

Audit Report

Maryland Department of Labor Division of Unemployment Insurance

Part 2 Unemployment Benefits

November 2022

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLASWebmaster@ola.state.md.us
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

November 15, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Mark S. Chang, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Unemployment Insurance (DUI) for the period beginning April 17, 2017 and ending November 15, 2020. DUI administers the State's Unemployment Insurance Program, which is normally funded primarily by unemployment insurance tax contributions collected from employers. However, DUI operations were significantly impacted by the COVID-19 pandemic, which greatly increased unemployment insurance activity and required the expansion and modification of various DUI operations, which were primarily federally funded. While we recognize the impact on DUI's operations, the circumstances created by the pandemic did not materially affect our decision as to the inclusion of the specific findings and related recommendations in our report, which represent our determination of DUI's statutory compliance or the appropriate and necessary controls over Program elements audited. However, as a result of the significant impact of the pandemic on DUI, we did divide our audit into two parts as further described below. This report addresses the second part of our audit. A report on the first part of our audit was issued May 4, 2022.

Our audit disclosed that DUI did not conduct certain critical data matches used to identify potentially fraudulent or improper claims. We conducted three matches replicating four discontinued DUI matches and identified at least \$32.3 million in potentially improper benefit payments. In addition, DUI did not have sufficient procedures to ensure that individuals filing claims using a foreign Internet Protocol (IP) address were eligible for benefits, including 3,724 claimants who

received \$3.6 million in benefit payments between September 2017 and April 2020. Similarly, DUI lacked procedures to help prevent and detect duplicate payments, and our analysis disclosed \$43.3 million in potentially duplicate payments made to 12,500 claimants between April 2020 and December 2021.

With regard to one program in particular, our audit disclosed that DUI did not conduct timely verifications of income reported by claimants as required, resulting in potential overpayments for this program, which as of January 2021 had paid \$5.9 billion in benefits in Maryland. Furthermore, DUI did not adequately review regular claims and adjudications, such as decisions regarding claimant eligibility that were processed by DUI employees and temporary staff. Finally, the inability of BEACON (DUI's automated benefits system) to provide certain critical data regarding entries and adjustments that had to be recorded manually severely restricted DUI's ability to verify the propriety of those transactions.

We also found that DUI did not establish sufficient controls over reissued debit cards, which totaled 354,445 between July 2017 and January 2021; and did not ensure the proper disposition of funds remaining on expired and never activated cards, which totaled \$23.1 million as of October 2021. Furthermore, DUI did not properly account for in BEACON the status of potentially fraudulent benefits totaling \$493.9 million that were removed from claimants' debit cards.

In addition, we noted that DUI did not ensure that amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments. Furthermore, we also noted information system security deficiencies. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted these findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity-related findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in the State Finance and Procurement Article, Section 3A-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to DUI as well as those parties responsible for acting on our recommendations.

Finally, our audit included a review to determine the status of four of the six findings contained in our preceding audit report. We determined that DUI satisfactorily addressed one of these four findings. The remaining three findings are repeated in this report as four findings. The status of the remaining two

findings in our preceding audit report was previously determined during our audit of DUI Part 1 report dated May 4, 2022.

We determined that DUI's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. The primary factors contributing to the unsatisfactory rating were the significance of our audit findings in both audit reports and the number of findings across all areas of DUI's operations.

MDL's response to this audit, on behalf of DUI, is included as an appendix to this report. We reviewed the response and noted agreement to our findings and related recommendations. While there are other aspects of MDL's response which will require further clarification, including certain comments that are not consistent with the report analysis, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. Finally, we have edited MDL's response to remove certain vendor names or products, as allowed by our policy. Consistent with the requirements of State Law, we have redacted the elements of MDL's response related to cybersecurity findings.

We wish to acknowledge the cooperation extended to us during the course of this audit by DUI. We also wish to acknowledge MDL's and DUI's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Division of Unemployment Insurance (DUI) is a separate budgetary unit within the Maryland Department of Labor. According to the State's records, DUI's fiscal year 2020 operating expenditures (excluding unemployment benefit disbursements) totaled approximately \$61.4 million. DUI administers the State's Unemployment Insurance Program that includes the following primary responsibilities.

- Collecting unemployment insurance tax contributions from employers
- Processing applications for, and disbursing unemployment benefits

As further described below, during the audit period, DUI operations were significantly impacted by the COVID-19 pandemic that greatly increased unemployment insurance activity and required the expansion and modification of various DUI operations. In addition, DUI finalized the implementation of its new information system, BEACON, which further impacted its operations. As a result, and to provide necessary audit resources and coverage, we have divided our audit of DUI into the following two parts to address the aforementioned DUI responsibilities.

Part 1 – Unemployment Insurance Tax Contributions

Includes employer unemployment contributions, reimbursements from government agencies and certain non-profit organizations, associated accounts receivable activity, and related changes from a recent system implementation.

Part 2 – Unemployment Benefits

Includes methods individuals can use to file for unemployment insurance benefits, eligibility and monetary benefit determinations (for State unemployment insurance and for additional programs in response to the COVID-19 pandemic), payment monitoring, prevention of fraudulent claims, and related changes from a recent system implementation.

This report addresses Part 2 of our audit. Our report on Part 1 was issued May 4, 2022.

Maryland Unemployment Insurance Taxes

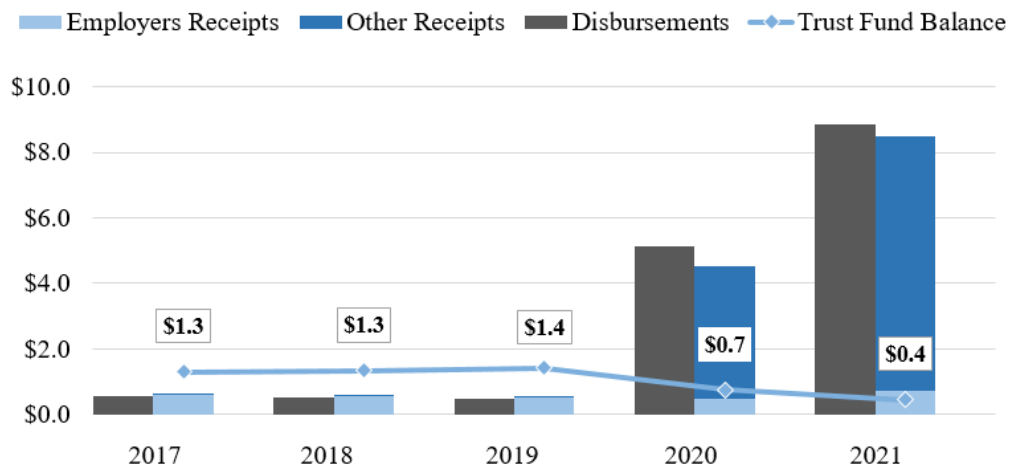
Maryland employers are required to remit Maryland unemployment insurance taxes based on a percentage of wages paid to their employees. During calendar year 2020, the employer tax rate ranged from 0.3 percent to 7.5 percent of the first \$8,500 of employee wages, and for calendar year 2021, the percentage ranged between 2.2 percent and 13.5 percent. The tax rates are established by State regulation based on an annual calculation and estimate of the funds necessary to meet federal requirements regarding the necessary minimum balance to be maintained in the Maryland Unemployment Insurance Trust Fund.

The particular tax rate paid by an employer is impacted by various factors, most notably the amount of unemployment benefits paid by DUI and charged to the employer's account during a specified period for eligible employee layoffs and terminations. Certain entities, such as nonprofit organizations and governmental entities, are exempt from these taxes and, instead, reimburse the State for any unemployment benefits paid by the State on their behalf. As of November 2020, an unemployed individual could receive a maximum of \$430 per week for 26 weeks of State benefits in one benefit year.¹

Historically, employer contributions were the primary source of unemployment funds. As shown in Figure 1 on the following page, the COVID-19 pandemic resulted in unprecedented increases in federal funding. Specifically, according to DUI records, during fiscal year 2021, DUI collected approximately \$710.9 million from employers (\$637.0 million in unemployment insurance taxes and \$73.9 million in benefit reimbursements) and received \$7.6 billion in federal funding.

¹ As a result of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, 52 weeks of benefits were available from the combination of standard Maryland benefits, Pandemic Emergency Unemployment Compensation (PEUC), and extended benefits.

Figure 1
Summary of DUI Financial Activity
Fiscal Years 2017 - 2021
(\$ in billions)

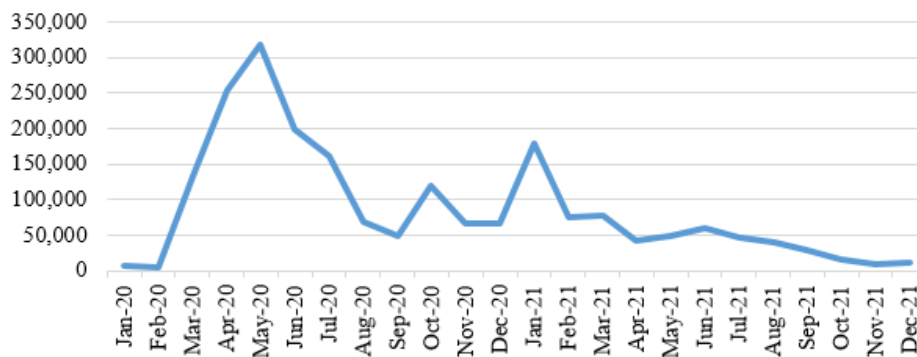


Source: DUI Records and Fiscal Year 2017-2020 Trust Fund Financial Statements

Unemployment Benefits

As noted above, the COVID-19 pandemic had a significant impact on unemployment claims (see Figure 2 on following page). According to DUI records, there were approximately 103,000 paid claimants in fiscal year 2019 compared to more than 642,000 claimants in fiscal year 2021 which were paid approximately \$8.8 billion in unemployment insurance benefits. Unemployment insurance claims peaked in May 2020 at over 300,000 claims. According to the United States Bureau of Labor Statistics, the unemployment rate in Maryland in May 2020 was 9.0 percent.

Figure 2
Unemployment Insurance Initial Claims



Source: DUI Records

Benefit amounts are based on the applicant's earnings and other factors (such as the number of dependents). State law requires applicants to be able, available, and actively looking for work (work search requirement) in order to be eligible for unemployment benefits. The work search requirement, but not the able and available requirements, was suspended from March 2020 through July 2021 due to the COVID-19 pandemic.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, in response to the COVID-19 pandemic, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The federal law included several provisions affecting the unemployment insurance program administered by DUI.

- Pandemic Unemployment Assistance (PUA), effective January 27, 2020 through December 31, 2020, provided up to 39 weeks of benefits to covered individuals who were not eligible for regular benefits or extended benefits. One of the major populations included under this program were self-employed individuals who historically were not eligible for unemployment benefits.
- Federal Pandemic Unemployment Compensation (FPUC), effective March 29, 2020 through July 31, 2020, provided \$600 in addition to the normal weekly benefit amount.

- Pandemic Emergency Unemployment Compensation (PEUC), effective March 29, 2020 through December 31, 2020, added up to 13 additional weeks for claimants who exhausted their initial 26 weeks of regular benefits.

Other federal funding was awarded in addition, and subsequent, to CARES.

- Lost Wage Assistance (LWA) Program (provided by Presidential Authorization), effective August 1, 2020 through December 27, 2020, provided claimants an additional \$300 per week for six weeks.
- Extended benefits (EB) became available from May 31, 2020 through December 12, 2020, and provided up to 13 additional weeks of benefits. A claimant had to exhaust their 39 weeks of benefits under PEUC before becoming eligible for EB.
- Continued Assistance for Unemployed Workers Act signed into law December 27, 2020 provided up to 11 additional weeks of the CARES programs.
- The American Rescue Plan Act was signed into law March 11, 2021 further extending the CARES programs through September 4, 2021.

Unemployment Insurance System

In 2011, DUI began a major information technology project to replace and consolidate the following three existing automated systems used to account for unemployment activities into one system, which was referred to as BEACON.

- **Maryland Unemployment Insurance Tax System** used to process employers' unemployment insurance taxes owed and paid.
- **Maryland Automated Benefits System (MABS)** used to track payments to and amounts due from unemployment insurance claimants and wage information reported by Maryland employers.
- **Appeals Case Tracking System** used to maintain a record of the status of each appeal, and notes on postponements, hearings, and other notes.

The new BEACON system was procured as part of a consortium of three states (Maryland, Vermont, and West Virginia) and was intended to be fully implemented in 2018. However, significant implementation delays occurred which DUI asserts were caused by unrealistic timelines, the need to address vendor quality issues, and certain issues experienced by one of the other states. As a result, at the onset of the COVID-19 pandemic BEACON had not been fully implemented in Maryland. In addition, both Vermont and West Virginia withdrew from the consortium, leaving Maryland to unilaterally implement BEACON.

In April 2020, in response to the COVID-19 pandemic, DUI implemented BEACON One-Stop to allow claimants to file all claims online, and rigorously pursued the long-delayed implementation of BEACON, which DUI deemed to be fully implemented in September 2020. As of January 2021, payments to the vendor for BEACON implementation since September 2015 totaled \$54.4 million, and payments to the same vendor for BEACON One-Stop totaled \$2.9 million. The new system (including One-Stop) was paid for primarily with federal funds.

Our May 1, 2020 report on the Maryland Department of Information Technology reviewed major information technology development projects including BEACON. The report addressed several concerns regarding BEACON development and implementation, such as documentation of project monitoring. In addition, our January 7, 2021 report on our audit of the Maryland Department of Labor (MDL) - Office of the Secretary included certain findings relating to BEACON contract costs. Furthermore, our DUI Part 1 report included additional findings relating to BEACON deficiencies. See the summary of these findings in other audit reports related to BEACON in Exhibit 1. Additional deficiencies with the system are addressed in several of the findings in this report. As of March 2022, MDL had not assessed any permissible damages against the BEACON vendor for development, implementation, or functionality issues.

As noted in Figure 3, beginning in April 2020 through September 2020, all claimant information was entered into BEACON One-Stop for processing of federal claims, such as PUA and EB (but excluding PEUC). MABS was still used during this period for processing regular State unemployment claims, as well as PEUC. In late September 2020, DUI began using the fully implemented BEACON for processing all claim types. Figure 3 indicates a timeline of claim type and system used.

Figure 3
DUI Claims Processing System Timeline

System	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
MABS	Regular and PEUC Claims																	
BEACON One-Stop				Federal Claims														
BEACON										All Claims								

Source: DUI Records

Legal Matters

An indictment was issued on August 23, 2022 by the U.S. District Court v. two principals of the contractor responsible for the design, development, and implementation of BEACON. We were advised by MDL management that they have no reason to believe that the contractor will not abide by the terms and conditions of its contract with the State of Maryland.

Maryland Unemployment Insurance Trust Fund

DUI maintains the Maryland Unemployment Insurance Trust Fund (UITF) for the deposit of unemployment taxes collected from employers and the payment of benefits to the unemployed. The UITF is required by federal regulation to retain a balance to cover its expected current obligations. As noted in Figure 1, the average trust fund balance exceeded \$1.3 billion for fiscal years 2017 through 2019. The COVID-19 pandemic significantly impacted the balance during fiscal year 2021 due to its unforeseen nature and the obvious exclusion of its impact from the preceding tax calculation performed by the State. As a result of the low balance, DUI borrowed \$68.9 million from the federal government to cover obligations during the period February 2021 through April 2021, which was subsequently repaid.

Claims Center Staffing

DUI maintains four claims centers with approximately 80 claims processors who receive calls and provide assistance with any questions on filing, applying for, and receiving unemployment benefits. Additionally, at these same centers, DUI maintains approximately 75 adjudicators.² The aforementioned claims processors and adjudicators are all State employees. Claims processors generally correspond with claimants to obtain information required for an unemployment claim, whereas claims adjudicators research discrepancies with claims filed, such as income reported by a claimant that does not agree with the corresponding amount reported by the employer.

During our audit period, DUI awarded two emergency staffing contracts to assist with the increased volume of unemployment insurance claims resulting from the COVID-19 pandemic.

² There are also two adjudication-only centers.

Claims Staffing Vendor Contract

In April 2020, DUI entered into a \$19.6 million emergency contract with a vendor for 200 supplemental staff to augment DUI's claims centers. These vendor employees were to handle the increase in claim volume and complete certain tasks, including assisting in the review of PUA proof of income and identity documentation submitted for claims identified as potentially fraudulent.

As DUI's needs changed, this contract had multiple change orders amending staffing levels, total contract amount, and end date. Figure 4 shows change orders processed from inception of the contract through January 1, 2022. Costs associated with each change order varied depending on the number of staff provided at the time. As of November 2021, payments to the vendor totaled \$93.3 million all of which were made using federal funds.

Figure 4
Cumulative Increases to Staff and Dollar Amounts
(\$ in millions)

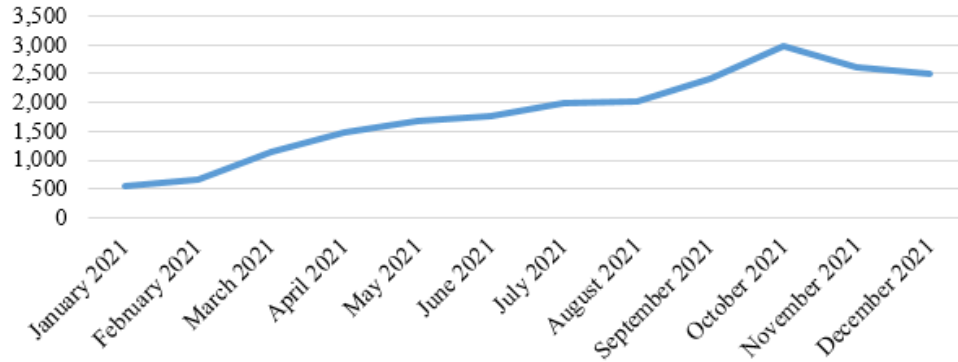
Claims Staffing Contract	Date	Number of Staff	Cumulative Value After Change Order	Contract End Date
Original	4/13/2020	200	\$ 19.6	4/12/2021
Change Order #1	5/11/2020	275	\$ 22.4	12/31/2020
Change Order #2	10/12/2020	575	\$ 55.2	6/30/2021
Change Order #3	12/28/2020	1,275	\$ 102.2	8/31/2021
Change Order #4	7/1/2021	1,875	\$ 109.0	10/5/2021
Change Order #5	9/1/2021	1,875	\$ 160.0	12/31/2021
Change Order #6	1/1/2022	1,975	\$ 356.0	12/31/2022

Source: DUI Records

Note: Number of Staff represents full time equivalent positions

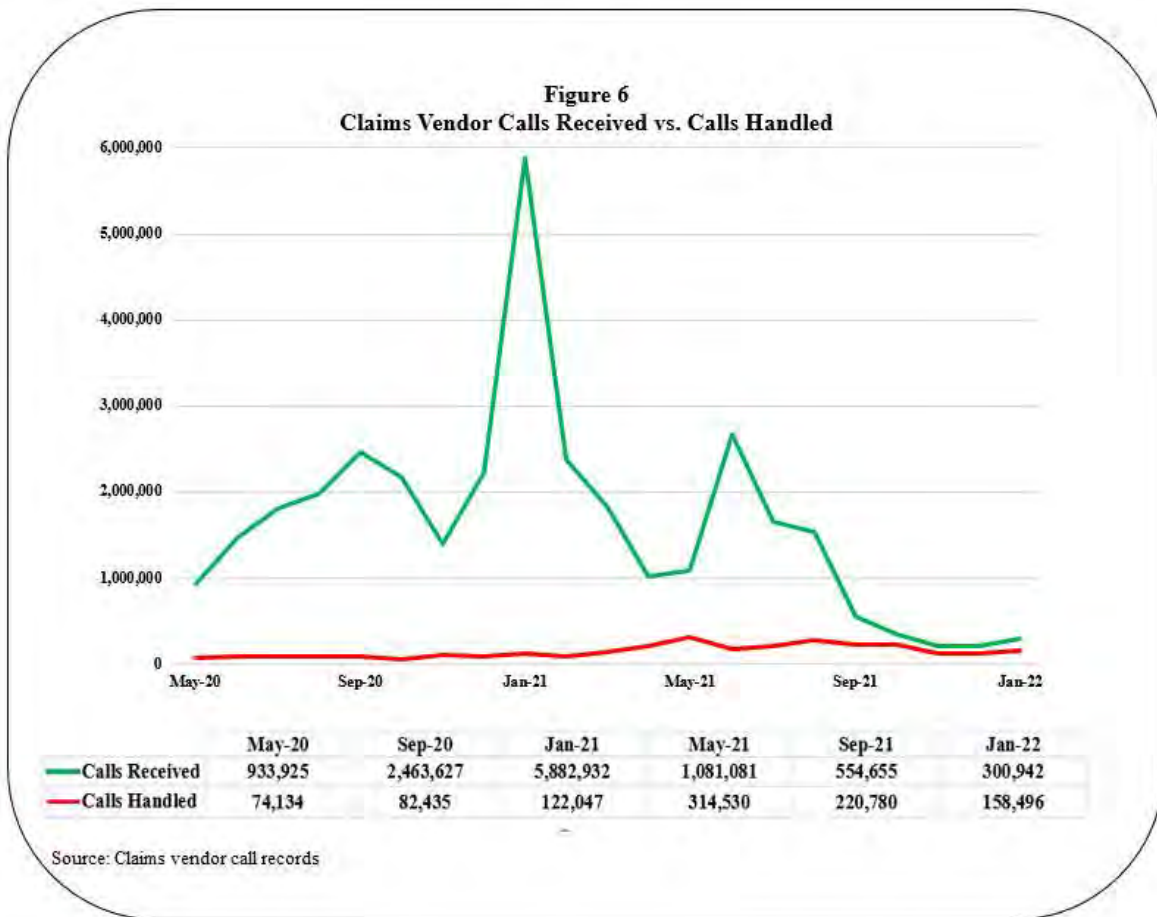
As noted in Figure 5 on the following page, the vendor provided an increasing number of staff at any given time during calendar year 2021, ranging from 554 in January 2021 to 2,965 in October 2021. These figures may exceed the contract totals in Figure 4 because more than one individual may have been provided by the vendor to cover the required hours for one full time equivalent contract position.

Figure 5
Claims Vendor Staffing



Source: DUI Records

Vendor employees assisted in addressing the significant number of calls being received. Figure 6, on the following page, shows total calls received by vendor employees between May 2020 and January 2022, which peaked at 5.9 million calls during the month of January 2021, as well as the number of calls actually handled (answered) by vendor employees during this period. As noted in Figure 6, despite the vendor's efforts, there was a significant number of calls that were not handled due to the high call volume. Data regarding the number of calls received and handled by DUI employees was not available.



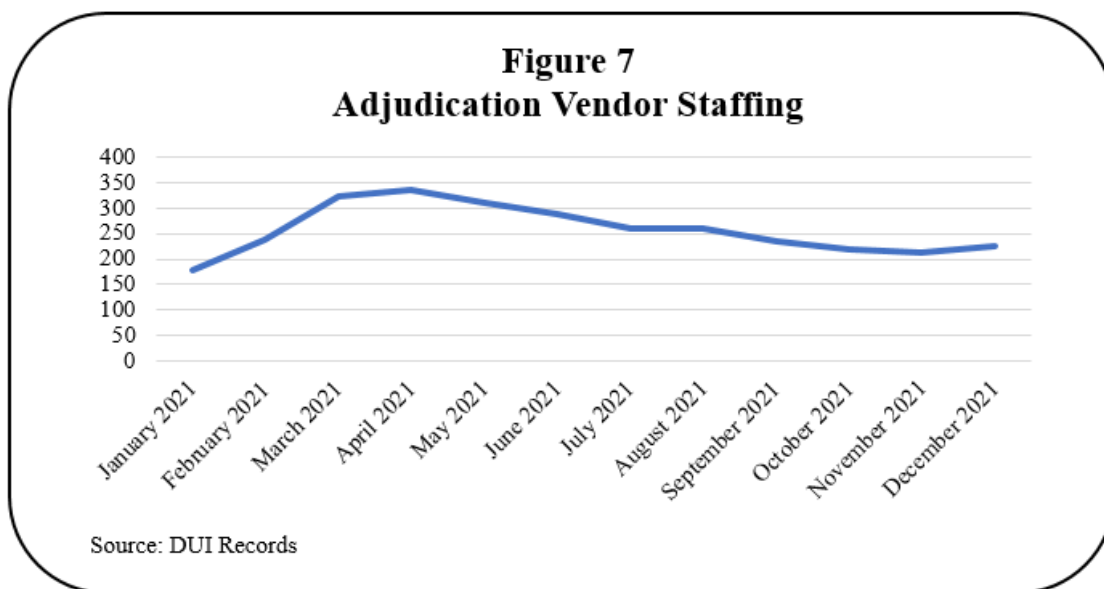
DUI management asserted to us that the calls received could include multiple calls from the same individual, and that the number of unique calls (calls associated to specific individuals) received was more closely aligned with the number of calls handled. However, DUI could not document that assertion; and we found that the disparity between calls received and calls handled was still significant. In addition, the observed disparity is consistent with widely reported public concerns regarding the inability to contact DUI to resolve issues with filing a claim and/or the related unemployment insurance benefits. During the period of our review, our Fraud hotline received numerous calls expressing these concerns, which our Fraud Investigation Unit was able to refer to appropriate DUI personnel for resolution.

Adjudication Staffing Contract

In November 2020, DUI entered into a \$70.9 million emergency contract with another staffing vendor for up to 675 supplemental staff. This vendor was responsible for augmenting DUI's adjudication staff by completing certain tasks including the following:

- Investigate potentially disqualifying issues and determine the impact on eligibility for benefits,
- Conduct fact finding interviews and document results,
- Detect improper and potentially fraudulent payments, and
- Assist in reviewing PUA proof of income.

As of November 2021, DUI payments to this vendor totaled \$15.8 million, all of which were made using federal funds. According to the contract, 575 staff were to be available by June 2021; however, the vendor was unable to obtain that number of qualified personnel. See Figure 7 for actual staffing levels provided by this vendor for calendar year 2021.



Claims Processing

Individuals may file an application for unemployment insurance benefits online or over the phone (which are handled by the four DUI-operated claims centers or DUI's supplemental staffing vendor). Historically, requests for certain benefit types (such as benefits for claimants who were employed by the federal government) could not be filed online. In April 2020, with the implementation of BEACON One-Stop, individuals could apply for all unemployment benefits online.

The application includes information about their previous employer, wages earned, and the reason for the individual's current unemployment. DUI utilizes a combination of automated system checks, and manual steps as deemed necessary,

to verify that the application information is complete and the applicant is eligible for benefits, and to set up an account for each approved claimant.

Benefit amounts are based on the individual applicant's earnings during their base period and other factors, such as the number of the applicant's dependents. The base period is generally the first four of the last five calendar quarters completed before the claimant filed for benefits. DUI historically issued each approved claimant a Maryland Unemployment Insurance (UI) Benefits Debit Card to access their benefits. However, beginning May 24, 2021, DUI discontinued use of the debit card, and claimants began receiving their benefits either through direct deposit or by check.

State law requires applicants to be able, available, and actively looking for work in order to continue to be eligible for unemployment benefits. Accordingly, claimants are required to certify each week that they are able, available, and actively looking for work, and to disclose any other information that could affect their eligibility for benefits, such as attending school. Any claimant who obtains work must notify DUI of the number of days worked and the related compensation.

As a further condition of eligibility, DUI requires claimants to register in the Maryland Workforce Exchange System within 10 days of filing a claim. The System provides services to help individuals gain employment. This requirement was not in place from March 2020 through July 2021 due to the COVID-19 pandemic. Effective July 2021, DUI began automatically initiating this registration process for claimants, and the Workforce Exchange System became the only place where a claimant could log their reemployment activities, such as work searches.

Certain claims may require manual review by a claims worker, and claim data may need to be manually adjusted. For example, a claims worker may have to review documentation supporting income reported by a self-employed claimant, and manually enter the income amount into BEACON. Manual review is also required for claims in adjudication. A claim is adjudicated when it requires a claims worker to investigate certain issues and determine the impact on the claimant's eligibility, for example whether the claimant was actually terminated or voluntarily resigned.

National Trends and Issues Related to Potential UI Fraud During the COVID-19 Pandemic

During our audit, we reviewed available publications issued by federal and state entities, as well as news media reports to identify national trends and issues that arose during the pandemic relating to claim volume and potential fraud in UI programs. See publications reviewed at Exhibit 2.

National Increase in Claim Volume Observed

The COVID-19 pandemic and subsequent expansion of UI benefits authorized by the CARES Act and other federal legislation placed unprecedented stress on unemployment insurance programs throughout the country. According to the United States Department of Labor – Office of the Inspector General (US DOL – OIG), UI claims nationwide increased from 282,000 initial claims immediately prior to the implementation of pandemic mitigation measures as of March 15, 2020 to 57.4 million initial claims by August 15, 2020. As of June 30, 2022, approximately \$1.036 trillion has been allocated to pandemic-related UI programs since the beginning of the COVID-19 pandemic.

National Increase in Improper Payments Estimated

In December 2021, the US DOL – Education and Training Administration (US DOL – ETA) estimated that, based on available information, at least 18.71 percent of regular and certain pandemic UI program payments may have been improper, although the US DOL – OIG noted that the actual rate was likely higher. Using this rate, US DOL – OIG estimated in March 2022 that, based on the \$872.5 billion in pandemic UI benefits paid, at least \$163 billion may have been improper payments to claimants. An improper payment may result from an individual's fraudulent action to obtain payments or from other conditions, such as unintentional errors on the part of a claimant or program employee.

In its testimony to Congress, US DOL – OIG cited the Pandemic Unemployment Assistance (PUA) program as a significant risk for improper payments since it required only self-certification by the claimant that they met the program requirements, and allowed the claimant to backdate their UI claim. Additionally, because of the reliance on self-certification, states were not required to verify claimant identities or income until January 2021, after Congress amended the PUA program requirements in December 2020.

Examples of Findings from National and State Reports

Our review of audit reports, advisories, and testimony issued by US DOL – OIG and several states disclosed that they generally did not discuss the details of specific UI frauds being perpetrated across the nation. Rather, most reports we

reviewed discussed significant challenges experienced by state workforce agencies (SWAs) responsible for administering unemployment insurance programs, and focused on internal control deficiencies or program weaknesses, some of which were revealed or exacerbated by the pandemic conditions. We noted common elements in many of the weaknesses, several of which were consistent with results included in this report.

- States had not implemented processes or technology that would allow them to prevent or detect improper payments. For example, several states did not perform, or they suspended, crucial data matches designed to detect ineligible claimants. A survey of states by the US DOL – OIG confirmed that 40 percent of SWAs did not perform the cross-matches required by US DOL – ETA, and 88 percent of SWAs did not perform the cross-matches strongly recommended by US DOL – ETA, including, for example, procedures intended to detect claimants using foreign Internet Protocol addresses (a matter addressed elsewhere in this report as it relates to Maryland).
- States that had otherwise adequate existing pre-pandemic prevention and detection processes did not or could not readily adjust them to the circumstances created by the pandemic. For example, one state that performed cross-matches previously did not adjust the frequency of a match in order to address the significant increase in claims volume, and thus more quickly detect and stop improper benefit payments being made to ineligible claimants. Other states that normally required claimants to appear in person, or conducted manual reviews of questionable claims, were unable to use, or did not adapt, those procedures when the pandemic began.
- Existing processes were not adequate. For example, some states did not have input controls in place to limit or otherwise aid in ensuring the propriety of certain application data entered by claimants. Without these limits, applicants were able to enter inaccurate critical information (such as applicant birthdates that occurred in the future). Other states paid claimants without verifying that they were entitled to the amount awarded (such as, by verifying reported income to supporting documentation and/or wage databases). Although certain of these transactions may have been identified after the benefits were paid, recovering the funds may be difficult and therefore would not mitigate the need for preventive controls (some of these matters are addressed elsewhere in this report as it relates to Maryland).

We Were Unable to Compare Maryland’s Potential Losses from Fraud to Other States

Due to the diversity of methods used by US DOL and state oversight agencies to quantify **potentially** (emphasis added) improper payments made and improper claims that were detected and not paid, we could not readily compare Maryland’s totals for such amounts to other states. We also were unable to readily compare **actual** losses from fraud in states that had not implemented effective controls to states that either had implemented effective controls, or had implemented effective controls later in the pandemic.

We did note that states that implemented more comprehensive fraud detection or prevention approaches such as analytical procedures on application data, live identity verification, or multi-state data matching, generally reported a decrease in the number of potentially fraudulent claims. In addition, the US DOL – OIG noted that SWAs with modernized information technology (IT) systems were typically able to implement the programs authorized by the CARES Act more quickly, and were able to more readily participate in necessary fraud control measures (such as multi-agency coordination and participation in national data banks).

Certain Pandemic-related Issues Were Determined Not to be New or Unforeseeable

In our opinion, certain issues experienced during the COVID-19 pandemic by state UI programs (including many identified in this audit report) were not new or unforeseeable. For example, at the onset of the COVID-19 pandemic, an April 2020 US DOL – OIG report raised concerns about program delivery and integrity due to the historically troubled performance of UI programs at other times of prior high claim volumes (for example, the Great Recession in 2007-2009), known difficulties in implementation of adequate fraud detection and prevention procedures, and a known lack of modernized IT systems. Consequently, the report recommended that states take appropriate precautions to prevent improper payments.

Status of Findings From Preceding Audit Report

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of five of the six findings contained in our preceding audit report dated February 5, 2019 (prior audit finding 3 was not reviewed). As disclosed in Figure 8, we determined that DUI satisfactorily addressed two of these five findings. The remaining three findings are repeated in this report as four findings. The status of two findings in

our preceding audit report (Findings 5 and 6 also included in Figure 8) were previously determined during our audit of DUI Part 1 report dated May 4, 2022.

Figure 8
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	DUI did not always use available data to identify claimants who may not be eligible for benefits, and did not always conduct timely investigations into the results of certain data matches.	Repeated (Current Findings 2 and 3)
Finding 2	Supervisory reviews of claims and adjustments to claimant wages on the Maryland Automated Benefit Systems (MABS) were not always conducted or documented.	Repeated (Current Finding 6)
Finding 3	DUI lacked a formal comprehensive policy for timely collection of delinquent accounts resulting from benefit overpayments and referrals to the State's Central Collection Unit.	Not repeated (Not followed up on)
Finding 4	DUI did not establish sufficient controls over reissued debit cards nor ensure the proper disposition of funds remaining on expired cards.	Repeated (Current Finding 7)
Finding 5	DUI did not adequately follow up or track the results of computer matches it performed to identify employers that had not registered with DUI and may not be remitting required unemployment insurance taxes.	Not repeated (Part 1 Report)
Finding 6	DUI did not have a comprehensive or effective procedure to periodically review user access to the Maryland Unemployment Insurance Tax System and MABS, which resulted in unnecessary or incompatible access being granted to certain individuals.	Not repeated (Part 1 Report)

Findings and Recommendations

Benefit Payments

Background

The Division of Unemployment Insurance (DUI) has historically conducted periodic matches using the Maryland Automated Benefit System (MABS) to help detect benefit payments made to ineligible claimants and identify potential fraud. These matches each address a critical element involved in the eligibility for or calculation of unemployment benefits.

1. **Incarcerated Match** is a monthly match performed by a vendor to ensure that individuals reported as incarcerated in Maryland, and certain other states and local jurisdictions are not receiving unemployment benefits.
2. **Other States Wage Match** is a quarterly match to ensure that claimants are not earning wages in another state while receiving unemployment benefits in Maryland.
3. **Maryland Wage Match** is a quarterly match, which identifies individuals earning wages from a Maryland employer while receiving unemployment benefits.
4. **Regular State Employee Address Match** is a quarterly match to specifically identify regular Maryland State employees earning wages and receiving unemployment benefits.
5. **Contractual State Employee Address Match** is the same as the match for regular State employees applied to the State's contractual payroll.
6. **Regular State Employee Social Security Number (SSN) Match** is a quarterly match, also meant to identify regular Maryland State employees earning wages and receiving benefits.
7. **Contractual State Employee SSN Match** is the same as the match for regular State employees applied to the State's contractual payroll.
8. **Vital Statistics Match** is a monthly match, which ensures that benefits are not being paid to deceased individuals.
9. **New Hire Match** is a quarterly match, which ensures that claimants who were unemployed and are now employed, are no longer receiving benefits.

Finding 1

DUI did not conduct certain critical matches used to identify potentially fraudulent or improper claims. We conducted three matches to replicate four of the discontinued DUI matches and identified at least \$32.3 million in potentially improper payments.

Analysis

DUI did not conduct certain critical matches used to identify fraudulent or improper claims and has no plans to retroactively conduct the matches. As noted in Figure 9, for at least some of the audit period DUI did not perform all of the nine critical matches it had historically conducted on a periodic basis. For example,

- Between April 2020 and September 2020, DUI only performed the matches using data in MABS, which accounted for just \$1.3 billion of the \$8.4 billion in claim payments for the period.
- Between September 2020 and January 2021, DUI only performed one of the aforementioned nine historical matches; specifically, the quarterly New Hire Match.
- As of December 2021, DUI had not performed two matches (Other State Wage and Maryland Wage Matches) since March 2020, and had not performed a third match (Vital Statistics Match) since August 2020.

Figure 9
DUI Benefit Fraud Match Timeline

Match	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	
Incarceration	MABS												BEACON												
Other State Wage	MABS																								
Maryland Wage	MABS																								
State Employee Address	MABS												BEACON												
State Employee SSN	MABS												BEACON												
Contractual Employee Address	MABS												BEACON												
Contractual Employee SSN	MABS												BEACON												
Vital Statistics	MABS																								
New Hire	MABS								BEACON																

Note: Dark blue shaded area indicates the time when the match was not performed

Source: DUI Records

DUI management advised us that they could not conduct the aforementioned matches because of BEACON One-Stop and BEACON system deficiencies, but could not provide the specific deficiencies encountered. We were further advised that while DUI has been able to restart certain matches in BEACON, there was no plan to retroactively conduct matches for the periods for which matches were not performed.

These matches are critical since they have historically identified questionable claims. We conducted three matches to replicate four of the DUI matches using data obtained from BEACON of individuals receiving unemployment insurance payments during the period April 2020 to January 2021 or December 2021 (depending on the match). During this period these matches were either not performed by DUI or did not include all claims paid. Our results are as follows:

State Employee Match (to replicate DUI Regular and Contractual SSN matches)

We compared the BEACON data to data we obtained from the State's Central Payroll Bureau for regular and contractual State employees and identified at least \$22.6 million in payments (including \$11.5 million in Pandemic Unemployment Assistance (PUA) claims) to over 6,200 named recipients that were active State employees when the benefits were paid. We were advised by the Department of Budget and Management that during the pandemic, generally State employees continued to receive their full salaries even if they were not able to work. As a result, these individuals may not have been eligible for some or all of the benefits received.

Incarceration Match

We compared the BEACON data to data we obtained from the State's Department of Public Safety and Correctional Services and identified at least \$7.1 million in payments (including \$6.5 million in PUA claims) to over 1,200 named recipients that were incarcerated when the benefits were paid.

Vital Statistics Match

We compared the BEACON data to data we obtained from the Maryland Department of Health Vital Statistics Administration and identified at least \$2.6 million in payments (including \$2.1 million in PUA claims) to 402 named recipients who were deceased when the benefits were paid.

DUI also did not perform periodic matches to identify employees of vendors with critical access to DUI systems (such as the BEACON and staffing vendor employees) that may be improperly receiving unemployment insurance payments. As noted above, during the audit period DUI started using a significant number of vendors to supplement its State employees (which would not be covered by the

aforementioned State Employee (Regular and Contractual) SSN Matches). Our review disclosed that DUI only completed one match in November 2020 that included employees of one of the staffing vendors and did not identify any improper payments. At the time the match was conducted, the staffing vendor only had 350 employees working on DUI activity. DUI did not repeat the match as staffing levels from this vendor increased, and did not conduct any matches of the other vendor's employees.

The questionable payments identified by these matches do not necessarily mean that the named recipient received the payment. For example, the named recipient may have been a victim of identity theft. DUI was not aware of these results and accordingly had not investigated the related paid benefits to determine whether they were proper.

Recommendation 1

We recommend that DUI

- a. require the BEACON vendor to address any system deficiencies preventing completion of matches, and in the future ensure that all matches are performed;**
- b. conduct the aforementioned matches for the aforementioned periods when matches were not performed or did not include all claims; and**
- c. investigate and resolve any potentially improper payments identified by the matches, including those noted in this finding.**

Finding 2

DUI did not have comprehensive procedures to ensure that individuals filing claims using a foreign Internet Protocol (IP) address were eligible to receive benefits, including 3,724 claimants that received benefit payments totaling \$3.6 million.

Analysis

DUI did not have comprehensive procedures in place to ensure that individuals filing for claims using a foreign IP address³ were eligible to receive benefits. During the audit period a significant number of fraudulent claims were identified in Maryland and several other states that were filed by individuals from outside of the respective States. At a minimum, individuals who file from a foreign IP

³ An IP address is a numerical label such as 192.0.2.1 that is connected to a computer network that uses the Internet Protocol for communication. An IP address serves two main functions: network interface identification and location addressing (source; IP Address article, *Wikipedia*, the Free Encyclopedia). For the purpose of our audit, a foreign IP address is defined as one originating from other than the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, Northern Mariana Islands, and Canada.

address may be residing outside of the country and may be unavailable for work, which could affect their eligibility for benefits. In April 2021, the federal Department of Labor issued an Unemployment Insurance Program Letter, which recommended that state workforce agencies, which includes DUI, use data analytics from state developed tools or private vendor services to detect suspicious activity such as out of country IP addresses.

Based on DUI records for the period from September 2017 through April 2020, there were 3,724 claimants with benefit payments totaling \$3.6 million, whose weekly certifications were filed from a foreign IP address. Our review of DUI procedures for monitoring these claims disclosed the following conditions:

- DUI did not use available IP address data in MABS to identify and investigate claimants filing an initial claim or weekly certifications from a foreign IP address, nor did they have a proactive process to prevent these potentially improper claims from being processed without a review. Rather, DUI generally only used the IP address data to augment existing investigations of possibly ineligible claimants identified through other means. DUI also did not investigate 503 claimants we identified in our preceding audit report that filed five or more consecutive weekly certifications from a foreign IP address between June 2015 and June 2017.
- Although BEACON One-Stop and BEACON included automated controls to block certain foreign IP addresses, these controls did not block all foreign IP addresses. Specifically, we examined the 3,724 claimants identified above as having previously used a foreign IP address under MABS to determine if they could file claims in BEACON One-Stop and BEACON. Our review disclosed that 988 of the 3,724 claimants filed weekly certifications from an IP address that would not have been blocked by the automated controls in place as of March 2021. Figure 10 provides a visual presentation of where the IP addresses for certain of those 988 claimants were located (many from Caribbean islands, Mexico, and Central America).

Figure 10
Map of IP Addresses Where Claims Could Still be Submitted



Source: Agency Records

- In April 2020, DUI stopped retaining a record of IP addresses used to submit weekly certifications and canceled its external subscription services, for which it paid approximately \$2,900 per year, which used geo-mapping to identify the country associated with a claimant's IP address. Canceling this service, impairs DUI's ability to identify and investigate claims and certifications from foreign IP addresses, and the ability to update BEACON with a more complete and comprehensive list of restricted addresses.

A similar condition regarding not using available IP addresses was commented upon in our preceding audit report.

Recommendation 2

We recommend that DUI

- continue to develop its automated controls used to block foreign IP addresses to ensure they are sufficiently comprehensive,**
- retain a record of foreign IP addresses used and formally re-evaluate the decision to cease the use of a geo-mapping service to aid in the identification and investigation of foreign IP addresses that are used for both initial applications and weekly certifications, and**
- investigate the foreign IP addresses identified in this finding and take corrective action for any ineligible claimants and benefits identified (repeat).**

Finding 3

DUI did not ensure claimants who were full-time students were eligible for benefits, and that all claimants were enrolled in the Maryland Workforce Exchange System, as required.

Analysis

DUI did not ensure claimants who were full-time students were eligible for benefits, and that all claimants were enrolled in the Maryland Workforce Exchange System as required.

- DUI did not obtain data to identify claimants who may not be eligible for benefits because they were full-time students and were not available for work. During the initial application and weekly certification process, applicants were asked if they were attending school (defined by State law as an institution of higher education). For applicants who were attending full-time and stated they were available for work, DUI inquired about the applicants' course schedules and clarified the requirement to be able and available for work.

DUI advised that the information provided by these applicants was not verified nor flagged for follow up in subsequent semesters. In addition, DUI did not have a process to identify claimants who failed to disclose their school enrollment on their applications or who may have enrolled in school after submitting their applications. For example, DUI did not obtain enrollment data from State universities to match against claimant data. Finally, DUI did not follow up on 179 claimants identified in our prior report who were enrolled as full-time students, all of whom stated they were able and available to work, and who received unemployment benefits totaling approximately \$506,000.

- DUI did not use available data in MABS to ensure that claimants had enrolled in the Maryland Workforce Exchange System. Specifically, no verification was performed from April 2017 until the Secretary of Labor suspended the requirement in March 2020.⁴ The requirement was reinstated in July 2021 and DUI began automatically enrolling claimants in the Maryland Workforce Exchange System. DUI also did not follow up on 7,724 claimants identified in our prior report who had not enrolled in the Maryland Workforce Exchange system that had received benefits totaling \$44.5 million. State law requires claimants to enroll in the system unless they are receiving benefits to supplement a temporary lay-off or a decreased work schedule.

⁴ State law allows for the Secretary to suspend the requirement on an individual basis. Due to the impact of the COVID-19 pandemic on employment and unemployment activity, the Secretary took the extraordinary step of suspending this requirement on a global basis.

Similar conditions were commented upon in our preceding audit report.

Recommendation 3

We recommend that DUI

- a. establish procedures, such as periodic matches to State higher education institution enrollment records, to identify and follow up on claimants who are attending school full-time but fail to disclose it (repeat);**
- b. follow up on all applicants who state they are attending school to determine whether it impacts eligibility for unemployment benefits (repeat);**
- c. verify that all claimants comply with applicable enrollment requirements, including the Maryland Workforce Exchange system (repeat); and**
- d. take timely and appropriate corrective action for any potentially ineligible claimants or benefits identified, including those noted in this finding (repeat).**

Claims Processing

Background

The new BEACON system (and previously MABS) subjects initial claim applications to certain automated validation rules to help determine eligibility and benefits due. For example, wages reported by the applicant are automatically verified to wages reported by the applicable employer. If inconsistencies or other discrepancies are detected, applications and claims may be suspended from processing, and require manual review and adjustment by a claims processor. A manual review is also required for claims designated for adjudication. A claim is adjudicated when it requires a claims worker to further investigate certain issues and determine the impact on the claimant's eligibility, for example whether the claimant was actually terminated or voluntarily resigned. Manual claims processing and adjudication are performed by DUI employees at the four DUI claims centers and by employees of the two aforementioned staffing vendors.

Finding 4

DUI did not have procedures to help prevent and detect duplicate benefit payments. Our analysis disclosed \$43.3 million in potentially duplicate payments made to 12,500 claimants between April 2020 and December 2021 that were not identified or investigated by DUI.

Analysis

DUI did not have procedures to help prevent and detect duplicate benefit payments. Our analysis of BEACON records disclosed \$43.3 million in

potentially duplicate payments made to 12,500 claimants between April 2020 and December 2021, where we could not determine that DUI identified or investigated the potentially duplicated payments. Our further analysis of seven of these payments totaling \$22,103, including a review of the related debit card records, disclosed that six duplicate payments were made totaling \$20,350. For example, one claimant received 19 payments for one benefit week totaling \$5,210, and another received 16 payments for one benefit week totaling \$7,616. These claimants should have received only \$374 and \$476, respectively, for the applicable benefit week.⁵ The remaining payment we reviewed was determined not to be a duplicate payment.

According to DUI management, duplicate payments occurred primarily because of deficiencies in BEACON. For example, BEACON accepted multiple weekly certifications for the same benefit week which resulted in more than one payment being made, and BEACON allowed duplicate Lost Wage Assistance Program payments. In addition, claimants were able to improperly file for multiple programs for the same benefit week, such as PUA and regular unemployment insurance.

As noted in our testing, certain data in BEACON that appeared to indicate a duplicate payment was made was incorrect. As a result, we could not readily determine how much of the aforementioned \$43.3 million represented actual duplicate payments.

Recommendation 4

We recommend that DUI

- a. require the BEACON vendor to correct BEACON to prevent duplicate payments;**
- b. use available BEACON records to identify duplicate payments; and**
- c. take appropriate corrective action for the duplicate payments, including those noted in this finding.**

⁵ A named payee may not have actually received payment, but may have been a victim of identity theft.

Finding 5

DUI did not conduct timely verifications of income reported by applicants for PUA benefits and did not ensure manual adjustments processed by DUI and contract employees were proper.

Analysis

DUI did not conduct timely verifications of income reported by applicants for PUA benefits and did not ensure manual adjustments processed by DUI and contract employees were proper. During the period from January 27, 2020 through December 31, 2020 federal PUA benefits were available for up to 39 weeks to individuals ineligible for regular benefits (such as self-employed individuals). Individuals applying for PUA had to self-report their income in BEACON at the time of application which was used as the basis for claim payments. Federal regulations required these individuals to submit documentation to support the reported income within 21 days and for DUI to “promptly” review and adjust the claim if necessary. As of January 2021, \$5.9 billion was paid to claimants under the PUA program in Maryland.

DUI Did Not Conduct Timely Income Verifications

According to BEACON records as of January 31, 2021, DUI had not verified income for 40,265 of the 198,990 individuals who received PUA benefits between May and November 2020. In all of these cases, documentation had been submitted by the applicant and was awaiting review. Although most of these cases were verified by January 2022, there was a significant delay, which resulted in certain overpayments. Specifically, our test of 10 of these cases disclosed that it took between 274 and 288 business days to complete the review despite the documentation being submitted within 10 days of the initial claim.

The untimely verifications resulted in significant delays in processing adjustments to the benefits due to discrepancies between the reported income and the support. For example, the verification of one claimant 281 days after the claim submission resulted in an adjustment of the weekly benefit from \$430 to \$278. Due to the untimely verification, DUI had already overpaid the claimant \$6,080. DUI could not readily provide us with the total amount of overpayments identified as a result of delayed verifications.

DUI Did Not Conduct Verifications of Manual Adjustments

DUI did not have any process to verify the propriety of manual adjustments made by DUI and contract employees. As noted above, DUI and contract employees were responsible for reviewing supporting documentation and adjusting applicant information on BEACON. According to agency personnel, the BEACON system does not have the capability to show after the fact (either on a screen or in a

generated report) the income amount that was entered by the employee who verified the income. This is a significant control deficiency since the amount entered serves as the basis for any future benefit payments, and there was no way to readily verify the amounts entered resulting in certain errors going undetected.

Specifically, our review of income documentation submitted by 25 claimants receiving PUA, disclosed 7 claimants who received benefits totaling approximately \$216,000 as of January 2021 that were being overpaid \$10 to \$169 per week based on the submitted documentation. For example, one claimant was receiving \$430 per week when based on provided income documentation they should have received \$261, an overpayment of \$169 per week. After our inquiries, DUI, with the assistance of the BEACON vendor, determined that the employee who verified this applicant's income entered an incorrect income amount into BEACON.

Recommendation 5

We recommend that DUI

- a. ensure that critical applicant data, such as income, is verified and accurately adjusted if necessary, in a timely manner;**
- b. ensure the aforementioned system deficiency regarding BEACON's inability to show the verified income amount is corrected and establish a documented process to verify that the recorded information was entered accurately; and**
- c. investigate and resolve any differences in weekly PUA benefit amounts disclosed as a result of income verifications, including those noted above.**

Finding 6

DUI did not adequately review regular claims and adjudications processed by claims center DUI employees and temporary staff, and output reports of manual wage entries could not be generated from BEACON for verification purposes.

Analysis

DUI did not conduct all required supervisory reviews of regular claims and adjudications processed by claims center DUI employees and did not ensure that claims processed by staffing vendor employees were subject to review. In addition, output reports of manual wage entries could not be generated from BEACON for verification purposes.

DUI Did Not Ensure Required Reviews were performed at Claim Centers

DUI did not ensure supervisors at the claim centers reviewed manual claims and adjudications as required and therefore, did not take appropriate action when the reviews at certain centers were not performed. DUI policy requires supervisors at the claims centers to review seven claims processed by each claims processor on a weekly basis, and 60 adjudications each week. These reviews are intended to verify that critical information supporting the legitimacy of the claim is complete and properly evaluated and recorded.

DUI did not monitor the claims centers to ensure the reviews were performed, and as of April 2021 DUI had no plans or process to ensure that the reviews, which are still required by DUI policy, were conducted in the future at these centers. We requested the most recent reviews from two of the four DUI claims centers, and noted that the required reviews were not conducted. For example, one claims center had not conducted any of the required reviews of adjudications since December 2016 and had not conducted any of the required reviews of manual claims since October 2019. DUI was not aware that the reviews were not being performed at these claims centers and accordingly did not take any corrective action. We could not readily determine the total number of manual claims and adjustments processed by DUI because BEACON did not have the ability to generate a report of these transactions. Similar conditions regarding the lack of supervisory reviews over manual claims were commented upon in our preceding audit report.

Staffing Vendor

DUI had no procedure to perform, and the related contract did not require, supervisory reviews of manual claims processed by staffing vendor employees. We could not readily determine the total number of manual claims and adjustments processed by the staffing vendor because BEACON did not have the ability to generate a report of these transactions that we deemed reliable.

Manual Wage Entries

DUI did not review manual adjustments made by DUI headquarter employees for certain employer wages, for example, military and federal employees. DUI headquarter employees were responsible for entering into BEACON income information based on supporting documentation from certain applicants. Since the implementation of BEACON in September 2020, DUI has been unable to generate output reports from BEACON to accurately provide claimant wages manually recorded. In the absence of output reports, supervisors were provided lists of manually entered wages by each employee to review. DUI employees creating the lists were also responsible for initiating claim payments as part of

their job duties, and, since they were not independent of the process, the risk of improper payments increases.

Due to the inability of BEACON to generate output reports, we were unable to quantify the extent of manual wage entries since the system was implemented. However, from July 1, 2017 through September 15, 2020, approximately 81,000 wage entries were manually recorded in MABS.

Recommendation 6

We recommend that DUI

- a. ensure that supervisors at claim centers perform the required reviews of claims processed (repeat) and adjudications completed;**
- b. establish a formal process to provide for supervisory review of claims processed by temporary staff used to assist DUI's claim center employees; and**
- c. require the BEACON vendor to address the aforementioned system deficiencies preventing the generation of system output reports of manual claims and adjustments (including those performed by the staffing vendor), and use those reports to verify the propriety of those entries.**

Finding 7

DUI did not establish sufficient controls over reissued debit cards, and did not ensure the proper disposition of funds remaining on expired debit cards.

Analysis

DUI did not establish sufficient controls over reissued debit cards, and did not ensure the proper disposition of funds remaining on expired cards. Prior to May 2021, DUI issued a UI Benefits Debit Card for each approved claimant as a means to access the claimant's unemployment insurance benefits. Between July 2017 and January 2021, there were 354,445 debit cards reissued to claimants, and as of October 2020, the value remaining on expired or never activated debit cards totaled \$23.1 million.

- There was no independent review of reissued debit cards to ensure they were proper. A new debit card can be issued if the original card is lost or damaged. The lack of review is significant because the employee responsible for reissuing cards was also responsible for updating claimant mailing addresses in the sponsoring bank's records, and had access to update a claimant's address in BEACON. As a result, the employee was in a position to identify an inactive card, reissue a new card to a different address (such as a PO box), and misappropriate the funds.

According to records we obtained from the sponsoring bank, of the aforementioned 354,445 reissued debit cards, 1,970 relating to 1,170 claimants were reissued to an address not included in DUI's unemployment insurance system. We asked agency personnel for documentation to support 30 of the debit cards that were mailed to addresses that appeared questionable, such as out of State, or where multiple cards were mailed to the same address. DUI could not provide us with documentation or adequate explanations for 23 of these reissued cards, including whether an address change was made by DUI or the sponsoring bank. Benefits paid through these 23 reissued cards totaled \$315,000.

- DUI did not have procedures to ensure the proper disposition of funds remaining on debit cards that were expired or that were never activated. As previously noted, there were approximately 30,000 cards that were expired or never activated with \$23.1 million⁶ remaining in the related accounts at the sponsoring bank as of October 2020. Since debit cards expire three years after they are issued, these funds should have been either returned to DUI or reported to the State Comptroller as unclaimed property.

We were advised by agency personnel that DUI requested the sponsoring bank to periodically provide documentation regarding never activated and expired cards, but DUI never used this information for monitoring purposes. According to the *Maryland Unemployment Benefits Debit Card Deposit Agreement* between DUI and the sponsoring bank, if a debit card is not activated within one year of issuance, the account is to be closed and the funds returned to DUI. If the debit card is activated, any remaining unclaimed funds should be reported and remitted by the bank as unclaimed property to Maryland after a period of three years in accordance with State laws for unclaimed property.

In May 2021, DUI discontinued use of the debit card, and began issuing benefits only by direct deposit or by check. However, cards in place at the time with remaining benefits could still be used, and reissued in the event of loss. Similar conditions were commented upon in our preceding audit report.

Recommendation 7

We recommend that DUI establish procedures to ensure

- a. all reissued debit cards are subject to an independent review and approval (repeat);**

⁶ A debit card may be not-activated if DUI canceled or froze the card due to potential fraud while determining the legitimacy of the claim. For example, the \$23.1 million includes 59 canceled debit cards, which are part of the population of cards in Finding 8.

- b. cards reissued to a questionable address are adequately investigated and resolved, including the 1,970 noted above; and
- c. unspent funds remaining on debit cards are returned to DUI or reported to the State Comptroller as unclaimed property in accordance with the aforementioned *Agreement* (repeat).

Finding 8

DUI did not properly account for potentially fraudulent benefits totaling \$493.9 million that were removed from claimants' debit cards.

Analysis

DUI did not properly account for potentially fraudulent benefits totaling \$493.9 million that were removed from claimants' UI Benefit Debit Cards (debit cards).

In July 2020, DUI canceled debit cards for 46,986 claimants with benefits totaling \$493.9 million because the claims originated from out of State, and accordingly, were considered potentially fraudulent. By canceling the cards, DUI stopped those benefits from being drawn by those claimants. DUI instructed these claimants to provide documentation to support their identity and the validity of their claim to have the claim reprocessed and repaid.

Our review disclosed that DUI did not update BEACON to reflect the cancelation of these payments. As a result, claimants who did not submit the requested documentation received overpayment notices even though they never received the funds. In addition, DUI was unable to provide documentation of how much, if any, of the \$493.9 million was subsequently repaid to claimants.

We were advised by DUI management that the United States Department of Labor - Office of Inspector General is assisting DUI in investigating the potentially fraudulent claims. As of August 2022, DUI could not provide details regarding the investigation, the funds remain in DUI's disbursement account, and no decision has been made on the disposition of these funds.

Recommendation 8

We recommend that DUI ensure that all transactions impacting claimant accounts are properly recorded in BEACON, including those noted in this finding.

Unemployment Insurance Trust Fund

Finding 9

DUI did not ensure amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments.

Analysis

DUI did not ensure amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments. Specifically, as of May 2021, DUI had not performed a reconciliation of its record of Trust Fund activity to the corresponding bank records since August 2020. Disbursements from the Trust Fund totaled approximately \$5.0 billion during the period from October 2020 through May 2021 and are generally made daily.

In response to our inquiries, in May 2021 DUI prepared the reconciliation for September 2020, which showed unresolved reconciling items totaling approximately \$81.4 million dating back to 2019. As of January 2022, DUI had been unable to resolve these differences, and no additional reconciliations had been performed.

Recommendation 9

We recommend that DUI prepare periodic reconciliations of its record of Trust Fund activity to the corresponding bank records, and resolve differences timely, including those noted in this finding.

Information Systems Security and Control

We determined that Findings 10 through 13 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendation(s), along with the Maryland Department of Labor’s responses, have been redacted from this report copy.

Finding 10
Redacted cybersecurity-related finding.

Finding 11
Redacted cybersecurity-related finding.

Finding 12
Redacted cybersecurity-related finding.

Finding 13
Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted two parts of a fiscal compliance audit of the Maryland Department of Labor (MDL) – Division of Unemployment Insurance (DUI) for the period beginning April 17, 2017 and ending November 15, 2020. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DUI's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included benefit payments and related system implementation. We also determined the status of four of the six findings contained in our preceding audit report.

Our audit did not include certain support services provided to DUI by MDL – Office of the Secretary. These support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audits of MDL – Office of the Secretary. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of DUI's compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including DUI.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of April 17, 2017 to November 15, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions,

and to the extent practicable, observations of DUI's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from the Maryland Automated Benefits System, the Maryland Unemployment Insurance Tax System, and BEACON, as well as from certain other State records, such as those maintained by the Maryland Department of Health, for the purpose of testing unemployment tax payments and reimbursements related to benefit claims and payments. We performed various tests of the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DUI's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided for in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to DUI, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of

internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DUI's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit also disclosed significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DUI that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3A-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to DUI and those parties responsible for acting on our recommendations in an unredacted audit report.

As a result of our audit, we determined that DUI's accountability and compliance level was unsatisfactory. The primary factors contributing to the unsatisfactory rating were the significance of our audit findings and how the findings were pervasive across all areas of DUI's operations. Our rating conclusion has been made solely pursuant to State law and rating guidelines approved by the Joint

Audit Committee. The rating process is not a practice prescribed by professional auditing standards.

The response from MDL, on behalf of DUI, to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDL regarding the results of our review of its response.

Exhibit 1
Summary of Unemployment Insurance Modernization (BEACON) Findings in
OLA Audit Reports Issued from July 1, 2015 to May 31, 2022

Maryland Department of Information Technology (DoIT)
Report Issued May 1, 2020

Finding 1

- **Information Technology Project Requests (ITPRs)** – DoIT did not have a documented review and approval of the annual BEACON ITPR, which our testing disclosed had not been updated from the preceding year’s ITPR.
- **Monthly Project Monitoring** - DoIT did not require oversight project managers hired by a DoIT vendor, to document their review and verification of the accuracy of information provided in monthly project monitoring reports provided by the agencies. The review of these monthly monitoring reports is critical to monitoring project status including scope, schedule, cost, and risks. Our review of applicable reports discussed during fiscal year 2018 steering committee meetings disclosed that the actions to be taken to address BEACON identified risks, such as project delays, were not always included in the reports, and DoIT did not document that methods to address these risks were discussed in the related meetings.
- **DoIT Annual Major Information Technology Development Project Report** – DoIT did not properly report total estimated project costs for BEACON, which we determined were significantly underestimated.

Maryland Department of Labor (MDL)
Report Issued January 7, 2022

Finding 1

- MDL did not obtain documentation to support \$11.7 million in vendor billings for modernizing DUI’s unemployment insurance system. MDL approved these costs, which were essentially for the remainder of the contract, but could not provide documentation verifying the propriety of the amounts invoiced and paid.

Division of Unemployment Insurance
Part 1 Unemployment Insurance Tax Contributions
Report Issued May 4, 2022

Finding 2

- DUI had not verified that unemployment tax collections were properly deposited and recorded since the implementation of BEACON in September 2020, due to the inability to generate certain required reports from the BEACON system

Exhibit 1
Summary of Unemployment Insurance Modernization (BEACON) Findings in
OLA Audit Reports Issued from July 1, 2015 to May 31, 2022

Finding 3

- DUI did not regularly conduct data matches to identify employers who had not registered with DUI, as required by State law, and did not always follow up on the results of the matches that were performed. According to DUI management, DUI did not follow up on match results because BEACON was unable to generate notices to employers that would alert them of the legal requirement to register.

Finding 4

- DUI did not ensure reimbursable employers provided sufficient collateral to protect the State in the event claims are paid on their behalf. As of September 2021, BEACON was not able to display or generate reports of amounts due.

Finding 5

- DUI did not have formal policies for pursuing collection of delinquent employer accounts, and discontinued pursuing delinquent accounts in September 2020 due to BEACON system deficiencies.

Finding 6

- Access to process critical employer tax related transactions and functions within BEACON was not adequately restricted.

Exhibit 2

Selected Sources for National Trends

1. [Testimony of the US Department of Labor \(DOL\) – Office of the Inspector General \(OIG\) to US Senate Committee on Homeland Security and Governmental Affairs \(March 17, 2022\)](#)
2. [Pandemic Response Accountability Committee \(PRAC\) “Key Insights: State Pandemic Unemployment Insurance Programs” \(December 16, 2021\)](#) (This report contains links to US DOL – OIG publications and reports from sixteen State oversight agencies, which we also reviewed.)
3. [“Best Practices and Lessons Learned from the Administration of Pandemic-Related Unemployment Benefits Programs” \(January 31, 2022\)](#), a report produced by the MITRE Corporation requested by PRAC
4. [US DOL – OIG Advisory Report: “CARES Act: Initial Areas of Concern Regarding Implementation of Unemployment Insurance Provisions” \(April 21, 2020\)](#)
5. [US DOL – OIG Alert Memorandum: “The Employment and Training Administration Needs to Ensure State Workforce Agencies Implement Effective Unemployment Insurance Program Fraud Controls for High Risk Areas” \(February 22, 2021\)](#)
6. [US DOL – OIG Alert Memorandum: “The Employment and Training Administration Needs to Issue Guidance to Ensure State Workforce Agencies Provide Requested Unemployment Insurance Data to the Office of Inspector General” \(June 16, 2021\)](#)
7. [US DOL – OIG Report: “COVID-19: States Struggled to Implement CARES Act Unemployment Insurance Programs” \(May 28, 2021\)](#)

APPENDIX



OFFICE OF THE SECRETARY
1100 N. Eutaw Street
#600
Baltimore, MD 21202

November 3, 2022

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Hook:

I would like to acknowledge receipt of your audit report of the Maryland Department of Labor's Division of Unemployment Insurance for the period April 17, 2017 and ending November 15, 2020. This Audit contained fact findings for which we are responding.

I want to thank auditors Mike Murdzak, Lauren Franchak, and the entire audit team for their professionalism, cooperation, and assistance during this audit. Your team provided us with valuable advice and suggestions. Please express our gratitude to your audit team for their hard work during our audit.

An electronic version of this response will be sent to response@ola.state.md.us.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tiffany P. Robinson", is written over a light blue circular background.

Tiffany P. Robinson
Secretary
Maryland Department of Labor

cc: David McGlone
Sarah Beardsley
Likivu Speaks
Samuel Pannoh

Maryland Department of Labor
Division of Unemployment Insurance
Part 2

Agency Response Form

Benefit Payments

Finding 1

DUI did not conduct certain critical matches used to identify potentially fraudulent or improper claims. We conducted three matches to replicate four of the discontinued DUI matches and identified at least \$32.3 million in potentially improper payments.

We recommend that DUI

- a. require the BEACON vendor to address any system deficiencies preventing completion of matches, and in the future ensure that all matches are performed;**
- b. conduct the aforementioned matches for the aforementioned periods when matches were not performed or did not include all claims; and**
- c. investigate and resolve any potentially improper payments identified by the matches, including those noted in this finding.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	State Employee Crossmatch contractor provided DUI with a State Employees Crossmatch. DUI performed those matches weekly. In performing the matches, DUI concluded that although the State agency may have reported certain employees as “still employed”, that was not always correct. The employee may have been separated due to a lack of work but remained on the agency’s payroll, therefore technically unemployed and eligible for unemployment benefits.		
Recommendation 1a	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI will require the vendor to address any system deficiencies preventing completion of matches, and in the future ensure that all matches are performed as specified in crossmatch business rules. Prior to the finding, DUI had addressed many crossmatch issues through written Problem Incident Reports (PIR’s) with the vendor. Although most have been corrected, DUI will continue to work with the vendor to test and verify that crossmatches are working as designed.		
Recommendation 1b	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI has started and will continue to devote staff to conduct the aforementioned matches for the periods where matches were not performed or did not include all claims.		

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Recommendation 1c	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI staff has begun and will continue to investigate and fully resolve any improper payments identified by the matches, including those noted in this finding. DUI is taking prompt, corrective actions including setting up overpayments.		

Finding 2
DUI did not have comprehensive procedures to ensure that individuals filing claims using a foreign Internet Protocol (IP) address were eligible to receive benefits, including 3,724 claimants that received benefit payments totaling \$3.6 million.

We recommend that DUI

- a. continue to develop its automated controls used to block foreign IP addresses to ensure they are sufficiently comprehensive,**
- b. retain a record of foreign IP addresses used and formally re-evaluate the decision to cease the use of a geo-mapping service to aid in the identification and investigation of foreign IP addresses that are used for both initial applications and weekly certifications, and**
- c. investigate the foreign IP addresses identified in this finding and take corrective action for any ineligible claimants and benefits identified (repeat).**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	These findings were on the Legacy system MABS. Since implementing the new BEACON system, the Foreign IPs are monitored and blocked. Since the foreign IPs are blocked altogether. DUI is investigating to implement an alternative software product which is more powerful and has better Foreign IP and geolocation blocking features by the end of this year, 07/01/2023.		
Recommendation 2a	Agree	Estimated Completion Date:	09/20/2020
Please provide details of corrective action or explain disagreement.	The modernized system has checks and balances in place to prevent this and the tools used in the web hosting provider including the software products along with DUI and vendor procedures are constantly being assessed and updated to block foreign IPs.		

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Recommendation 2b	Agree	Estimated Completion Date:	09/20/2020
Please provide details of corrective action or explain disagreement.	The BEACON system does not allow claims filed with foreign IP addresses. However, all IP addresses are stored in an Audit log irrespective of the IPS being foreign or domestic		
Recommendation 2c	Agree	Estimated Completion Date:	06/30/2023
Please provide details of corrective action or explain disagreement.	DUI will investigate the foreign IP address and claimants related to those addresses. DUI will take the proper corrective action against those not eligible for benefits.		

Finding 3
DUI did not ensure claimants who were full-time students were eligible for benefits, and that all claimants were enrolled in the Maryland Workforce Exchange System, as required.

We recommend that DUI

- a. establish procedures, such as periodic matches to State higher education institution enrollment records, to identify and follow up on claimants who are attending school full-time but fail to disclose it (repeat);
- b. follow up on all applicants who state they are attending school to determine whether it impacts eligibility for unemployment benefits (repeat);
- c. verify that all claimants comply with applicable enrollment requirements, including the Maryland Workforce Exchange system (repeat); and
- d. take timely and appropriate corrective action for any potentially ineligible claimants or benefits identified, including those noted in this finding (repeat).

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	DUI's weekly claim certification asks claimants, for each week of unemployment that is requested, if they are a full-time student. If the claimant answers "yes.", an issue is created to adjudicate. However, during the pandemic, Maryland was faced with an historic volume of claims. The Social Security Act requires States to administer the program in such a way that is reasonably calculated to ensure full payment of unemployment benefits at the earliest state of unemployment that is administratively feasible. States must balance the dual concerns of promptness and accuracy. During the pandemic, DUI prioritized adjudication issues based on the need to strike this balance.

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Recommendation 3a	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI understands the importance of this data match and is establishing procedures to incorporate enrollment data from state universities to identify claimants who are attending school full time but fail to disclose it.		
Recommendation 3b	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI will follow up on all applicants who state they are attending school to determine whether it impacts eligibility for unemployment benefits.		
Recommendation 3c	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI's IT system automatically creates a registration for claimants in the Maryland Workforce Exchange (MWE) when they file an initial claim for unemployment insurance benefits. DUI will work with DWDAL to share information when claimants fail to fully complete their registration. DUI will investigate and, if applicable, adjudicate whether claimants have complied with enrollment requirements. In addition, DUI will add a question about MWE enrollment on the weekly certification. Currently, DUI relies on audits of random claims to verify whether claimants have complied with applicable enrollment requirements.		
Recommendation 3d	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI will investigate the findings and take the proper corrective action against those claimants who are not eligible for benefits, including those noted in the finding.		

Maryland Department of Labor
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Agency Response Form

Claims Processing

Finding 4

DUI did not have procedures to help prevent and detect duplicate benefit payments. Our analysis disclosed \$43.3 million in potentially duplicate payments made to 12,500 claimants between April 2020 and December 2021 that were not identified or investigated by DUI.

We recommend that DUI

- a. require the BEACON vendor to correct BEACON to prevent duplicate payments;**
- b. use available BEACON records to identify duplicate payments; and**
- c. take appropriate corrective action for the duplicate payments, including those noted in this finding.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	While DUI was unable to get the same query used by the auditors for this finding, we concur that it is factually accurate.		
Recommendation 4a	Agree	Estimated Completion Date:	10/01/2022
Please provide details of corrective action or explain disagreement.	The Beacon system had some defects that were fixed as soon as they were identified. The backup for the correcting PIRs has been submitted to the auditors.		
Recommendation 4b	Agree	Estimated Completion Date:	10/01/2022
Please provide details of corrective action or explain disagreement.	The system had some defects that were fixed as soon as they were identified. Overpayments and offsets were recorded in the system for the population of claimants identified		
Recommendation 4c	Agree	Estimated Completion Date:	10/01/2022
Please provide details of corrective action or explain disagreement.	The system had some defects that were fixed as soon as they were identified. Overpayments and offsets were recorded in the system for the population of claimants identified. DUI was not able to replicate 12,500 duplicate payments as noted in the audit.		

**Maryland Department of Labor
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Finding 5

DUI did not conduct timely verifications of income reported by applicants for PUA benefits and did not ensure manual adjustments processed by DUI and contract employees were proper.

We recommend that DUI

- a. ensure that critical applicant data, such as income, is verified and accurately adjusted if necessary, in a timely manner;**
- b. ensure the aforementioned system deficiency regarding BEACON's inability to show the verified income amount is corrected and establish a documented process to verify that the recorded information was entered accurately; and**
- c. investigate and resolve any differences in weekly PUA benefit amounts disclosed as a result of income verifications, including those noted above.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The verifications were not conducted in a timely manner due to the backlog of claims and claims-related work due to the pandemic. We are actively working to correct any weekly benefit amount (WBA) miscalculations.		
Recommendation 5a	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	This was an issue due to the pandemic. To receive PUA benefits of greater than the minimum WBA, a claimant had to provide proof of income if they were self-employed or an independent contractor. Traditionally, self-employed or independent contractors do not qualify for Unemployment Insurance. Due to the number of PUA claims filed in 2020 and 2021, there was a tremendous backlog of PUA Proof of Income work items. Under normal circumstances this is not an issue as the weekly benefit amount is based on employer reported wages, not in the manner that was used to calculate PUA weekly benefit amount.		
Recommendation 5b	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	This defect is specific to the PUA Proof of Income work item. Any change to wages regarding a UI claim is documented in notes and/or account activity in Beacon, allowing for review. DUI implemented a manual solution to document the wages in the claimant's portal and verify that the weekly benefit amount is calculated accurately. If		

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	USDOL implements a program that is similar to PUA, DUI will reprogram its IT system to correct this defect.		
Recommendation 5c	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	This effort is ongoing. There was a short time that USDOL allowed the WBA to be based on the claimant's estimated earnings during the base period, not on any actual proof. This caused many overpayments as, once we were able to verify their earnings, we found that claimants had overestimated their earnings for the PUA base period. DUI will continue to review PUA Proof of Income work items for accuracy and will correct any errors that are discovered.		

Finding 6
DUI did not adequately review regular claims and adjudications processed by claims center DUI employees and temporary staff, and output reports of manual wage entries could not be generated from BEACON for verification purposes.

We recommend that DUI

- a. ensure that supervisors at claim centers perform the required reviews of claims processed (repeat) and adjudications completed;**
- b. establish a formal process to provide for supervisory review of claims processed by temporary staff used to assist DUI's claim center employees; and**
- c. require the BEACON vendor to address the aforementioned system deficiencies preventing the generation of system output reports of manual claims and adjustments (including those performed by the staffing vendor), and use those reports to verify the propriety of those entries.**

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	While factually accurate, regular review of claims and adjudication was placed on hold due to the historic workload brought on by the pandemic

**Maryland Department of Labor
Division of Unemployment Insurance
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Recommendation 6a	Agree	Estimated Completion Date:	12/31/2022
Please provide details of corrective action or explain disagreement.	DUI is reinstating the regular Supervisory review of UI claims and adjudication. Supervisors have begun reviewing work to ensure quality and consistency.		
Recommendation 6b	Agree	Estimated Completion Date:	12/31/2022
Please provide details of corrective action or explain disagreement.	In addition to reinstating Supervisory review for claim center staff, DUI is working to establish a Quality Assurance (QA) Manager position. This position will review the entirety of a claim from the initial claims application to completion of work items and adjudication issues, and the timely and accurate payment of benefits. The QA Manager and their team will also listen to calls to ensure excellent customer service. This team will review not only Maryland staff, but also relevant vendor staff.		
Recommendation 6c	Agree	Estimated Completion Date:	07/01/2022
Please provide details of corrective action or explain disagreement.	DUI will work with the vendor to ensure there is a report of manual wage entries. DUI will then verify the validity of those entries with a formalized review process.		

Finding 7

DUI did not establish sufficient controls over reissued debit cards, and did not ensure the proper disposition of funds remaining on expired debit cards.

We recommend that DUI establish procedures to ensure

- a. all reissued debit cards are subject to an independent review and approval (repeat);**
- b. cards reissued to a questionable address are adequately investigated and resolved, including the 1,970 noted above; and**
- c. unspent funds remaining on debit cards are returned to DUI or reported to the State Comptroller as unclaimed property in accordance with the aforementioned *Agreement* (repeat).**

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	

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Recommendation 7a	Agree	Estimated Completion Date:	01/05/2022
Please provide details of corrective action or explain disagreement.	On Friday, May 21, 2021, DUI stopped issuing new debit cards and loading benefit payments onto debit cards. If claimants have a balance on their debit card, they must work directly with the debit card vendor to access those funds in a different way. Also, the deadline to order a replacement debit card from the debit card vendor was January 5, 2022. Going forward, if a claimant changes their address in DUI's IT system, they must complete an automated identity verification process.		
Recommendation 7b	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI continues to investigate all cases of potential fraud. DUI will review the 1,970 claims noted in the finding and resolve any issues. In many instances, our debit card vendor changed the addresses to which debit cards were sent without informing DUI. Going forward, if a claimant changes their address in DUI's IT system, they must complete an automated identity verification process.		
Recommendation 7c	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI is working with legal counsel to make sure that the <i>Maryland Unemployment Benefits Debit Card Deposit Agreement</i> is enforced with appropriate funds returned to DUI or sent to the State Comptroller as unclaimed property.		

Maryland Department of Labor
Division of Unemployment Insurance
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Agency Response Form

Finding 8

DUI did not properly account for potentially fraudulent benefits totaling \$493.9 million that were removed from claimants' debit cards.

We recommend that DUI ensure that all transactions impacting claimant accounts are properly recorded in BEACON, including those noted in this finding.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 8	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	The agency is in negotiations with the debit card vendor to finalize the contract exit agreement. Once the issue is settled legally and our debit card vendor provides the relevant data, DUI will update the status in BEACON.		

**Maryland Department of Labor
Division of Unemployment Insurance
Part 2**

Agency Response Form

Unemployment Insurance Trust Fund

Finding 9

DUI did not ensure amounts disbursed from the Unemployment Insurance Trust Fund were properly transferred to the bank account used to make benefit payments.

We recommend that DUI prepare periodic reconciliations of its record of Trust Fund activity to the corresponding bank records, and resolve differences timely, including those noted in this finding.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 9	Agree	Estimated Completion Date:	07/01/2023
Please provide details of corrective action or explain disagreement.	DUI acknowledges that a backlog does exist and that a full reconciliation will be completed. DUI expects to address the backlog and bring reconciliation up to date by October 1, 2023, or earlier. Once the backlog is resolved, DUI will continue to conduct reconciliations monthly and resolve differences in a timely fashion.		

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Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that findings 10 through 13 related to “cybersecurity”, as defined by the State Finance and Procurements Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Although the specifics of these findings including the analysis, related recommendations, along with MDL’s responses, have been redacted from this report copy, MDL’s response indicated agreement with these findings and related recommendations.

Finding 10
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 11
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 12
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 13
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

AUDIT TEAM

Michael J. Murdzak, CPA
Audit Manager

R. Brendan Coffey, CPA, CISA
Edwin L. Paul, CPA, CISA
Information Systems Audit Managers

Lauren E. Franchak, CPA
Senior Auditor

Michael K. Bliss
Matthew D. Walbert, CISA
Information Systems Senior Auditors

Monisha A. Barnes
Thea A. Chimento, CFE
Mariyum Gill
Owen M. Long-Grant
Staff Auditors

Dominick R. Abril
Charles O. Price
Information Systems Staff Auditors

David R. Fahnestock, CPA
Data Analytics Manager

Charles H. Hinds IV, CPA
Data Analytics Senior Auditor