

**Report 20-5
July 2020**

Overpayment of Certain Unemployment Insurance Program Benefits

Department of Workforce Development

STATE OF WISCONSIN



Legislative Audit Bureau ■

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Department of Workforce Development

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STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman
State Auditor

July 15, 2020

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

Under provisions of 2019 Wisconsin Act 185, we have completed a limited-scope review of the Department of Workforce Development's (DWD's) reported overpayment of Unemployment Insurance (UI) program benefits in late-April 2020. To equip DWD to begin implementation of our recommendations, we completed our review as quickly as possible and before we could attempt to independently confirm certain information about the reported overpayments.

DWD publicly reported that a malfunction in its information technology systems resulted in it overpaying program benefits on April 29. However, our review of available information indicates DWD also likely overpaid program benefits on April 28. DWD has not reported on the total number of individuals to whom it overpaid program benefits over this two-day period or the total amount that it overpaid them.

To date, DWD has appropriately focused on paying program benefits to unemployed individuals and has not attempted to recover all overpayments it likely made on April 28 and April 29. Actions taken by DWD on April 30 may have also resulted in it overpaying and underpaying unknown numbers of individuals.

We make several recommendations to DWD for improvements. In particular, DWD should as quickly as possible pay individuals the program benefits they are entitled to receive but may not have received because of actions it took on April 30. DWD should also recover any overpayments that it made on April 28 and April 29 that it has not yet attempted to recover.

We appreciate the courtesy and cooperation extended to us by DWD. A response from DWD follows our report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Joe Chrisman'.

Joe Chrisman
State Auditor

JC/DS/ss

Overpayment of Certain Unemployment Insurance Program Benefits ■

2019 Wisconsin Act 185, which was enacted in April 2020, requires the Legislative Audit Bureau to use risk-based criteria to review selected programs affected by Act 185 and selected expenditures made with funds authorized by Act 185. We have completed a limited-scope review of the Department of Workforce Development's (DWD's) reported overpayment of Unemployment Insurance (UI) program benefits to individuals in late-April 2020.

DWD administers the UI program, which pays monetary benefits to certain individuals who have lost their jobs.

DWD administers the UI program, which pays monetary benefits to certain individuals who have lost their jobs. To be paid these benefits, an individual must provide DWD with a work history and other information. Before recently enacted federal legislation, individuals were paid from \$54 to \$370 per week in program benefits, which are typically directly deposited into the bank accounts of individuals or loaded onto prepaid debit cards that are mailed to individuals and can be reloaded with additional program benefits.

In March 2020, the federal *Coronavirus Aid, Relief, and Economic Security* (CARES) Act created several new types of UI benefits, including those provided through the Federal Pandemic Unemployment Compensation program. Under this program, individuals paid program benefits are automatically paid an additional \$600 per week in federal benefits for the four-month period from March 29, 2020, through July 25, 2020. Although individuals were first eligible to be paid these additional benefits on March 29, DWD did not begin to pay them until April 28.

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On a given day, DWD's information technology (IT) systems process the amounts of program benefits to be paid to individuals on the following day. This process includes the transmission of an electronic payment file to U.S. Bank, with which DWD contracted to disburse program benefits to individuals, including those with accounts at other banks. This payment file indicates the amounts to be directly deposited into the bank accounts of individuals, which is how most program benefits are paid, or loaded onto the debit cards of individuals not paid by direct deposits.

On May 1, DWD publicly reported that a malfunction in its IT systems had resulted in the overpayment of an unspecified amount of program benefits on April 29.

On May 1, DWD publicly reported that a malfunction in its IT systems had resulted in the overpayment of an unspecified amount of program benefits on April 29. These overpayments were associated with retroactive benefits that individuals were entitled to be paid as a result of being unemployed in prior weeks but that had not yet been paid. Although DWD recovered most overpayments before individuals received them, it reported that 2,340 individuals were actually paid amounts through direct deposits that it subsequently recovered on April 30.

To complete this review, we interviewed DWD and reviewed program policies and other information it provided us. Although we requested access to DWD's UI data in May 2020, we were not provided these data until June 30. As a result, we were unable to independently confirm certain information that DWD provided us. To equip DWD to begin implementation of our recommendations, we completed our review as quickly as possible and before we could attempt to independently confirm certain information about the reported overpayments. Our review of other aspects of DWD's management of the program is ongoing.

Scope of Overpayments

DWD's information indicates that DWD authorized and paid \$79.0 million in program benefits by direct deposits on April 29, including \$19.6 million that DWD indicated were duplicate payments that it recovered the next day. DWD's information also indicates that DWD overpaid \$1.5 million in overpayments by debit cards on April 29. However, DWD indicated it may have overpaid additional amounts to unknown numbers of individuals on April 29. Its analysis of these additional overpayments is incomplete but ongoing.

In addition to the overpayments on April 29, DWD likely overpaid program benefits on April 28.

In addition to the overpayments on April 29, our review of the available information indicates that DWD likely overpaid program benefits on April 28, including an estimated \$15,200 in amounts it loaded onto debit cards. DWD has not estimated the amount it overpaid by direct deposits on April 28. However, DWD indicated

that it paid 85.0 percent of all program benefits in fiscal year 2018-19 by direct deposits. Therefore, if DWD made 85.0 percent of all overpayments on April 28 by direct deposits, it may have overpaid an estimated \$86,100 by direct deposits.

As shown in Table 1, the available information indicates that DWD may have overpaid an estimated \$21.2 million in program benefits on April 28 and April 29. However, DWD may have overpaid additional amounts.

Table 1

Estimated Overpayments of Program Benefits Authorized by DWD¹

	Overpayment Method		Total
	Direct Deposit	Debit Card	
April 28	\$ 86,100	\$ 15,200	\$ 101,300
April 29	19,556,900 ²	1,544,800	21,101,700
Total	\$19,643,000	\$1,560,000	\$21,203,000

¹ The precise amount of overpayments is not yet known.

² DWD recovered this amount on April 30, according to its information.

DWD should determine the number of individuals to whom it overpaid program benefits on April 28 and April 29 and the amounts it overpaid them. In doing so, it should include all amounts it authorized for payment. DWD should then report on this information, including by specifying the number of individuals overpaid and the amounts it overpaid on each of these two days.

Recommendation

We recommend the Department of Workforce Development:

- *determine the number of individuals to whom it overpaid Unemployment Insurance program benefits on April 28, 2020, and April 29, 2020, and the amounts it overpaid on each of these two days; and*
- *report to the Joint Legislative Audit Committee by August 14, 2020, on the status of its efforts to implement this recommendation.*

Recovering Overpayments

DWD provided us information indicating that, on April 30, it did recover \$19.6 million in duplicate payments it had made by direct deposits on April 29. However, other actions taken by DWD on April 30 may have resulted in DWD making additional overpayments as well as underpayments to unknown numbers of individuals. DWD indicated that it is in the process of identifying the extent of these overpayments and underpayments.

DWD has not attempted to recover all overpayments it may have made.

To date, DWD has appropriately focused on paying program benefits to unemployed individuals and has not attempted to recover overpayments it may have made by direct deposits on April 28 or the overpayments it may have made to debit cards on either April 28 or April 29. DWD can offset future benefits payments or initiate collections to recover overpayments.

As quickly as possible, DWD should pay individuals the program benefits they are entitled to receive but that DWD may have underpaid because of the actions it took on April 30. DWD should also recover any overpayments that it made on April 28 and April 29 but that it has not yet attempted to recover. To the extent that individuals regain employment, they will no longer be paid program benefits that DWD could use to offset overpayments. In addition, individuals who remain unemployed after July 25 will not receive the additional \$600 per week in federal benefits, which will make it more challenging to recover past overpayments by offsetting future benefits payments.

Recommendation

We recommend the Department of Workforce Development:

- *pay individuals the Unemployment Insurance program benefits they were entitled to receive but that they may have been underpaid because of the actions taken on April 30, 2020;*
- *recover any Unemployment Insurance program benefits that it overpaid on April 28, 2020, and April 29, 2020, but that it has not yet attempted to recover; and*
- *report to the Joint Legislative Audit Committee by August 14, 2020, on the status of its efforts to implement these recommendations.*

Increasing the Accuracy of Payments

Through April 2020, DWD electronically sent daily payment files to U.S. Bank without having first verified the accuracy of these files. After DWD discovered the error that caused the overpayments in late-April, it developed new written policies that require it to verify the accuracy of the payment files before sending them to U.S. Bank. The policies require DWD to compare a given payment file with its IT systems in order to confirm the accuracy of the payment file, including the benefit amounts and the Social Security numbers and bank account numbers of individuals.

The policies also require DWD to verify that the total amount to be paid and the total number of payments in a payment file match corresponding information in its IT systems. We reviewed the summary results of the verification process that DWD completed for two days in June and found that the total amounts to be paid and the total number of payments in both payment files matched the corresponding information in the IT systems.

Policies do not require DWD to ensure that it pays all benefits payments that should be made on a given day.

Although these policies require DWD to verify the accuracy of payment files, we found that they do not require it to ensure a payment file includes all benefits payments that should be made on a given day. DWD should modify its policies to require it to verify that the payment files it sends to U.S. Bank include all benefits payments that should be made on a given day, and it should then consistently follow these policies. Doing so will help it to improve the accuracy of payments and ensure that individuals receive the program benefits they are legally entitled to receive.

Recommendation

We recommend the Department of Workforce Development:

- *modify its policies to require it to verify that the payment files include all Unemployment Insurance benefits payments that should be made on a given day;*
- *consistently follow these modified policies; and*
- *report to the Joint Legislative Audit Committee by August 14, 2020, on the status of its efforts to implement these recommendations.*

■ ■ ■ ■

Response ■

Department of Workforce Development
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Tony Evers, Governor
Caleb Frostman, Secretary

July 10, 2020

State Auditor Joe Chrisman
22 East Main St. Suite 500
Madison, WI 53703

Dear State Auditor Chrisman,

Thank you for reviewing the Department of Workforce Development's overpayment of Unemployment Insurance (UI) benefits in late April. As you know, Governor Tony Evers had directed the Department of Administration's State Controller's Office and Division of Enterprise Technology to also perform a limited review of the UI program in May. I appreciate both DOA and the Legislative Audit Bureau evaluating the incident and providing recommendations that will help us improve the UI program so that we can provide better service to the people of Wisconsin.

Over the past 17 weeks, DWD has been working diligently to disburse over \$2.5 billion to approximately 426,000 Wisconsinites who have been out of work since the COVID-19 pandemic struck Wisconsin. We have done so while deploying three new federal programs, including Federal Pandemic Unemployment Compensation (FPUC). Our sense of urgency could not be greater to implement these programs to provide additional financial stability to Wisconsin families and our entire state's economy.

As you note in your report, FPUC is a new temporary supplemental benefit program that offers claimants an additional \$600 per week in UI benefits. The program was created by the federal government in the CARES Act, which passed into law on March 27, and is set to expire July 31. DWD began disbursing FPUC benefits on April 28.

The night of April 29, DWD issued a payment file to U.S. Bank for \$79 million in UI and FPUC direct deposit payments to 39,181 claimants, including for the first time, some retroactive FPUC benefits dating back to the week of March 29. DWD's Bureau of Tax and Accounting learned of an error from a claimant who reported receiving duplicate FPUC payments on April 30 around 8:00 a.m. and took action to reverse all direct deposits by 1 p.m. that day. The Department determined that 20,135 duplicate payments were included in the file, which totaled \$19,556,881.25. Only payments to claimants with U.S. Bank accounts were deposited. Claimants who do not bank at U.S. Bank were scheduled to receive their direct deposit May 1; thus, the April 30 reversal of the erroneous payment file canceled the UI and FPUC payments to those claimants and there were no deposits for those claimants. Deposits at U.S. Bank totaled \$4,848,127 for 2,340 claimants. When the U.S. Bank deposits were reversed, all but \$115,387 was recouped.

DWD confirmed a programming error that led to overpayments the afternoon of April 30 and worked with U.S. Bank to redistribute retroactive FPUC benefits, so all claimants received benefits the morning of May 1. After redistributing those benefits, additional issues were revealed in the payment file. DWD has been analyzing these issues to determine the full impact and the appropriate corrective solutions.

Since May 1, DWD has implemented a reconciliation process to compare payments on the database to the payment file. Another special file was needed on May 1 to pick up payments that had been missed from the night before. All payment files were reconciled, and we conducted a manual check-out as well. The reconciliation process has continued nightly, which has included manual check-outs if a new or special processing occurs.

We owe it to the public to deploy federal benefit programs as quickly as possible, and we are likewise committed to doing so accurately to ensure eligible claimants receive benefits while protecting the integrity of

the UI Trust Fund and the U.S. Treasury. The issues we have discovered since May 1 have emphasized the importance of improving our UI policies and procedures. Although the Department immediately began our own internal investigation to identify and address outstanding issues, we are grateful for the additional review and recommendations provided through this audit. We accept all recommendations.

Below I provide a more thorough response to each of your recommendations:

Recommendation 1: Determine the number of individuals [DWD] overpaid Unemployment Insurance program benefits on April 28 2020, and April 29, 2020, and the amounts it overpaid on each of these two days; and report to the Joint Legislative Audit Committee by August 14, 2020, on the status of [DWD's] efforts to implement this recommendation.

DWD accepts this recommendation. DWD began immediately to perform analyses of overpayment and underpayment errors and initiating corrections for the same. UI analyzed the discrepancies between the bank payment file and the database and created scan files of these differences by claimants' social security numbers. The Department intends to complete the analysis of errors that occurred in the April 28 through April 29 batch cycles by August 14.

Recommendation 2: Pay individuals the Unemployment Insurance program benefits they were entitled to receive but that they may have been underpaid because of the recovery actions taken on April 30, 2020; recover any Unemployment Insurance program benefits that it overpaid on April 28, 2020, and April 29, 2020, but has not yet attempted to recover; and report to the Joint Legislative Audit Committee by August 14, 2020, on the status of [DWD's] efforts to implement this recommendation.

DWD accepts this recommendation. The week of July 6 DWD manually issued corrections to 52 claimants who were underpaid \$89,760 and is working on an automated process to pay the remaining underpaid claimants by August 14. The Department continues to evaluate options for recovering overpayments, including through automated or manual solutions, and intends to complete this effort by August 14.

Recommendation 3: Modify policies to require it to verify that the payment files include all Unemployment Insurance benefits payments that should be made on given day; consistently follow these modified policies; and report to the Joint Legislative Audit Committee by August 14, 2020, on the status of its efforts to implement this recommendation.

DWD accepts this recommendation. In response to my May 7, 2020 directive, DWD drafted, published, and is actively following a policy titled UI Benefit Payment Processing Integrity Policy and Procedures. This policy includes processes for pre-transmission verifications, post-transmission reconciliation, and procedures to be used in case of errors and exceptions, including an escalation process to immediately notify appropriate levels of management for resolution. Now that we have received your recommendations, we will add to the policy a verification procedure to ensure that the payment files include all designated benefits payments for a given day.

Thank you again for your review of the UI program's overpayment incident. We will continue to implement the policies and procedures necessary to expedite your recommendations and provide better service to all Wisconsin workers and employers. If you have any questions regarding this response, please feel free to contact me.

Sincerely,



Caleb Frostman Secretary