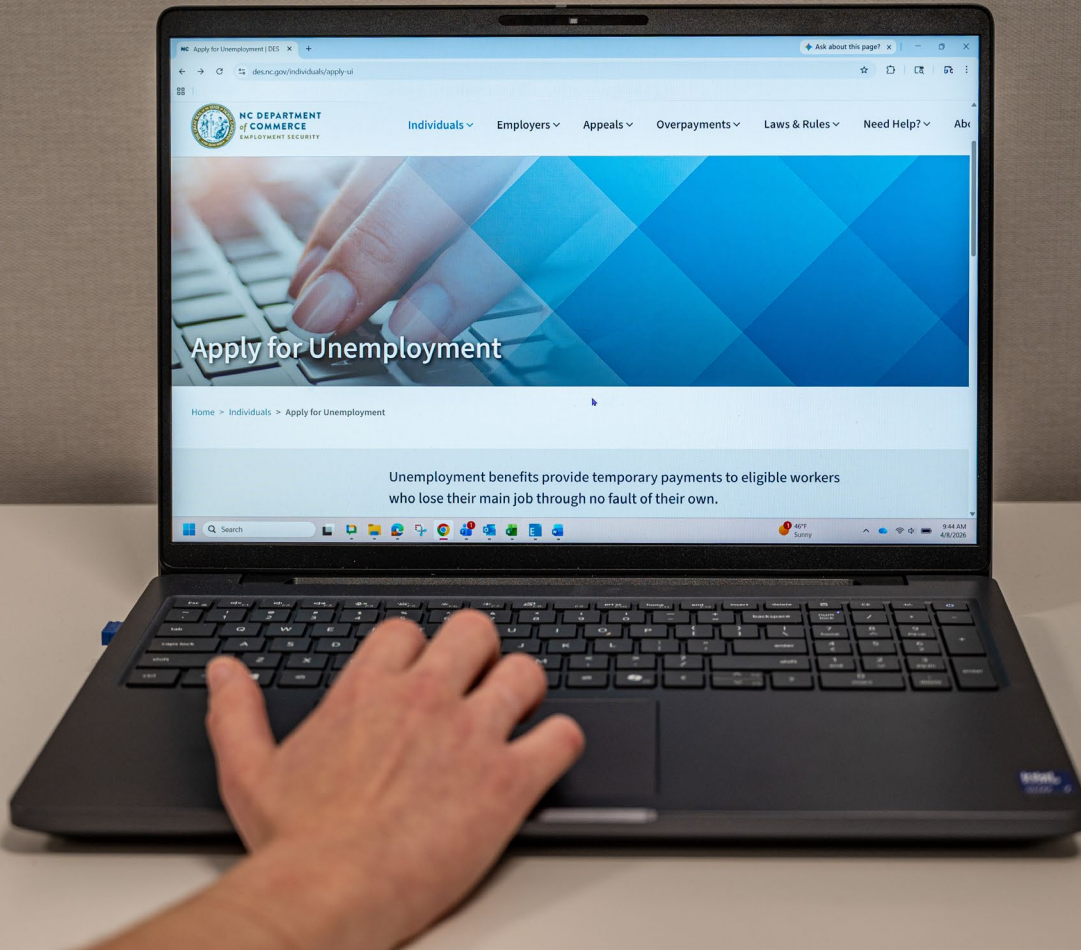


# North Carolina Department of Commerce Division of Employment Security

## Improper Unemployment Benefit Payments Follow-Up

Raleigh, NC



## Performance Audit Report

June 2026

State Auditor  
Dave Boliek

A Constitutional Office of the  
State of North Carolina





North Carolina Office of the State Auditor  
Dave Boliek, State Auditor

## Auditor's Transmittal

---

The Honorable Josh Stein, Governor  
The Honorable Phil Berger, President Pro Tempore  
The Honorable Destin Hall, Speaker of the House  
Honorable Members of the North Carolina General Assembly  
Lee Lilley, Department of Commerce Secretary  
M. Antwon Keith, Division of Employment Security Assistant Secretary

To all:

In 2022, the North Carolina Office of the State Auditor (OSA) conducted a performance audit on improper unemployment insurance payments made by the Office of the Governor through the North Carolina Department of Commerce, Division of Employment Security (DES). An improper payment is an unemployment insurance payment that should not have been made or was made in an incorrect amount. Improper payments can include overpayments, underpayments, and any payment to an ineligible recipient.

The 2022 audit sought to determine if North Carolina's improper unemployment insurance payment rate was below the 10% federal rate. The audit revealed that DES's improper payment rate was above the federal rate and averaged 18% during the period examined. OSA has completed a follow-up audit, which shows from April 1, 2021, through March 31, 2025, DES had an improper payment rate of 22% – resulting in a finding that this most recent period was worse than the 2022 finding.

OSA dug deeper into the improper payments and found that established overpayments during that time period – which are classified as either fraud or non-fraud – totaled \$168.8 million. Of that total, \$121.6 million was classified as non-fraud and \$47.2 million as fraud. DES is tasked with recovering overpayments. However, only \$49.1 million, representing 29% of total established overpayments, was recovered. While there were \$47.2 million in fraud overpayments reported, DES only recovered a total of \$12.1 million.

Also concerning was the lack of urgency from the Department of Commerce, and the Office of the Governor, to fix the problem. OSA made a work search requirement recommendation in 2022 to directly address overpayment issues. DES applied for and received a federal grant worth \$6.8 million to assist with several projects, including rolling out a work search repository. It took three years for full statewide implementation of the repository. When pressed, DES did not identify a specific root cause for the delayed implementation.



**North Carolina Office of the State Auditor**  
Dave Boliek, State Auditor

Full implementation of U.S. Department of Labor recommended strategies and best practices to address work search requirements, benefit year earnings, and separation issue errors is critical to reducing improper unemployment insurance payments. Following this audit, the North Carolina Office of the State Auditor will continue to remain engaged with the Office of the Governor and the Department of Commerce for the foreseeable future.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dave Boliek". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Dave Boliek  
State Auditor

The Office of the State Auditor (OSA) has completed a follow-up performance audit to determine whether the Department of Commerce (Department), Division of Employment Security (DES) implemented corrective actions to address findings and recommendations made in OSA's September 2022 [Improper Unemployment Benefit Payments](#) audit report.<sup>1</sup> The prior report recommended five specific actions to reduce DES's improper unemployment insurance (UI) payment rate below the 10% federal threshold required by the U.S. Department of Labor (U.S. DOL).<sup>2</sup>

Specifically, this follow-up audit determined, for the period of April 1, 2021, through March 31, 2025, whether DES:

- Required work search activities to be reported within the weekly certification process.
- Ensured that the Department of Commerce, Division of Workforce Solutions (DWS) is scheduling and conducting Reemployment Service and Eligibility Assessment (RESEA) interviews or Employability Assessment Interviews (EAI) with claimants.
- Continued to crossmatch with the State Directory of New Hires (SDNH) to identify as quickly as possible when claimants return to work and monitored to ensure the SDNH worked as intended.
- Continued to require claimants to use a wage calculator as part of the weekly certification process and monitored to ensure the wage calculator worked as intended.
- Created standardized policies and procedures for making separation determinations when employers' and claimants' reasons for separation conflicted.

### What We Found

DES **implemented** four of the five prior audit recommendations.

DES **did not fully implement** the work search repository<sup>3</sup> as part of the weekly certification process until December 2025, more than three years after receiving federal grant funding to build it and years after the U.S. DOL recommended its implementation in June 2019.<sup>4</sup> Work search errors accounted for approximately 50% of overpayments during the audit period, and work-search-related overpayments as a share of total overpayments increased compared to the prior audit period.<sup>5</sup>

---

<sup>1</sup> For a copy of OSA's 2022 audit, see [Improper Unemployment Benefit Payments](#).

<sup>2</sup> 31 U.S.C. § 3351(2)(F).

<sup>3</sup> The work search repository is an online system for UI claimants to report and record required work search activities electronically to be eligible to receive UI benefits. Required work search activities include contacting at least three different employers each week, participating in approved and verified reemployment activities, etc. Previously, DES only required claimants to keep a record of their work search activities and maintain the records themselves in the event they were audited by DES.

<sup>4</sup> See U.S. Dep't of Labor, Emp. & Training Admin., Unemployment Insurance Program Letter No. 15-19 (June 28, 2019), [https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2019/UIPL\\_15-19.pdf](https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2019/UIPL_15-19.pdf).

<sup>5</sup> The prior audit period was April 1, 2016, through March 31, 2021.

**Four recommendations fully implemented.** DES implemented procedures to ensure RESEA interviews were conducted; continued daily and weekly crossmatching with state and national new hire directories; continued requiring claimants to use the wage calculator; and created standardized policies for separation determinations.

**Improper payments remained above the federal threshold.** DES's improper payment rate averaged 22% during the audit period, more than double the 10% federal limit, resulting in approximately \$90.3 million in improper payments over and above what would have been expected at the federal threshold.

DES had an average improper payment rate of **22%**

which exceeds the 10% federal limit.

**RESULTED IN**

**\$90.3 MILLION**  
of improper payments over and above the federal limit.

## Recommendations

- DES should **continue to review and implement U.S. DOL** recommended strategies and best practices, including targeted actions to address work search requirements, benefit year earnings, and separation issue errors.

For example, DES's Integrity Taskforce<sup>6</sup> should meet to discuss and analyze Benefit Accuracy Management (BAM) program results,<sup>7</sup> implement recommended corrective changes, and document and monitor the effectiveness of those changes in reducing the improper payment rate to below 10% of claims paid.

- DES should monitor the work search repository to ensure it is working as intended, and should monitor its impact on:
  - The overall improper payment rate, and
  - The overpayment rate attributable to work search errors.
- With the statewide implementation of the work search repository completed in December 2025, DES should redirect efforts toward addressing the other causes of improper payments.

---

<sup>6</sup> DES's Integrity Taskforce is comprised of subject matter experts from various areas of DES Benefits, Benefits Integrity, Quality Control, and Appeals. According to DES, this group meets weekly to discuss improper payment root causes, develop solutions, and monitor for impact or reassessment.

<sup>7</sup> The BAM program determines the accuracy of paid and denied UI claims by sampling weekly payments and denied claims in the state UI program. The BAM program then uses the sample data to make inferences concerning the entire population of claims, including the root causes of improper payments.

- DES should monitor its RESEA, new hire crossmatching, weekly certification, and separation determination processes to ensure they are working as intended, and should monitor their impacts on:
  - The overall improper payment rate, and
  - The overpayment rate attributable to work search, benefit year earnings, and separation issues errors.



## Table of Contents

Background.....	1
Findings and Recommendations.....	5
Objectives, Scope, and Methodology.....	15
Response From the Department of Commerce .....	17
Appendix A: Work Search Repository Implementation Timeline .....	20
Appendix B: Established Overpayments and Recoveries .....	21
Ordering Information .....	22

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 the power to summon people to produce records and to answer questions under oath.



# Background

### OSA's 2022 Audit and Recommendations

The Office of the State Auditor's (OSA) September 2022 report titled [Improper Unemployment Benefit Payments](#) found that the Department of Commerce (Department), Division of Employment Security (DES) reported improper unemployment insurance (UI) payment rate averaged 18% during the period of April 1, 2016, through March 31, 2021, exceeding the 10% federal improper payment rate compliance threshold set by the United State Department of Labor (U.S. DOL). The 2022 report estimated that DES paid approximately \$166 million in improper payments over and above the federal improper payment limit during the same period.

The audit concluded that DES did not implement U.S. DOL recommendations to reduce improper payments that resulted from:

- Work search requirements,
- Benefit year earnings, and
- Separation information issues.

The September 2022 audit report recommended that DES implement U.S. DOL recommendations to reduce improper payments. Specifically, the September 2022 audit report recommended that DES management should:

- Require work search activities to be reported within the weekly certification process.
- Ensure that DWS is scheduling and conducting RESEA or EAI interviews with claimants.
- Continue to crossmatch with the SDNH to identify as quickly as possible when claimants return to work and monitor to ensure it is working as intended.
- Continue to require claimants to use a wage calculator as part of the weekly certification process and monitor to ensure it is working as intended.
- Create standardized policies and procedures for making separation determinations when employers' and claimants' reasons for separation conflicted.

### North Carolina Unemployment Insurance Program

DES administers North Carolina's UI program in accordance with federal and State law. UI provides temporary financial assistance to unemployed workers who lose their jobs through no fault of their own and are able, available, and actively seeking work.

From April 1, 2021, through March 31, 2025, DES paid approximately \$748 million in UI benefits in its State UI program.

### *Improper Payment Rate*

Federal law<sup>8</sup> requires federal agencies to report an annual **improper payment rate**<sup>9</sup> below 10%. As the federal administering agency, the U.S. DOL established a performance measure for state UI programs to meet the 10% requirement.

The annual improper payment rate is calculated using the results of the Benefit Accuracy Measurement (BAM) program samples (random audits). The BAM program determines the accuracy of paid and denied UI claims by sampling weekly payments and denied claims in the state UI program. The BAM program then uses the sample data to make inferences concerning the entire population of claims to **estimate** improper payments (including overpayments and underpayments). This improper payment rate is used to assess compliance with the U.S. DOL's 10% performance measure.

States are required to report the **causes of improper payments**. The U.S. DOL reviews the reported causes of improper payments and develops strategies, recommendations, and corrective action plans for the state to implement to reduce improper payments.

### *Actual Overpayments and Recoveries*

While estimated improper payments (including overpayments and underpayments) are used to assess compliance with the U.S. DOL's 10% performance measure, actual overpayments are also identified and established by DES.

**Established (actual) overpayments** are formally determined, adjudicated, and recorded in the state's UI system following DES administrative review, including amounts subject to recovery.<sup>10</sup> These overpayments are classified into two main categories: fraud and non-fraud. Established overpayments are reported to the U.S. DOL on a quarterly basis via Form ETA 227, *Overpayment Detection and Recovery Activities*.

DES attempts to **recover** established overpayments through various collection methods. For example, DES can recover UI overpayments through cash payments from claimants, benefit offsets, state and federal income tax offsets, interception of NC Lottery winnings, wage garnishments, and court actions (civil or criminal).<sup>11</sup> Overpayment recoveries reflect amounts collected on previously established overpayments, including amounts established in both current and prior periods.

---

<sup>8</sup> 31 U.S.C. § 3351(2)(F).

<sup>9</sup> Includes UI benefits overpaid plus UI benefits underpaid divided by the total amount of UI benefits paid.

<sup>10</sup> Subject to recovery refers to overpayments that have been formally established and recorded as receivables by the state and are eligible for collection through recovery activities, such as cash repayments, benefit offsets, or other collection methods.

<sup>11</sup> N.C.G.S. § 96-18.(g)(3)a.

During the period April 1, 2021, through March 31, 2025, DES reported \$168.8 million in established overpayments, \$47.2 million categorized as fraud, and \$121.6 million as non-fraud.

Of these amounts, DES recovered approximately \$49.1 million, representing approximately 29% of total established overpayments.

See **Appendix B** for additional details on established overpayments and recoveries from April 1, 2021, through March 31, 2025.

**Key Terms Discussed in this Report Include:**

*Improper Payment* – Any UI payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Improper payments include both overpayments and underpayments and any payment to an ineligible recipient.

*Improper Payment Rate* – UI benefits overpaid plus UI benefits underpaid divided by the total amount of UI benefits paid. Overpayments, underpayments, and total UI benefits paid are estimated from the BAM survey results of paid UI claims in the state UI program.

*Overpayments* – UI benefits received by claimants for which they were not eligible.

*Estimated Overpayments* – Represent a statistical, sample-based estimate of improper payments identified through independent audit analysis (e.g., BAM), used to assess overall program accuracy and identify potential errors. This data is used to calculate the state's improper payment rate and assess compliance with the U.S. DOL's 10% performance measure.

*Established Overpayments* – Represent overpayments that have been formally determined, adjudicated, and recorded in the state's unemployment insurance system following administrative review, including amounts subject to recovery. These overpayments are classified into two main categories: fraud and non-fraud. Established Overpayments are reported to the U.S. DOL on a quarterly basis via Form ETA 227, *Overpayment Detection and Recovery Activities*.

*Overpayment Recoveries* – Represent amounts of previously established overpayments that have been collected or repaid to the state through various recovery methods.<sup>12</sup>

*Work Search Requirement Errors* – Payments of UI benefits to claimants who were not eligible to receive UI benefits because they failed to provide acceptable evidence of their work search in accordance with North Carolina law.<sup>13</sup>

---

<sup>12</sup> Overpayments are recovered through several methods, including cash payments, benefit offsets, state and federal income tax offsets, interception of NC Lottery winnings, wage garnishments, and court actions (civil or criminal).

<sup>13</sup> See N.C.G.S § 96-14.9.

*Benefit Year Earnings Errors* – Payments of UI benefits to claimants who were not eligible to receive UI benefits because they failed to report earnings after returning to work or inaccurately reported earnings.

*Separation Determination Errors* – Payments of UI benefits to claimants who were not eligible to receive UI benefits because they voluntarily quit employment or were discharged for cause. This improper payment error most often results when claimants provide an incorrect last employer or an incorrect reason for separation.

**Responsible Parties Discussed in this Report Include:**

*North Carolina Department of Commerce (Department)*<sup>14</sup> – The Department’s mission is to improve the economic well-being and quality of life for all North Carolinians. To do that, the Department works closely with local, regional, national, and international organizations to propel economic, community, and workforce development for the State.

*Division of Employment Security (DES)*<sup>15</sup> – DES is responsible for the administration of the UI program in the State of North Carolina. DES is overseen by the Department.

---

<sup>14</sup> <https://www.nccommerce.com/about-us>.

<sup>15</sup> <https://www.nccommerce.com/about-us/divisions-programs/employment-security-division>.



# Findings and Recommendations

## DES Did Not Implement All Recommendations; \$90 Million in Improper Payments Over and Above Federal Improper Payment Limit

DES implemented four out of the five corrective actions recommended in OSA’s September 2022 audit.<sup>16</sup> However, DES did not complete the rollout of the work search repository (WSR) until December 2025, which was three years after receiving federal grant funding for its development.<sup>17</sup>

During the audit period, April 1, 2021, through March 31, 2025, DES’s improper payment rate average 22%, more than double the 10% federal limit required by the U.S. Department of Labor (U.S. DOL).<sup>18</sup>

### DES Improper Payment Rate Exceeded Federal Limit

DES’s reported improper payment rate continued to exceed the 10% federal limit during the audit period, averaging **22%** from April 1, 2021, through March 31, 2025. Table 1 shows the estimated improper payment amounts and the improper payment rate for each fiscal year (FY) during the audit period.

**Table 1 – Improper Payment Rate  
(April 1, 2021 – March 31, 2025)**

Fiscal Year <sup>19</sup>	State UI Claim Amounts	Estimated Overpayment Amounts	Estimated Underpayment Amounts	Total Estimated Improper Payment Amounts <sup>20</sup>	Improper Payment Rate
2025	\$ 156,351,761	\$ 27,837,080	\$ 1,307,607	\$ 29,144,687	18.6%
2024	194,039,459	38,747,057	1,183,039	39,930,097	20.6%
2023	157,987,644	27,033,213	76,058	27,109,271	17.2%
2022	239,605,751	68,152,388	809,027	68,961,415	28.8%
<b>Total:</b>	<b>\$ 747,984,615</b>	<b>\$ 161,769,738</b>	<b>\$ 3,375,731</b>	<b>\$ 165,145,470</b>	<b>22.1%</b>

Source: U.S. DOL, Unemployment Accuracy by State.

<sup>16</sup> For a copy of OSA’s 2022 audit, see [Improper Unemployment Benefit Payments](#).

<sup>17</sup> The WSR is housed in the online MyNCIDBenefits system maintained by DES. See <https://www.des.nc.gov/worksearch>.

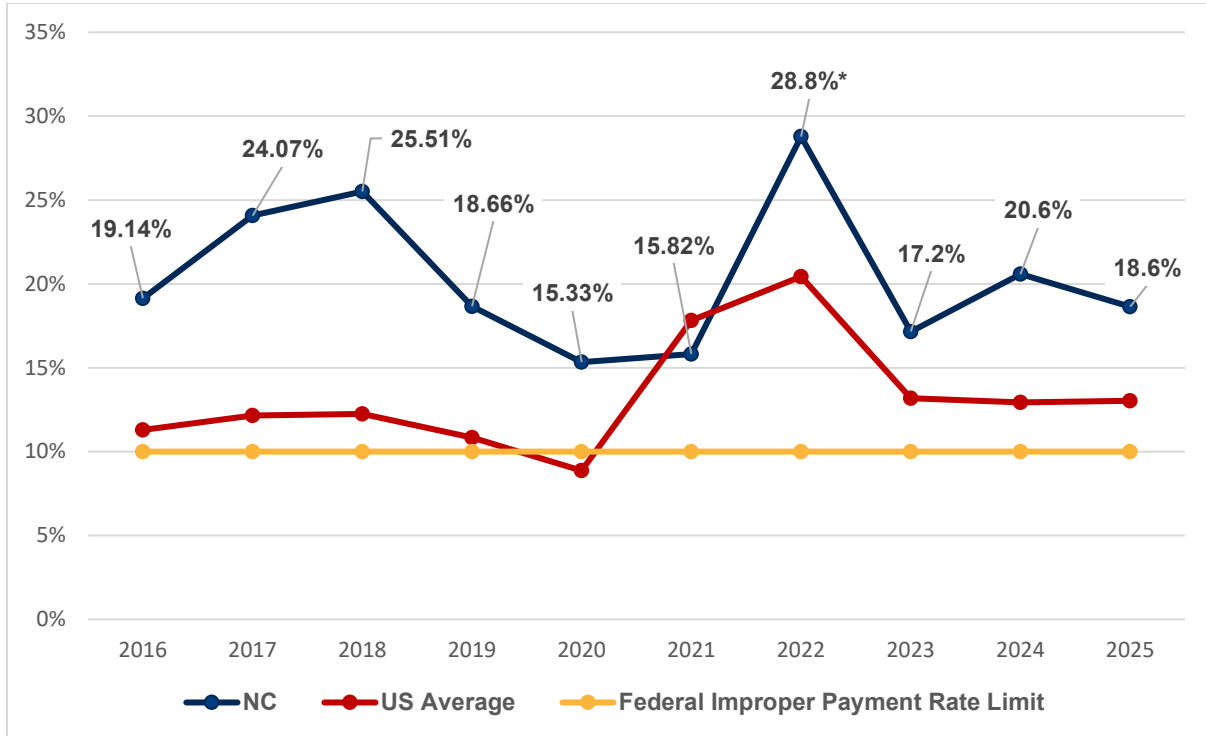
<sup>18</sup> 31 U.S.C. § 3351(2)(F).

<sup>19</sup> The UI fiscal year runs from April 1 through March 31.

<sup>20</sup> Estimated total improper payments are derived from actual improper payments that were identified as part of the BAM program. The BAM program is designed to determine the accuracy of paid and denied claims by sampling weekly payments and denied claims and using the sample data to make inferences concerning the entire population of claims.

As shown in Graph 1, North Carolina's improper payment rate has also exceeded the national average for 9 out of the last 10 years.

**Graph 1 – Improper Payment Rate NC vs US Average  
(April 1, 2015 – March 31, 2025)**



\* DES Management indicated that the increase in the fiscal year 2022 improper payment rate coincided with the COVID-19 pandemic and related impacts on the UI program.

Source: U.S. DOL data and auditor analysis

### Estimated \$90 Million in Improper Payments Over and Above the Federal Improper Payment Limit

Because DES's improper payment rate averaged 22% over the last four years, DES paid an estimate of approximately **\$90 million** in improper payments over and above what would have been expected had the rate been held to the 10% federal limit.

Improper payments include any payments that should not have been made, were made in an incorrect amount, and include any payment to an ineligible recipient. Improper payments include both over and under payments.

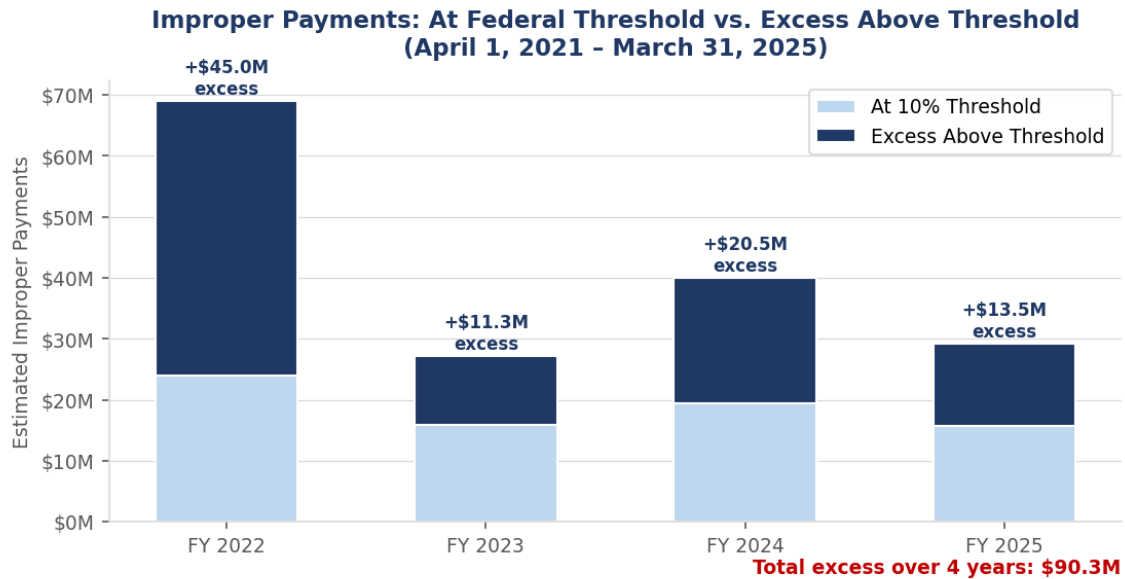
Consequently, these public funds were paid or received in error and were not used for the intended purpose of providing financial assistance to eligible unemployed North Carolinians in times of need.

Table 2 shows the estimated amount of improper payments in excess of the 10% federal limit for FYs 2022 through 2025.

**Table 2 – Excessive Improper Payments  
(April 1, 2021 – March 31, 2025)**

Fiscal Year <sup>21</sup>	State UI Claim Amounts	Estimated Improper Payment Amounts <sup>22</sup>	Estimated Improper Payment Amounts if Limited to 10% of Claims	Difference = Excessive Improper Payments
2025	\$ 156,351,761	\$ 29,144,687	\$ 15,635,176	\$ 13,509,511
2024	194,039,459	39,930,097	19,403,946	20,526,151
2023	157,987,644	27,109,271	15,798,764	11,310,507
2022	239,605,751	68,961,415	23,960,575	45,000,840
<b>Total:</b>	<b>\$ 747,984,615</b>	<b>\$ 165,145,470</b>	<b>\$ 74,798,462</b>	<b>\$ 90,347,009</b>

Source: U.S. DOL data and auditor analysis.



Source: U.S. DOL data and auditor analysis. Excess = actual improper payments minus 10% of UI claims paid.

### Primary Causes of Overpayments

While improper payments include both overpayments and underpayments, **overpayments** accounted for approximately 98%<sup>23</sup> of all improper payments during the audit period, April 1, 2021, through March 31, 2025. The primary causes of overpayments in North Carolina have

<sup>21</sup> The UI fiscal year runs from April 1 through March 31.

<sup>22</sup> Estimated total improper payments derived from actual improper payments that were identified as part of the BAM program. The BAM program is designed to determine the accuracy of paid and denied claims by sampling weekly payments and denied claims and using the sample data to make inferences concerning the entire population of claims.

<sup>23</sup> Estimated overpayments constituted \$161,769,740 of the total estimated improper payments amount of \$165,145,470.

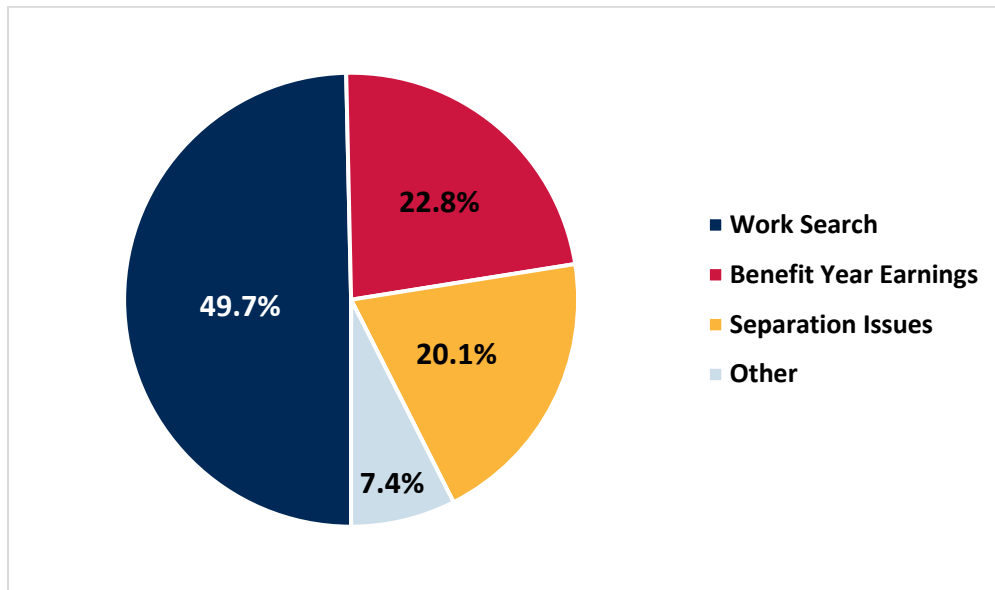
historically been work search requirement errors, benefit year earnings errors, and separation determination errors, which collectively accounted for an estimated 93% of all DES overpayments over the last four years.

**Table 3 – Causes of Overpayments  
(April 1, 2021 – March 31, 2025)**

Overpayment Error Type	Estimated Overpayments	Percent of Dollars Overpaid	Overpayments Due to Primary Three Causes
Work Search	\$ 80,326,066	49.7%	\$149,708,758 <b>92.6%</b>
Benefit Year Earnings	36,931,949	22.8%	
Separation Issues	32,450,743	20.1%	
Other <sup>24</sup>	12,060,982	7.4%	
<b>Total:</b>	<b>\$ 161,769,740</b>	<b>100%</b>	

Source: U.S. Department of Labor and auditor analysis.

**Graph 1 – Top Causes of Overpayments  
(April 1, 2021 – March 31, 2025)**



Source: U.S. Department of Labor and auditor analysis.

<sup>24</sup> Other causes of overpayments include issues such as service, vacation, Supplemental Security Income, pension, base period wages, and being able and available to work.

## Recommendations To Reduce Improper Payments Not Fully Implemented

OSA's September 2022 [Improper Unemployment Benefit Payments](#) performance audit found that DES exceeded the improper payment limit because it failed to implement U.S. DOL recommendations to reduce improper payments.<sup>25</sup>

OSA's September 2022 audit specifically recommended that DES management implement U.S. DOL recommendations to reduce improper payments attributable to (1) work search requirements, (2) benefit year earnings, and (3) separation issue errors.

However, not all recommendations to reduce overpayments attributable were fully implemented. As a best practice, the United States Government Accountability Office recommends that management should implement corrective action "on a timely basis".<sup>26</sup>

### Implementation Status by Recommendation

#### Recommendation 1 – Work Search Repository: Delayed Implementation and Continued Overpayments

OSA's September 2022 audit recommended that DES require work search activities be reported within the weekly certification process to reduce work search requirement errors. This recommendation aligns with the U.S. DOL UI Integrity Strategic Plan for FY 2020, which stated that increasing the frequency of work search reporting<sup>27</sup> and capturing work search activities as part of claimants' weekly claim certification may contribute to an increase in work search compliance and result in a decrease of work search requirement errors.<sup>28</sup>

To implement this recommendation, DES applied for and received a federal grant in August 2022 to assist in the implementation of an online work search repository (WSR). The WSR's purpose is to help UI claimants easily create and store electronic work search records to meet the State's weekly requirements for unemployment benefits, potentially decreasing improper payments.

However, DES did not implement the WSR statewide until December 2025, more than three years after receiving the grant.

Although DES received grant funding in August 2022 and progressed through planning and development, rollout didn't begin until March 2025,

**DES did not complete the work search repository implementation until December 2025 - more than three years after receiving the federal grant.**

<sup>25</sup> North Carolina is required to report the causes of improper payments to the U.S. DOL. The U.S. DOL develops strategies, recommendations, and corrective action plans to the State to implement to reduce improper payments.

<sup>26</sup> U.S. Government Accountability Office, Standards for Internal Control in the Federal Government, § 17.06 (September 2014), <https://www.gao.gov/assets/gao-14-704g.pdf>.

<sup>27</sup> In North Carolina, claimants are required to be actively seeking work. Claimants are required to make three work search contacts each week, keep a detailed record of their work search activities to receive unemployment benefits, and provide the record to DES upon request.

<sup>28</sup> U.S. Department of Labor, UI Integrity Strategic Plan Fiscal Year 2020, [https://oui.doleta.gov/unemploy/pdf/ui\\_prog\\_integrity.pdf](https://oui.doleta.gov/unemploy/pdf/ui_prog_integrity.pdf).

and full statewide implementation did not occur until December 2025, which was outside of the audit period.

Overall, approximately two years and seven months elapsed between the federal grant award and the initial rollout of the WSR, with more than three years passing before the full statewide implementation.

DES did not identify a specific root cause for the delayed implementation, citing only a lengthy process and limited staffing. (See the Appendix for a full timeline of the WSR implementation provided by DES.)

Work search requirement errors remained the single largest category of overpayments during the audit period, accounting for approximately \$80 million (50%) of total overpayments. As shown in Table 4, the share of overpayments attributable to work search requirement errors increased from 24.9% in the prior audit period<sup>29</sup> to 49.7% in the current period.

**Table 4 – Work Search Requirement Errors – Overpayments  
(April 1, 2021 – March 31, 2025)**

<b>Fiscal Year</b>	<b>Estimated Overpayments</b>	<b>Overpayments Attributable to Work Search Requirement Errors</b>	<b>% Overpayments Attributable to Work Search Requirement Errors</b>
<b>2025</b>	\$ 27,837,080	\$ 17,732,903	63.7%
<b>2024</b>	38,747,057	28,066,015	72.4%
<b>2023</b>	27,033,213	13,893,004	51.4%
<b>2022</b>	68,152,388	20,634,144	30.3% <sup>30</sup>
<b>Total</b>	<b>\$ 161,769,738</b>	<b>\$ 80,326,066</b>	<b>49.7%</b>
<b>Previous Audit Period</b>	<b>\$ 366,480,210</b>	<b>\$ 91,371,596</b>	<b>24.9%</b>

Source: U.S. Department of Labor data and auditor analysis

Because the WSR was not available during the current audit period, DES lacked this tool to address work search-related overpayments. However, OSA notes that these overpayments may stem from multiple factors, including claimant behavior, enforcement capacity, and eligibility adjudication, and that the WSR alone is not a complete solution. The WSR’s effect on the improper payment rate will need to be evaluated through post-implementation monitoring.

<sup>29</sup> The prior audit period was April 1, 2016, through March 31, 2021.

<sup>30</sup> NC Executive Order 118, effective March 17, 2020, waived the work search requirement during FY 2021 due to the COVID-19 pandemic. North Carolina Executive Order Number 118 (March 17, 2020), <https://governor.nc.gov/documents/files/eo118/open>. These requirements were reinstated for new claimants effective March 1, 2021, under Executive Order No. 200. (March 1, 2021), <https://governor.nc.gov/documents/files/eo200-reinstating-work-search-requirements/open>.

## **Recommendation 2 – Reemployment Service and Eligibility Assessment (RESEA) Interviews: Implemented**

OSA's September 2022 audit recommended that DES ensure the DWS<sup>31</sup> schedules and conducts RESEA interviews or EAI with claimants. RESEA interviews include a one-on-one eligibility review, confirmation of employment status, a review of work search activities, and individual reemployment planning support. The U.S. DOL<sup>32</sup> has indicated that conducting these interviews can reduce UI duration and decrease work search requirement errors.

In response to OSA's previous audit, DES and DWS established a work group in January 2022 to help ensure that required RESEA interviews are scheduled and occurring.

In September 2024, DES hired a RESEA program director to oversee the program and meet with DWS personnel weekly, monthly, and quarterly to review RESEA interview data.

This recommendation was fully implemented.

During UI FY 2025 (April 1, 2024, through March 31, 2025), 79%<sup>33</sup> of claimants received a RESEA interview, representing a 26% improvement over the 53% rate reported in OSA's September 2022 audit.

**The number of RESEA interviews conducted had a 26% improvement from OSA's 2022 audit findings**

## **Recommendation 3 – New Hire Crossmatching: Implemented**

OSA's September 2022 audit recommended that DES continue to crossmatch claimant data with the SDNH<sup>34</sup> and monitor the process to ensure it is working as intended. Crossmatching identifies claimants who have returned to work and may no longer be eligible for UI benefits, thereby reducing the risk of improper payments attributable to benefit year earnings errors.

DES began crossmatching data with the SDNH in June 2021 and has continued this practice. As of March 31, 2025, DES crossmatched with the SDNH daily and the National Directory of New Hires (NDNH)<sup>35</sup> weekly. This recommendation was fully implemented.

## **Recommendation 4 – Wage Calculator: Implemented**

OSA's September 2022 audit recommended that DES continue to require claimants to use a wage calculator as part of the weekly certification process and monitor to ensure it is working as intended. The wage calculator, designed and recommended by the U.S. DOL, requires

<sup>31</sup> DES has an agreement with DWS to schedule and conduct RESEA interviews.

<sup>32</sup> See U.S. Department of Labor, Emp. & Training Administration, UI Program Letter Number 13-21 (January 19, 2021), [https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2021/UIPL\\_13-21.pdf](https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2021/UIPL_13-21.pdf).

<sup>33</sup> Auditors obtained data for the number of RESEA interviews scheduled and conducted from DES management. These numbers were compiled for presentation in the report but were not audited by OSA.

<sup>34</sup> The SDNH is a repository of employment, unemployment insurance, and quarterly wage information that is used to identify claimants who have been recently hired while filing for unemployment benefits.

<sup>35</sup> The NDNH is a national repository of employment, unemployment insurance, and quarterly wage information that is used to identify claimants who have been recently hired while filing for unemployment benefits.

claimants to input wage rate and hours worked for specific days,<sup>36</sup> automating the earnings calculation and reducing the risk of benefit year earnings errors such as miscalculated earnings, reported net versus reported gross earnings, or reported earnings for the wrong weekly benefit period.<sup>37</sup>

DES implemented the wage calculator in June 2021. As of March 31, 2025, the wage calculator remained a required part of the weekly certification process. This recommendation was fully implemented.

**Overpayments due to benefit year earnings decreased from the prior audit period**

As shown in Table 5, benefit year earnings overpayments decreased from approximately \$141 million (38.5% of total overpayments) in the prior audit period<sup>38</sup> to approximately \$37 million (22.8% of total overpayments) in the current period.

**Table 5 – Benefit Year Earnings – Overpayments  
(April 1, 2021 – March 31, 2025)**

Fiscal Year	Estimated Overpayments	Overpayments Attributable to Benefit Year Earnings	% Overpayments Attributable to Benefit Year Earnings
2025	\$ 27,837,080	\$ 5,680,055	20.4%
2024	38,747,057	5,124,711	13.2%
2023	27,033,213	6,604,028	24.4%
2022	68,152,388	19,523,155	28.6%
<b>Total</b>	<b>\$ 161,769,738</b>	<b>\$ 36,931,949</b>	<b>22.8%</b>

<b>Previous Audit Period</b>	<b>\$ 366,480,210</b>	<b>\$ 140,983,931</b>	<b>38.5%</b>
------------------------------	-----------------------	-----------------------	--------------

Source: U.S. Department of Labor data and auditor analysis

**Recommendation 5 – Separation Determination Policies and Procedures: Implemented**

OSA’s September 2022 audit recommended that DES create standardized policies and procedures for making separation determinations when employers’ and claimants’ reasons for separation conflict. OSA’s prior audit found that DES did not have standardized policies and relied on DES adjudication staff to make decisions on separation cases based heavily on professional judgment.

<sup>36</sup> For claimants who work while receiving unemployment benefits. Claimants must report the money they earn. Claimants can earn up to 20% of their weekly benefit amount without penalty. Earnings over that amount are deducted from their weekly benefits. See N.C.G.S. § 96-14.2(b).

<sup>37</sup> For example, claimants may erroneously report when wages are received versus when wages are earned or may report wages for the wrong period of days, such as Monday to Sunday rather than Sunday to Saturday.

<sup>38</sup> The prior audit period was April 1, 2016, through March 31, 2021.

In response, DES required all adjudication staff to complete training to follow U.S. DOL Benefits Timeliness and Quality (BTQ)<sup>39</sup> standards. All adjudication staff completed a thirteen-week training program, participated in refresher courses, and were subject to quarterly quality control reviews from DES management. This recommendation was fully implemented.

As shown in Table 6, separation determination overpayments decreased from approximately \$112 million (30.4% of total overpayments) in the prior audit period to approximately \$32 million (20.1% of total overpayments) in the current period.

**Table 6 – Separation Determination – Overpayments  
(April 1, 2021 – March 31, 2025)**

Fiscal Year	Estimated Overpayments	Overpayments Attributable to Separation Determinations Issues	% Overpayments Attributable to Separation Information Issues
2025	\$ 27,837,080	\$ 3,301,175	11.9%
2024	38,747,057	2,719,051	7.0%
2023	27,033,213	5,050,108	18.7%
2022	68,152,388	21,380,409	31.4%
<b>Total</b>	<b>\$ 161,769,738</b>	<b>\$ 32,450,743</b>	<b>20.1%</b>
<b>Previous Audit Period</b>	<b>\$ 366,480,210</b>	<b>\$ 111,540,112</b>	<b>30.4%</b>

Source: U.S. Department of Labor data and auditor analysis

### Recommendations

To reduce improper payments and achieve the federal improper payment threshold of 10%, OSA makes the following recommendations:

- DES should **continue to review and implement U.S. DOL** recommended strategies and best practices, including targeted actions to address work search requirements, benefit year earnings, and separation issue errors.

For example, DES’s Integrity Taskforce<sup>40</sup> should meet to discuss and analyze Benefit Accuracy Management (BAM) program results,<sup>41</sup> implement recommended corrective

<sup>39</sup> BTQ is a federal review guide designed as an evaluation tool used to determine if a State Workforce Agency is meeting standards which have been set by the U.S. Department of Labor regarding adjudicating non-monetary issues.

<sup>40</sup> DES’s Integrity Taskforce is comprised of subject matter experts from various areas of DES Benefits, Benefits Integrity, Quality Control, and Appeals. According to DES, this group meets weekly to discuss improper payment root causes, develop solutions, and monitor for impact or reassessment.

<sup>41</sup> The BAM program determines the accuracy of paid and denied UI claims by sampling weekly payments and denied claims in the state UI program. The BAM program then uses the sample data to make inferences concerning the entire population of claims, including the root causes of improper payments.

## Findings and Recommendations (continued)

changes, and document and monitor the effectiveness of those changes in reducing the improper payment rate to below 10 percent of claims paid.

- DES should **monitor the WSR** to ensure it is working as intended, and should monitor its impact on:
  - The overall improper payment rate, and
  - The overpayment rate attributable to work search errors.
- With the statewide implementation of the work search repository completed in December 2025, DES should redirect efforts toward addressing the other causes of improper payments.
- DES should monitor its RESEA, new hire crossmatching, weekly certification, and separation determination process to ensure they are working as intended, and should monitor their impacts on:
  - The overall improper payment rate, and
  - The overpayment rate attributable to work search, benefit year earnings, and separation issues errors.



# Objectives, Scope, and Methodology

### Objective

The objective of this performance audit was to determine whether DES implemented corrective actions to address findings and recommendations made in OSA's September 2022 *Improper Unemployment Benefit Payments* audit report to limit improper payments to less than 10% of paid claims, as required by U.S. DOL.

Specifically, for the period of April 1, 2021, through March 31, 2025, whether DES management:

- Required work search activities to be reported within the weekly certification process,
- Ensured that DWS is scheduling and conducting RESEA interviews or EAI interviews with claimants,
- Continued to crossmatch with the SDNH to identify as quickly as possible when claimants return to work and monitored to ensure it worked as intended,
- Continued to require claimants to use a wage calculator as part of the weekly certification process and monitor to ensure it worked as intended, and
- Created standardized policies and procedures for making separation determinations when the employers' and claimants' reasons for separation conflicted.

### Scope

The audit scope **included** DES's reported improper payments for the period of April 1, 2021 through March 31, 2025. The audit scope **did not include** determining whether DES's improper payment BAM survey results were accurate.<sup>42</sup>

### Methodology

To achieve the audit objectives, auditors:

- Reviewed state and federal laws relevant to UI and improper payments,
- Reviewed performance measures instituted by the U.S. DOL, Employment and Training Administration for improper payment requirements,
- Interviewed DES personnel,
- Reviewed DES policies and procedures for processing UI claims and for identifying the causes of improper payments,

---

<sup>42</sup> The U.S. DOL developed the BAM program that is carried out by DES, including establishing sample sizes and selecting the items for testing. The BAM samples are randomly selected from the populations of **only state UI program** payments and determinations denying eligibility issued by the state each week. DES staff audits up to 520 paid cases per year (ten per week) to verify the accuracy of each paid claim determination in its entirety. DES staff also review up to 468 denied claims per year (nine per week) to verify the accuracy of denials. The results of these audits are reported to the U.S. DOL. The U.S. DOL uses the sample data to make inferences concerning the entire population of claims.

## Objective, Scope, and Methodology (continued)

- Reviewed DES improper payment data from U.S. DOL reports and compared the improper payment rates to the federal improper payment limit,
- Reviewed DES BAM reports and corrective action plans, and
- Reviewed U.S. DOL publications that included strategies, recommendations, and corrective action plans for DES to implement to reduce improper payments.

Due to the nature of audit testing and inherent limitations of any system of internal and management controls, this audit may not disclose all performance weaknesses or noncompliance.

This audit was designed to identify deficiencies in internal control significant to the audit objectives. As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. However, this audit does not provide a basis for expressing an opinion on internal control.

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.



# **Response From the Department of Commerce**



May 27, 2026

The Honorable Dave Boliek  
State Auditor  
State of North Carolina  
20601 Mail Service Center  
Raleigh, NC 27699

Dear Auditor Boliek:

Thank you for providing the North Carolina Division of Employment Security (DES) with the opportunity to respond to the performance audit report received on May 7<sup>th</sup>, 2026, regarding improper unemployment benefit payments. DES appreciates the time, attention, and collaboration provided by the Office of the State Auditor throughout the audit process. The agency values observations and recommendations that help further improve the State of North Carolina's Unemployment Insurance Program. DES remains committed to providing the best systems and services to citizens and employers.

DES is committed to continuous improvement and recognizes the importance of regularly evaluating processes, technology, and operations to strengthen program effectiveness, service delivery, accountability, and integrity. DES greatly values the dedication and expertise of its staff, whose knowledge and operational experience are critical to implementing and sustaining meaningful improvements.

DES agrees with the recommendations outlined in this report, some of which we have already begun discussing. DES also recognizes that successful process improvements require adequate funding, staffing capacity, and technology investments to ensure long-term effectiveness and operational stability.

### **Improper Unemployment Benefit Payments Follow-Up**

OSA made four recommendations outlined below:

1. DES should continue to review and implement U.S. Department of Labor (U.S. DOL) recommended strategies and best practices, including targeted actions to address work search requirements, benefit year earnings, and separation issue errors.
2. DES should monitor the work search repository to ensure it is working as intended, and should monitor its impact on:
  - a. The overall improper payment rate; and
  - b. The overpayment rate is attributable to work search errors.
3. With the statewide implementation of the work search repository completed in December 2025, DES should redirect efforts toward addressing the other causes of improper payments.

4. DES should monitor its Reemployment Services and Eligibility Assessment (RESEA), new hire crossmatching, weekly certification, and separation determination processes to ensure they are working as intended, and should monitor their impact on:
  - a. The overall improper payment rate; and
  - b. The overpayment rate is attributable to work search, benefit year earnings, and separation issues errors.

The following are DES's responses to the audit recommendations:

**Recommendation 1:**

DES should continue to review and implement U.S. DOL recommended strategies and best practices, including targeted actions to address work search requirements, benefit year earnings, and separation issue errors.

**Agency Response:**

DES agrees with this recommendation. DES will continue to work with our partners, U.S. DOL and the National Association of State Workforce Agencies (NASWA), to develop strategies and ensure best practices are applied.

**Recommendation 2:**

DES should monitor the work search repository to ensure it is working as intended, and should monitor its impact on:

- The overall improper payment rate; and
- The overpayment rate attributable is attributable to work search errors.

**Agency Response:**

DES agrees with this recommendation. DES will continue to seek ways to reduce the improper payment rate and errors attributable to work search.

**Recommendation 3:**

With the statewide implementation of the work search repository completed in December 2025, DES should redirect efforts toward addressing the other causes of improper payments.

**Agency Response:**

DES agrees with this recommendation. DES will continue to monitor causes of improper payments and prioritize solutions as they become available.

Recommendation 4:

DES should monitor its RESEA, new hire crossmatching, weekly certification, and separation determination processes to ensure they are working as intended, and should monitor their impacts on:

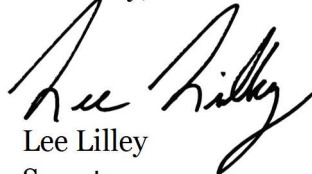
- The overall improper payment rate; and
- The overpayment rate attributable to work search, benefit year earnings, and separation issues errors.

Agency Response:

DES agrees with this recommendation. DES will continue to monitor causes of improper payments and prioritize solutions as they become available.

Thank you for your continued partnership in ensuring sound performance of DES responsibilities.

Sincerely,



Lee Lilley  
Secretary

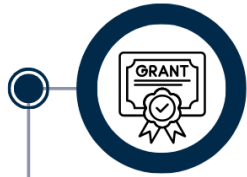
CC: Chief Deputy Secretary Kenny Flowers  
Assistant Secretary M. Antwon Keith



# Appendices

## Appendix A: Work Search Repository Implementation Timeline

# WORK SEARCH REPOSITORY (WSR) IMPLEMENTATION TIMELINE



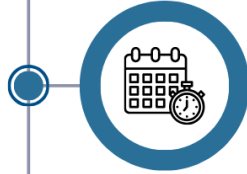
### Grant Funding (2022)

- **March 2022:** OSA recommended that DES implement the U.S. Department of Labor's guidance requiring work search activities to be reported during weekly certifications.
- **During 2022:** DES began planning for grant funding and, in August 2022, was awarded an Equity Grant to improve access to unemployment services with sufficient funding to support the completion of five major initiatives, each comprising of multiple subprojects, including development of the work search repository.



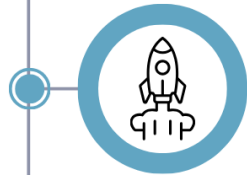
### Project Planning and Development (2022-2023)

- **August 2022 - April 2023:** DES conducted project planning and procurement activities for Equity Grant initiatives.
- **April 2023:** Development of the work search repository began.



### First Equity Grant Deadline Extension (2023)

- **June 2023:** Due to competing priorities, shared staffing, and vendor resources, DES received approval to extend the Equity Grant completion deadline to January 2025.



### Pilot Implementation and Disruptions (2024)

- **September 2024:** DES launches a pilot of the work search repository.
- **Late September 2024:** Hurricane Helene impacted North Carolina, shifting agency priorities to disaster-related efforts and slowing project progress.



### WSR Improvements & Second Equity Grant Deadline Extension (2023)

- **November 2024:** DES analyzed initial WSR pilot results and revised the work search record form requirements to make them more user-friendly for claimants. As a result, DES temporarily paused the pilot rollout until the revised version of the WSR was completed.
- **November 2024:** DES requested and was granted a second grant deadline extension to September 30, 2025



### Phased Rollout and Statewide Implementation (2025)

- **March 2025:** DES began implementing the work search repository by prosperity zone.
- **March 2025 - July 2025:** Following initial implementation, DES identified and addressed application improvements before expanding rollout to additional zones.
- **December 2025:** Statewide implementation of the work search repository was completed.

## Appendix B: Established Overpayments and Recoveries

### Established Overpayments and Recoveries<sup>43</sup> April 1, 2021 - March 31, 2025

Fiscal Year	Type	Established Overpayments	Amount Recovered	Established Overpayment Recovery Rate
2025	Fraud	\$ 3,292,624	\$ 3,014,418	
	Non-Fraud	10,278,707	10,147,263	
	<b>Total</b>	<b>\$ 13,571,331</b>	<b>\$ 13,161,681</b>	<b>97.0%</b>
2024	Fraud	\$ 1,995,884	\$ 2,284,056	
	Non-Fraud	7,527,363	6,376,698	
	<b>Total</b>	<b>\$ 9,523,247</b>	<b>\$ 8,660,754</b>	<b>90.9%</b>
2023	Fraud	\$ 15,466,283	\$ 3,119,645	
	Non-Fraud	21,673,693	10,089,278	
	<b>Total</b>	<b>\$ 37,139,976</b>	<b>\$ 13,208,923</b>	<b>35.6%</b>
2022	Fraud	\$ 26,417,422	\$ 3,766,867	
	Non-Fraud	82,170,256	10,303,524	
	<b>Total</b>	<b>\$ 108,587,678</b>	<b>\$ 14,070,391</b>	<b>13.0%</b>
FY 2022-2025	Fraud	\$ 47,172,213	\$ 12,184,986	
	Non-Fraud	121,650,019	36,916,763	
	<b>Total</b>	<b>\$ 168,822,232</b>	<b>\$ 49,101,749</b>	<b>29.1%</b>

Source: U.S. Department of Labor ETA 227 data and auditor analysis

<sup>43</sup> Established overpayments and recoveries may include amounts identified and established in current or prior periods.

# Ordering Information

---

Copies of this report may be obtained by contacting:



**Office of the State Auditor**  
State of North Carolina  
20601 Mail Service Center  
Raleigh, North Carolina 27699

Telephone: 919-807-7500  
Fax: 919-807-7647  
Internet: [www.auditor.nc.gov](http://www.auditor.nc.gov)



**To report alleged incidents of fraud, waste or abuse in state government  
contact the Office of the State Auditor's Tipline:**

**Telephone:** 1-800-730-8477

**Internet:** [www.auditor.nc.gov/about-us/state-auditors-tipline](http://www.auditor.nc.gov/about-us/state-auditors-tipline)