

Employment Security Department

Agency 540

Audit Report	Finding Number	Finding and Resolution
1028164	001	<p>Finding: The Employment Security Department did not have adequate internal controls over processing unemployment insurance benefit claims, resulting in misappropriation and potential misappropriation from illegitimate claims between January 2020 and December 2020.</p> <p>Fraud Amount: Total \$1,107,321,396 – consisting of \$646,818,372 from known fraud and \$460,503,024 from potentially illegitimate claims.</p> <p>Amount to be Recovered: To be determined</p> <p>Recovery to date: \$369,798,082 as of March 2021</p> <p>Resolution /Status: The Department partially concurs with this finding. Although there are aspects the Department agrees with, there are deep flaws and numerous pieces of incorrect information in the State Auditor’s Office (SAO) report.</p> <p>The characterization of the fraud and the fraud amount listed above is false. The Department has been very open about the estimated loss of between \$550 to \$650 million and has recovered roughly \$370 million. This total was validated in three of the SAO’s audits of the unemployment benefit programs which, unlike this fraud audit, were conducted under Governmental Audit Standards.</p> <p>The SAO recommended the Department develop an agency plan to respond to future surges in Unemployment Insurance claims. During the audit, the SAO did not inquire about the Department’s strategic planning process. It should be noted that if the auditors had asked, the Department would have provided a copy of its Economic Alert System and Cycle Plan report.</p> <p>The SAO recommended the Department continue to improve its fraud prevention portfolio. It should be noted that if the auditors had inquired about the matter, the Department could have provided information about its Fraud Prevention Program that has a robust monitoring process and ongoing efforts to continuously refine fraud filters and reduce false detection rates. This is an ongoing effort that is addressed daily by the Fraud Division.</p> <p>The SAO recommended the Department improve its identity verification process. It should be noted that if the auditors had inquired about the Department’s verification process, it would have been apparent that this process had already been implemented prior to the audit.</p> <p>The SAO recommended the Department improve oversight to evaluate the extent of the loss and population of the entire loss. The Department was a national leader in identifying and reporting the fraud loss. Since the attack by bad actors in May of 2020, the Department has worked diligently and committed significant resources to identify fraudulent claims and worked</p>

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1028164	001 (cont'd)	<p>with law enforcement and the banking industry to evaluate claims.</p> <p>The SAO recommended the Department implement recommendations related to its IT Systems. The IT audit was conducted under Performance Audit standards and is confidential. Any remediation is tracked by the Office of the Governor, not the SAO.</p> <p>By December 2021, the Department will:</p> <ul style="list-style-type: none"> <li>• Ensure the crossmatch between claimants and incarcerated individuals is performed consistently.</li> <li>• Clear the backlog of flagged claims resulting from the benefit programs implemented during the COVID-19 pandemic.</li> <li>• Add a monitoring process to the Department’s Quality Assurance program that will capture dollar amounts and benefit payments.</li> </ul> <p>Personnel Action Taken: Not applicable</p> <p>Criminal Action Taken: The Department is cooperating with various law enforcement agencies who determine any actions that will be taken.</p> <p>Agency Contact: Jay Summers External Audit Manager PO Box 46000 Olympia, WA 98504-6000 (360) 742-9957 <a href="mailto:joshua.summers@esd.wa.gov">joshua.summers@esd.wa.gov</a></p>