

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## UNTIMELY FIRST UNEMPLOYMENT BENEFIT PAYMENTS

DEPARTMENT OF COMMERCE

DIVISION OF EMPLOYMENT SECURITY

PERFORMANCE AUDIT  
MARCH 2022



**NC**  **OSA**  
The Taxpayers' Watchdog

# EXECUTIVE SUMMARY

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## OBJECTIVE

The objective of this audit was to determine the timeliness of first unemployment benefit payments<sup>1</sup> from the Department of Commerce's Division of Employment Security (DES) during the period of January 1, 2020, through March 31, 2021. If untimely, identify the causes of the untimely payments.

## BACKGROUND

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>2</sup> require each state to have a state unemployment compensation law<sup>3</sup> that includes methods of administration of the state's unemployment compensation law including **promptness<sup>4</sup> in all payments of unemployment benefits** to eligible claimants. States administer UI programs largely under state law.

Federal regulations<sup>5</sup> require states to ensure that at least 87% of first benefit payments are issued to unemployment insurance claimants within 14 days in states with a waiting week,<sup>6</sup> and within 21 days in states with no waiting week (federal timeliness standard). North Carolina law requires claimants to serve<sup>7</sup> a waiting week for each claim filed. In response to the COVID-19 pandemic, this requirement was waived for weeks ending April 4, 2020, through September 4, 2021. **However, the requirement to ensure that at least 87% of first benefit payments were issued within 14/21 days was not waived.**

The North Carolina Department of Commerce's (Department) Division of Employment Security (DES) is responsible for administering the UI program in accordance with federal and state law, including ensuring the timeliness of UI program benefit payments.

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<sup>1</sup> The first payment made to an unemployment insurance claimant for a specific unemployment benefit program claim.

<sup>2</sup> 20 CFR § 640.1(a)(1).

<sup>3</sup> N.C.G.S. § 96.

<sup>4</sup> In accordance with the federal timeliness standard. At least 87% of first benefit payments made within 14/21 days.

<sup>5</sup> 20 CFR § 640.5.

<sup>6</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 the first week of payment.

<sup>7</sup> "Serve" simply means the claimant must wait.

# EXECUTIVE SUMMARY (CONCLUDED)

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## KEY FINDING

DES did not issue \$438 million of first unemployment benefit payments timely<sup>8</sup> during the period of January 1, 2020, through March 31, 2021.

## KEY RECOMMENDATIONS

- DES management should 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>9</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. A comprehensive plan should then be adopted that guides its decision-making in the event of an economic downturn about staffing and process changes, descriptions of the available adjustments to business practices that DES could make, and policies and procedures to facilitate these adjustments.

DES management should complete the process described above **at least annually** to update for any new risks and update responses to these risks including any updates to processes resulting from information technology-related advancements.

## MATTERS FOR FURTHER CONSIDERATION

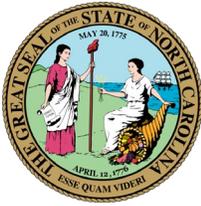
- DES should improve oversight of contractors to ensure performance is in compliance with contract requirements.
- The North Carolina General Assembly should consider enacting a law that requires state agencies to implement Enterprise Risk Management.

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<sup>8</sup> In accordance with the federal timeliness standard. At least 87% of first benefit payments made within 14/21 days.

<sup>9</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 Appendix I for more details.

STATE OF NORTH CAROLINA  
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## AUDITOR'S TRANSMITTAL

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The Honorable Roy Cooper, Governor  
Members of the North Carolina General Assembly  
Machelle Baker Sanders, Secretary, Department of Commerce  
Pryor Gibson, Assistant Secretary, Division of Employment Security

Ladies and Gentlemen:

We are pleased to submit this performance audit report titled *Untimely First Unemployment Benefit Payments*. The audit objective was to determine the timeliness of first unemployment benefit payments from the Department of Commerce's Division of Employment Security during the period of January 1, 2020, through March 31, 2021. If untimely, identify the causes of untimely payments.

Department of Commerce Secretary Machelle Baker Sanders reviewed a draft copy of this report. Her written comments are included starting on page 34.

This audit was conducted in accordance with Chapter 147, Article 5A of the *North Carolina General Statutes*.

We appreciate the courtesy and cooperation received from management and the employees of the Department of Commerce and the Division of Employment Security during our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

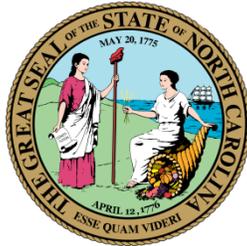


**Beth A. Wood, CPA  
State Auditor**

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# BACKGROUND

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>10</sup> require each state to have a state unemployment compensation law<sup>11</sup> that includes methods of administration of the state's unemployment compensation law including **promptness<sup>12</sup> in all payments of unemployment benefits** to eligible claimants. States administer UI programs largely under state law.

Federal regulations<sup>13</sup> require states to ensure that at least 87% of first benefit payments are issued to regular unemployment insurance claimants within 14 days in states with a waiting week<sup>14</sup> and within 21 days in states with no waiting week (federal timeliness standard). North Carolina law requires claimants to serve<sup>15</sup> a waiting week for each claim filed. In response to the COVID-19 pandemic, this requirement was waived for weeks ending April 4, 2020, through September 4, 2021. **However, the requirement to ensure that at least 87% of first benefit payments were issued within 14/21 days was not waived.**

The North Carolina Department of Commerce's (Department) Division of Employment Security (DES) is responsible for administering the UI program in accordance with federal and state law, including ensuring the timeliness of UI program benefit payments.

### **The UI Claim Process**

Claimants can file unemployment benefit claims in North Carolina online or by phone. According to DES, most claimants file claims online.

All claims are sent through DES' claims processing system, Southeast Consortium Unemployment Benefits Integration (SCUBI). SCUBI is designed with system edits to identify any possible issues<sup>16</sup> on initial claims that could affect eligibility.<sup>17</sup>

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 (see UI Claims to Payment Process Flowchart in Appendix I for more detail).

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<sup>10</sup> 20 CFR § 640.1(a)(1).

<sup>11</sup> N.C.G.S. § 96.

<sup>12</sup> In accordance with the federal timeliness standard. At least 87% of first benefit payments made within 14/21 days.

<sup>13</sup> 20 CFR § 640.5.

<sup>14</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 the first week of payment.

<sup>15</sup> "Serve" simply means the claimant must wait.

<sup>16</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>17</sup> Determining whether SCUBI edits were designed and operating effectively to identify any possible issues that could affect eligibility was not included in the scope of this audit.

**Temporary UI Programs Created Due to COVID-19 Pandemic**

In response to the COVID-19 pandemic, the federal government took several actions that provided additional UI benefits to supplement North Carolina’s existing UI program. The additional UI benefits were funded entirely by the federal government. See Table 1 below for unemployment benefit programs administered by DES with payments to claimants during the audit period.

**Table 1 – Unemployment Benefit Programs Administered**

Program	Scope of Benefits	Description
<b>State Unemployment Programs</b>		
State Unemployment Insurance Benefits	Maximum 12 – 20 weeks in a benefit year <sup>18</sup>	State benefits for people: <ul style="list-style-type: none"> <li>Who are out of work due to no fault of their own.</li> <li>Whose employment was subject to unemployment insurance tax.</li> <li>Who meet requirements for wage and work history.</li> </ul>
Increased Benefit Amount (IBA)	Maximum 16 weeks September 6, 2020, through December 26, 2020	State program created by the Coronavirus Relief Act that increased the weekly benefit amount by \$50.
Trade Readjustment Allowance (TRA) <sup>19</sup>	Maximum 130 weeks within 3 sequential eligibility periods totaling 202 weeks <sup>20</sup>	Pre-pandemic state program that provides benefit payments to individuals who have exhausted State UI and whose trade jobs were adversely affected by foreign imports.
<b>Federal Pandemic Unemployment Programs</b>		
Federal Pandemic Unemployment Compensation (FPUC)	Two eligibility periods: <ul style="list-style-type: none"> <li>March 29, 2020, through July 25, 2020</li> <li>December 27, 2020, through September 4, 2021</li> </ul>	Federal program increasing the weekly benefit amount by \$600 weekly (March 29, 2020, through July 25, 2020) and \$300 weekly (December 27, 2020, through September 4, 2021).
Pandemic Emergency Unemployment Compensation (PEUC)	Maximum of 53 weeks through September 4, 2021	Federal extension to state unemployment benefits for people who have exhausted state benefits.
Pandemic Unemployment Assistance (PUA)	Maximum 79 weeks through September 4, 2021	Federal benefits for people: <ul style="list-style-type: none"> <li>Who are ineligible for or have exhausted State UI benefits and extensions.</li> <li>Who are unable to work as a direct result of COVID-19 during each benefit week.</li> </ul>
Lost Wages Assistance (LWA)	Maximum 6 weeks July 26, 2020, through September 5, 2020	Federal Emergency Management Agency (FEMA) funded program providing additional \$300 weekly benefit to claimants whose unemployment benefit amount was at least \$100 and who were unemployed due to the COVID-19 pandemic.
Extended Benefits (EB)	Maximum 20 weeks, turned on during periods of high unemployment	<ul style="list-style-type: none"> <li>Federal extension to state unemployment insurance benefits available during periods of high unemployment<sup>21</sup> in a state.</li> <li>For people who have exhausted state unemployment insurance and PEUC benefits.</li> </ul>

**Source:** DES and auditor analysis.

<sup>18</sup> Depending on the unemployment rate when the claim is filed.

<sup>19</sup> Includes Basic TRA, Additional TRA, and Completion TRA.

<sup>20</sup> Basic TRA allows up to 52 weekly payments within a 104-week eligibility period. Additional TRA is payable after exhaustion of basic TRA and allows up to 65 weekly payments in a 78-week eligibility period. Completion TRA is payable after exhaustion of Basic and Additional TRA and allows up to 13 weekly payments during a 20-week eligibility period. [https://oui.doleta.gov/unemploy/docs/factsheet/TRA\\_FactSheet.pdf](https://oui.doleta.gov/unemploy/docs/factsheet/TRA_FactSheet.pdf).

<sup>21</sup> Defined by N.C.G.S. § 96-14.14.(5).

## UI Claim Volume

North Carolina's statewide stay-at-home order (effective March 30, 2020, through May 22, 2020) caused a significant increase in unemployment. The increase in unemployment, along with the expansion of unemployment benefits by the federal government, created an increase in UI claims. North Carolina's statewide unemployment rate rose from 3.6% in February 2020 to 13.5% by April 2020.<sup>22</sup>

For context, at their highest, unemployment rates were 11.4% in North Carolina during the Great Recession in 2009 and 2010.<sup>23</sup> Unemployment claims began to increase in March and April, and they remained well above unemployment claims during the Great Recession through July 2020.

From March 2020 through March 2021, DES reported that it received approximately 3.5 million unemployment assistance claims from approximately 1.5 million claimants.<sup>24</sup> See Trend of UI Claims Filed in Appendix J for more details.

DES paid approximately \$11.6 billion<sup>25</sup> in unemployment insurance benefits from January 2020 through March 2021.

### **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>26</sup> 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 the first week of payment. This requirement was waived in North Carolina for weeks ending April 4, 2020, through September 4, 2021.

*Benefit Week End Date (BWE)* – A benefit week is seven consecutive days beginning on a Sunday and ending on a Saturday during a benefit year. The BWE date is therefore, the last day, a Saturday, in a benefit week.

*Benefit Year* – A benefit year begins on the Sunday of the calendar week that a claimant files a valid claim and registers for work. A claimant's benefit year is the 52-week period from the date registered for work and first valid claim is filed.

*Federal Timeliness Standard* – Federal regulations<sup>27</sup> require states to ensure that at least 87% of first benefit payments are issued to regular unemployment insurance claimants within 14 days in states with a waiting week, and within 21 days in states with no waiting week. In response to the COVID-19 pandemic, this requirement was waived in North Carolina for weeks ending April 4, 2020, through September 4, 2021. **However, the requirement to ensure that at least 87% of first benefit payments were issued within 14/21 days was not waived.**

<sup>22</sup> <https://www.nccommerce.com/news/press-releases/north-carolina%E2%80%99s-february-employment-figures-released-2>.

<sup>23</sup> <https://gri.unc.edu/wp-content/uploads/sites/246/2012/08/GRI-Data-Snapshot-August-2012.pdf>.

<sup>24</sup> The number of claims filed is higher than the number of people who have filed claims because one claimant can have a claim for multiple unemployment programs.

<sup>25</sup> Auditor analysis of payments processed through SCUBI.

<sup>26</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>27</sup> 20 CFR § 640.5.

### **Responsible parties discussed in this report include:**

*North Carolina Department of Commerce (Department)*<sup>28</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>29</sup> - DES is responsible for the administration of the unemployment insurance (UI) program in the state of North Carolina. DES is overseen by the Department.

*Employment and Training Administration (ETA)*<sup>30</sup> – ETA is a division of the United States Department of Labor that administers federal government job training and worker dislocation programs, federal grants to states for public employment service programs, and unemployment insurance benefits.

### **Systems discussed in this report include:**

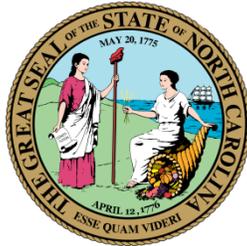
*Southeast Consortium Unemployment Benefits Integration (SCUBI)* – DES’ unemployment insurance claims processing system. Implemented in September 2018, SCUBI resulted from a three-state consortium made up of North Carolina, South Carolina and Georgia working to modernize the states’ aging unemployment benefit systems in an effort to 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.

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<sup>28</sup> <https://www.nccommerce.com/about-us>.

<sup>29</sup> <https://www.nccommerce.com/about-us/divisions-programs/employment-security-division>.

<sup>30</sup> <https://www.dol.gov/agencies/eta/about>.



# **OBJECTIVE, SCOPE, AND METHODOLOGY**

The audit objective was to determine the timeliness of first unemployment benefit payments<sup>31</sup> from the Department of Commerce's Division of Employment Security (DES) during the period of January 1, 2020, through March 31, 2021. If untimely, identify the causes of untimely payments.

The audit scope **included** the first unemployment benefit payment to a claimant. The audit scope **did not include** determining timeliness of subsequent unemployment benefit payments nor whether unemployment benefit payments were made accurately or to eligible claimants.

To gain an understanding of the unemployment benefit payment process, auditors:

- Reviewed state and federal laws relevant to unemployment insurance.
- Reviewed performance measures instituted by the United States Department of Labor's Employment and Training Administration for timeliness of first unemployment benefit payments.
- Interviewed DES personnel.
- Reviewed DES policies and procedures for processing unemployment insurance (UI) claims and monitoring timeliness of first UI benefit payments.
- Reviewed relevant reports from the United States Department of Labor's Office of the Inspector General.
- Reviewed DES staffing, incident, and call center reports.

To determine the timeliness of first unemployment benefit payments from DES, auditors:

- Obtained UI claims and payment data for all claims submitted and benefit payments made during the audit period from DES' claims processing system, Southeast Consortium Unemployment Benefits Integration (SCUBI).
- Reconciled claim payment data from SCUBI to North Carolina's Cash Management Control System (CMCS).
- Calculated the timeliness of first unemployment benefit payments by comparing the number of days between the benefit week end (BWE) date<sup>32</sup> for a claimant's first eligible week and the payment date.

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.

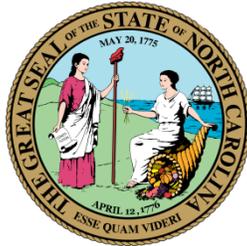
As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion. See Appendix K for internal control components and underlying principles that were significant to our audit objective.

<sup>31</sup> The first payment made to an unemployment insurance claimant for a specific unemployment benefit program claim.

<sup>32</sup> The BWE date is the last date in a benefit week. North Carolina's benefit week is seven consecutive days starting on a Sunday and ending on a Saturday in a benefit year. A benefit week or year is a period in which a claimant may be eligible for benefits. Each claim filed has a benefit year that begins with the first eligible week.

## OBJECTIVE, SCOPE, AND METHODOLOGY

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.



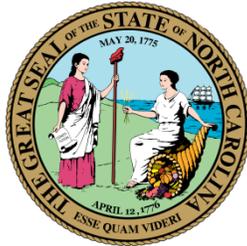
# **RESULTS AND CONCLUSIONS**

DES did not issue first unemployment benefit payments timely during the period of January 1, 2020, through March 31, 2021. As a result, \$438 million of financial assistance was not received by unemployed North Carolinians during a time of tremendous need. DES did not issue first unemployment benefit payments timely because:

- DES' unemployment claim process<sup>33</sup> is not designed to make payments timely.
- DES management did not monitor payment timeliness.
- DES was not prepared for economic downturns that will inevitably occur.

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<sup>33</sup> DES implemented a new unemployment insurance claims processing system (Southeast Consortium Unemployment Benefits Integration – SCUBI) in September 2018.



# **FINDING, RECOMMENDATIONS, AND RESPONSE**

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## **OVER \$438 MILLION OF FIRST UNEMPLOYMENT BENEFIT PAYMENTS NOT PAID TIMELY**

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The Department of Commerce's (Department) Division of Employment Security (DES) did not make first unemployment benefit payments timely during the period of January 1, 2020, through March 31, 2021.<sup>34</sup> As a result, \$438 million of financial assistance was not received by unemployed North Carolinians during a time of tremendous need. Many news media outlets reported on unemployed individuals who depleted their savings, went into debt, and were unable to pay their daily living expenses.

DES did not issue first unemployment benefit payments timely<sup>35</sup> because (1) DES' unemployment claim process is not designed to make payments timely, (2) DES management did not monitor payment timeliness, and (3) DES was not prepared for economic downturns that will inevitably occur.

Federal regulations required DES to ensure the **prompt** payment of unemployment benefits.<sup>36</sup>

### **First Unemployment Benefit Payments Not Paid Timely**

DES did not make first unemployment benefit payments timely during the period January 1, 2020, through March 31, 2021. Specifically, DES did not meet the federal first payment timeliness standard for **6 of the 8 (75%)** unemployment benefit programs<sup>37</sup> it administered.

Federal regulations<sup>38</sup> require states to ensure that at least 87% of first benefit payments are issued to regular unemployment insurance (UI) claimants within 14 days in states with a waiting week,<sup>39</sup> and within 21 days in states with no waiting week.<sup>40</sup> North Carolina law requires claimants to serve<sup>41</sup> a waiting week for each claim filed. In response to the COVID-19 pandemic, this requirement was waived for weeks ending April 4, 2020, through September 4, 2021. **However, the requirement to ensure that at least 87% of first benefit payments were issued within 14/21 days was not waived.**

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<sup>34</sup> DES' timeliness of first unemployment benefit payments has not met the federal timeliness standard for the last 10 years (9 of which were prior to the COVID-19 pandemic). See Table 4.

<sup>35</sup> In accordance with the federal timeliness standard. At least 87% of first benefit payments made within 14/21 days.

<sup>36</sup> The requirement to ensure the prompt payment of unemployment benefits was not waived during the COVID-19 pandemic.

<sup>37</sup> See appendices A through H for details on unemployment benefit programs administered by DES during this period.

<sup>38</sup> 20 CFR § 640.5.

<sup>39</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 (wait) 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 payment.

<sup>40</sup> DES is specifically required to make 87% of first payments within the federal timeliness standard for the state unemployment insurance program. While not specifically required for the federal pandemic unemployment insurance programs, federal law (20 CFR § 640.4) required DES to make all benefit payments **promptly**. Therefore, auditors used the federal timeliness standard as a basis to analyze the timeliness of all UI benefit program first payments.

<sup>41</sup> "Serve" simply means the claimant must wait.

Auditors tested 3.67 million of 3.69 million (99.5%) first payments<sup>42</sup> from eight unemployment benefit programs DES administered and found that DES only issued **2.20 million (60%)** of these payments within the federal timeliness standard.

In fact, DES only met the 87% federal first payment timeliness standard for **2 of 8 (25%)** individual unemployment benefit programs DES administered.<sup>43</sup> See Table 2 below and **Appendices A-H** for additional program and timeliness details for each unemployment benefit program.

**Table 2 – Timeliness of First Unemployment Benefit Payments by Program  
(January 1, 2020 – March 31, 2021)**

<b>Unemployment Benefit Program</b>	<b>Program Detail</b>	<b># of First Payments</b>	<b>\$ Value of First Payments</b>	<b>First Payments Within Federal Timeliness Standard (%)</b>
Extended Benefits (EB)	Appendix A	165,302	\$ 35,424,002	99%
Pandemic Emergency Unemployment Compensation (PEUC)	Appendix B	346,412	75,421,298	90%
Trade Readjustment Allowance (TRA)	Appendix C	122	39,133	85%
State UI Benefits	Appendix D	781,503	172,217,979	74%
Federal Pandemic Unemployment Compensation (FPUC)	Appendix E	1,323,072	726,768,693	71%
Increased Benefit Amount (IBA)	Appendix F	362,335	18,109,684	30%
Pandemic Unemployment Assistance (PUA)	Appendix G	255,847	42,072,874	17%
Lost Wages Assistance (LWA)	Appendix H	439,806	131,936,573	11%
<b>Overall</b>		<b>3,674,399</b>	<b>\$ 1,201,990,236</b>	<b>60%</b>

**Source:** DES data and auditor analysis.

<sup>42</sup> There was a total of 3,690,232 first payments made during the scope period. Of those, 15,833 (0.43%) first payments were excluded from testing because the benefit payment date was incorrectly recorded as occurring before the eligibility determination date. Payments cannot be issued prior to eligibility determination. The recording errors occurred because DES initially issued these payments under the State UI program but later transferred the claim to another UI benefit program for which the claimant was eligible. However, the payment dates reflected in DES' data were the payment dates for the State UI program instead of payment dates for the eligible program. Auditors determined that including these payments in testing would result in incorrect timeliness results and that removing them would not impact the findings and conclusions. The remaining 3,674,399 payments were subject to testing.

<sup>43</sup> Federal law specifically required DES to make 87% of first payments within the federal timeliness standard for the state unemployment insurance program. While not specifically required for the federal pandemic unemployment insurance programs, federal law (20 CFR § 640.4) required DES to make all benefit payments **promptly**. Therefore, auditors used the federal timeliness standard as a basis to analyze the timeliness of all UI benefit program first payments.

Not only did DES not meet the federal first payment timeliness standard for **6 of 8 (75%)** unemployment benefit programs it administered, but **1.19 million** of the 3.67 million (**32%**) first payments totaling \$342 million were not made within 30 days (the length of a billing cycle in which personal bills such as mortgages, rent, utilities, etc. are typically due). See Table 3 below.

**Table 3 – Extent of Untimely First Unemployment Benefit Payments  
(January 1, 2020 – March 31, 2021)**

# of Days to Payment	# of Untimely Payments	\$ Value				
15-21 days <sup>44</sup>	1,916	\$ 522,758				
22-30 days	283,680	95,279,263				
31-60 days	928,836	253,262,598	<table border="1"> <thead> <tr> <th>Payments &gt;30 Days</th> </tr> </thead> <tbody> <tr> <td>1,189,941</td> </tr> <tr> <td>\$342,203,709</td> </tr> </tbody> </table>	Payments >30 Days	1,189,941	\$342,203,709
Payments >30 Days						
1,189,941						
\$342,203,709						
61-90 days	127,294	43,369,973				
91-120 days	57,236	19,422,310				
121-180 days	47,938	16,086,765				
181-365 days	28,279	10,003,994				
>365 days	358	58,069				
<b>Total:</b>	<b>1,475,537</b>	<b>\$ 438,005,730</b>				

Source: DES data and auditor analysis.

**Resulted in \$438 Million of Financial Assistance Not Received by Unemployed North Carolinians During a Time of Tremendous Need**

Because DES did not pay first unemployment benefits timely, North Carolinians had to wait weeks to months to receive approximately 1.48 million unemployment payments totaling approximately \$438 million during a time of tremendous need.

Many news outlets reported on the impact that these delays had on claimants, including:

- Inability to pay bills
- Food scarcity
- High interest rate borrowing
- Increased debt
- Depleted savings
- Homelessness
- Health and safety concerns

An October 2020 news article<sup>45</sup> stated that one claimant had been waiting for nearly four months to receive her unemployment benefit payments. The claimant said that the delay in UI payments “exhausted all of our savings, we have no money left.”

<sup>44</sup> The waiting week was in effect from January 2020, through March 2020. Payments made after 14 days during this period were considered untimely.

<sup>45</sup> <https://abc11.com/unemployed-benefits-money-unemployment/6718102/>.

Another news article<sup>46</sup> reported that delays in receiving UI payments resulted in a claimant being unable to afford to stay in the home where he was living. The claimant was quoted: “I’m homeless right now. The unemployment is how I was supporting myself. It wasn’t a lot of money, but I was able to pay my rent, buy my food, eat, sleep in a bed.”

### **Caused by Design of Claims Process, Lack of Monitoring, and Unpreparedness**

DES did not issue first unemployment benefit payments timely because (1) DES’ unemployment claims process is not designed to make payments timely in accordance with the federal timeliness standard, (2) DES management did not monitor payment timeliness, and (3) DES was not prepared for economic downturns that will inevitably occur.

#### ***Claim Process Not Designed for Timely Payments***

First, DES’ UI claim process was not designed to ensure that first payments were made within the **14/21-day federal timeliness standard**.

In September 2018, DES implemented a new unemployment insurance claims processing system, Southeast Consortium Unemployment Benefits Integration (SCUBI), with the intent to modernize DES’ system and to allow DES to provide a more effective and efficient service.

All claims are sent through SCUBI. If no eligibility issues<sup>47</sup> are identified, then SCUBI automatically processes the claim to be paid. However, if eligibility issues are identified, DES staff must then **manually review** the claim and may request additional information from the claimant to determine whether the claim meets eligibility requirements.

When designed, management **allowed payment timeliness timeframes** for each manual review in SCUBI to be based on **historical processing times estimated by DES staff** in each DES claim process functional section.<sup>48</sup> The timeframes that DES has established for DES staff manual reviews **allows** the time spent to **exceed** the 14/21-day federal timeliness standard.

As a result, **the time allotted for all functional sections<sup>49</sup> to complete their manual reviews is typically 40 days and can be up to 110 days**. And the process can take even longer (greater than 365 days) if additional reviews are needed or pending identity validation.<sup>50</sup> See UI Claims to Payment Process Flowchart in Appendix I for more details.

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<sup>46</sup> <https://abc11.com/north-carolina-unemployment-idme-idme-nc-unemployment-benefits/10456596/>.

<sup>47</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>48</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 Appendix I for more details.

<sup>49</sup> Ibid.

<sup>50</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 14/21 days.

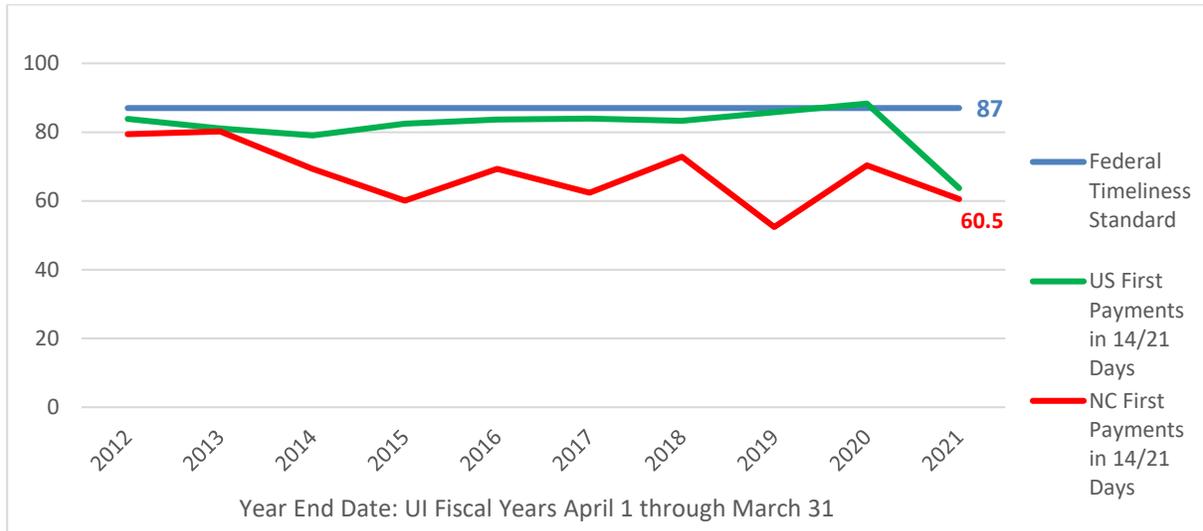
Because of the way it has designed its claims process, DES has failed for the last 10 years (9 of which were prior to the COVID-19 pandemic) to meet the federal requirement that at least 87% of first unemployment benefit payments are issued timely. Additionally, DES has consistently underperformed the national average for first payment timeliness during the same period. See Table 4 and Graph 1 below.

**Table 4 –Timeliness of First Payments NC vs. US Average  
April 1, 2011 – March 31, 2021**

Fiscal Year <sup>51</sup>	% NC First Payments within Federal Timeliness Standard	% US First Payments within Federal Timeliness Standard (US Average)
2021	60.5	63.7
2020	70.3	88.3
2019	52.4	85.8
2018	72.8	83.3
2017	62.4	83.9
2016	69.3	83.7
2015	60.1	82.5
2014	69.3	79.0
2013	80.2	81.1
2012	79.4	83.8

**Source:** State Rankings of Core Measures, Employment & Training Administration (ETA) – U.S. Department of Labor (<https://oui.doleta.gov/unemploy/ranking.asp>).

**Graph 1 – Timeliness of First Payments NC vs. US Average  
April 1, 2011 – March 31, 2021**



**Source:** State Rankings of Core Measures, Employment & Training Administration (ETA) – U.S. Department of Labor (<https://oui.doleta.gov/unemploy/ranking.asp>) and auditor analysis.

<sup>51</sup> The federal fiscal year for State Unemployment Programs runs from April 1 – March 31.

***Lack of Monitoring Payment Timeliness***

Second, DES management did not monitor to ensure that first payments met the federal timeliness standard. Specifically, DES management did not:

- **Monitor Key Elements of the Claims Process.** DES management did not monitor the timeliness of manual reviews to process claims. For a claim to be paid, it may require review and actions from several functional sections<sup>52</sup> within DES. Some functional section reviews cannot start until another functional section’s review is complete. Therefore, delays in one functional section can cause a delay in another functional section. Without monitoring specific processes for timeliness, DES management would not know how delays in one functional section could affect the work performed by other functional sections.
- **Monitor Contractor Performance.** DES executed contracts totaling more than \$261 million to assist with the increased claims processing workload that occurred during the COVID-19 pandemic. Specifically, DES contracted to pay:
  - Maximus Health Services, Inc. over \$259 million for call center staffing (beginning March 2020).
  - Revenue Solutions, Inc. (RSI) over \$2.1 million to train and monitor Maximus’s call center staff (beginning May 2020).
  - ID.me, Inc. over \$700,000 for claimant identity verification (beginning December 2020).

However, DES did not monitor contractor performance or enforce contract requirements. Without monitoring, there was an increased risk that DES did not receive what was contracted for and that poor performance went undetected and uncorrected.

**(See Matters for Further Consideration 1 for further discussion)**

- **Use Available Payment Timeliness Data.** DES management did not make use of available data from its unemployment insurance claims processing system, SCUBI, to monitor payment timeliness data. This is evidenced by the fact that it took DES more than *three months* to provide data and reports on the timeliness of federal unemployment benefit program payments from its claims processing system to auditors.

Because DES management did not monitor to ensure first payment timeliness, DES could not identify potential issues and take necessary, timely corrective actions.

If DES had monitored, management would have been able to:

- Detect and correct poor performance timely.
- Train staff and/or contractors who were not achieving results.
- Improve the likelihood that first payments were made in accordance with the federal timeliness standard.

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<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 Appendix I for more details.

### ***Not Prepared for Economic Downturn***

Third, DES management did not adopt a comprehensive plan for how it would respond to an economic downturn that could result in a significant increase in unemployment claims.

As noted in the background section of this report,<sup>53</sup> the rise in unemployment claims during the COVID-19 pandemic was unprecedented in its size and speed. However, given the history of economic downturns in the United States and their effects on North Carolina, DES should have been prepared for some anticipated economic downturn and the resulting increased workload that could occur.

According to the National Bureau of Economic Research,<sup>54</sup> the United States has entered a recession approximately every five and a half years since 1950. Further, the North Carolina Department of Commerce (DES is a division of the Department of Commerce) issued a report in 2017 on the impact the Great Recession had on North Carolina's UI program to help "develop strategies for alleviating unemployment during the next recession."<sup>55</sup>

Despite knowing another economic downturn was inevitable, DES did not have a plan or risk assessment that identified, evaluated, and addressed the risk that a sudden economic downturn could occur and significantly increase unemployment claims.

A fully developed plan would include (1) indicators that DES management would use to guide its decision-making about staffing and process changes, (2) descriptions of the available adjustments to business practices that DES could make, and (3) policies and procedures to facilitate these adjustments. A plan would allow DES to respond to economic downturns with a strategy that considered the full range of effects on its operations rather than responding in the moment with untested actions.

Consequently, without a plan, DES spent **critical response time** developing a plan and obtaining new resources to address the sudden increase in unemployment claims. For example, DES spent **critical response time**:

- Upgrading the SCUBI unemployment benefits system.
- Hiring and training new staff.
- Enhancing customer service.
- Procuring contractors to assist with increased claims volume.

When asked whether DES had a plan to ensure the timeliness of payments during the pandemic, the Chief Deputy of Programs stated that "**timeliness was out the window.**" *[Emphasis Added]*

<sup>53</sup> Also see Appendix J for trend of unemployment benefit claims filed.

<sup>54</sup> A private, nonpartisan organization that tracks recessions.

<sup>55</sup> North Carolina Department of Commerce Labor & Economic Analysis Division. Unemployment & The Great Recession in North Carolina, Insights for the Workforce System. 2017.

### **Regulations Required Prompt Unemployment Benefit Payments**

Federal regulations required DES to ensure the prompt payment of all unemployment benefits.

#### **20 CFR § 640.4 Standard for conformity.**

A state law will satisfy the requirement of section 303(a)(1), if it contains a provision requiring, or which is construed to require, such methods of administration as will reasonably insure the full payment of unemployment benefits to eligible claimants with the **greatest promptness** that is administratively feasible. *[Emphasis Added]*

Further, 20 CFR § 640.5 specifically required at least 87% of *first payments* to be issued within 14/21 days following the end of the first compensable week.<sup>56</sup> **This requirement was not waived during the COVID-19 pandemic.**

### **RECOMMENDATIONS**

DES management should 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>57</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 the work performed by the other functional sections, (2) ensure management has access to the necessary 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. A comprehensive plan then should be adopted that guides its decision-making in the event of an economic downturn about staffing and process changes, descriptions of the available adjustments to business practices that DES could make, and policies and procedures to facilitate these adjustments.

DES management should complete the process described above **at least annually** to update for any new risks and update responses to these risks including any updates to processes resulting from information technology-related advancements.

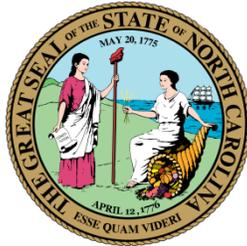
### **AGENCY RESPONSE**

See page 34 for the Department's response to this finding.

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<sup>56</sup> A UI claimant's first week in which they meet the state's eligibility conditions for UI benefit payments.

<sup>57</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 Appendix I for more details.



# **MATTERS FOR FURTHER CONSIDERATION**

During an audit, the Office of the State Auditor staff may uncover potential issues that are outside of the audit objective. Although the issues may not have been part of the planned objective, the issues need to be presented to those charged with governance and relevant stakeholders. Below are two such issues.

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## 1. DES SHOULD IMPROVE CONTRACTOR OVERSIGHT

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The Division of Employment Security (DES) should improve its monitoring and oversight of contractors used in the Unemployment Insurance (UI) Benefit Program.

As part of DES response to the large increase in unemployment benefit claims received due to the COVID-19 pandemic, DES entered into contracts costing more than **\$261 million**.

Specifically, DES contracted to pay:

- \$259 million<sup>58</sup> to Maximus Health Services, Inc. (Maximus) for call center staff and services.
- \$2.1 million to Revenue Solutions, Inc. (RSI) to train and monitor Maximus call center staff and services.
- \$700,000 to ID.me, Inc. for UI claimant identify verification services.

However, DES performed **limited monitoring** and oversight of contractor performance. For example, DES management stated that they upheld “an extensive meeting schedule” and “received and reviewed daily and weekly data reports from contractors to track activity and progress.” However, DES management did not analyze data reports to identify and correct performance issues or to uphold contracted performance standards.

Consequently, there was an increased risk that DES was not receiving what was contracted for and poor performance could go undetected and uncorrected. For example, auditors reviewed readily available information and noted the following:

- **Maximus Call Center Service Level**<sup>59</sup> dropped from 91% in August 2020 to **4%** in July 2021. The contracted performance standard required a service level rate of 80%.
- **Maximus Call Abandonment Rate**<sup>60</sup> increased from 6% in August 2020 to **41%** in July 2021. The contracted performance standard required an abandonment rate of less than 20%.
- **Maximus First Call Resolution Rate**<sup>61</sup> averaged 83% from September 2020<sup>62</sup> to March 2021. The contracted performance standard required a rate of 85%.

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<sup>58</sup> \$219 million contract and \$39.8 million of purchase orders.

<sup>59</sup> The percentage of calls answered within 30 minutes. This includes the calls that were answered as a percentage of calls that were queued. It does not account for the number of calls that don't actually enter the call queue because the call queue was full.

<sup>60</sup> Calls in which the caller disconnected prior to the call being answered after a prolonged wait time.

<sup>61</sup> Calls where the agent addressed the claimant's reason for calling.

<sup>62</sup> September 2020 was the earliest that first call resolution data was available. The rate was 95% for March 2021 through July 2021.

- **Maximus Call Center Agent Performance Quality**<sup>63</sup> showed that 195 of 1,323 (15%)<sup>64</sup> call center agents did not meet the performance quality standard of 80% over the course of their review period.
- **RSI Monitoring Activities Results**<sup>65</sup> showed that the DES call center (operated by Maximus):
  - Did not remind claimants to file weekly certifications<sup>66</sup> on 24% (711 of 2,938) of calls monitored.
  - Did not give correct information to the claimant on 11% (313 of 2,938) of calls monitored.
  - Did not address the claimant's issues on a claim on 7% (192 of 2,938) of calls monitored.

When the above information was presented to DES management, the Information Technology Director stated that management had not seen some of the performance metrics at this level but would have asked questions if they had.

However, since monitoring was not performed, it increased the risk that poor performance would go unnoticed and uncorrected. Performing monitoring activities would have allowed for:

- Timely detection and correction of poor performance.
- Assessment of damages against contractors.
- Improved service to North Carolina's citizens.

Best practices identified by the Government Accountability Office (GAO)<sup>67</sup> state that it is management's responsibility to monitor contractor performance:

**Management retains responsibility for monitoring** the effectiveness of internal control over the assigned processes performed by service organizations (contractors). Management uses ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance of the operating effectiveness of the service organization's internal controls over the assigned process. Monitoring activities related to service organizations may include the use of work performed by external parties, such as service auditors, and reviewed by management. *[Emphasis Added]*

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<sup>63</sup> Agent call center performance quality is measured based on a rubric with performance evaluation questions such as: (a) Did the agent answer all questions correctly? (b) Did the agent appropriately document the claimant's call on the claimant's case? (c) Did the agent listen attentively and demonstrate an understanding of what the caller was saying? (d) Did the agent ask whether he/she answered all questions?

<sup>64</sup> Scores were averaged for agents with at least three months of quality scores.

<sup>65</sup> According to RSI's Call Review Report, RSI monitored 2,938 calls from June 2020 through March 2021.

<sup>66</sup> A claimant must recertify online or by phone each week by answering a series of questions that certify continuing eligibility for unemployment benefits.

<sup>67</sup> United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2014.

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## 2. GENERAL ASSEMBLY SHOULD CONSIDER REQUIRING ENTERPRISE RISK MANAGEMENT FOR STATE AGENCIES

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The North Carolina General Assembly should consider enacting a law that requires state agencies to implement Enterprise Risk Management (ERM).

COSO<sup>68</sup> defines ERM as:

A process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to **identify potential events** that may affect the entity, and **manage risk** to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. [*Emphasis Added*]

Because ERM is not required, state agencies are taking risks that have not been identified, evaluated, planned for, or communicated to oversight committees and boards.

As a result, state resources have been wasted and citizens have experienced delays in receiving services and benefits. For example:

- In 2020, the Division of Employment Security (DES) did not have a plan or risk assessment that identified, evaluated, and addressed the risk that a sudden economic downturn could occur and significantly increase unemployment claims. Consequently, thousands of benefit payments were delayed during the COVID-19 pandemic while DES spent critical response time developing a plan and obtaining new resources to address the sudden increase in unemployment claims. The new resources included call center services from Maximus that DES acquired for **\$39.8 million in purchase orders** and a **\$219 million contract**. The new resources also included a **\$2.1 million contract** to RSI to train Maximus staff and identify ways to help unemployment claimants assist themselves.
- In 2019, the Department of Transportation (DOT) did not adequately evaluate and plan for the risk that actual spending could greatly exceed its spending plan. As a result, DOT **overspent \$742 million**, which then required the General Assembly to give DOT **\$220 million** from the General Fund. It also required DOT to delay **\$144 million** in payments to contractors, delays for which DOT paid contractors about **\$2.4 million** in interest.<sup>69</sup>
- In 2013, the Department of Health and Human Services (DHHS) did not adequately evaluate and plan for the risk that its replacement Medicaid management information system (NCTracks) would not accurately process and pay more than \$12 billion a year in claims for 70,000 enrolled medical providers. As a result, NCTracks experienced over 3,200 defects after it went live on July 1, 2013. Medical providers then initiated a class action lawsuit that claimed payments to them were delayed, unpaid, or "shorted" by over **\$500 million in the first 90 days** of operations.<sup>70</sup>

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<sup>68</sup> The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five professional organizations and is dedicated to helping organizations improve performance by developing thought leadership that enhances internal control, risk management, governance, and fraud deterrence.

<sup>69</sup> [https://files.nc.gov/nc-auditor/documents/2021-06/PER-2020-4200.pdf?VersionId=yAzr5vrJmXeJSS4wehqT\\_iqpmRuijGXX](https://files.nc.gov/nc-auditor/documents/2021-06/PER-2020-4200.pdf?VersionId=yAzr5vrJmXeJSS4wehqT_iqpmRuijGXX).

<sup>70</sup> [https://files.nc.gov/nc-auditor/documents/reports/infosystems/ISA-2013-4410.pdf?VersionId=86ndOmxsvlsPBRF\\_pwG0aXBSdlht.Qh](https://files.nc.gov/nc-auditor/documents/reports/infosystems/ISA-2013-4410.pdf?VersionId=86ndOmxsvlsPBRF_pwG0aXBSdlht.Qh).

The Government Accountability Office's (GAO) message<sup>71</sup> to federal agencies about ERM is equally applicable to NC state agencies:

While it is not possible to eliminate all uncertainties, it is possible to put in place strategies to better plan for and manage them. Enterprise Risk Management (ERM) is one tool that can assist federal leaders in anticipating and managing risks, as well as considering how multiple risks in their agency can present even greater challenges and opportunities when examined as a whole.

If followed, the ERM principles that GAO identified<sup>72</sup> could help NC state agencies reduce costs and improve services by ensuring that agencies:

- Examine strategic objectives by regularly considering how uncertainties, both risks and opportunities, could affect the agency's ability to achieve its mission.
- Assemble a comprehensive list of risks, both threats and opportunities, that could affect the agency's ability to achieve its goals and objectives.
- Examine risks considering both the likelihood and the impact of the risk on the agency's mission to help prioritize risk response.
- Select a risk treatment response including acceptance, avoidance, reduction, sharing, or transfer.
- Monitor how risks are changing and if responses are successful.
- Communicate risks with stakeholders and report on the status of addressing the risks.

The necessity of ERM is demonstrated by its adoption and implementation locally, nationally, and internationally. For example:

- **UNC Board of Governors** – adopted policy 1300.7 in 2016 that “directs the president to establish and oversee enterprise risk management and compliance processes for the University of North Carolina.”
- **Government Finance Officers Association (GFOA)**<sup>73</sup> – issued an ERM “best practices” policy in 2020 that, in part, states, “Risk management is a program designed to identify potential events that may affect the government and to protect and minimize risks to the government's property, services, and employees.”
- **Office of Management and Budget (OMB)** – issued a revised OMB Circular No. A-123 in 2016 that requires federal agencies to implement ERM to “improve mission delivery, reduce costs, and focus corrective actions toward key risks.”
- **COSO** – issued ERM frameworks in 2004 and 2017 that have been adopted and implemented by for-profit, nonprofit, and governmental entities around the world.

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<sup>71</sup> GAO, [Enterprise Risk Management](#), December 2016.

<sup>72</sup> GAO, [Enterprise Risk Management](#), December 2016.

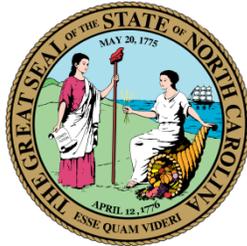
<sup>73</sup> The Government Finance Officers Association (GFOA) represents public finance officials throughout the United States and Canada who are involved in planning, financing, and implementing governmental operations. GFOA's mission is to advance excellence in public finance.

- **International Organization for Standards (ISO)**<sup>74</sup> – issued ISO 31000 Risk Management Guidelines in 2009 and 2018 that have been adopted and implemented by for-profit, nonprofit, and governmental entities around the world.

Requiring state agencies to implement ERM could greatly reduce the number of “crises” that NC state agencies experience. Implementing ERM could also significantly reduce the delays and high costs that are so often a part of an agency’s crisis response and resource acquisition process.

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<sup>74</sup> The International Organization for Standards (ISO) is an independent, non-governmental international organization with a membership of 165 national standards bodies. ISO develops and publishes worldwide technical, industrial, and commercial standards.



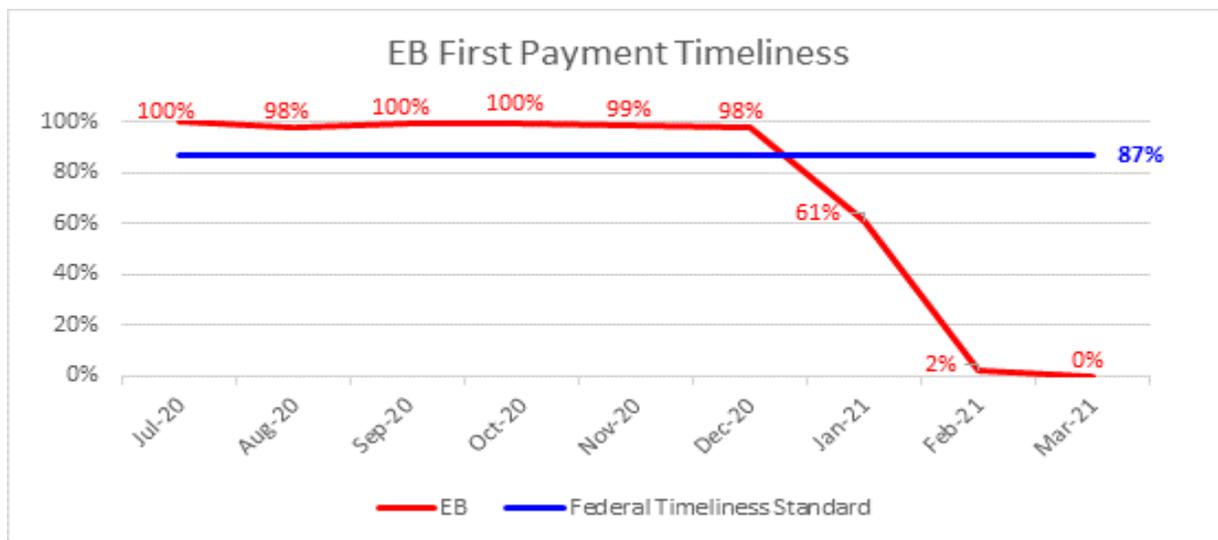
# APPENDICES

## Appendix A

### Extended Benefits (EB)

- Federal extension of state unemployment insurance benefits available during periods of high unemployment in a state.
- For people who have exhausted state unemployment insurance and PEUC benefits.
- Maximum of 20 weeks of benefit payments.

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments within 14/21-day Standard (%)
March 2021	\$ 25,398	122	-	0%
February 2021	32,119	161	4	2%
January 2021	242,808	1,231	749	61%
December 2020	4,021,591	19,650	19,183	98%
November 2020	6,581,773	31,726	31,261	99%
October 2020	12,003,244	55,994	55,819	100%
September 2020	10,267,562	47,972	47,813	100%
August 2020	1,121,631	4,261	4,170	98%
July 2020	1,127,876	4,185	4,177	100%
<b>Total</b>	<b>\$ 35,424,002</b>	<b>165,302</b>	<b>163,176</b>	<b>99%</b>

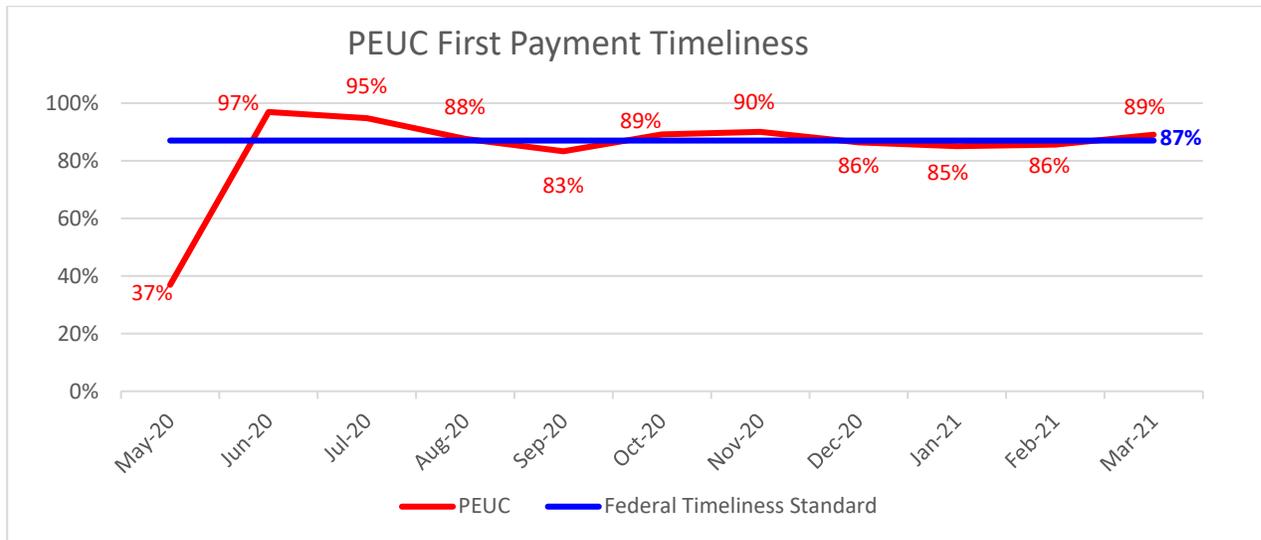


**Appendix B**

**Pandemic Emergency Unemployment Compensation (PEUC)**

A federal program that is an extension to state unemployment insurance benefits that provided up to 53 weeks of benefit payments, through September 4, 2021, after exhausting state unemployment insurance benefits.

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments within 14/21-day Standard (%)
March 2021	\$ 1,520,832	6,665	5,932	89%
February 2021	1,582,852	6,934	5,935	86%
January 2021	2,498,820	11,191	9,513	85%
December 2020	2,277,212	10,144	8,763	86%
November 2020	3,077,023	13,878	12,489	90%
October 2020	4,056,809	19,004	16,937	89%
September 2020	6,483,058	30,897	25,724	83%
August 2020	10,131,389	48,851	42,812	88%
July 2020	21,276,737	97,837	92,734	95%
June 2020	19,751,391	90,776	87,966	97%
May 2020	2,765,175	10,235	3,780	37%
<b>Total</b>	<b>\$ 75,421,298</b>	<b>346,412</b>	<b>312,585</b>	<b>90%</b>

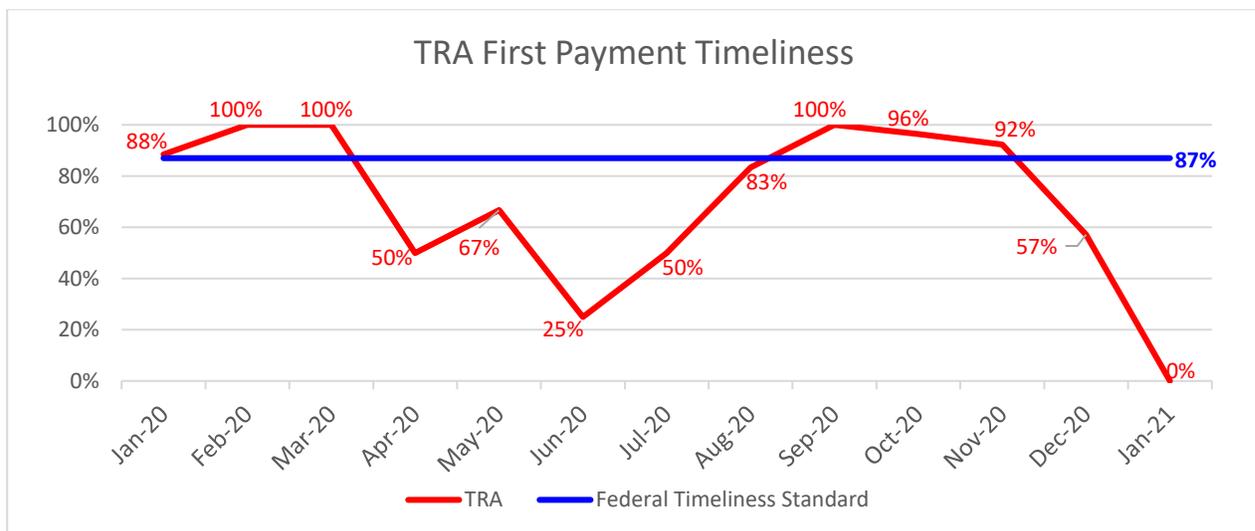


## APPENDIX C

**Trade Readjustment Allowances (TRA)**

Pre-pandemic state program that provides up to 130 weekly benefit payments during a 202 week<sup>75</sup> eligibility period to individuals who have exhausted state UI and whose jobs were adversely affected by foreign imports.

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments within 14/21-day Standard (%)
January 2021	\$ 667	2	-	0%
December 2020	2,429	7	4	57%
November 2020	4,304	13	12	92%
October 2020	9,442	28	27	96%
September 2020	3,500	10	10	100%
August 2020	2,047	6	5	83%
July 2020	605	2	1	50%
June 2020	974	4	1	25%
May 2020	862	3	2	67%
April 2020	1,175	4	2	50%
March 2020	1,258	4	4	100%
February 2020	4,126	13	13	100%
January 2020	7,744	26	23	88%
<b>Total</b>	<b>\$ 39,133</b>	<b>122</b>	<b>104</b>	<b>85%</b>



<sup>75</sup> Includes Basic TRA, Additional TRA, and Completion TRA. Basic TRA allows up to 52 weekly payments within a 104-week eligibility period. Additional TRA is payable after exhaustion of basic TRA and allows up to 65 weekly payments in a 78-week eligibility period. Completion TRA is payable after exhaustion of Basic and Additional TRA and allows up to 13 weekly payments during a 20-week eligibility period. [https://oui.doleta.gov/unemploy/docs/factsheet/TRA\\_FactSheet.pdf](https://oui.doleta.gov/unemploy/docs/factsheet/TRA_FactSheet.pdf).

**APPENDIX D**

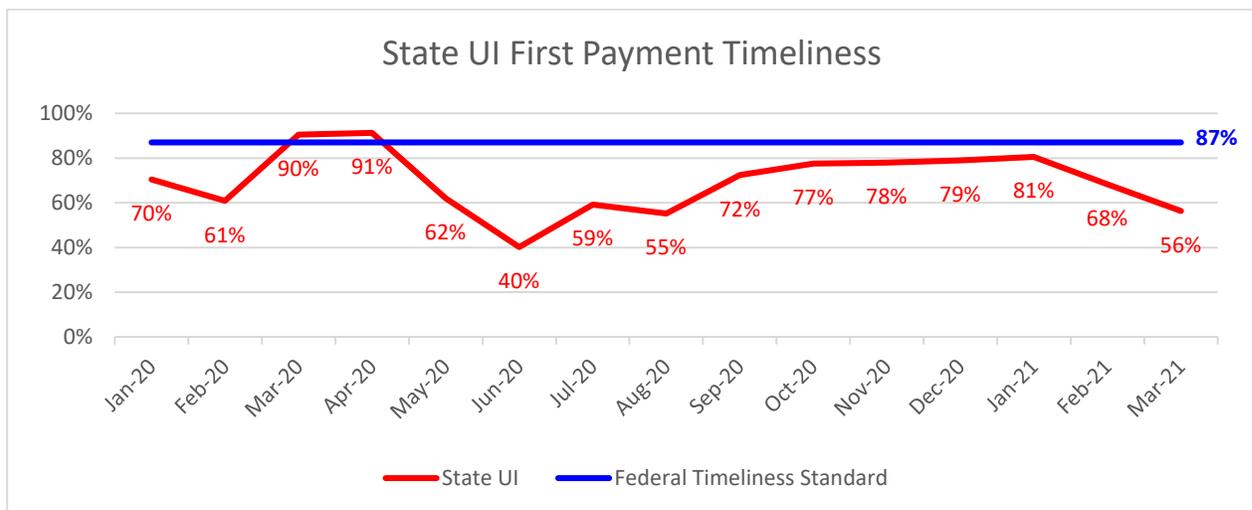
**State Unemployment Insurance Program**

State unemployment insurance benefits for people:

- Who are out of work due to no fault of their own.
- Whose employment was subject to unemployment insurance tax.
- Who meet requirements for wage and work history.

Claimants may receive a maximum of 12 – 20 weeks of State UI benefits in a benefit year.<sup>76</sup>

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments Within Federal Timeliness Standard (%)
March 2021	\$ 2,670,280	11,434	6,441	56%
February 2021	2,762,873	12,071	8,242	68%
January 2021	3,294,348	14,495	11,673	81%
December 2020	2,901,460	13,039	10,289	79%
November 2020	2,860,462	13,024	10,157	78%
October 2020	3,827,722	17,975	13,930	77%
September 2020	4,565,630	21,701	15,704	72%
August 2020	6,629,855	30,736	16,952	55%
July 2020	10,352,984	48,225	28,560	59%
June 2020	18,225,923	86,697	34,825	40%
May 2020	30,578,874	141,729	87,905	62%
April 2020	73,976,406	330,652	301,780	91%
March 2020	6,072,650	26,687	24,138	90%
February 2020	1,627,197	5,986	3,643	61%
January 2020	1,871,315	7,052	4,966	70%
<b>Total</b>	<b>\$ 172,217,979</b>	<b>781,503</b>	<b>579,205</b>	<b>74%</b>



<sup>76</sup> Depending on the unemployment rate when the unemployment claim is filed.

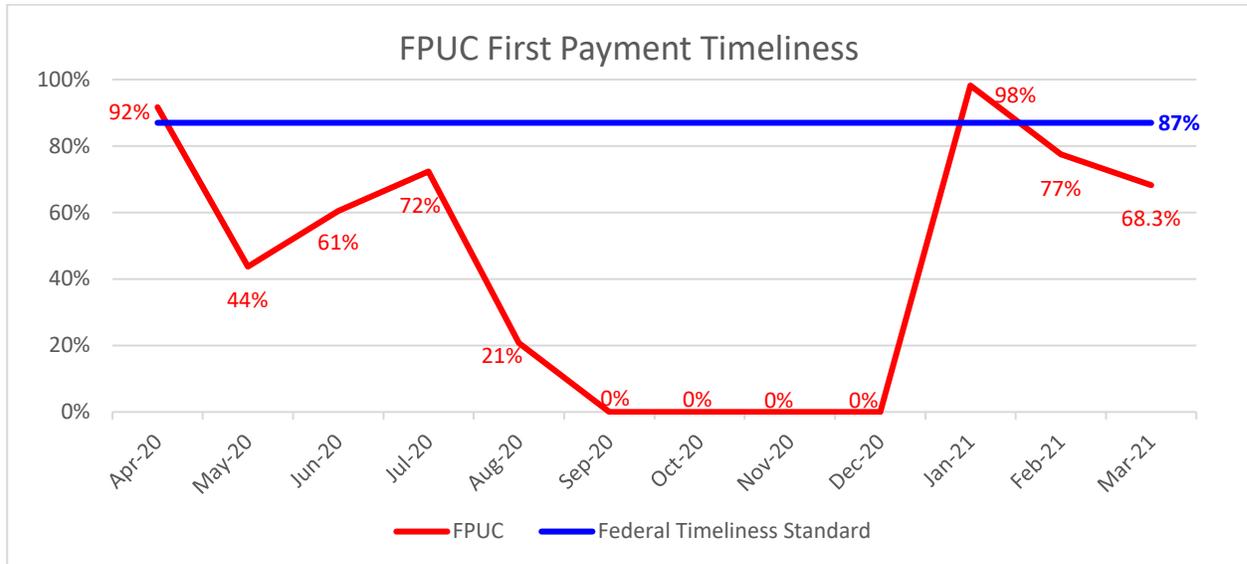
**APPENDIX E**

**Federal Pandemic Unemployment Compensation (FPUC)**

Federal program increasing the weekly benefit amount by:

- \$600 per week from March 29, 2020, through July 25, 2020, and
- \$300 per week from December 27, 2020, through September 4, 2021.

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments within 14/21-day Standard (%)
March 2021	\$ 6,866,579	21,557	14,719	68%
February 2021	9,546,613	29,887	23,157	77%
January 2021	53,716,800	177,045	173,890	98%
December 2020	2,258,400	3,764	-	0%
November 2020	2,222,400	3,704	-	0%
October 2020	3,049,800	5,083	-	0%
September 2020	8,147,219	13,576	-	0%
August 2020	22,222,802	36,924	7,656	21%
July 2020	107,755,288	179,739	130,041	72%
June 2020	128,883,592	214,961	130,099	61%
May 2020	149,208,000	248,680	108,840	44%
April 2020	232,891,200	388,152	355,760	92%
<b>Total</b>	<b>\$ 726,768,693</b>	<b>1,323,072</b>	<b>944,162</b>	<b>71%</b>

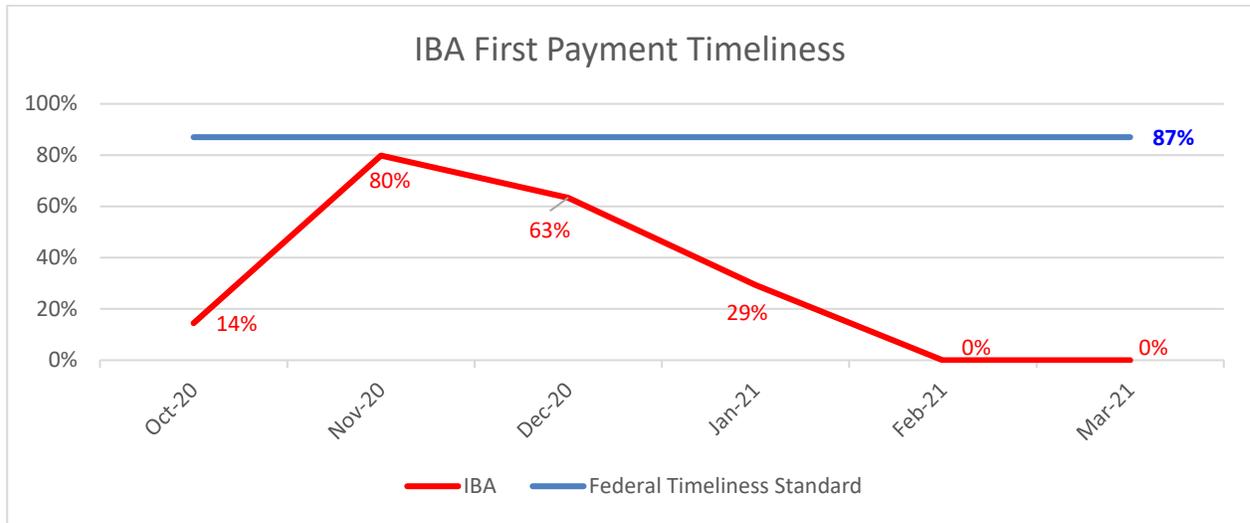


**APPENDIX F**

**Increased Benefit Amount (IBA)**

State program, created by the Coronavirus Relief Act, increasing the weekly benefit amount by \$50 from September 6, 2020, through December 26, 2020.

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments within 14/21-day Standard (%)
March 2021	\$ 109,800	2,196	-	0%
February 2021	232,650	4,764	-	0%
January 2021	806,334	16,157	4,733	29%
December 2020	2,643,350	52,867	33,518	63%
November 2020	2,140,750	42,815	34,179	80%
October 2020	12,176,800	243,536	35,197	14%
<b>Total</b>	<b>\$ 18,109,684</b>	<b>362,335</b>	<b>107,627</b>	<b>30%</b>



**APPENDIX G**

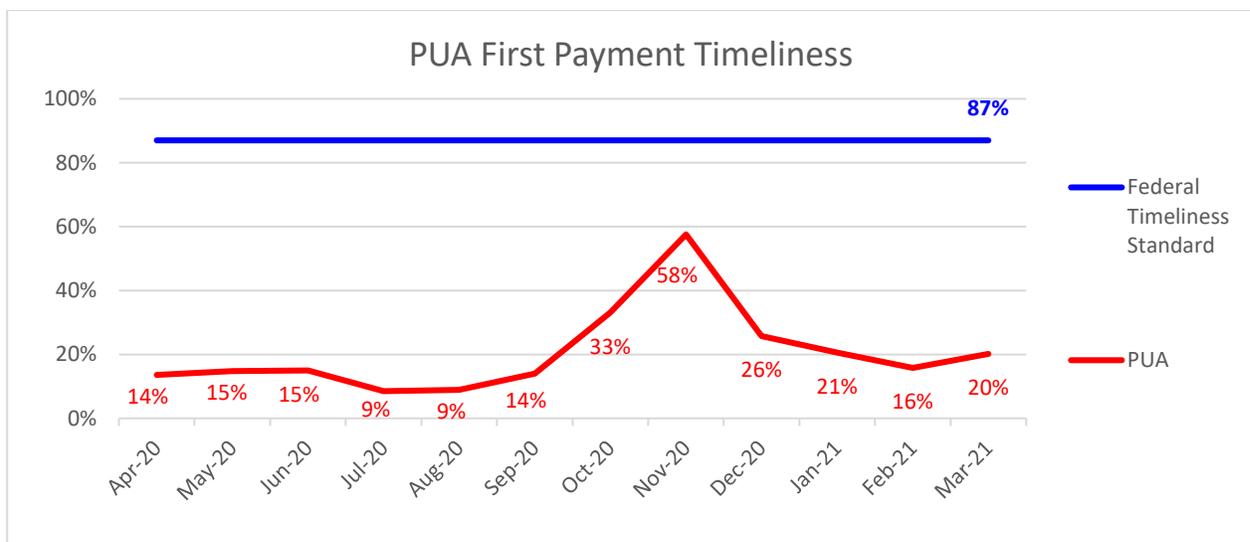
**Pandemic Unemployment Assistance (PUA)**

Federal benefits for people:

- Who are ineligible for or have exhausted State UI benefits and extensions.
- Who are unable to work as a direct result of COVID-19 during each benefit week.

Claimants may receive up to 79 weeks of PUA benefits through September 4, 2021.

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments within 14/21-day Standard (%)
March 2021	\$ 249,571	1,483	299	20%
February 2021	630,935	3,561	562	16%
January 2021	2,117,022	10,023	2,059	21%
December 2020	4,920,994	22,438	5,772	26%
November 2020	2,529,440	12,135	6,984	58%
October 2020	665,402	3,952	1,309	33%
September 2020	1,362,349	9,079	1,272	14%
August 2020	1,759,360	11,408	1,021	9%
July 2020	4,092,977	27,340	2,324	9%
June 2020	5,354,967	34,845	5,215	15%
May 2020	13,708,963	91,371	13,490	15%
April 2020	4,680,894	28,212	3,825	14%
<b>Total</b>	<b>\$ 42,072,874</b>	<b>255,847</b>	<b>44,132</b>	<b>17%</b>

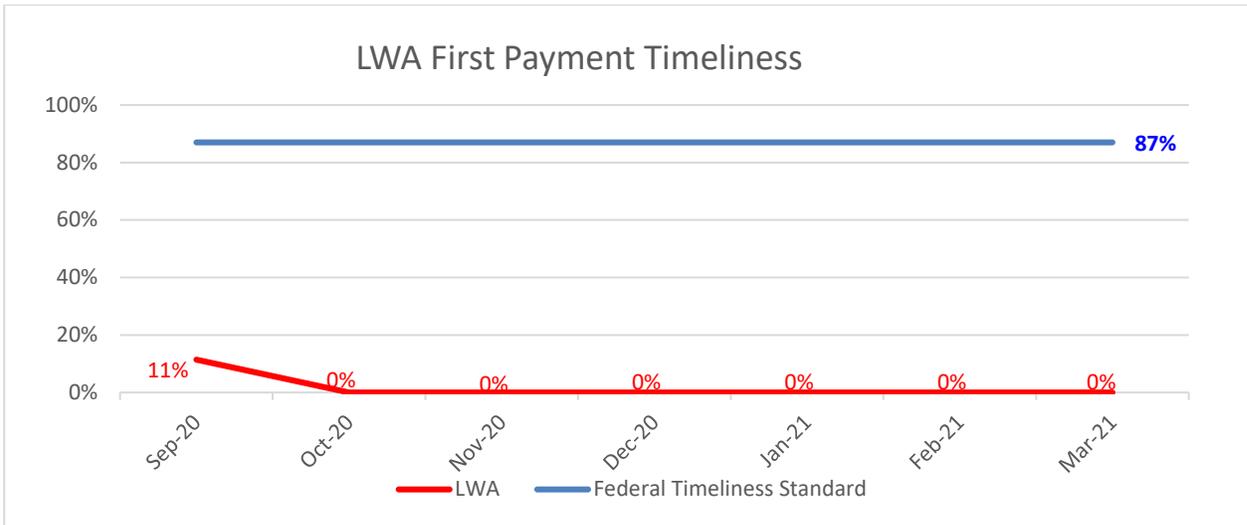


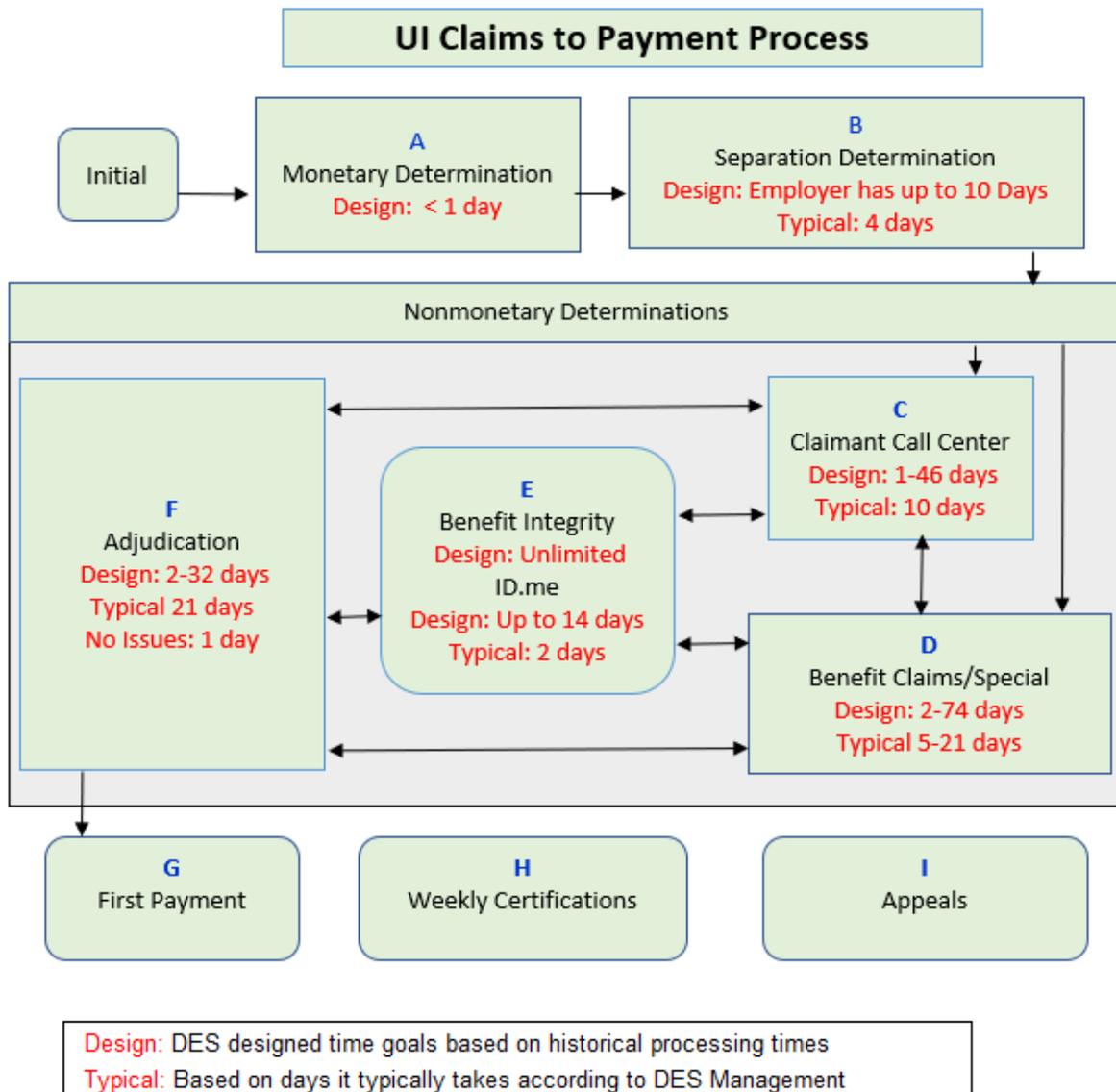
**APPENDIX H**

**Lost Wages Assistance (LWA)**

Federal Emergency Management Agency (FEMA) funded program providing additional \$300 weekly benefit for the benefit weeks ending August 1, August 8, August 15, August 22, August 29, and September 5, 2020.

Month	First Payments (\$)	First Payments (#)	First Payments Timely (#)	First Payments within 14/21-day Standard (%)
March 2021	\$ 195,600	652	-	0%
February 2021	221,298	748	-	0%
January 2021	193,650	650	-	0%
December 2020	1,345,895	4,488	-	0%
November 2020	1,425,030	4,751	-	0%
October 2020	2,795,400	9,318	-	0%
September 2020	125,759,700	419,199	47,871	11%
<b>Total</b>	<b>\$ 131,936,573</b>	<b>439,806</b>	<b>47,871</b>	<b>11%</b>



APPENDIX I <sup>77</sup>

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

<sup>77</sup> The Process Flow Diagram demonstrates the days allotted to staff to complete manual steps in the initial claims process. However, as indicated in the finding, a claim can actually be paid in fewer than 40 days or more than 110 days.

APPENDIX I (continued)

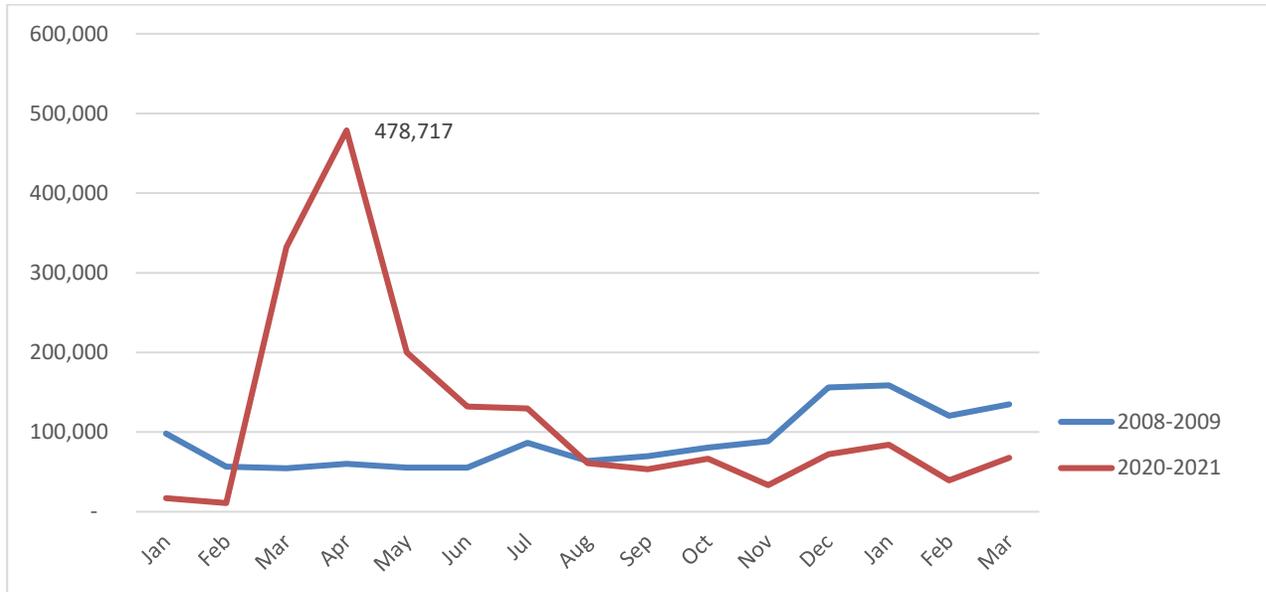
Days Allotted per Step in Process	Design			
	Step	Minimum	Maximum	Typical
Monetary Determination	A	1	1	<1
Separation Determination	B	2	11	4
Claimant Call Center	C	2	47	10
Benefit Claims/Special	D	3	75	6
Benefit Integrity/ID.me	E	2	15	2
Adjudication	F	2	33	21
Payment	G	3	3	3
		12-15	110-185	40-46

\* Overnight batch operations between activities are built into the design as 1 day each (A, B, C, D, G).

\* Benefit Claims/Special includes claims for PUA, PEUC, MEUC, and EB; not applicable to State UI claims.

**APPENDIX J**

**Trend of Claims Received During COVID-19 vs. Great Recession**



**Source:** Data Downloads, Employment & Training Administration (ETA) – U.S. Department of Labor (<https://oui.doleta.gov/unemploy/DataDownloads.asp>) and auditor analysis.

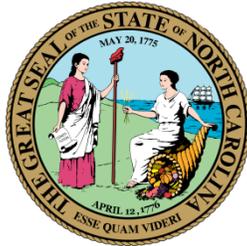
## APPENDIX K

**Internal Control Components and Principles Significant to the Audit Objective**

The objective of this audit was to determine the timeliness of first unemployment benefit payments from the Department of Commerce's Division of Employment Security during the period of January 1, 2020, through March 31, 2021. If untimely, identify the causes of the untimely payments.

Internal control components and underlying principles that were significant to our audit objective are identified in the table below.

<b>COMPONENTS AND PRINCIPLES</b>	<b>SIGNIFICANT</b>
<b>CONTROL ENVIRONMENT</b>	
1. The oversight body and management should demonstrate a commitment to integrity and ethical values.	
2. The oversight body should oversee the entity's internal control system.	
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.	X
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.	
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.	
<b>RISK ASSESSMENT</b>	
6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.	
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.	X
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.	
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.	X
<b>CONTROL ACTIVITIES</b>	
10. Management should design control activities to achieve objectives and respond to risks.	X
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.	
12. Management should implement control activities through policies.	X
<b>INFORMATION AND COMMUNICATION</b>	
13. Management should use quality information to achieve the entity's objectives.	
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.	
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.	
<b>MONITORING ACTIVITIES</b>	
16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.	X
17. Management should remediate identified internal control deficiencies on a timely basis.	X



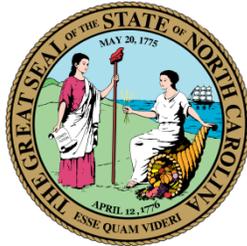
# **STATE AUDITOR'S RESPONSE**

Government Auditing Standards require auditors to obtain and report the views of agency officials concerning the findings, conclusions, and recommendations in an audit report, as well as the agency's planned corrective actions.

The Office of the State Auditor requires the agency to explain the corrective action the agency plans to take to address the audit findings and recommendations and:

- The **estimated date** for implementing the corrective action.
- **Who (by title) is responsible** for implementing the corrective action.

While the agency agreed with the findings, the Department of Commerce's response did not include these details.



# **RESPONSE FROM DEPARTMENT OF COMMERCE**



**NC DEPARTMENT**  
**of COMMERCE**  
EMPLOYMENT SECURITY

Roy Cooper  
GOVERNOR

Machelle Baker Sanders  
SECRETARY

Pryor Gibson  
ASSISTANT SECRETARY

February 25, 2022

The Honorable Beth A. Wood, State Auditor  
Office of the State Auditor

**Dear State Auditor Wood:**

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*.

I would like to express my appreciation to your team for their work to examine this issue and gain a better understanding of the complexities of the unemployment insurance program during the COVID-19 pandemic

DES agrees with the audit's finding that '*DES did not issue \$438 million of first unemployment benefit payments timely during the period of January 1, 2020, through March 31, 2021.*'

You have recommended that:

- *DES management should review the design of its unemployment benefit claims process (including the total time allotted to process, review, and approve claims, across all functional sections) 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 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. A comprehensive plan should then be adopted that guides its decision-making in the event of an economic downturn about staffing and process changes, descriptions of the available adjustments to business practices that DES could make, and policies and procedures to facilitate these adjustments. DES management should complete the process described above at least annually to update for any new risks and update*

*responses to these risks including any updates to processes resulting from information technology-related advancements.*

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 cursive script that reads "Machel Baker Sanders".

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

CC: Pryor Gibson, Assistant Secretary for Employment Security

**Key Finding**

- *DES did not issue \$438 million of first unemployment benefit payments timely during the period of January 1, 2020, through March 31, 2021.*

**Response:** The Division of Employment Security agrees with the finding that not all first unemployment benefit payments were made timely during the period covered by the audit. DES recognizes the importance of issuing benefits as quickly as possible to all claimants who are eligible for assistance.

DES was least timely in first payments for those programs that were built from scratch during the pandemic—Pandemic Unemployment Assistance, a program for independent contractors and self-employed workers, and Lost Wages Assistance, a new program administered through FEMA.

DES worked to issue benefits for all programs while accounting for a number of external factors directly affecting timeliness of first benefit payments.

- North Carolina experienced an exponential increase in unemployment claims and needed to quickly hire, equip and train new staff and contractors to address the demand for service. DES also had to deploy its employees to remote workstations to protect their health and safety during the pandemic.
- New temporary unemployment programs were implemented, requiring extensive guidance from USDOL, ongoing staff training and system reprogramming. Guidance for administering these programs came after programs were already established.
- DES experienced delays in receiving information necessary to process claims from other overwhelmed systems, such as the Social Security Administration and the UI Interstate Connection Network (ICON).
- Increased unemployment fraud across the nation and new federal requirements necessitated additional fraud prevention measures that impacted the extent of untimely payments.

**Key Recommendations**

- *Recommendation 1: DES management should review the design of its unemployment benefit claims process (including the total time allotted to process, review, and approve*

*claims, across all functional sections) to ensure the process is designed so that first payments meet federal unemployment benefit payment timeliness standards.*

**Response:** DES will review the design of its claims process as recommended to identify ways in which to improve timeliness. The division was working toward meeting federal timeliness standards for the state's regular unemployment insurance program in the years prior to the pandemic, and it will continue to do so by streamlining processes, strategically allocating resources and implementing additional automation in the benefits system.

- ***Recommendation 2:** 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 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.*

**Response:** DES will improve the timeliness of benefit payments by employing technology and other solutions to better monitor the claims process and assess where delays may occur. The division is currently in the process of building a comprehensive set of data dashboards that will provide management with timely access to information to monitor issues and oversee improvements.

The use of contractors was imperative throughout the pandemic response due to the massive influx of claims. DES will build upon its experience in rapidly onboarding contract employees and rapidly expanding its call center to ensure that future contractual relationships are as efficient and effective as possible.

- ***Recommendation 3:** DES management should continuously identify, evaluate, and address the risk that unemployment claims could increase due to events such as an economic downturn. A comprehensive plan should then be adopted that guides its decision-making in the event of an economic downturn about staffing and process changes, descriptions of the available adjustments to business practices that DES could make, and policies and procedures to facilitate these adjustments. DES management should complete the process described above at least annually to update for any new risks and update responses to these risks including any updates to processes resulting from information technology-related advancements.*

**Response:** The most significant recent economic downturn in North Carolina prior the COVID-19 pandemic was the Great Recession. This event magnified the importance of DES modernizing its claims system before the next downturn to be able to process large volumes of claims more quickly. North Carolina's new electronic benefits system, known as SCUBI, was launched in September 2018 and was instrumental in DES's response to the pandemic.

While the COVID-19 pandemic proved to be entirely unprecedented in terms of scope and scale, DES is committed to being more prepared for future economic disasters similar to the scope and scale of this event.

To that end, DES is developing a post-pandemic strategic plan that will be modeled on the agency's plan for handling federally declared natural disasters and expanded to include lessons learned from the COVID-19 pandemic. While many factors are difficult to anticipate during plan development (for instance, the establishment of new emergency programs), DES will plan for:

- Rapid staff onboarding and training.
- Rapid call center expansions.
- Rapid fraud detection and prevention expansions.
- Technology monitoring and solutions.

-end-

# ORDERING INFORMATION

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