

Montana Department of Labor and Industry



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Department Structure

- Commissioner's Office
- Centralized Services Division
- Employment Relations Division
- Unemployment Insurance Division
- Workforce Services Division
- Business Standards Division
- Technology Services Division

Financial Misstatements

In fiscal year 2021, the department's controls did not prevent, or detect and correct in a timely manner, several multi-million dollar misstatements in its accounting records related to the Unemployment Insurance (UI) program.

Effects of Fiscal Year 2021 Misstatements on Financial Schedules

Recommendation #1

Schedule of Changes in Fund Equity

Fund/Program	Line Item	Over/(Under)stated)
Federal Special Revenue Fund	Budgeted Revenues & Transfers-In	(\$2,878,831)
	Total Additions	(\$2,878,831)
	Fund Equity June 30	(\$2,878,831)
Enterprise Fund	Budgeted Revenues & Transfers-In	(\$29,457,759)
	Prior Year Revenues & Transfers-In Adjustments	\$4,298,161
	Total Additions	(\$25,159,598)
	Budgeted Expenditures & Transfers-Out	(\$830,254)
	Nonbudgeted Expenditures & Transfers-Out	\$10,630,860
	Total Reductions	\$9,800,606
	Fund Equity June 30	(\$34,960,204)

Schedule of Total Revenues & Transfers-In

Federal Special Revenue Fund	Fines and Forfeits	(\$2,878,831)
	Total Revenues & Transfers-In	(\$2,878,831)
	Actual Budgeted Revenues & Transfers-In	(\$2,878,831)
Enterprise Fund	Federal	(\$25,159,598)
	Prior Year Revenues & Transfers-In	\$4,298,161
	Actual Budgeted Revenues & Transfers-In	(\$29,457,759)

Schedule of Total Expenditures & Transfers-Out

Unemployment Insurance Division	Other Expenses	\$10,630,860
	Benefits and Claims: To Individuals	(\$830,254)
	Total Expenditures & Transfers-Out	\$9,800,606
	Expenditures & Transfers-Out by Fund: Enterprise Fund	\$9,800,606
	Expenditures & Transfers-Out by Fund: Total Expenditures & Transfers-Out	\$9,800,606
	Less: Nonbudgeted Expenditures	\$10,630,860
	Actual Budgeted Expenditures & Transfers-Out	(\$830,254)
	Unspent Budget Authority	\$830,254
	Unspent Budget Authority By Fund: Enterprise Fund	\$830,254

Effects of Fiscal Year 2021 Misstatements on Financial Schedules

Schedule of Changes in Fund Equity - page A-4

Fund/Program	Line Item	Over/(Under)stated)
Enterprise Fund	Budgeted Revenues & Transfers-In	(\$29,457,759)
	Total Additions	(\$25,159,598)
	Fund Equity June 30	(\$34,960,204)

Schedule of Total Revenues & Transfers-In - page A-6

Enterprise Fund	Federal	(\$25,159,598)
	Actual Budgeted Revenues & Transfers-In	(\$29,457,759)

Effects of Fiscal Year 2021 Misstatements on Financial Schedules

Schedule of Changes in Fund Equity - page A-4

Fund/Program	Line Item	Over/(Under)stated)
Enterprise Fund	Nonbudgeted Expenditures & Transfers-Out	\$10,630,860
	Total Reductions	\$9,800,606

Schedule of Total Expenditures & Transfers-Out - page A-8

Unemployment Insurance Division	Other Expenses	\$10,630,860
	Total Expenditures & Transfers-Out	\$9,800,606
	Expenditures & Transfers-Out by Fund: Enterprise Fund	\$9,800,606
	Expenditures & Transfers-Out by Fund: Total Expenditures & Transfers-Out	\$9,800,606
	Less: Nonbudgeted Expenditures	\$10,630,860

Prior Audit Recommendation #1

We recommend the Department of Labor and Industry implement controls to reconcile the Unemployment Insurance cash balance on the State's accounting records to the monthly federal UI trust balance report.

Results

- Material weakness in internal controls outlined in report on Internal Control and Compliance on page B-1 of report
- Qualified opinion on fiscal year 2021 financial schedules

Current Audit Recommendation #1

We recommend the Department of Labor and Industry enhance its internal controls over the recording of financial transactions related to its Unemployment Insurance Program to ensure all necessary transactions are recorded on the state's accounting system before fiscal year-end as required by state law.

Unemployment Insurance (UI) Internal Control and Federal Compliance



Summary of New UI Programs and Funding

UI program	Effective Date	Purpose	Federal Funding Source	2020 Total Revenue	2021 Total Revenue
Federal Pandemic Unemployment Compensation (FPUC)	3/29/2020-7/25/2020	Provided extra \$600 per week	CARES Act (Direct to the department)	\$446,625,767	\$82,785,020
Pandemic Emergency Unemployment Compensation (PEUC)	3/29/2020-12/26/2020	Provided an additional 13 weeks of benefits to regular UI claims		\$5,223,834	\$3,057,126
Pandemic Unemployment Assistance (PUA)	2/2/2020-12/26/2020	Provided benefits to those not usually eligible for regular benefits		\$27,957,146	\$36,269,353
Lost Wages Assistance (LWA)	7/26/2020-9/05/2020	Provided extra \$300 per week	Federal Emergency Management Administration (FEMA)		\$46,572,236
		Provided extra \$100 per Week	CARES Act funding transferred from the Governor's Office		\$30,865,431
Interim Pandemic Assistance (IPA)	11/22/2020-12/19/2020	Provided extra \$200 per week			
Federal Pandemic Unemployment Compensation (FPUC)	12/27/2020-3/13/2021 (subsequently extended to 9/4/2021 - Montana chose to end benefits June 26, 2021)	Provided extra \$300 per week	Continued Assistance for Unemployed Workers Act of 2020 (Direct to the department)		\$220,493,048
Pandemic Emergency Unemployment Compensation (PEUC)	12/27/2020-3/13/2021 (subsequently extended to 9/4/2021 - Montana chose to end benefits June 26, 2021)	Provided an additional 11 weeks of benefits to regular UI claims		\$77,919,568	
Pandemic Unemployment Assistance (PUA)	12/27/2020-3/13/2021 (subsequently extended to 9/4/2021 - Montana chose to end benefits June 26, 2021)	Provided benefits to those not usually eligible for regular benefits		\$96,859,391	
Total				\$479,806,747	\$594,821,174

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Pandemic Unemployment Assistance (PUA) System

- Department contracted with a vendor to use software developed specifically for the PUA program
- PUA program had different eligibility requirements from regular UI
- MISTICS could not easily process volume of claims or new requirements

Pandemic Unemployment Assistance (PUA) System Audit Issues

- Proprietary system - LAD IS auditors could not review the system to provide audit assurance
- No Service Organization Controls (SOC) report
- No documented controls over user access
- No documented controls over change management processes

Recommendation #2

We recommend the Department of Labor and Industry enhance internal controls by obtaining an application-level Service Organization Controls (SOC) report, or implement and formally document baseline security controls for all new Unemployment Insurance program-related information technology systems, as required by state policy and federal regulations.

Pandemic
Unemployment
Assistance (PUA)
Benefit Errors



UI Benefit Calculations

Based on the greater of 1% of the base period's earnings or 1.9% of the highest two quarters of earnings.

Income Verification

- **Regular UI** usually has employer wage information to verify claimant income information
- **PUA** allows those not eligible for regular UI - income verification could include combinations of:
 - Employer information
 - Tax forms
 - Bank statements
 - Profit and Loss Statements

UI Benefit Errors

- Two claimants' yearly wages were divided equally between the four quarters of the year.

		Weekly Benefit Calculation	
Base Period	Wages Earned	1% of all 4 Quarters	1.9% of 2 Highest Quarters
Q1 2019	\$6,300	\$63	
Q2 2019	\$11,200	\$112	\$213
Q3 2019	\$12,500	\$125	\$238
Q4 2019	\$10,000	\$100	
Total	\$40,000	\$400	\$450

		Weekly Benefit Calculation	
Base Period	Wages Earned	1% of all 4 Quarters	1.9% of 2 Highest Quarters
Q1 2019	\$10,000	\$100	
Q2 2019	\$10,000	\$100	\$190
Q3 2019	\$10,000	\$100	\$190
Q4 2019	\$10,000	\$100	
Total	\$40,000	\$400	\$380

UI Benefit Errors cont.

- One claimant had two Schedule C tax forms, but only the one showing a profit was used for wage calculation.
- One claimant was allowed to use a 1099-MISC tax form, but it only shows gross income, not net income.

Recommendation #3

We recommend the Department of Labor and Industry:

- A. Enhance internal controls to ensure wage information is correctly used to calculate unemployment insurance benefits, and
- B. Calculate Unemployment Insurance benefits correctly in accordance with federal regulations.

Overpayment Recovery

Common Causes of UI Overpayments

- Claimants providing incorrect information during application process
- Federal guidelines limiting department's ability to verify information
- Errors in information entered by department staff

Overpayment Recovery Requirements

- Must assess a 50% penalty (15% federal, 35% state) on all overpayments that occur due to claimant fraud
- Must offset overpayments against continuing or future UI benefit payments

Overpayment Recovery Testing Results

- Judgmental sample - 10 out of 60 overpayments had claimants continuing to receive benefits after being assessed with an overpayment
- 4 of the 10 did not have their benefits reduced to recover the assessed overpayment

Overpayment Recovery Testing Results cont.

- 3 claimants included in PUA program when they should have been in the regular UI program
- 1 claimant included in regular UI program when they should have been in the PUA program
- Lump sum payment made from the correct program to claimants and an overpayment created for incorrect program

Overpayment Recovery Testing Results cont.

- Offsets against continuing or future UI payments were not always established even after programming allowed.
- No penalties were assessed during the audit period related to PUA overpayments because of limitations of the PUA information system.

Recommendation #4

We recommend the Department of Labor and Industry:

- A. Develop and implement internal controls to ensure necessary information system modifications are made to properly administer new federal programs, and
- B. Recover unemployment benefit overpayments, including any associated penalties, as required by federal and state law.

Unemployment Insurance Fraud

Duplicate Payments

- 753 individuals received both UI and PUA payments during the same benefit period.
- Total of \$9,020,521 paid

Incarcerated Claimants

- 20 individuals who received benefits while showing as being incarcerated with the Department of Corrections.
- Total of \$92,912 paid

Deceased Claimants

- 73 individuals identified as potentially being deceased when paid benefits
- Total of \$337,244 paid

Summary

Audit Staff

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Bill Hallinan, Associate IS Auditor

Tyler Julian, Associate IS Auditor

QUESTIONS?