improvements to controls
- Detailed results provided to ESD
- Some results in the Performance Audit report

Because public distribution of certain tests performed and the related results could increase risk to the Department's IT security, distribution of that information has been limited to management of the Department and is kept confidential under RCW 42.56.420

Overview of performance audit results



The fraud

- Criminals exploited the spike in claims and relaxed controls to commit massive fraud
- ESD's fraud detection and prevention portfolio was not capable of combating the sophisticated imposter fraud attack

Customer service issues

- ESD struggled to maintain customer service in light of the explosion of claims, and is still working to improve service

Other states also experienced fraud and service delays



Washington's UI claims exceeded 180,000 in March 2020

Soon after, the unemployment rate topped 16 percent



Federal CARES Act helped fund state support to affected workers



- Pandemic Unemployment Assistance (PUA) helped workers not usually eligible for benefits
 - PUA allowed eligibility without typical employment verification procedures
- CARES Act gave states incentives to waive the “waiting week” prior to payment
 - Waiting week is the first week of UI eligibility during which no payment is made
 - Act funded the first week of benefits with federal dollars
- CARES Act also provided additional benefits to those receiving regular unemployment benefits

Criminals exploited the spike in claims, using stolen personal information



- Widespread availability of previously stolen personal information on the “dark web”
- Washington was an early target
 - Ground zero for COVID-19 in the U.S.
 - Implemented aggressive policies to slow spread of the virus

```
def operation == "MIRROR_X":
    mirror_mod.use_x = False
    mirror_mod.use_y = True
    mirror_mod.use_z = False
elif operation == "MIRROR_Z":
    mirror_mod.use_x = False
    mirror_mod.use_y = False
    mirror_mod.use_z = True

#selection at the end -add back the deselected mirror modifier object
mirror_ob.select= 1
modifier_ob.select=0
context.scene.objects.active = modifier_ob
print("Selected" + str(modifier_ob)) #modifier ob is the active ob
mirror_ob.select = 0

name = bpy.context.selected_objects[0]
obj.data.digits[0:10].select = 1

#selection at the end -add back the deselected mirror modifier object
mirror_ob.select= 1
modifier_ob.select=0
context.scene.objects.active = modifier_ob
print("Selected" + str(modifier_ob)) #modifier ob is the active ob
mirror_ob.select = 0

name = bpy.context.selected_objects[0]
obj.data.digits[0:10].select = 1
```

ESD's understanding of the scope of the fraud was not immediate

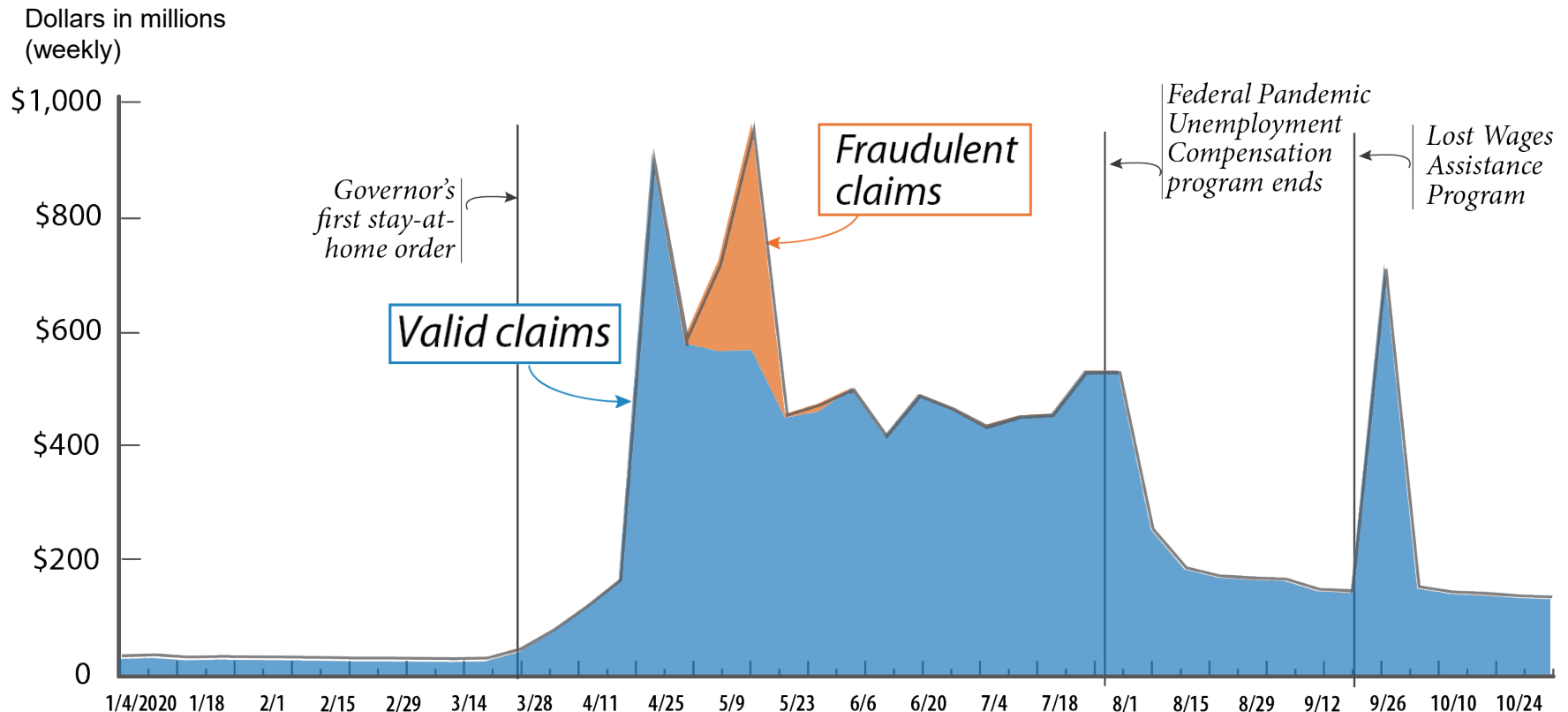


- Federal agents contacted ESD in late April with reports of bad actors filing UI claims in the names of working City of Seattle employees
- Other public sector entities followed with similar reports over the first two weeks of May
- ESD staff were helping to answer phones from the flood of unemployment claims
- In mid-May, the U.S. Secret Service issued an alert regarding imposter fraud targeting UI programs in Washington and other states

ESD identified \$647 million in payments on fraudulent claims through 12/2020



More than 90% occurred in the first two weeks of May





Factors contributing to the fraud

ESD's electronic **fraud detection tools** were not able to detect the sophisticated imposter fraud

- Criminals were organized and sophisticated
- Methods made claims appear legitimate, and therefore evaded detection by existing tools

Timing to apply fraud detection tools also played a role

- Until mid-May, tools were not applied until the day *after* a claim was filed
- After the waiting week was waived, some fraudulent claims got through

CARES Act directives for PUA also contributed to the fraud



Claimants could self-certify employment: no rigorous review as with regular UI claims

- In May, the Office of the Inspector General warned about the risk of fraud as a result of self-certification provision
- Extension of the PUA program at the end of 2020 now requires documentation of employment

PUA benefits backdated to the date of a claimant's self-reported termination

- Required backdating increased the *dollar amount* on fraudulent claims

Waived waiting week likely affected the *dollar value* of fraudulent payments



CARES Act fully funded the first week of UI benefits to claimants in states that waived the waiting week

- On its own, waiving the waiting week did not significantly affect the *number* of successful fraudsters
 - Sophisticated criminals evaded existing fraud detection tools with or without the waiting week
- Worsened other problems, such as the timing issue
- Did affect total payments to successful fraudsters
 - Fraudsters received *more money* without the waiting week

Other controls the state disabled likely did not affect the fraud



For one month, ESD allowed existing claimants to create a new Secure Access Washington (SAW) account to apply for new benefits

- Many had forgotten login credentials for existing SAW accounts
- Very little known fraud occurred during that month

WaTech disabled multi-factor authentication when the claims surge slowed other agency applications

- Criminals can have new accounts created with their own devices used for authentication

ESD has already made a number of changes to improve fraud response



Better detection: Improved the sophistication of electronic fraud detection tools

More time to process payments: Implemented a two-day hold on all benefit payments

Better prevention: Currently building a more robust anti-fraud unit:

- Hired experts in data analytics to monitor trends that can help alert to widespread fraud
- Expanded the number of investigators

ESD struggled to maintain high levels of customer service



Payment times were higher at times because the number of staff was not sufficient to process the explosion of claims

Steps ESD took to address the fraud also expanded payment times

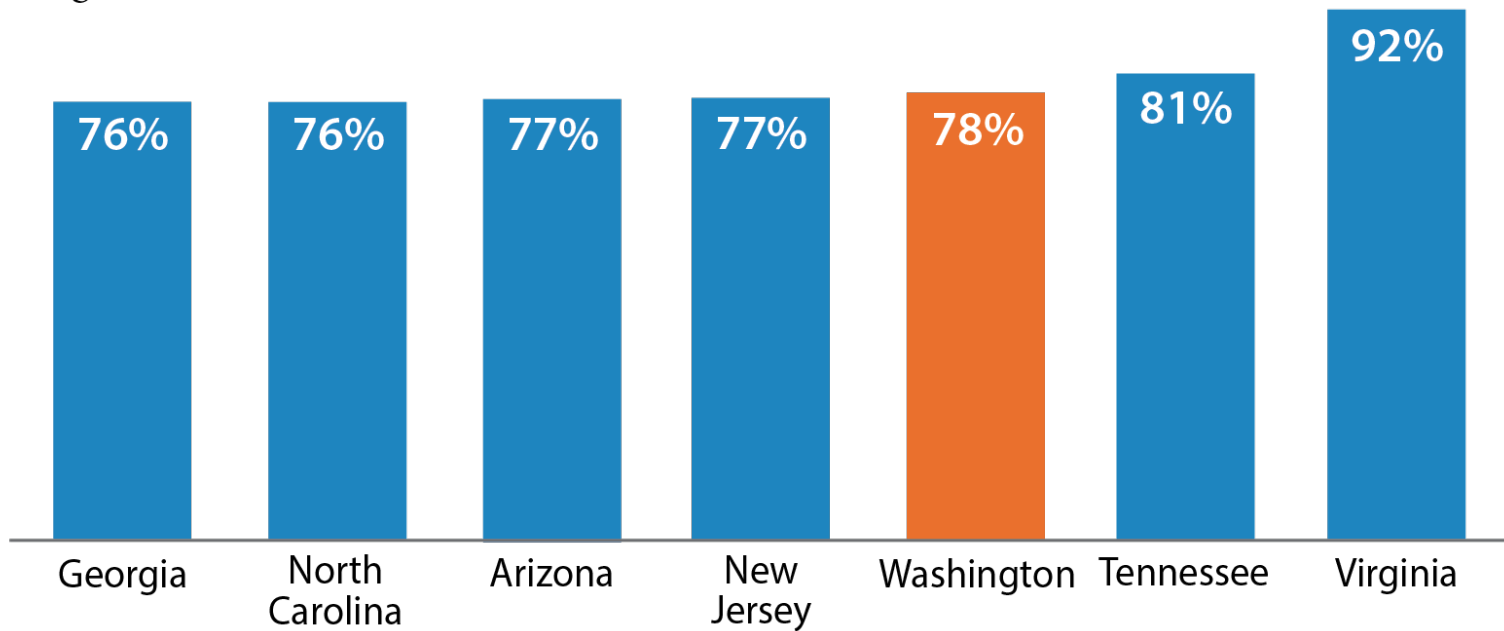
- Early May, ESD temporarily suspended all payments for two days
- Late May, ESD imposed a two-day hold on all payments
- Also began conducting reviews on all backdated claims

ESD struggled to maintain high levels of customer service



Overall, payment times were consistent with those in states with comparable claims during the pandemic

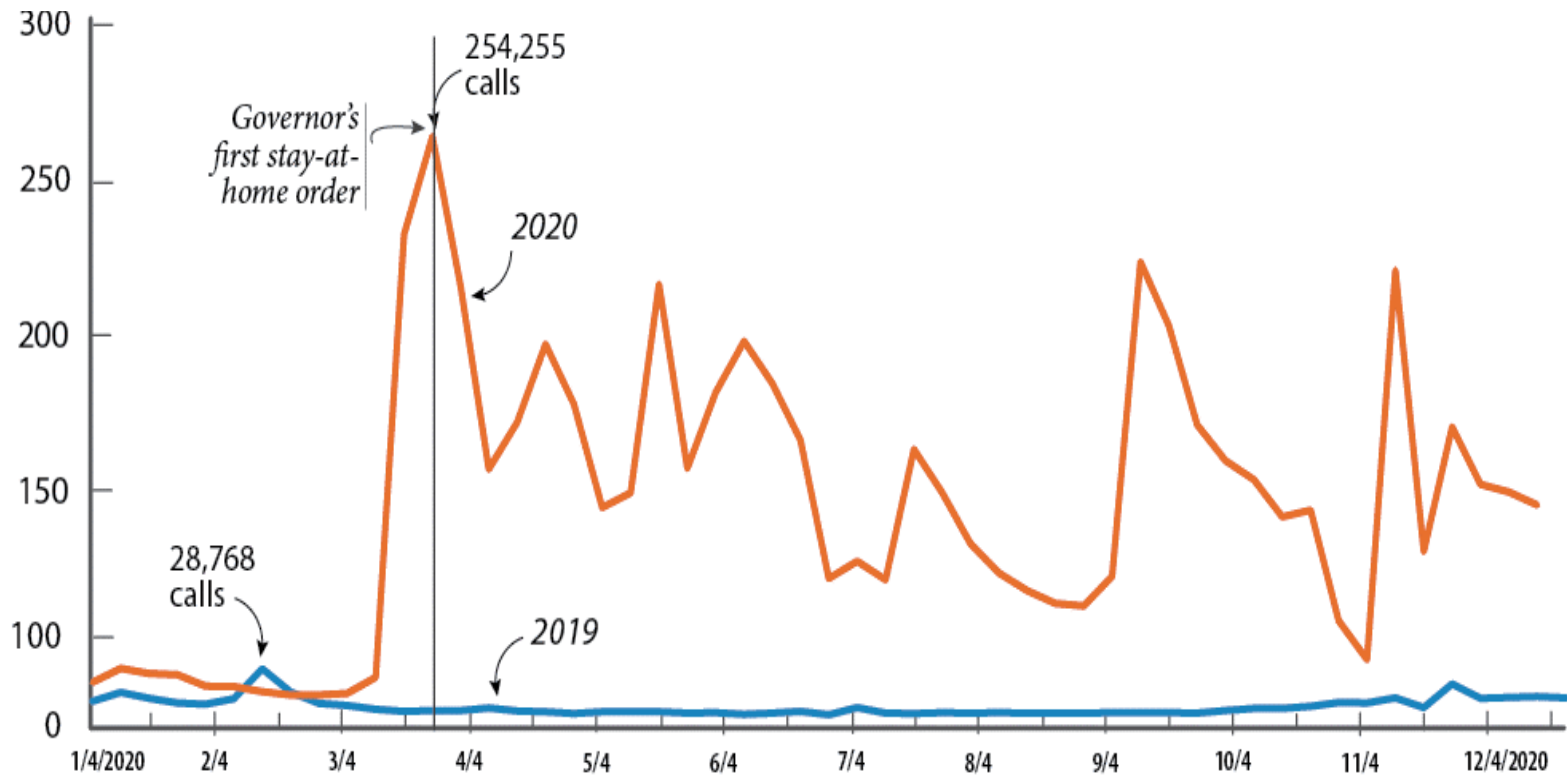
Percent of regular UI claims paid within 21 days



Calls initially spiked with business restrictions or new relief programs



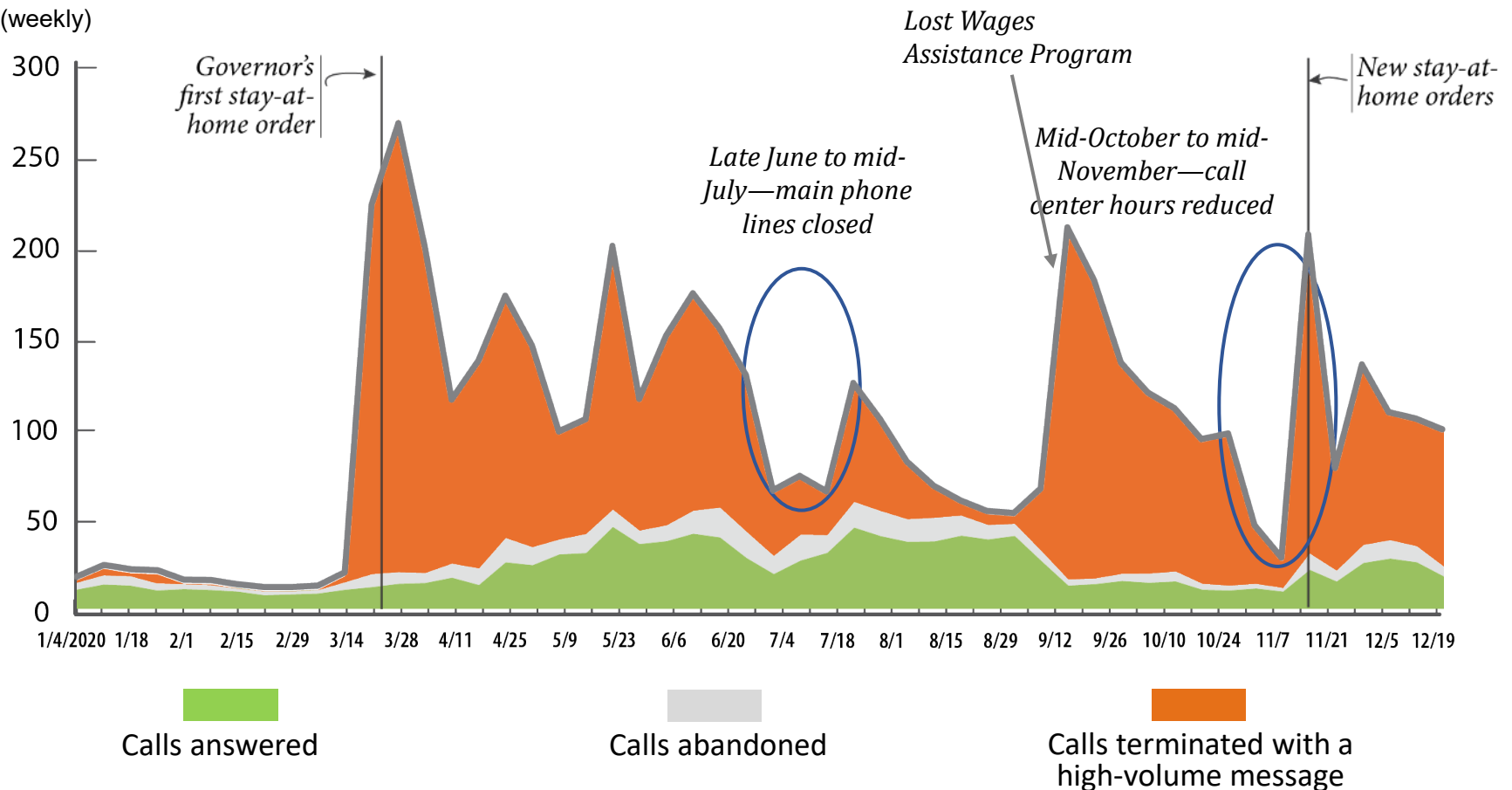
Number of calls in thousands (weekly)



Calls exceeded call center's capacity, at times most could not get through



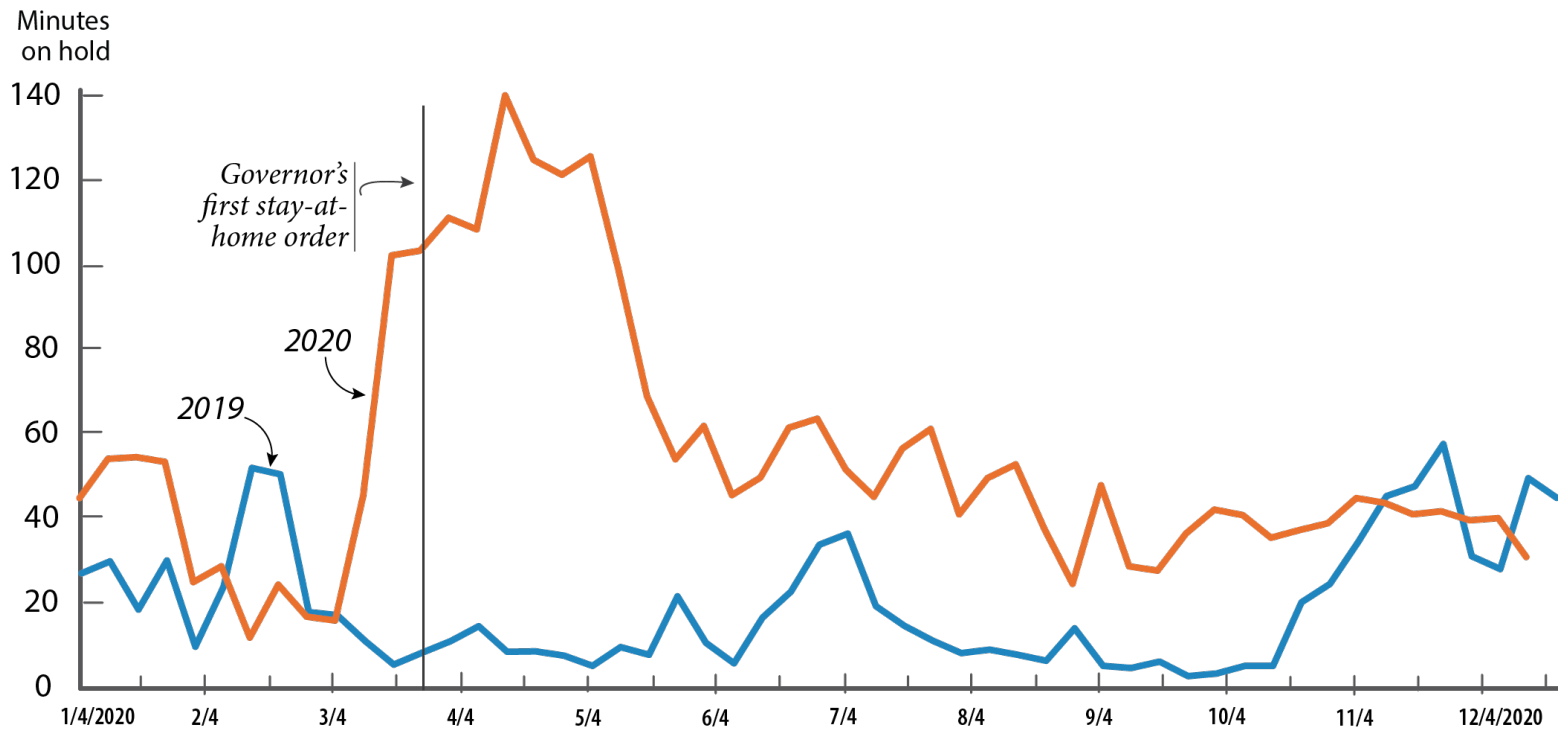
Number of calls in thousands (weekly)





Shorter wait times by changing priorities

Callers wait less time on hold now, but primarily because ESD chooses to let fewer callers through



Customer service problems persist as ESD works to resolve them



The agency:

- Continues to hire new employees
 - The same people both process claims and answer caller questions
 - Onboarding and training takes time
- Opened a new Call Center in November
- Added a callback option to reduce wait times

View audit results online, including interactive data visualization



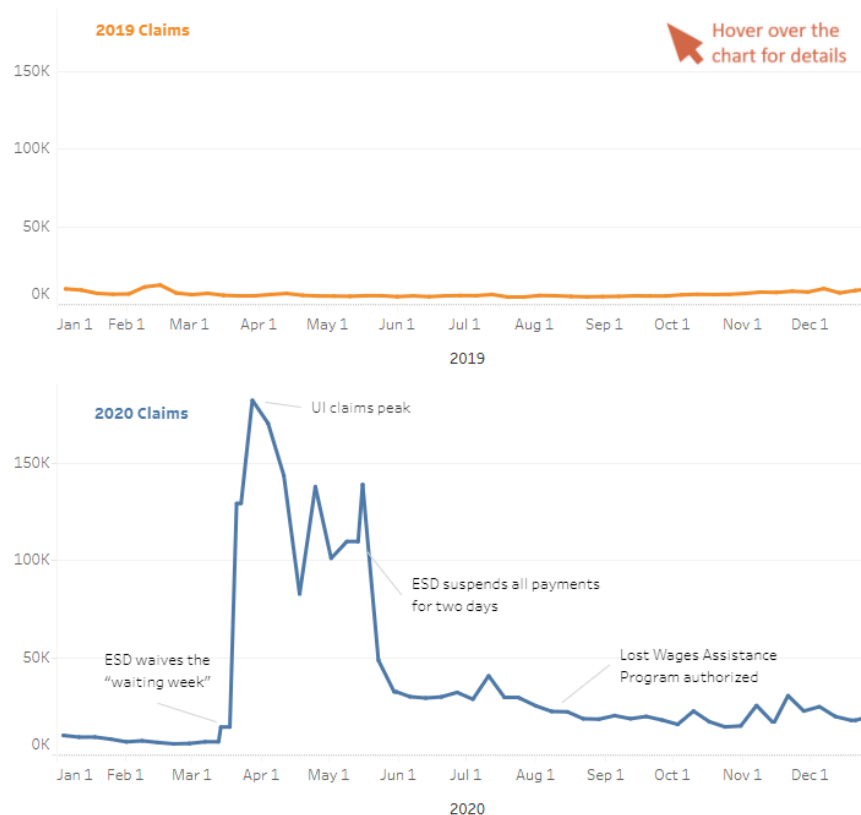
View results of all related ESD audits on our website at:

sao.wa.gov/performance_audit/washingtons-unemployment-benefit-programs-in-2020

New claims for benefits skyrocketed

The pandemic's effect on Washington's economy was unlike anything seen before. As the governor ordered schools and businesses closed, and curtailed public and private gatherings, employees found themselves abruptly out of work by the thousands. The dramatic spike in claims for unemployment insurance benefits was unprecedented.

As this pair of charts show, claims for unemployment benefits typically show some seasonal upticks, such as during the winter months. In one week in late March, claims reached more than 180,000. As a comparison, weekly claims in 2019 exceeded 10,000 only four times all year.



Questions



Contact Information



Pat McCarthy

State Auditor

Pat.McCarthy@sao.wa.gov

(564) 999-0801

Scott Frank

Director of Performance & IT Audit

Scott.Frank@sao.wa.gov

(564) 999-0809

Deborah Stephens

Senior Performance Auditor

Deborah.Stephens@sao.wa.gov

(564) 999-0929

Diana Evans

IT Auditor

Diana.Evans@sao.wa.gov

(564) 999-0952

Website: www.sao.wa.gov

Twitter: [@WASateAuditor](https://twitter.com/WASateAuditor)

Facebook: www.facebook.com/WASateAuditorsOffice