

NC Department of Commerce  
Division of Employment Security

Untimely First Unemployment  
Benefit Payments  
Accountability Audit

Raleigh, NC

Performance Audit Report  
November 2024

**UNBIASED. IMPACTFUL. IRREFUTABLE.**



A Department of the State of North Carolina  
Jessica N. Holmes, J.D., State Auditor



# EXECUTIVE SUMMARY

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The Office of the State Auditor (OSA) has completed an accountability performance audit in accordance with Chapter 147, Article 5A of the North Carolina General Statutes regarding the timeliness of Department of Commerce's Division of Employment Security (DES) first unemployment benefit payments.

The North Carolina Unemployment Insurance (UI) program is a joint federal-state program, funded by employer-paid unemployment taxes, that provides temporary financial assistance to unemployed workers who have lost their jobs through no fault of their own and are able, available, and actively seeking work.

OSA's March 2022 audit titled [\*Untimely First Unemployment Benefit Payments\*](#) found that DES did not issue \$438 million of first unemployment benefit payments in a timely<sup>1</sup> manner during the period of January 1, 2020, through March 31, 2021.

Federal regulations<sup>2</sup> require North Carolina ensure at least 87% of first unemployment benefit payments are issued to claimants within 14 days. DES is responsible for administering the UI program in accordance with federal and state law.

From January 1, 2023, through December 31, 2023, DES received an average of 5,068 new unemployment benefit claims—each month<sup>3</sup> and paid approximately \$193 million in unemployment insurance benefits.<sup>4</sup>

## OBJECTIVE:

The objective of this accountability performance audit was to determine whether DES implemented corrective actions in responses to the findings and recommendations made in OSA's March 2022 *Untimely First Unemployment Benefit Payments* audit report. Specifically, for the period January 1, 2023, through December 31, 2023, OSA assessed whether DES:



1. Reviewed its unemployment benefit claims process to ensure first payments meet federal unemployment benefit payment timeliness requirements.



2. Created and implemented policies and procedures to monitor the timeliness of unemployment benefit payments.



3. Implemented a process to continuously identify, evaluate and address the risk that unemployment claims could increase due to events such as an economic downturn or natural disaster.

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<sup>1</sup> The federal timeliness standard requires that at least 87% of first unemployment benefit payments be made within 14 days of the first payable week.

<sup>2</sup> 20 CFR § 640.5.

<sup>3</sup> Auditor analysis of North Carolina first payment timeliness data reported to US Department of Labor Employment Training Administration (ETA) from January 1, 2023, through December 31, 2023.

<sup>4</sup> Auditor analysis of North Carolina Monthly Program and Financial Data reported to US Department of Labor ETA from January 1, 2023, through December 31, 2023. Approximately \$18.2 million in first payments.

## FINDINGS:

DES **did not fully implement** recommendations made in OSA's *Untimely First Unemployment Benefit Payments* performance audit report.

DES did not fulfill or implement recommendations to:



**Ensure its Unemployment Benefits Claims Process is Designed to Meet the Federal Timeliness Standard.**



**Monitor Timeliness of First Unemployment Benefit Payments.**

As a result, \$7.8 million<sup>5</sup> of first unemployment benefit payments were not made in a timely manner as required by federal regulations during the period January 1, 2023, through December 31, 2023.

Additionally, DES did not fully implement OSA's recommendation to:



**Adopt a Plan to Respond to Economic Downturns.**

Consequently, DES remains at risk of not being prepared for the increased workload that could occur as a result of an economic downturn or catastrophic event such as Hurricane Helene.

## RECOMMENDATIONS:

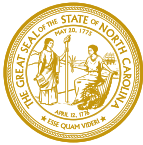
- ① DES management should **prioritize** reviewing the design of its unemployment benefit claims process (including the total time allotted to process, review, and approve claims, across all functional sections)<sup>6</sup> to ensure first payments meet the federal unemployment benefit payment timeliness standard.
- ② DES management should develop policies and procedures to monitor the timeliness of first unemployment benefit payments including **(1)** using readily available methods to monitor timeliness, and **(2)** ensuring DES employees have access to necessary data and reports needed to proactively monitor timeliness.
- ③ DES management should continue its efforts to **implement** its Readiness Plan. Timely implementation of its Readiness Plan will reduce or eliminate the risk of delayed payments to claimants.

<sup>5</sup> There were an estimated \$18.2 million of first payments made during the scope period. The actual dollar value attached to the payments was not available. To estimate, auditors calculated the approximate amount of first payments using the average weekly payment amount of \$300.09 for all 2023 unemployment benefit payments.

<sup>6</sup> For a claim to be paid, it may require review and actions from several sections within DES. For example, identity verification, claimant follow-up, and adjudication, etc. See Chart 4 of Finding 2 for more details.



DES management should fully implement **prior audit recommendations** timely to address the identified issues and to reduce the risk of untimely first unemployment benefit payments in future periods.



## North Carolina Office of the State Auditor

Jessica N. Holmes, J.D., State Auditor

# Auditor's Transmittal

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The Honorable Roy Cooper, Governor  
Honorable Members of the North Carolina General Assembly  
Honorable Machel Baker Sanders, Secretary, Department of Commerce  
Honorable Antwon Keith, Assistant Secretary, Division of Employment Security

To Whom It May Concern:

The Office of the State Auditor has completed an accountability performance audit in accordance with Chapter 147, Article 5A of the North Carolina General Statutes regarding the timeliness of first unemployment benefit payments made by the Department of Commerce's Division of Employment Security.

The objective of this performance audit was to determine whether the Department of Commerce's Division of Employment Security implemented corrective actions in response to the findings and recommendations made in OSA's March 2022 *Untimely First Unemployment Benefit Payments* audit report.

Specifically, for the period of January 1, 2023, through December 31, 2023, OSA assessed whether the Division of Employment Security:

1. Reviewed its unemployment benefit claims process to ensure first payments meet federal unemployment benefit payment timeliness requirements.
2. Created and implemented policies and procedures to monitor the timeliness of unemployment benefit payments.
3. Implemented a process to continuously identify, evaluate and address the risk that unemployment claims could increase due to events such as an economic downturn or natural disaster.

The Secretary of the Department of Commerce has received and reviewed a draft copy of this report, the Secretary's written comments are included in the report beginning on page 22. We commend the Secretary and her Department for working collaboratively and diligently to identify and remedy areas needing improvement.

Respectfully submitted,

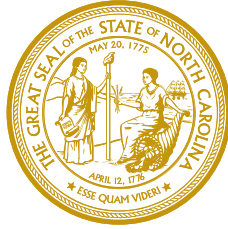
A handwritten signature in black ink that reads "Jessica N. Holmes, J.D." in a cursive style.

Jessica N. Holmes, J.D.  
State Auditor


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Chapter 147, Article 5A of the North Carolina General Statutes gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has subpoena power to compel individuals and entities to produce records and to answer questions under oath.



# Background

 OSA found that between January 2020 and March 2021

**\$438 million** of *first* unemployment benefit payments were untimely


OSA's March 2022 [\*Untimely First Unemployment Benefit Payments\*](#) audit found that DES did not issue first unemployment benefit payments in a timely manner during the period of January 1, 2020 through March 31, 2021. As a result, \$438 million in financial assistance was not disbursed in a timely manner during a worldwide pandemic. DES did not issue first unemployment benefit payments timely because:

- DES' unemployment claim process was not designed to ensure timely payments.
- DES management did not monitor payment timeliness.
- DES was not prepared for the increased workload that could occur as a result of an economic downturn or catastrophic event, such as the COVID-19 pandemic.

The March 2022 audit report recommended that:

- DES management review the design of its unemployment benefit claims process (including the total time allotted to process, review, and approve claims, across all functional sections)<sup>7</sup> to ensure the process is designed so that first payments meet federal unemployment benefit payment timeliness standards.
- DES management should create policies and procedures to monitor the timeliness of unemployment benefit payments. Specifically, DES should **(1)** monitor each aspect of the claims process to determine how delays in one functional section could affect the timeliness of work performed by the other functional sections, **(2)** ensure management has access to the data and reports needed to monitor timeliness, and **(3)** monitor contractor's performance and enforce contract requirements. When potential issues are identified, DES should take timely corrective actions.
- DES management should continuously identify, evaluate, and address the risk that unemployment claims could increase due to events such as an economic downturn or natural disaster. Subsequently, DES should develop and adopt a comprehensive plan to guide its decision-making accounting for staffing challenges and or process changes, descriptions of the available adjustments to business, and policies and procedures to facilitate these adjustments.

DES management should complete the process described above at least **annually** to address new risks and account for technology-related advancements.

 OSA recommended that management at



- **Design for timeliness**
- **Monitor the timeliness**
- **Evaluate risks**

<sup>7</sup> For a claim to be paid, it may require review and actions from several sections within DES. For example, identity verification, claimant follow-up, and adjudication, etc. See Chart 4 of Finding 2 for more details.



### Unemployment Insurance Program:

#### The **Unemployment Insurance Program**

provides temporary financial assistance to unemployed workers who lost their jobs through no fault of their own and are able, available, and actively seeking work.



The North Carolina Unemployment Insurance (UI) program is a joint federal-state program, funded by employer-paid unemployment taxes, that provides temporary financial assistance to unemployed workers who lost their jobs through no fault of their own and are able, available, and actively seeking work.

Broad federal guidelines govern UI programs. Federal regulations<sup>8</sup> require each state to have a state unemployment compensation law<sup>9</sup> including methods of administration of the state's unemployment compensation law including **promptness in all payments of unemployment benefits** to eligible claimants. States administer UI programs largely under state law.

Federal regulations<sup>10</sup> require states to ensure at least 87% of first unemployment benefit payments are issued to claimants within 14 days in states with a waiting week<sup>11</sup> and within 21 days in states with no waiting week (federal timeliness standard). North Carolina law<sup>12</sup> requires claimants to serve<sup>13</sup> a *waiting week* for each claim filed.

DES is responsible for administering the UI program in accordance with federal and state law, including ensuring the timeliness of UI program benefit payments.

**Federal regulations require DES to ensure that *at least 87%* of first unemployment payments are made within **14 days****

### The UI Claim Process:

In North Carolina, claimants may file unemployment benefit claims online or by phone. All claims are sent through DES' claims processing system, Southeast Consortium Unemployment Benefits Integration (SCUBI). SCUBI is designed to identify issues<sup>14</sup> on initial claims that could affect eligibility.<sup>15</sup>

<sup>8</sup> 20 CFR § 640.1(a)(1).

<sup>9</sup> North Carolina's unemployment compensation law is codified within Chapter 96 of the North Carolina General Statutes (N.C.G.S.).

<sup>10</sup> 20 CFR § 640.5.

<sup>11</sup> The waiting week is the claimant's first eligible week for unemployment benefits under each claim. In states with waiting weeks, claimants must serve a waiting week for each claim filed. Claimants do not receive payments during this week. Therefore, the second week claimed is typically the first week of payment.

<sup>12</sup> N.C.G.S. § 96-14.1(b).

<sup>13</sup> "Serve" simply means the claimant must wait.

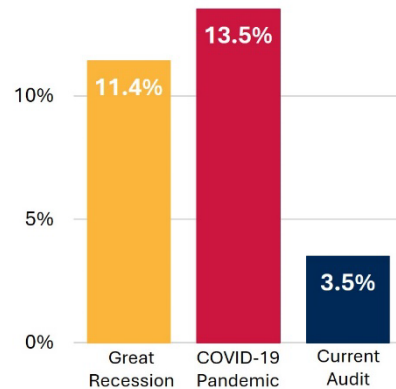
<sup>14</sup> Examples of eligibility issues include (1) insufficient wage or employment history, (2) reason for separation (claimant quit vs. being laid off), and (3) inability to attain employment due to a temporary disability, etc.

<sup>15</sup> Determining whether SCUBI was designed and operating effectively to identify any possible issues that could affect eligibility was not included in the scope of this audit.

If no eligibility issues are identified, SCUBI automatically processes the claim to be paid. If eligibility issues are identified, DES staff manually review the claim and may request additional information from the claimant to determine whether the claim meets eligibility requirements.

### UI Claim Volume:

During the period of January 1, 2023, through December 31, 2023, North Carolina's average unemployment rate was 3.5% and the national average unemployment rate was 3.6%. For context, North Carolina's unemployment rate rose to 11.4% during the Great Recession<sup>16</sup> and 13.5% during the COVID-19 Pandemic.<sup>17</sup>



From January 1, 2023, through December 31, 2023, DES received an average of 5,068 new unemployment benefit claims each month<sup>18</sup> and paid approximately \$193 million in unemployment insurance benefits.<sup>19</sup>

### Key terms discussed in this report include:

*Waiting Week* – The waiting week is the claimant's first eligible week for unemployment benefits under each claim.<sup>20</sup> In states such as North Carolina with waiting weeks, claimants must serve a waiting week for each claim filed. Claimants do not receive payments during this week. Therefore, the **second week claimed** is the first week of eligible payment.

*Federal Timeliness Standard* – Federal regulations<sup>21</sup> require states with a waiting week to ensure **at least 87% of first unemployment benefit payments are issued to regular unemployment insurance claimants within 14 days of the first payable week.**

### Responsible parties discussed in this report include:

*North Carolina Department of Commerce's Division of Employment Security (DES),*<sup>22</sup> DES is responsible for the administration of the UI program in the state of North Carolina.

*Employment and Training Administration (ETA)*<sup>23</sup> – ETA is a division of the United States Department of Labor that administers federal government job training and

<sup>16</sup> <https://gri.unc.edu/wp-content/uploads/sites/246/2012/08/GRI-Data-Snapshot-August-2012.pdf>.

<sup>17</sup> <https://www.commerce.nc.gov/news/press-releases/north-carolina%e2%80%99s-february-employment-figures-released-2>.

<sup>18</sup> Auditor analysis of North Carolina first payment timeliness data reported to US Department of Labor ETA from January 1, 2023, through December 31, 2023.

<sup>19</sup> Auditor analysis of North Carolina Monthly Program and Financial Data reported to US Department of Labor ETA from January 1, 2023, through December 31, 2023. Approximately \$18.2 million in first payments.

<sup>20</sup> A claim is filed for each unemployment benefit program a claimant applies for. Claimants must then submit a weekly certification after each week for which you would like to receive benefits.

<sup>21</sup> 20 CFR § 640.5.

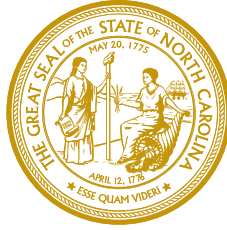
<sup>22</sup> <https://www.nccommerce.com/about-us/divisions-programs/employment-security-division>.

<sup>23</sup> <https://www.dol.gov/agencies/eta/about>.

worker dislocation programs, federal grants to states for public employment service programs, and unemployment insurance benefits.

**Systems discussed in this report include:**

*Southeast Consortium Unemployment Benefits Integration (SCUBI)* – DES' unemployment insurance claims processing system. Implemented in September 2018, SCUBI resulted from a three-state consortium comprised of North Carolina, South Carolina and Georgia to modernize the states' aging unemployment benefit systems and increase the effectiveness and efficiency of unemployment claims processing. SCUBI provides a single web-based system configured to meet the needs of each of the participating states.



# **Findings and Recommendations**



## 1. DES Did Not Fully Implement Recommendation to Ensure its Unemployment Benefits Claims Process is Designed to Meet Federal Timeliness Standard.

DES **did not fully implement** OSA's recommendation<sup>24</sup> to review the design of its unemployment benefits claims process and ensure the process is designed so that first payments meet the federal unemployment benefit payment timeliness standard.<sup>25</sup>

As a result, DES continued to make untimely first unemployment benefit payments. Specifically, \$7.8 million<sup>26</sup> of first unemployment benefit payments were not made timely during the period January 1, 2023, through December 31, 2023.



DES did not fully implement OSA's recommendation because it chose to prioritize improvements to claimant eligibility determination<sup>27</sup> processes rather than improving the timeliness of first unemployment benefit payments.

Best practices identified by the United States Government Accountability Office (GAO) recommend that corrective actions be implemented on a timely basis.



recommends that **corrective actions** be **implemented** on a **timely basis**.

### Timeliness Recommendation Not Fully Implemented

DES did not fully implement OSA's recommendation to review the design of its unemployment benefit claims process and ensure the process is designed so that first payments meet the federal timeliness standard.

DES reviewed its process and **made changes** designed to improve the completion of claimant eligibility determinations.<sup>28</sup> Specifically, DES implemented faster "second request" employer notices<sup>29</sup> for separation questionnaires,<sup>30</sup> and implemented changes to the work distribution system to rank claimant eligibility work items by priorities.<sup>31</sup>

<sup>24</sup> [Untimely First Unemployment Benefit Payments](#).

<sup>25</sup> The federal timeliness standard requires that at least 87% of first unemployment benefit payments be made within 14 days of the first payable week. North Carolina law requires claimants to serve (wait) a waiting week. The waiting week is the claimant's first eligible week for unemployment benefits under each claim. In states with waiting weeks, claimants must serve (wait) a waiting week for each claim filed. Claimants do not receive payments during this week. Therefore, the second week claimed is typically the first week of payment.

<sup>26</sup> There were an estimated \$18.2 million of first payments made during the scope period. The actual dollar value attached to the payments was not available. To estimate, auditors calculated the approximate amount of first payments using the average weekly payment amount of \$300.09 for all 2023 unemployment benefit payments.

<sup>27</sup> Officially known as nonmonetary determinations. Nonmonetary determinations include work items that are based on any consideration that is not monetary. If a claimant quits a job, gets discharged, refuses a job, refuses to enter a training program, or fails to complete an approved training, the claimant may be not eligible to receive unemployment benefit payments.

<sup>28</sup> Ibid.

<sup>29</sup> Employers have 10 days to respond to the separation questionnaire. DES now follows-up with the employer in the middle of the 10-day period.

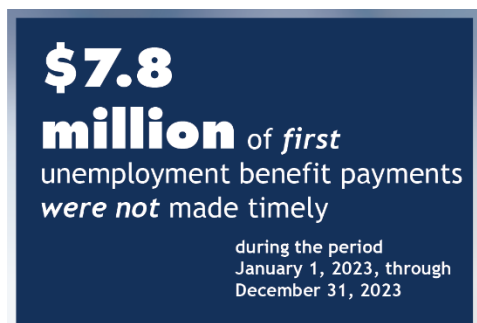
<sup>30</sup> Separation questionnaires are sent to a claimant's last employer to obtain separation information, including the reason why the claimant is no longer employed. This information is used to determine the claimant's eligibility for unemployment benefits.

<sup>31</sup> Work item priority is determined by the type of work item and age of the work item. The work items are then assigned to DES staff based DES staff role and capacity.

However, DES management **did not ensure** its process was designed to ensure first payments met **the federal unemployment benefit payment timeliness standard**.

The timeframes DES has established for DES staff manual reviews continue to exceed the 14-day<sup>32</sup> federal timeliness standard.<sup>33</sup>

The **time allotted for all functional sections<sup>34</sup> to complete their manual review range between 40 days and up to 110 days**. Moreover, the process can take longer (greater than 365 days) if additional reviews or identity validation are needed.<sup>35</sup> See the Unemployment Insurance (UI) Claims to Payment Process Flowchart in Chart 4 of Finding 2 for more details.



As a result, \$7.8 million<sup>36</sup> of first unemployment benefit payments were not made in a timely manner during the period January 1, 2023, through December 31, 2023.

Federal regulations<sup>37</sup> required DES to ensure at least 87% of first unemployment benefit payments were issued to claimants within 14 days<sup>38</sup> for each claim filed.

During the period January 1, 2023, through December 31, 2023, DES issued 60,815 first unemployment benefit payments. According to U.S. Department of Labor (U.S. DOL) reports, DES only issued **34,718 (57%)** within the federal timeliness standard.

Not only did DES not meet the federal first payment timeliness standard for **26,097 (43%)** of payments issued,<sup>39</sup> but **11,371 (19%)** were not made within 35 days, which exceeds a billing cycle for mortgages, rent, utilities, etc.

<sup>32</sup> The federal timeliness standard requires that at least 87% of first unemployment benefit payments be made within 14 days of the first payable week.

<sup>33</sup> North Carolina law requires claimants to serve (wait) a waiting week. The waiting week is the claimant's first eligible week for unemployment benefits under each claim. In states with waiting weeks, claimants must serve (wait) a waiting week for each claim filed. Claimants do not receive payments during this week. Therefore, the second week claimed is typically the first week of payment.

<sup>34</sup> For a claim to be paid, it may require review and actions from several sections within DES. For example, identity verification, claimant follow-up, and adjudication, etc. See Chart 4 in Finding 2 for more details.

<sup>35</sup> The due date for the manual review can be reset. For example, DES' adjudication section is allotted 21 days for most of its issues that require manual review, starting when the issues are created and detected in SCUBI. If the issues are sent to another section for additional review, the original 21-day due date resets. However, for DES to meet the federal timeliness requirement for first payments, the entire claims process would need to be completed within 14 days.

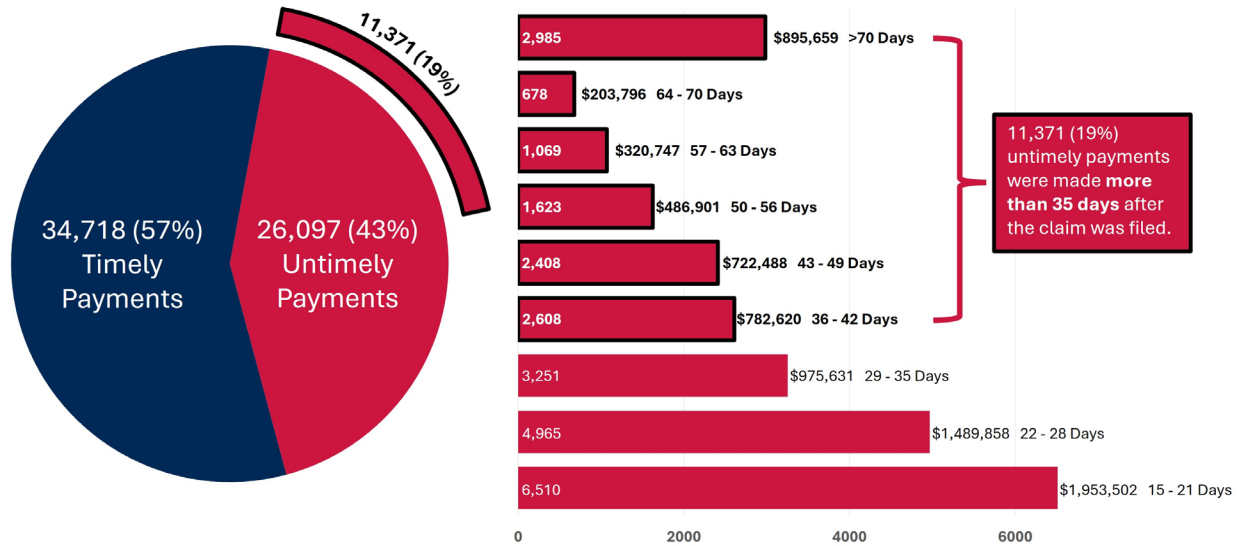
<sup>36</sup> There were an estimated \$18.2 million of first payments made during the scope period. The actual dollar value attached to the payments was not available. To estimate, auditors calculated the approximate amount of first payments using the average weekly payment amount of \$300.09 for all 2023 unemployment benefit payments.

<sup>37</sup> 20 CFR § 640.5.

<sup>38</sup> North Carolina law requires claimants to serve (wait) a waiting week. The waiting week is the claimant's first eligible week for unemployment benefits under each claim. In states with waiting weeks, claimants must serve (wait) a waiting week for each claim filed. Claimants do not receive payments during this week. Therefore, the second week claimed is typically the first week of payment.

<sup>39</sup> The actual dollar value attached to the payments that were untimely was not available. To estimate, auditors calculated the approximate amount of late payments using the average weekly payment amount of \$300.09 for all 2023 unemployment benefit payments.

**Chart 1 - Extent of Untimely First Unemployment Benefit Payments  
(January 1, 2023 – December 31, 2023)**



Source: Auditor analysis of U.S. DOL Timeliness and Quality Reports.

DES' first payment timeliness has **worsened** since OSA's previous audit. First payment timeliness decreased from 76%<sup>40</sup> of first payments made timely during the prior audit period<sup>41</sup> to 57% of first payments made timely.

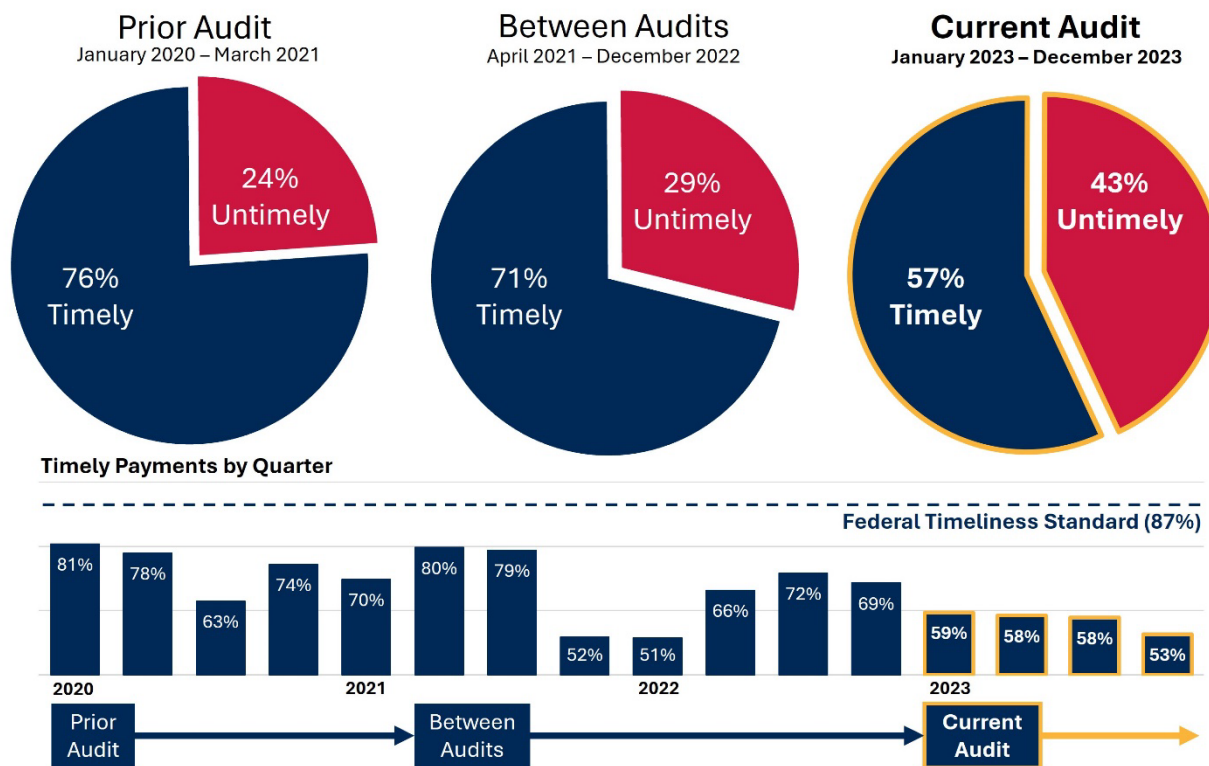
First payment timeliness decreased despite North Carolina's unemployment rate decreasing from 13.5% in April 2020 to 3.5% in December 2023. Additionally, DES no longer administers the additional six unemployment programs implemented in response to the COVID-19 pandemic.

<sup>40</sup> OSA's prior audit found DES made 74% of first unemployment benefit payments timely in the state unemployment insurance program. This was determined based on auditor calculations. For the purposes of this comparison, auditors used the percent of timely payments according to U.S. DOL Timeliness and Quality Reports.

<sup>41</sup> The prior audit period was January 1, 2020, through March 31, 2021.



**Chart 2: Timeliness of First Unemployment Benefit Payments Decrease Over Time (January 2020 – December 2023)**



Source: Auditor analysis of U.S. DOL Timeliness and Quality Reports.

### **DES Did Not Prioritize Improvements to First Payment Timeliness**

DES did not fully implement this recommendation because it instead chose to prioritize improvements to claimant eligibility determination<sup>42</sup> processes rather than improving the timeliness of first unemployment benefit payments.

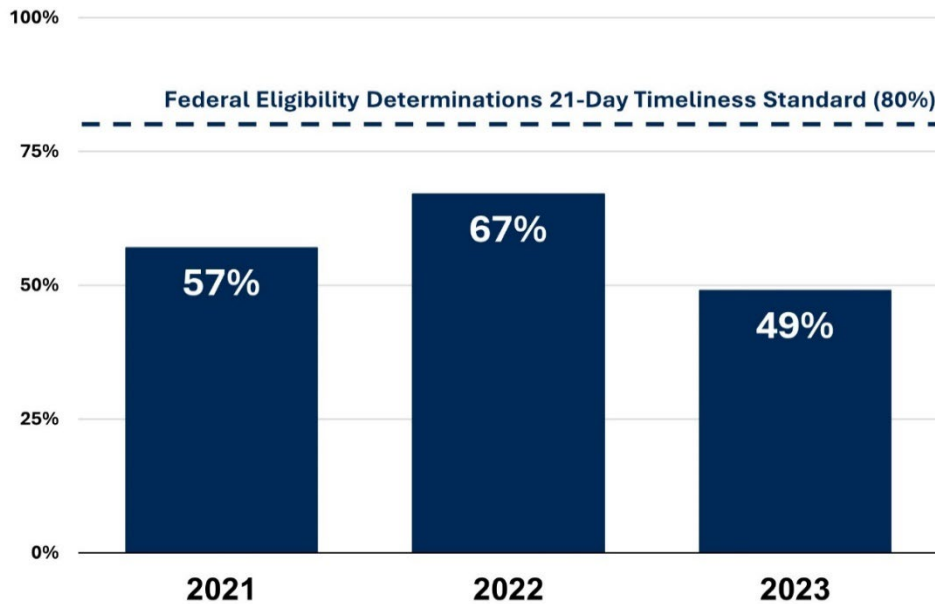
DES anticipated that improving the claimant eligibility determination process would also improve the timeliness of first unemployment benefit payments. Additionally, DES asserted that federal regulations<sup>43</sup> provide that the timeliness of first payments is contingent upon the prompt determination of eligibility.

However, the improvements made to the claimant eligibility determination process have not resulted in improved eligibility determination timeliness, or first payment timeliness.

<sup>42</sup> Officially known as nonmonetary determinations. Nonmonetary determinations include work items that are based on any consideration that is not monetary. If a claimant quits a job, gets discharged, refuses a job, refuses to enter a training program, or fails to complete an approved training, the claimant may be not eligible to receive unemployment benefit payments.

<sup>43</sup> 20 CFR § 640.1(a)(2).



**Chart 3: Timeliness<sup>44</sup> of Claimant Eligibility Determinations**

Source: Auditor analysis of U.S. DOL Timeliness and Quality Reports.

As mentioned, the timeframes that DES has established **continues to exceed** the 14-day federal timeliness standard.<sup>45</sup>

DES will be limited in its ability to issue first payments in accordance with the federal first payment timeliness standard until it resolves the completion of payments in accordance with the standard.

### **Best Practices Recommend Timely Implementation of Corrective Action**

The United States GAO recommends as a best practice<sup>46</sup> that management should implement corrective action timely:

**17.06** Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings.

<sup>44</sup> U.S. DOL Employment Training Administration (ETA) Unemployment PERFORMS Core Measures require 80% of all claimant eligibility determinations (officially known as nonmonetary determinations) to be completed within 21 days of the date of detection of any nonmonetary issue that had the potential to affect the claimant's benefit rights. [https://oui.doleta.gov/unemploy/pdf/Core\\_Measures.pdf](https://oui.doleta.gov/unemploy/pdf/Core_Measures.pdf).

<sup>45</sup> The federal timeliness standard requires that at least 87% of first unemployment benefit payments be made within 14 days of the first payable week. North Carolina law requires claimants to serve (wait) a waiting week. The waiting week is the claimant's first eligible week for unemployment benefits under each claim. In states with waiting weeks, claimants must serve (wait) a waiting week for each claim filed. Claimants do not receive payments during this week. Therefore, the second week claimed is typically the first week of payment.

<sup>46</sup> United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.

### Recommendations

- ① DES management should **prioritize** reviewing the design of its unemployment benefit claims process (**including the total time allotted to process, review, and approve claims, across all functional sections**)<sup>47</sup> so that first payments meet federal unemployment benefit payment timeliness standard.
- ② DES management should fully implement **prior audit recommendations** to address the identified issues and to reduce the risk of untimely first unemployment benefit payments in future periods.

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<sup>47</sup> For a claim to be paid, it may require review and actions from several sections within DES. For example, identity verification, claimant follow-up, and adjudication, etc. See Chart 4 of Finding 2 for more details.



## 2. DES Did Not Fully Implement Recommendation to Monitor Timeliness of First Unemployment Benefit Payments.

DES did not fully implement OSA's recommendation<sup>48</sup> to monitor to ensure that first payments met the federal timeliness standard.<sup>49</sup>



As a result, DES did not detect and correct processing delays that allowed \$7.8 million<sup>50</sup> of untimely first unemployment benefit payments during the period January 1, 2023, through December 31, 2023.

DES did not fully implement the recommendation because it chose to prioritize improvements to claimant eligibility determination<sup>51</sup> processes instead of developing and implementing procedures that required DES management to monitor first payment timeliness.

Best practices identified by the United States Government Accountability Office (GAO) recommend that corrective actions be implemented on a timely basis.

### **Recommendation to Monitor Not Fully Implemented**

DES did not fully implement OSA's recommendation to monitor to ensure that first payments met the federal timeliness standard.

DES created an information dashboard that would allow DES management to review the timeliness of first payments that have already been made, including the amount of time each functional section<sup>52</sup> spent processing the claim. According to DES Management, the dashboard was primarily created to expedite the collection of first payment timeliness data that DES is required to submit to the U.S. Department of Labor (U.S. DOL).<sup>53</sup>

However, the dashboard does not allow DES management to **proactively** identify first payments that are at risk of being late and allow DES management to take action to improve timeliness. Specifically, DES did not monitor components of the claims process for **first payment timeliness** which included:

- A. Claimant Call Center Intake:** Collection of claimant information and eligibility documents.
- B. Monetary Determinations:** Evaluation of claimant's base-period wages.

<sup>48</sup> [Untimely First Unemployment Benefit Payments.](#)

<sup>49</sup> The federal timeliness standard requires that at least 87% of first unemployment benefit payments be made within 14 days of the first payable week. North Carolina law requires claimants to serve (wait) a waiting week. The waiting week is the claimant's first eligible week for unemployment benefits under each claim. In states with waiting weeks, claimants must serve (wait) a waiting week for each claim filed. Claimants do not receive payments during this week. Therefore, the second week claimed is typically the first week of payment.

<sup>50</sup> There were an estimated \$18.2 million of first payments made during the scope period. The actual dollar value attached to the payments was not available. To estimate, auditors calculated the approximate amount of first payments using the average weekly payment amount of \$300.09 for all 2023 unemployment benefit payments.

<sup>51</sup> Officially known as nonmonetary determinations. Nonmonetary determinations include work items that are based on any consideration that is not monetary. If a claimant quits a job, gets discharged, refuses a job, refuses to enter a training program, or fails to complete an approved training, the claimant may be not eligible to receive unemployment benefit payments.

<sup>52</sup> For a claim to be paid, it may require review and actions from several sections within DES. For example, identity verification, claimant follow-up, and adjudication, etc. See Chart 4 for more details.

<sup>53</sup> DES is required to submit first payment timeliness data to the U.S. DOL monthly.

- C. Request for Separation Information:** Evaluation of employment separation details via request to last bona fide employer.
- D. Benefit Integrity:** Identity Verification and Fraud Prevention activities.
- E. Claimant Call Center:** Limited evaluation of eligibility documents.
- F. Benefit Claims/Special:** Collection of eligibility documents for special programs and some adjudications.
- G. Adjudication:** Eligibility determination based on documentation review. Inadequate documentation creates additional work items and restarts time.
- H. First Payment:** Payment is typically made within two days.
- I. Weekly Certifications:** Review of claimant's eligibility status.
- J. Appeals:** Denials may occur at any point and may be appealable.

### **Did Not Detect and Correct Continued Late First Unemployment Benefit Payments**

As a result, DES did not detect and correct processing delays resulting in untimely first unemployment benefit payments.<sup>54</sup> Specifically, DES did not issue **26,097 (43%)**<sup>55</sup> first unemployment benefit payments **totaling \$7.8 million**<sup>56</sup> within the federal timeliness standard<sup>57</sup> during the period January 1, 2023, through December 31, 2023.

Without adequate monitoring processes and procedures in place, DES management did not detect that the average total first payment processing time was 36 days.<sup>58</sup> Additionally, DES management did not detect that the time allotted for all functional sections<sup>59</sup> to complete their manual reviews was typically 40 days and could be greater than 365 days if additional reviews or identity validation were needed.<sup>60</sup>

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<sup>54</sup> For the State Unemployment Insurance Benefits program.

<sup>55</sup> DES issued a total of 60,815 first unemployment benefit payments for the State Unemployment Insurance Benefits program during the scope period.

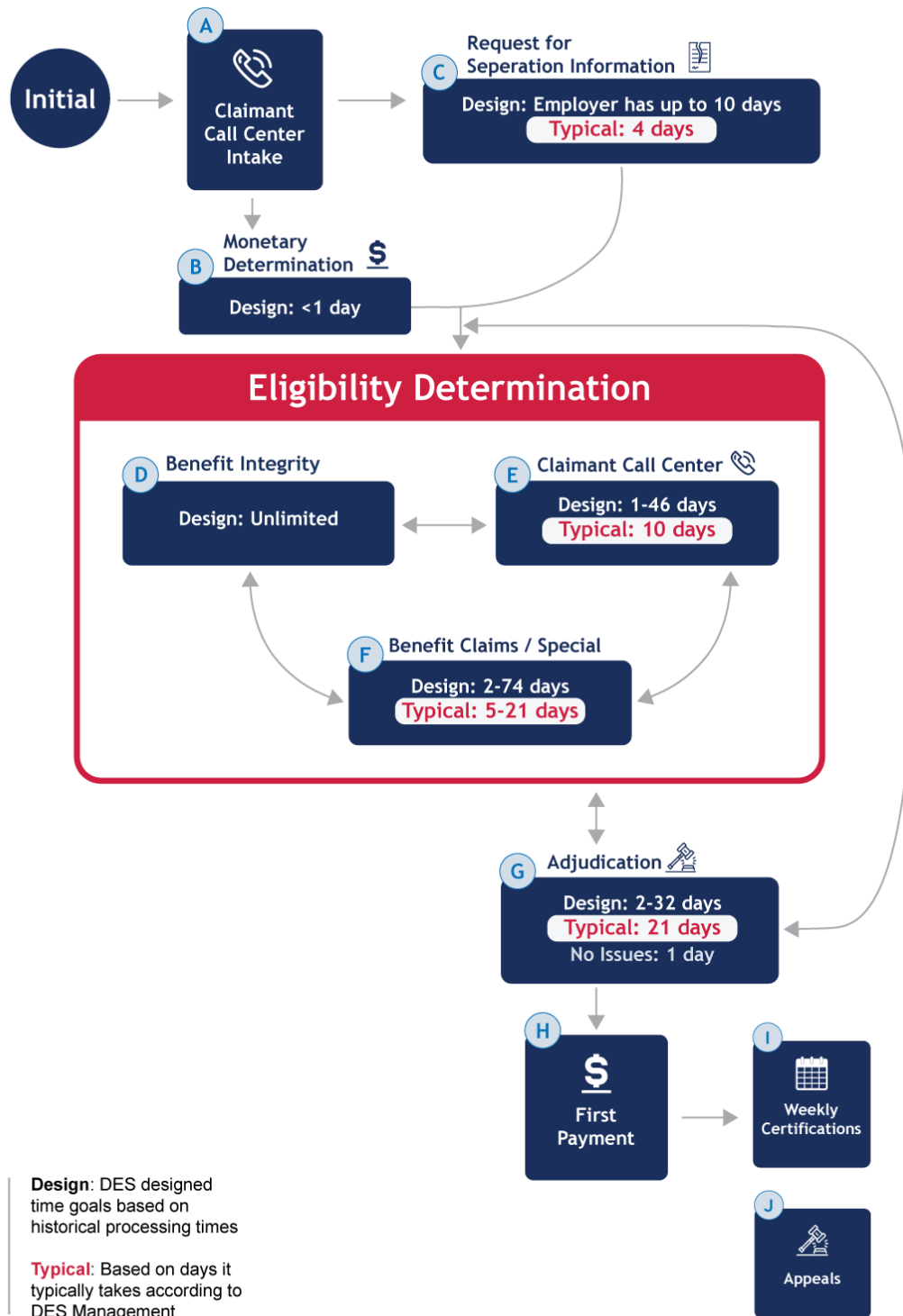
<sup>56</sup> There were an estimated \$18.2 million of first payments made during the scope period. The actual dollar value attached to the payments was not available. To estimate, auditors calculated the approximate amount of first payments using the average weekly payment amount of \$300.09 for all 2023 unemployment benefit payments.

<sup>57</sup> 20 CFR § 640.5 required DES to ensure that at least 87% of first unemployment benefit payments were issued to regular UI claimants within 14 days of the first payable week for each claim filed.

<sup>58</sup> Based on auditor analysis of U.S. DOL Timeliness and Quality reports.

<sup>59</sup> For a claim to be paid, it may require review and actions from several sections within DES. For example, identity verification, claimant follow-up, and adjudication, etc.

<sup>60</sup> The due date for the manual review can be reset. For example, DES' adjudication section is allotted 21 days for most of its issues that require manual review, starting when the issues are created and detected in SCUBI. If the issues are sent to another section for additional review, the original 21-day due date resets. However, for DES to meet the federal timeliness requirement for first payments, the entire claims process would need to be completed within 14 days.

Chart 4: UI Claims to Payment Process<sup>61</sup>

<sup>61</sup> When DES processes a claim, actions across functional sections may be performed simultaneously, including the Request for Separation Information, the Monetary Determination, and sections within the Eligibility Determination.

If DES had proper monitoring procedures in place, management would have been able to:

- Detect and correct poor performance.
- Identify and retrain staff who were not achieving results.
- Improve the likelihood that first payments were made in accordance with the federal timeliness standard.

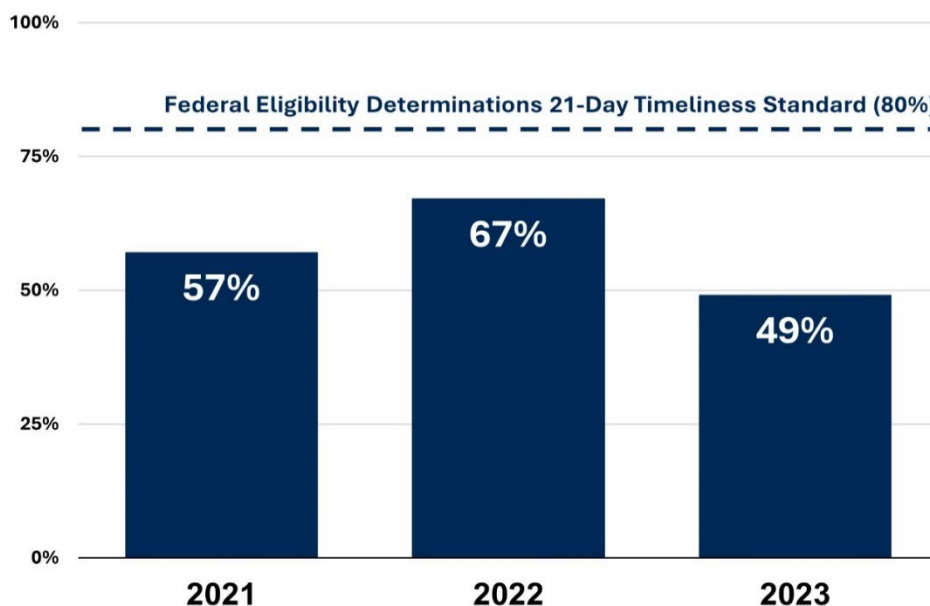
### **Caused by DES Not Prioritizing Timeliness Monitoring**

DES did not fully implement the recommendation because it chose to prioritize improvements to claimant eligibility determination<sup>62</sup> processes instead of developing and implementing procedures that required DES management to monitor first payment timeliness.

DES management stated that it believed improving the claimant eligibility determination process would improve the timeliness of first unemployment benefit payments. Additionally, DES management stated that federal regulation<sup>63</sup> provides that the timeliness of first payments is contingent upon the prompt determination of eligibility.

However, the improvements DES management made to the claimant eligibility determination process have not resulted in improved timeliness of claimant eligibility determinations or first payment timeliness.

**Chart 5: Timeliness<sup>64</sup> of Claimant Eligibility Determinations**



Source: Auditor analysis of U.S. DOL Timeliness and Quality Reports.

<sup>62</sup> Officially known as nonmonetary determinations. Nonmonetary determinations include work items that are based on any consideration that is not monetary. If a claimant quits a job, gets discharged, refuses a job, refuses to enter a training program, or fails to complete an approved training, the claimant may be not eligible to receive unemployment benefit payments.

<sup>63</sup> 20 CFR § 640.1(a)(2).

<sup>64</sup> U.S. DOL Employment Training Administration (ETA) Unemployment PERFORMS Core Measures require 80% of all claimant eligibility determinations (officially known as nonmonetary determinations) to be completed within 21 days of the date of detection of any nonmonetary issue that had the potential to affect the claimant's benefit rights. [https://oui.doleta.gov/unemploy/pdf/Core\\_Measures.pdf](https://oui.doleta.gov/unemploy/pdf/Core_Measures.pdf).



If DES had implemented the timeliness monitoring recommendation, DES could have detected that its changes to the claimant eligibility determination process had not improved first payment timeliness and taken additional corrective action.

### **Best Practices Recommend Timely Implementation of Corrective Action**

The United States GAO recommends as a best practice<sup>65</sup> that management should implement corrective action timely:

**17.06** Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings.

### **Recommendations**

-  DES management should **prioritize** the development of policies and procedures to monitor the timeliness of first unemployment benefit payments. Specifically, DES should (1) use available data to monitor timeliness, and (2) ensure that management has access to the necessary data and reports needed to **proactively** monitor timeliness.
-  DES management should fully implement **prior audit recommendations** timely to address the identified issues and to reduce the risk of untimely first unemployment benefit payments in future periods.

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<sup>65</sup> United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.



### 3. DES Did Not Fully Implement Recommendation to Adopt a Plan to Respond to Economic Downturns.

DES **did not fully implement** OSA's recommendation<sup>66</sup> to adopt a plan for how it would respond to an economic downturn that could result in a significant increase in unemployment claims. While DES has developed a plan known as the *Service Escalation Readiness Plan* (Readiness Plan), it has not been fully implemented.

As a result, DES remains at risk of not being prepared for an economic downturn, natural disaster, and resulting increased workloads.



According to DES management, the Readiness Plan has not been fully implemented because DES is currently providing training to DES staff on how to complete the Readiness Plan's readiness assessments and expects the Readiness Plan to be fully implemented later in 2024.

Best practices identified by the United States Government Accountability Office (GAO) recommend that corrective actions be implemented on a timely basis.

#### **Adopted Plan to Respond to Economic Downturn But Still Implementing**

DES **adopted a plan** for how it would respond to an economic downturn that could result in a significant increase in unemployment claims but has not fully implemented the plan. DES began implementing the Readiness Plan with initial readiness assessments in November 2023. DES continued implementing the Readiness Plan into 2024.<sup>67</sup>

According to DES management, the Readiness Plan was developed using many internal and external sources of information and experience that included:

- The State of California Employment Development Department's Recession Plan report to the California Legislature as required by California Senate Bill 390, March 2022.
- The State of California's development of sources for use in economic conditions monitoring.
- The State of Oregon's approach to preparedness (primarily monitoring and staff deployment).
- National Association of State Workforce Agencies (NASWA)<sup>68</sup> Recession Readiness Planner and readiness planning presentations by member states.
- Collected identification of preparedness and escalation facilitation recommendations from DES management, based on experience during the pandemic.
- The collective knowledge and experience of mid-level and senior DES staff.

<sup>66</sup> [Untimely First Unemployment Benefit Payments.](#)

<sup>67</sup> While the date of adoption was outside of the official scope of this audit, DES began implementing the Readiness Plan while OSA was conducting fieldwork. Therefore, OSA considers this recommendation partially implemented.

<sup>68</sup> NASWA is a national organization representing all 50 state workforce agencies, D.C. and U.S. territories. NASWA provides policy expertise, shares promising state practices and promotes state innovation and leadership in workforce development.



According to the DES Readiness Plan, there are four key elements. DES management stated that it has implemented the first element of its plan which includes:

1. **Monitoring the Economic Environment** - The objective of this process is to regularly assess the likelihood of an employment impacting economic event and adjust the DES Readiness Posture<sup>69</sup> to set the level of anticipatory actions of DES units.

However, as of June 2024, DES has not implemented key elements two through four which include:

2. **Readiness Assessments** (to be completed as needed, but at least **quarterly**) - The objective of this process is for DES leadership to regularly assess and update the readiness of DES to sustain its performance as initial claims volume significantly escalates for any reason.
3. **Escalation Situation Response** - The objective of this process is to take the necessary action steps to respond to a significant rise in the volume of initial claims. Potential actions include (1) streamlining operations by pausing select functions and augmenting staffing through reassigning personnel, (2) rehiring recent DES retirees to increase staffing, (3) having personnel from other agencies join DES in a temporary capacity, and (4) suspension or moderation of policies and procedures.<sup>70</sup>
4. **Readiness Sustainment** - The objective of this process is to establish, update, and execute projects that will improve or sustain DES readiness.

### **Continued Risk**

Since DES has not yet fully implemented its Readiness Plan, DES remains at risk of not being prepared for an economic downturn and the resulting increased workload that could occur.

Adopting a plan to respond to an economic downturn or natural disaster that could result in a significant increase in unemployment claims reduces the risk that **critical response time** would be spent (1) developing a plan, (2) determining adjustments or actions that could be taken to respond to the economic downturn, and (3) obtaining new resources to address the sudden increase in unemployment claims.

With the Readiness Plan not implemented, DES has not identified and evaluated the risk that unemployment claims could increase due to a sudden economic downturn or natural disaster and is **limited in its ability** to know whether planned adjustments to business practices that DES could make would be successful.

<sup>69</sup> Readiness Posture is a DES communications tool to keep DES staff aware of the potential of an economic or disaster event occurring.

<sup>70</sup> For example, policies governing overtime eligibility, remote work, recruitment and hiring, leave use, etc.

### Readiness Plan is in the Process of Implementation



According to DES, the Readiness Plan has not been fully implemented because DES is currently providing training to DES staff on how to complete the Readiness Plan's readiness assessments and further steps. DES expects the Readiness Plan to be fully implemented later in 2024.

### Best Practices Recommend Timely Implementation of Corrective Action

The United States GAO recommends as a best practice<sup>71</sup> that management should implement corrective action timely:

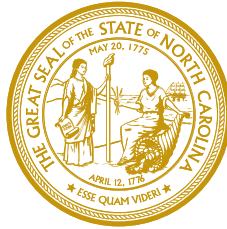
**17.06** Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis. These corrective actions include resolution of audit findings.

### Recommendations

-  DES management should continue its efforts to **implement** its Readiness Plan in a **timely manner**. Timely implementation will reduce the risk that DES is not prepared to respond to economic downturns that could result in a significant increase in unemployment claims.
-  DES management should fully implement **prior audit recommendations** timely to address the identified issues and to reduce the risk of untimely first unemployment benefit payments in future periods.

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<sup>71</sup> United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.



# Objectives, Scope, and Methodology

The objective of this performance audit was to determine whether the Department of Commerce's Division of Employment Security (DES) implemented corrective actions in response to the findings and recommendations made in OSA's March 2022 [Untimely First Unemployment Benefit Payments](#) audit report.

Specifically, for the period January 1, 2023, through December 31, 2023, whether DES:

- Reviewed its unemployment benefit claims process to ensure first payments meet federal unemployment benefit payment timeliness requirements.
- Created and implemented policies and procedures to monitor the timeliness of unemployment benefit payments.
- Implemented a process to continuously identify, evaluate and address the risk that unemployment claims could increase due to events such as an economic downturn or natural disaster.

The audit scope **included** DES operations and corrective actions related to first unemployment benefit payments to claimants in the State Unemployment Insurance Benefits program (State UI Program). The audit scope **did not include** DES operations or timeliness related to subsequent benefit payments nor whether benefit payments were made accurately or to eligible claimants.

To achieve the audit objectives, auditors:

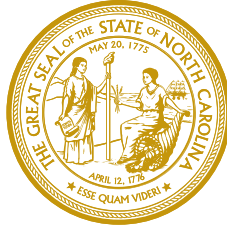
- Reviewed state and federal laws relevant to unemployment insurance.
- Reviewed performance measures instituted by the United States Department of Labor's (U.S. DOL) Employment Training Administration (ETA) for timeliness of first unemployment benefit payments.
- Interviewed DES personnel.
- Reviewed relevant reports from the U.S. DOL's Office of the Inspector General.
- Reviewed DES staffing reports.
- Reviewed and analyzed data reported to ETA for North Carolina first unemployment benefit payment timeliness.
- Reviewed DES policies, procedures, and tools for processing unemployment insurance claims and monitoring timeliness of first unemployment benefit payments.
- Reviewed DES policies and procedures for identifying, evaluating, and addressing the risk of changes in economic conditions that may result in increased unemployment claims submissions.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives. As a basis for evaluating internal control, auditors applied the internal control guidance contained in

professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# **State Auditor Holmes' Response**

The Office of the State Auditor (OSA) is required to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or inappropriately minimize the importance of the auditor findings.

*Generally Accepted Government Auditing Standards* state,

When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement.

To ensure the availability of complete and accurate information, OSA offers the following clarifications:

**First, the Department of Commerce (Department) disagreed with Finding #2 and responded that it “has developed a reporting system that provides the ability to proactively identify claims that are at risk of being late.”**

Over the past two and a half years, the Division of Employment Security (DES) has gradually developed a reporting system (dashboards) to track the timeliness of benefit payments. However, DES management did not use the system to track or monitor active claims, identify claims at risk of being paid in an untimely manner, or to prevent late payments.

**Second, in its response to Finding #2, the Department stated it “used data available through the performance metrics system to detect and address deficiencies in 2023 that led to a 58% improvement in the timeliness of first benefit payments in 2024.”**

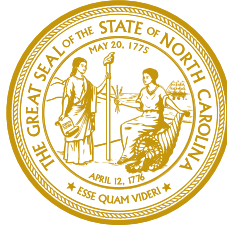
According to the data provided in the Department's own response, first benefit payment timeliness improved by **36%** in 2024 over that from 2023.

Also, the audit period for this Accountability Performance Audit was January 1, 2023, through December 31, 2023. OSA did not verify or validate the timeliness of first benefit payments made in 2024 (through September 30, 2024) and makes no representations as to whether the timeliness of first benefit payments has or has not improved since the conclusion of our audit period.

**Third, the Department disagreed with Finding #3 and stated, “DES has completed implementation of its Readiness Plan and is continuing to execute it in an ongoing and timely manner.”**

OSA makes no representations regarding the implementation of the Department's Readiness Plan following the conclusion of the audit period. OSA acknowledges the Department attempted to take corrective actions during and following notification of the audit and audit objectives. These actions occurred after the audit was initiated, while the audit was being performed and or after OSA's preliminary findings were discussed with the Department.

These clarifications should be considered when evaluating the Department's responses. We appreciate the courtesy and cooperation received from the Honorable Secretary Sanders and employees of the Department of Commerce.



# **Response from the Department of Commerce**





**NC DEPARTMENT  
of COMMERCE**  
EMPLOYMENT SECURITY

Roy Cooper  
GOVERNOR

Machelle Baker Sanders  
SECRETARY

M. Antwon Keith  
ASSISTANT SECRETARY

November 6, 2024

The Honorable Jessica N. Holmes, J.D., State Auditor  
Office of the State Auditor

**Dear State Auditor Holmes:**

Thank you for providing the Department of Commerce Division of Employment Security the opportunity to respond to the performance audit *Untimely First Unemployment Benefit Payments Follow-up Audit*.

I would like to express my appreciation to your team for their work to examine this issue and the complexities of the unemployment insurance program, and to provide feedback on the corrective actions that DES has implemented.

DES agrees with the audit's finding that *'DES continued to make untimely first unemployment benefit payments. Specifically, \$7.8 million of first unemployment benefit payments were not made timely during the period January 1, 2023, through December 31, 2023.'*

You have recommended that:

- *DES management should prioritize reviewing the design of its unemployment benefit claims process (including the total time allotted to process, review, and approve claims, across all functional sections) so that first payments meet federal unemployment benefit payment timeliness standard.*
- *DES management should prioritize the development of policies and procedures to monitor the timeliness of first unemployment benefit payments. Specifically, DES should (1) use available data to monitor timeliness, and (2) ensure that management has access to the necessary data and reports needed to proactively monitor timeliness.*
- *DES management should continue its efforts to implement its Readiness Plan in a timely manner. Timely implementation will reduce the risk that DES is not prepared to respond to economic downturns that could result in a significant increase in unemployment claims.*

Following this letter are DES's responses to the audit finding and recommendations. Please contact me if you have any questions regarding our efforts or response.

Sincerely,

A handwritten signature in black ink that reads "Machelle Baker Sanders".

**Machelle Baker Sanders**  
Secretary, Department of Commerce

CC: M. Antwon Keith, Assistant Secretary for Employment Security

North Carolina Department of Commerce | Division of Employment Security  
P.O. Box 25903 | Raleigh, NC 27611-5903

### **Agency Finding Response – Ensure Unemployment Claims Process Meets Federal Timeliness Standard.**

DES continues to focus on making timely benefit payments and made significant improvements in this area in 2024, following a Plan-Do-Check-Act continuous improvement methodology. DES will continue to analyze its business processes, provide additional staff training and implement technological solutions to further improve timeliness.

#### **1. DES Did Not Fully Implement Recommendation to Review the Design of its Unemployment Benefit Claims Process.**

##### **Recommendation**

DES management should review its unemployment benefit claims process to ensure first payments meet federal unemployment benefit payment timeliness requirements.

##### **Agency Response**

DES agrees that all first benefit payments did not meet federal unemployment benefit payment timeliness requirements during the period covered by the audit. DES continues to streamline processes and align resources to issue benefit payments in a timely manner to those who are eligible for them, while also reviewing claims carefully to prevent fraud and waste in the unemployment system.

DES analyzed a sample of claims that exceeded DOL's first payment timeliness standard in June 2022. That analysis revealed that 74% of the delays occurred in the non-monetary determination process. As a result, DES focused on this critical part of the claims process and implemented changes to address delays in the process. Continued monitoring highlighted a capacity constraint associated with more complex issues. Also in 2022, DES began experiencing staff turnover and recruitment issues in the Adjudication Unit that continued through 2023 and resulted in over 40 personnel changes in the unit and an average of 145 days to fill vacancies.

In November of 2023, HR reclassified the Adjudication positions to a higher compensation class after several employees left to accept higher paying positions outside the agency and several applicants turned down DES job offers due to pay. As staffing issues persisted, Adjudication workloads continued to build. In October 2023, the backlog of untimely cases had grown to more than 5500 claims. To address the workload and improve timeliness, 13 staff from other DES units were trained on high volume non-monetary issues. DES brought back 5 retirees to assist until permanent adjudicators were hired and trained.

As DES successfully hired new Adjudicators, the training program was re-engineered to reduce overall training time of new staff while maintaining quality outcomes.

After staffing levels began to stabilize in late 2023, DES focused on addressing the backlog of Adjudication work. As the backlog decreased, DES first payment timeliness increased. First payment timeliness has increased from 52.9% of first payments being made within 14 days in September 2023 to 83.9% in September 2024.

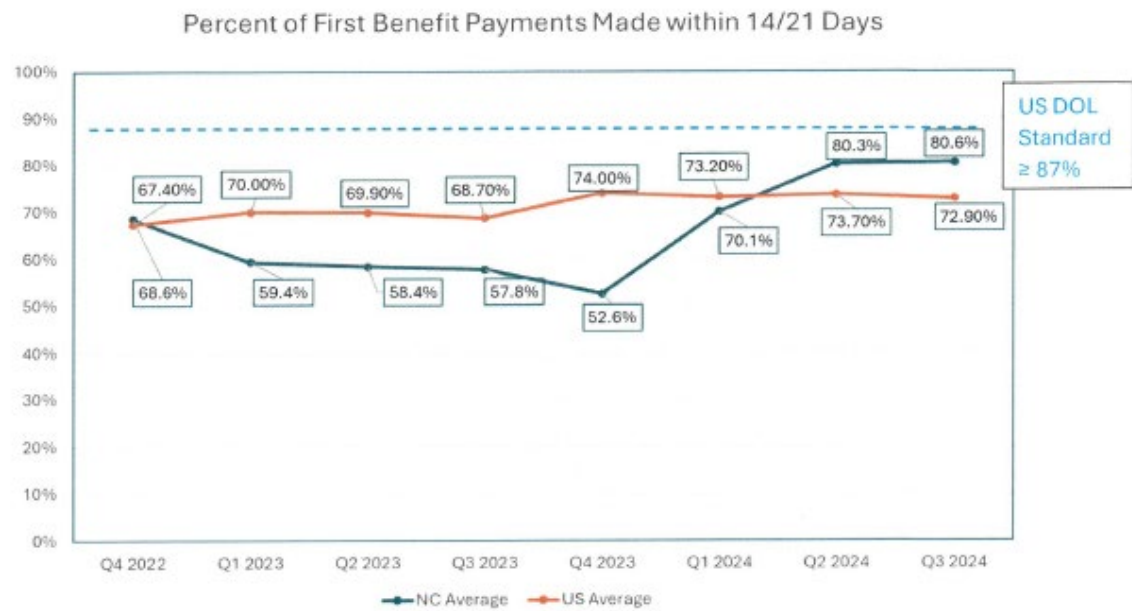
#### First Payment Timeliness (January 2023 – September 2024)

The following chart shows the percentage of first benefit payments by month that were made within 14 days, 21 days, etc., of a claim being filed.

Month	Total Workload	<=7 Days	14 Days	21 Days	28 Days	35 Days	42 Days	49 Days	56 Days	63 Days	70 Days	>70 days
09/30/2024	4,590	59.5%	83.9%	88.6%	90.5%	91.3%	91.9%	92.5%	92.8%	93.4%	94.6%	100.0%
08/31/2024	5,690	58.2%	81.5%	89.0%	91.9%	93.5%	94.1%	94.5%	94.9%	95.6%	96.7%	100.0%
07/31/2024	5,759	50.8%	77.0%	87.6%	91.0%	92.2%	93.0%	93.6%	94.3%	95.4%	96.4%	100.0%
06/30/2024	5,412	54.4%	79.4%	89.2%	91.7%	93.2%	93.8%	94.7%	95.8%	96.6%	97.2%	100.0%
05/31/2024	5,251	58.4%	82.3%	87.9%	90.3%	91.8%	92.6%	93.5%	94.4%	95.6%	96.3%	100.0%
04/30/2024	5,261	57.1%	79.1%	86.0%	89.1%	90.9%	91.9%	92.7%	94.1%	95.4%	96.2%	100.0%
03/31/2024	5,209	48.4%	72.6%	82.6%	87.4%	89.4%	91.0%	92.8%	94.0%	94.7%	95.9%	100.0%
02/29/2024	5,457	52.7%	73.9%	83.6%	88.1%	90.4%	91.7%	93.0%	94.0%	94.8%	95.5%	100.0%
01/31/2024	6,524	48.6%	65.0%	73.9%	80.6%	84.6%	87.7%	90.2%	92.3%	93.6%	94.4%	100.0%
12/31/2023	4,912	43.0%	53.8%	62.0%	70.1%	76.4%	81.4%	86.6%	90.2%	93.1%	94.5%	100.0%
11/30/2023	4,895	38.3%	51.3%	60.0%	65.9%	71.5%	77.9%	84.2%	89.4%	92.6%	93.9%	100.0%
10/31/2023	5,098	43.7%	52.7%	58.8%	64.2%	68.5%	74.8%	83.0%	88.7%	91.9%	93.4%	100.0%
09/30/2023	4,724	42.7%	52.9%	57.4%	61.6%	66.3%	72.7%	83.7%	89.9%	92.3%	93.9%	100.0%
08/31/2023	5,515	45.9%	58.1%	62.6%	66.8%	74.0%	83.0%	89.2%	91.6%	92.9%	94.1%	100.0%
07/31/2023	4,944	48.9%	62.0%	68.9%	75.1%	82.9%	89.1%	92.0%	93.5%	94.7%	95.6%	100.0%
06/30/2023	5,396	45.9%	60.1%	70.0%	79.8%	87.3%	90.2%	92.1%	93.7%	95.0%	96.0%	100.0%
05/31/2023	5,174	46.3%	57.6%	72.7%	83.1%	87.7%	89.8%	91.0%	92.2%	93.4%	94.6%	100.0%
04/30/2023	4,443	44.3%	57.3%	73.4%	85.6%	89.4%	91.2%	92.5%	93.5%	94.5%	95.7%	100.0%
03/31/2023	4,632	40.1%	55.1%	73.7%	85.3%	89.4%	91.2%	92.5%	93.9%	95.3%	96.1%	100.0%
02/28/2023	5,244	44.7%	59.2%	77.8%	86.8%	90.0%	91.7%	93.0%	94.4%	95.7%	96.4%	100.0%
01/31/2023	5,838	49.7%	63.1%	75.1%	86.2%	90.9%	92.7%	93.9%	95.1%	96.0%	96.7%	100.0%

Quarterly First Payment Timeliness Comparison

The following chart shows NC's quarterly average as compared to the US Average.



Recent performance improvement demonstrates DES's commitment to review its unemployment benefit claims process to ensure first payments meet the federal requirements.

**Agency Finding Response – Ensure Unemployment Claims Process Meets Federal Timeliness Standard.**

Over the past two-and-a-half years, DES has built a comprehensive and robust data dashboard system so that agency units can easily access information that is critical to their daily functions, unit metrics and effectiveness. It has also allowed each business unit to better manage the flow of claims and has empowered its teams to make important departmental decisions. Additionally, it has allowed DES to identify issues and see arising trends—such as a major economic downturn and upticks in unemployment claims.

**2. DES Did Not Fully Implement Recommendation to Monitor Timeliness of First Unemployment Benefit Payments.**

**Recommendation**

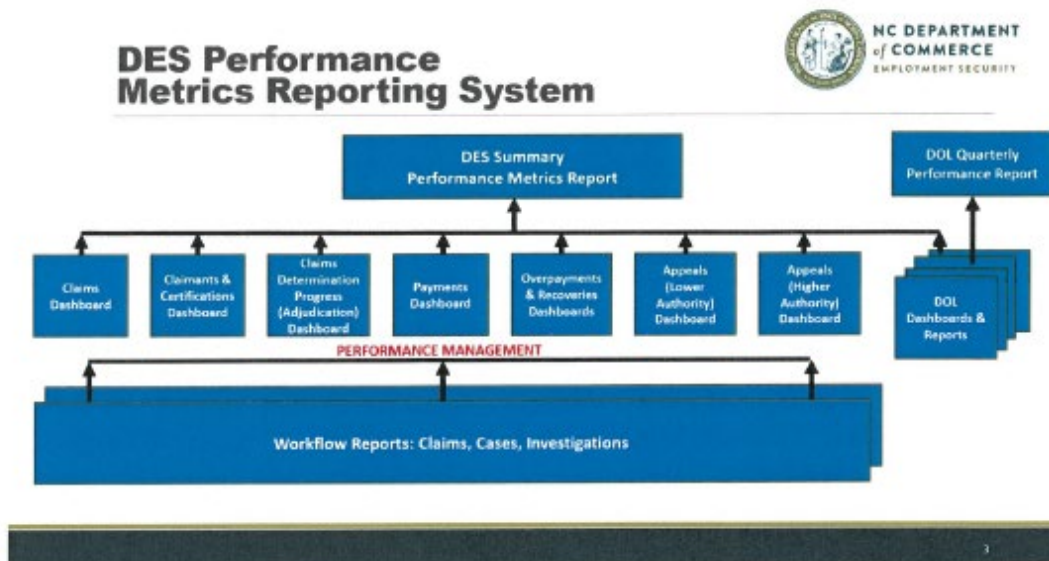
DES management should create policies and procedures to monitor the timeliness of unemployment benefit payments.

**Agency Response**

DES disagrees with the finding. DES has developed a reporting system that provides the ability to proactively identify claims that are at risk of being late. The Performance Metrics Reporting System:

- Provides real-time status reporting of all stages of DES claims processing and payment.
- Offers transparency of DES-wide claims processing progress.
- Gives managers at all levels full visibility of claims processing progress.
- Delivers over 70 individual dashboards, reports, claims lists, and US Department of Labor-required data submissions.
- Provides a transformative step in moving DES into data-driven process management.





DES used data available through the performance metrics system to detect and address deficiencies in 2023 that led to a 58% improvement in the timeliness of first benefit payments in 2024. Certain actions like staff reclassification and recruitment issues, were complex to resolve and required the involvement of Commerce Human Resources and OSHR.

DES management meets regularly to review performance metrics. Additionally, DES continues to build and refine the performance metrics system to assist management with identifying areas for continued focus.

While outcomes that meet the federal first payment timeliness requirement have not yet been realized, DES has acted to implement a system and structure that results in continual review of performance and has experienced significant improvement in performance.

**Agency Finding Response – Preparation to Respond to Economic Downturns**

The NC Division of Employment Security (DES) implemented its Service Escalation Readiness Plan in August 2023. Implementation of the plan included ongoing execution of economic monitoring and reporting, initiation of readiness assessments, and establishment of the set of escalation response actions. The audit concludes that this did not constitute implementation. DES responds that its actions within the audit's timeframe do constitute implementation, with additional confirming actions continuing beyond the audit timeframe.

**3. DES Did Not Fully Implement Recommendation to Adopt a Plan to Respond to Economic Downturns.**

**Recommendations**

DES management should continue its efforts to implement its Readiness Plan in a timely manner. Timely implementation will reduce the risk that DES is not prepared to respond to economic downturns.

**Agency Response**

DES disagrees with the finding. DES has completed implementation of its Readiness Plan and is continuing to execute it in an ongoing and timely manner.

The DES Service Escalation Readiness Plan (Readiness Plan) defines processes and establishes action lists and projects to ensure readiness to respond to employment-impacting economic events or natural disasters. Implementation of the plan is to put its processes into practice and to establish and maintain action lists and projects supporting readiness. The plan's primary processes are conducting readiness assessments by the ten DES business and service units and their twenty-five teams, monitoring and reporting national and state economic conditions for potential employment-impacting events and maintaining the list of actions and their underlying steps to respond to an escalation. The Readiness Plan is a dynamic tool, with its processes and lists evolving on an ongoing basis, reflecting improved capabilities, updated procedures, review and testing results, and implementation experience.

DES initiated initial readiness assessments with its five claim-processing business units in August 2023. As planned, significant effort and time was expended in the conduct of these assessments to establish effective quantitative and qualitative frameworks assessing team-specific operational status. This round of assessments was completed in November 2023. Team assessments were reviewed by the teams' unit directors, identifying improvement actions needed and suggesting refinements to the assessment process.

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During the first quarter of 2024, refinements to the assessment process were made based on the experience of the first round of assessments. The next cycle of readiness assessments was conducted April through July 2024. In this cycle, all ten DES units and their twenty-five teams conducted readiness assessments, assisted by DES staff specialists.

On August 13, 2024, a DES-wide readiness review was conducted. Team by team, each DES unit presented and discussed the results of each assessment, identifying actions needed for readiness improvement or sustainment, and reviewing the unit action list to respond to a service escalation situation. The review was conducted by DES senior leadership. Participants included all unit directors and their team leaders plus supporting staff. Following this review, an assessment was made of DES readiness and a report was prepared providing details of the review and the collective readiness assessment. This report was distributed on August 26, 2024, to the senior leadership team, all team and unit leaders, and key support staff. Follow-up actions by team and unit were identified in the report. A copy of this report is provided. Execution of Readiness Plan processes are ongoing, with the next readiness review, combined with a Hurricane Helene unemployment claims processing in-progress assessment, to be held in December 2024.

DES asserts that the actions taken between August 2023 and August 2024 constitute implementation of a readiness plan, and significantly improve DES preparedness to anticipate and respond to economic downturns. DES used the plan the first workday following Hurricane Helene to immediately begin repurposing staff, onboarding retired DES, temporary and staff loaned from other states, and to bifurcate incoming calls to appropriately skilled staff.

**End of Response**

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# Ordering Information

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This audit required 1,101 hours of auditor effort at an approximate cost of \$156,196.