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State of Illinois  
Office of the Auditor General

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Performance Audit of the

# IDES Unemployment Insurance Programs

July 26, 2023

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**Frank J. Mautino**  
*Auditor General*

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OFFICE OF THE AUDITOR GENERAL  
FRANK J. MAUTINO

*To the Legislative Audit Commission, the Speaker  
and Minority Leader of the House of Representatives,  
the President and Minority Leader of the Senate, the  
members of the General Assembly, and the  
Governor:*

This is our report of the performance audit of the unemployment programs administered by the Illinois Department of Employment Security during the period of March 1, 2020, and September 6, 2021.

The audit was conducted pursuant to Legislative Audit Commission Resolution Number 158. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Sections 3-14 and 3-15 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

Springfield, Illinois  
July 2023





Performance Audit of the

## IDES Unemployment Insurance Programs

### Background:

On September 1, 2021, the Legislative Audit Commission adopted Resolution Number 158 requiring a performance audit of the unemployment programs administered by the Illinois Department of Employment Security during the period of March 1, 2020, to September 6, 2021. The Resolution contained eight determinations.

Unemployment Insurance (UI) is a joint state-federal program that provides cash benefits to eligible unemployed individuals. In addition to federal and State laws already in place, there were several federal laws enacted in response to the pandemic. The Coronavirus Aid, Relief, and Economic Security Act, the Consolidated Appropriations Act, 2021, and a presidential memorandum, created additional unemployment programs for individuals who were not traditionally eligible for unemployment benefits, such as those who are self-employed or contract-based employees. The additional programs included Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC), Pandemic Emergency Unemployment Compensation (PEUC), Lost Wages Assistance (LWA), and Mixed Earner Unemployment Compensation (MEUC). The Department was responsible for implementing the programs and distributing benefits.

### Key Findings:

- Overpayments (which include fraud, non-fraud, and identity theft) were an issue in both the regular UI and PUA programs. **IDES reported overpayments for FY20 to FY22 that totaled \$5.24 billion**; regular UI accounted for \$2.04 billion and PUA accounted for \$3.20 billion. Considering gross benefits associated with regular UI claims were 2.5 times higher than gross benefits associated with PUA claims, it shows the magnitude of fraud experienced in the PUA program. IDES noted stopped or recovered payments of \$150.36 million and \$361.34 million for the regular UI and PUA programs respectively.
- Many decisions made during the pandemic were intended to decrease or eliminate delays and prioritize paying claims as soon as possible. Several of IDES' defenses against fraud could not handle the exponential increase in claims. Claimants were unable to register for claims since they were required to pass these cross-matches in order to file. Beginning in March 2020, **IDES suspended some routine identity cross-matches** performed on all regular UI claims filed because the cross-matches required time to run and constricted the processing system severely. These cross-matches were temporarily suspended and/or processed offline. This allowed IDES to better handle the increase in claims processing traffic; however, this left the unemployment programs more susceptible to fraud.
- Timely payment of benefits and preventing fraud are competing concepts. Preventing fraud, especially in new programs with evolving guidance and guidelines, likely would require additional processing time and a possible delay in benefit distribution to claimants. Conversely, **paying claims quickly, especially when certain cross-matches and controls were suspended, increased IDES' risk of making improper payments.**
- IDES made large payments of backdated benefits while controls were suspended which could have contributed to large overpayments and losses due to fraud and identity theft. Claims were sometimes filed and paid within a matter of days and then fraudulent activity was subsequently detected. Auditors found 158,054 PUA claimants that received a single payment of \$10,000 or more (totaling more than \$2.3 billion in benefits) within 30 days or less of the date of application. It is important to note that while these are not necessarily fraudulent payments, given the increased risk of identity theft and the size of these payments, it would be a good practice to take additional measures to ensure that these payments are issued to eligible claimants.
- IDES data shows payments were made to deceased individuals and incarcerated individuals. The data showed, for both regular UI and PUA combined, a total of 481 deceased individuals received 10,527 payments totaling \$6.0 million. In addition, 3,448 incarcerated individuals received

92,811 payments totaling \$40.5 million. Testing these cases showed that some overpayments had already been identified as fraud. However, some of the overpayment figures excluded payments made before January 2021 and therefore understated the overpayment.

- The addition of new federal laws and unemployment programs in response to the pandemic resulted in additional program complexity and constantly changing guidance. The US Department of Labor (DOL) issued official guidance referred to as Unemployment Insurance Program Letters (UIPLs). Auditors reviewed 72 UIPLs related to the audit determinations. In addition, the individual UIPLs were constantly being updated and changed. For example, UIPL 16-20 was first issued April 5, 2020; however, there were 6 subsequent changes issued from April 27, 2020, to September 3, 2021.
- While the pandemic created an unprecedented increase in unemployment claims, and likely levels that could not have been anticipated, the concept of planning for massive economic downturns remains the same. There was a lack of planning prior to the pandemic that contributed to the delays experienced by unemployment claimants:
  - IDES was not prepared to quickly increase staffing, which created delays in answering phone calls and processing claims. Staffing issues were compounded by retirements and staff being forced to work from home due to the pandemic.
  - PUA benefits could not be processed until a new PUA payment system was in place.
  - IDES' website and the IBIS system crashed due to overload.
  - Claimants with missing or hijacked payments experienced substantial delays in getting their payments reissued due to an inadequate procedure for processing and handling payment tracer forms, especially in times of high demand. Auditors found that it took IDES, on average, 198 days to reissue hijacked regular UI payments and 445 days for hijacked PUA payments.
- Auditors tested 50 regular UI claims and 50 PUA claims and noted the following about timeliness of application processing:
  - On average, the 50 IBIS claims sampled took 14 days from the application date to the date the finding was sent to the applicant. For approved claims that received at least one payment, it took approximately 16 days from the date of application to the date the first payment was made.
  - On average, the 50 PUA claims sampled took 38 days from the application date to the date the finding was sent to the applicant. For the 25 claims in our sample that received at least one payment, it took approximately 15 days from the application date to the date the first payment was made.
- The Department entered into eight contracts including 29 amendments during the audit period for services and software related to administering the unemployment insurance and PUA programs. Pursuant to a Disaster Proclamation issued by the Governor, these contracts were exempt from bidding and the provisions of the Illinois Procurement Code. The eight contracts initially totaled \$33.5 million. However, with subsequent amendments, the eight contracts eventually totaled \$226.4 million, \$160.5 million of which had been expended through January 2023. Nine of the 29 amendments were signed by IDES between 2 days and 45 days after the effective date of the amendment.
- The US Department of Labor (DOL) introduced additional cross-matches to combat fraud in October 2021 and February 2022 that IDES is not yet utilizing (Prisoner Update Processing System and Bank Account Verification service respectively).
- **The issues experienced at IDES were not unique to Illinois.** A Pandemic Response Accountability Committee (PRAC) report released in December 2021 noted states experienced significant challenges in effectively providing their states with unemployment benefits. The report noted four common insights from unemployment insurance findings identified across 16 State Auditor Offices (including Illinois):
  - unemployment insurance workloads surged for states;
  - the claims surge exploited internal control weaknesses;
  - uncommon and varying fraud schemes began to occur as the amount of federal funding expanded; and
  - State Workforce Agencies experienced information technology system challenges.

### ***Key Recommendations:***

The audit report contains seven recommendations directed to the Illinois Department of Employment Security including:

- The Illinois Department of Employment Security should develop a Recession Plan, including lessons learned during the COVID-19 pandemic, for future reference in times of rapidly increasing claim volumes.
- The Illinois Department of Employment Security should update its procedure for handling payment tracer affidavit forms to allow the Department to better handle a large influx of forms. This update should include a process for tracking the submission of payment tracer affidavit forms. If possible, the Department should explore best practices in this area to determine if more efficient methods and tools are available.
- The Illinois Department of Employment Security should research and implement further cross-match and fraud prevention tools that may be available. The Department should specifically consider implementing the Prisoner Update Processing System data match and the Bank Account Verification service. These tools would provide the Department with more opportunities to identify and prevent payment of fraudulent claims.
- The Illinois Department of Employment Security should seek to identify and recoup as appropriate any payments for applicants who received inappropriate benefits. In addition, the Department should specifically target any payments made to applicants who were deceased or ineligible due to incarceration. IDES should pay special attention to overpayment balances that only considered January 2021 moving forward.
- The Illinois Department of Employment Security should consider instituting additional controls/holds on payments exceeding a determined amount to minimize loss from fraud when issuing payments for backdated claims and/or large benefit payment amounts.

This performance audit was conducted by the staff of the Office of the Auditor General.





## Report Digest

On September 1, 2021, the Legislative Audit Commission adopted Resolution Number 158 requiring a performance audit of the unemployment programs administered by the Illinois Department of Employment Security during the period of March 1, 2020, to September 6, 2021. The Resolution contained eight determinations. Our assessment of these determinations is shown in Digest Exhibit 1. (pages 1-2)

### Digest Exhibit 1 ASSESSMENT OF AUDIT DETERMINATIONS

Determination from Audit Resolution	Auditor Assessment
<p><i>A review of the application and review processes and the payment of benefits to individuals focusing on any fraud or inefficiencies which could be eliminated to contain costs and improve the delivery of benefits to eligible individuals.</i></p>	<ul style="list-style-type: none"> <li>• Applications for regular Unemployment Insurance (UI) and PUA followed a similar process, but were accomplished through two different computer systems. Illinois contracted with Deloitte to develop a system to process PUA payments. Both systems have various cross-matches in place to verify claimant identity and detect fraud. However, some of those cross-matches were suspended during the pandemic in an attempt to process payments more quickly, which increased the risk of making improper payments. In addition, auditors noted issuing payments quickly for backdated claims and/or large benefit payment amounts increased the opportunities for large overpayments and losses due to fraud and identity theft, especially when controls are suspended and the threat of identity theft is high. (pages 27-32, 60-85, 95-102)</li> </ul>
<p><i>To the extent feasible, a detailed account of the funds allegedly disbursed to ineligible and/or fraudulent claimants.</i></p>	<ul style="list-style-type: none"> <li>• Overpayments (which include fraud, non-fraud, and identity theft) were an issue in both the regular UI and PUA programs. IDES reported overpayments for FY20-FY22 that totaled \$5.24 billion; regular UI accounted for \$2.04 billion and PUA accounted for \$3.20 billion. The regular UI program overpayments include FPUC, PEUC, LWA, Extended Benefits, and MEUC, while the PUA program overpayments include FPUC and LWA overpayments. Considering gross benefits associated with regular UI claims were 2.5 times higher than gross benefits associated with PUA claims, it shows the magnitude of fraud experienced in the PUA program. IDES noted stopped or recovered payments of \$150.36 million and \$361.34 million for the regular UI and PUA programs respectively. (pages 60, 78-85)</li> </ul>
<p><i>The types of unemployment fraud schemes the Illinois Department of Employment Security has experienced and what steps and procedures it has</i></p>	<ul style="list-style-type: none"> <li>• IDES experienced three fraud schemes from March 1, 2020, through September 6, 2021: identity theft, hijacked payments, and fictitious</li> </ul>

*taken to detect and respond to fraudulent unemployment claims and whether it has cooperated with the Illinois Attorney General or federal authorities to detect, counter, and prosecute potentially fraudulent cases.*

employers. To respond to identity theft, among other things, IDES: implemented a fraud analytics report and a database of items IDES had deemed fraudulent; contracted with Insight Global to assist with identity theft calls; and contracted with Pondera to perform detailed fraud analytics. To respond to hijacked payments, IDES improvised a process to reissue the payments. Auditors found that it took IDES, on average, 198 days to reissue regular UI hijacked payments and 445 days for PUA hijacked payments. IDES investigated allegations of fictitious employers as time allowed. IDES did not make any referrals to the Illinois Attorney General during the audit period, but it did work with the US Department of Labor's Office of the Inspector General. (pages 60-77)

*Whether the Illinois Department of Employment Security has complied with all state and federal statutory and administrative requirements for processing and auditing unemployment claims.*

- IDES did not comply with all state and federal statutory and administrative requirements for processing and auditing claims. IDES did not implement one of the tools strongly recommended in May 2020 by the US Department of Labor, until September 2021. Other required and recommended cross-matches were temporarily suspended early in the pandemic. In addition, IDES failed to file 26 outstanding Employment and Training Administration (ETA) reports required by the US Department of Labor. Furthermore, reporting to the US Department of Labor showed Illinois did not meet first payment promptness standards in 2021 and 2022. (pages 73-77, 82-87)

*An examination of the Illinois Department of Employment Security's decision not to implement additional fraud-prevention tools in April 2020 as recommended by the federal government and a report on whether the state has, since that time, come into compliance with federal recommendations.*

- IDES did not implement one of the tools that was strongly recommended (Integrity Data Hub tools) in May 2020 by the US Department of Labor for more than a year. IDES chose to not utilize the Integrity Data Hub tools because other IT-related projects were deemed to be of greater urgency during the pandemic. IDES began utilizing the Integrity Data Hub tools in September 2021. (pages 73-77)

*What factors caused and continue to cause delays in the Illinois Department of Employment Security's processing of unemployment claims, looking particularly at administrative decisions, technology, and staffing, and what steps the Illinois Department of Employment Security has taken to alleviate these delays.*

- IDES experienced technology delays including website issues, the regular UI processing system crashed due to overload, and having to contract for a system to process and pay PUA claims. An inability to quickly increase staffing led to delays in answering phone calls, processing claims, and reissuing payments for hijacked payments. IDES did not have a plan in place for responding to recessions and potential surges in claims, which contributed to delays. (pages 54-59)

*What third-party contractors did the Illinois Department of Employment Security utilize during this time period and were any of these contracts no-bid contracts; did a third-party contractor calculate weekly benefit amounts for Pandemic Unemployment Assistance claimants and, if so, were there any procedures to verify the accuracy of their calculations; did third-party contractors meet the performance measure established by the Illinois Department of Employment Security prior to the issuance of the contracts.*

- The Department entered into eight contracts including 29 amendments during the audit period for services and software related to administering the unemployment insurance and PUA programs. Pursuant to a Disaster Proclamation issued by the Governor, these contracts were exempt from bidding and the provisions of the Illinois Procurement Code. The eight contracts initially totaled \$33.5 million. However, with subsequent amendments, the eight contracts eventually totaled \$226.4 million, \$160.5 million of which had been expended through January 2023. Nine of the 29 amendments were signed by IDES between 2 days and 45 days after the effective date of the amendment.
- Third party contractors input data into the PUA system and then the PUA system calculated the weekly benefit amount based on that information. While there was a procedure for verifying the accuracy of the weekly benefit amounts for regular UI (since 2010), this procedure was not put into place to review PUA weekly benefit amount calculations until November 2021. Most of the calculated weekly benefit amounts in our sample (44 out of 50) had the minimum weekly benefit amount of \$198. Auditors found one weekly benefit amount which appeared to be wrong based on the income listed for the claimant. Auditors found that the contract deliverables were met for all but one contract. (pages 27, 38-53, 98)

*A summary of the average case processing time, the timeliness of benefit payments, and the accuracy of these payments.*

- Auditors tested 50 regular UI claims and 50 PUA claims. On average, the 50 regular UI claims sampled took 14 days from the application date to the date the finding was sent to the applicant. For approved claims that received at least one payment, it took approximately 16 days from the date of application to the date the first payment was made. Three out of 28 did not have a first payment within the federal timeliness standard of 21 days. On average, the 50 PUA claims sampled took 38 days from the application date to the date the finding was sent to the applicant. For the 25 claims in our sample that received at least one payment, it took approximately 15 days from the application date to the date the first payment was made. Three out of 25 did not have a first payment within the regular UI federal timeliness standard of 21 days. (pages 95-101)

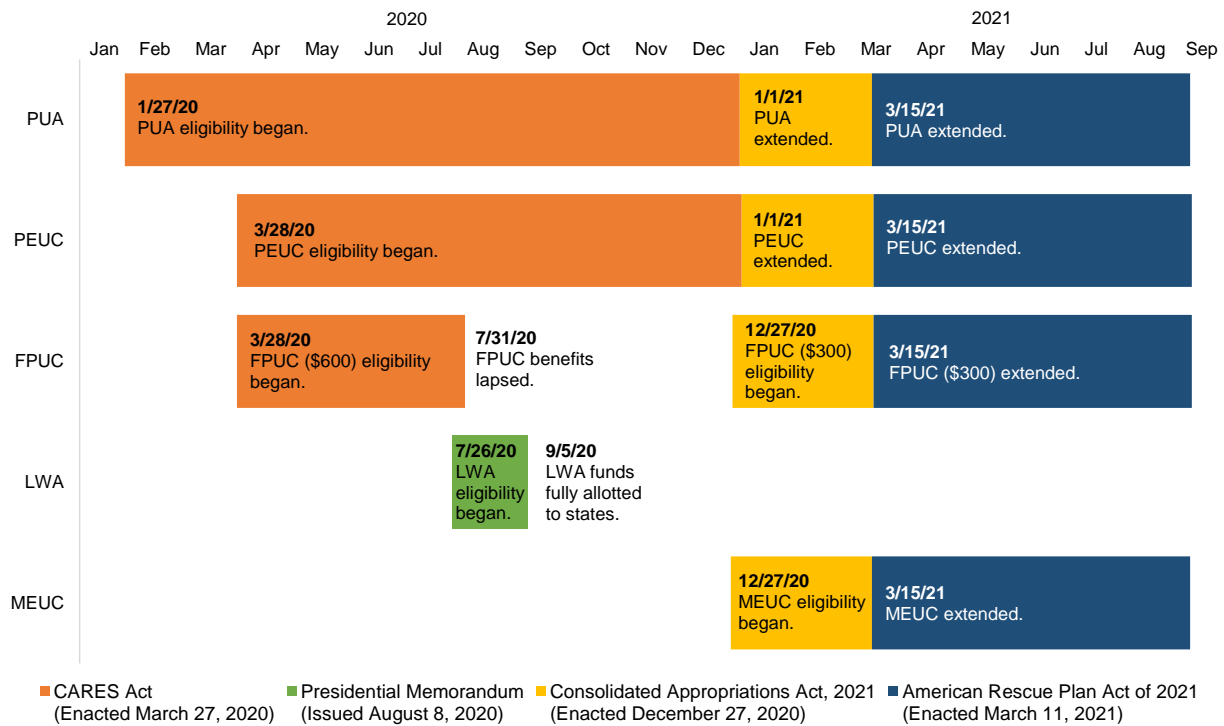
Source: OAG assessment of the audit determinations contained in LAC Resolution Number 158.

## Background

Unemployment Insurance (UI) is a joint state-federal program that provides cash benefits to eligible unemployed individuals. Each state administers a separate Unemployment Insurance program, but all states follow guidelines established by federal law. At its core, unemployment insurance is a federal program with requirements set by the Social Security Act, Federal Unemployment Tax Act, and other federal acts. The Illinois Unemployment Insurance Act establishes additional requirements.

In addition to these federal and State laws already in place, there were several federal laws enacted in response to the pandemic. The federal government, through passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Consolidated Appropriations Act, 2021, and a presidential memorandum, created additional unemployment programs for individuals who were not traditionally eligible for unemployment benefits, such as those who are self-employed or contract-based employees. The Department was responsible for implementing the Pandemic Unemployment Programs so the benefits could be distributed. Digest Exhibit 2 provides a timeline of the start and end date for the new pandemic unemployment programs based on the authorizing legislation.

Digest Exhibit 2  
**TIMELINE OF NEW PANDEMIC PROGRAMS**  
 January 1, 2020 to September 6, 2021<sup>1</sup>



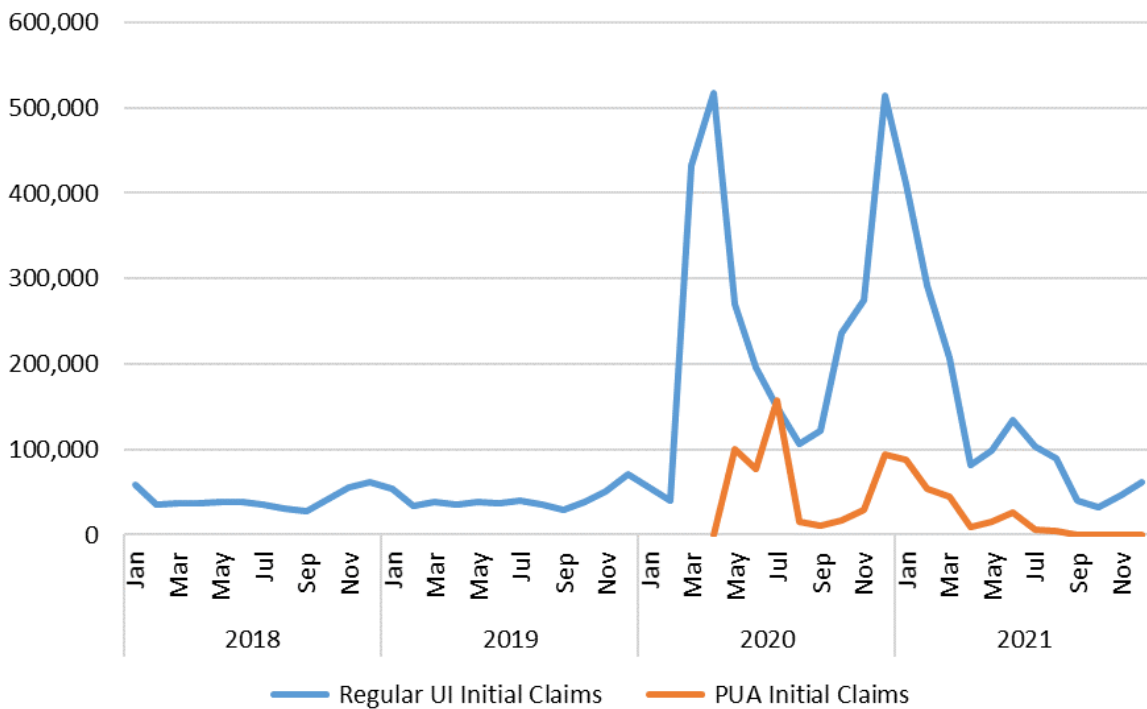
**Note:**  
<sup>1</sup> While payments for PUA began on May 15, 2020, claimants were eligible for assistance for weeks of unemployment, partial unemployment, or inability to work beginning on or after January 27, 2020.

Source: OAG analysis of pandemic unemployment programs.

There were also numerous Unemployment Insurance Program Letters (UIPLs) issued by the US Department of Labor (US DOL), which provided guidance and recommendations for administration of unemployment assistance programs during the pandemic. UIPLs are subject to change due to new legislation and additional guidance from the US DOL. For example, one UIPL was issued April 5, 2020, and had six subsequent changes issued from April 27, 2020, to September 3, 2021.

Digest Exhibit 3 shows regular unemployment insurance (UI) and PUA initial unemployment insurance claims. There was a drastic jump in initial regular UI claims from 39,916 in February 2020 to 432,420 in March 2020. The monthly intake of initial claims were highest in April 2020 (517,948) and December 2020 (514,674). The Department received 99,865 initial PUA claims in May 2020, 77,903 in June 2020, and 157,765 in July 2020 after which the number of claims dropped significantly. PUA initial claims increased again in late 2020 and early 2021 before decreasing again.

Digest Exhibit 3  
**REGULAR UI AND PUA INITIAL UNEMPLOYMENT INSURANCE CLAIMS APPLICATIONS**  
 January 2018 through December 2021



Source: OAG analysis of Illinois Department of Employment Security data.

Regular UI claim applications are processed through the Illinois Benefits Information System (IBIS), which is the computerized system used by the Department to process and pay unemployment benefits. When a claimant submits an application for regular UI benefits through IBIS, the information submitted on

the application goes through a number of identity verifications; these verifications were different from the PUA applicants which underwent a different identity verification process. PUA claim applications were processed through the Unemployment Framework for Automated Claim & Tax Services (uFACTS) system, which is a system developed, owned, and maintained by Deloitte. From the time uFACTS began accepting PUA applications on May 11, 2020, to July 18, 2020, uFACTS did not check with IBIS to verify a regular UI claim had been filed. To have been eligible for PUA benefits, a claimant was required to first be denied regular unemployment benefits. Beginning July 18, 2020, PUA claimants had to apply through IBIS and be denied regular unemployment benefits before being able to apply for PUA benefits through uFACTS. This added additional verifications to PUA claims which had initially been lacking. (pages 2-14, 20, 27)

### Experiences in Other States

Audits from the US DOL Office of Inspector General and audits from other states have shown that the issues that occurred in Illinois were not limited to Illinois. States' difficulties with implementing the new unemployment programs were attributed to states' information technology systems not being modernized and staffing resources being insufficient to manage the increased number of new claims.

A report issued by the Pandemic Response Accountability Committee noted states experienced significant challenges in effectively providing their states with unemployment benefits. The report noted four common insights from unemployment insurance findings identified across 16 State Auditor offices (including Illinois): unemployment insurance workloads surged for states; the claims surge exploited internal control weaknesses; uncommon and varying fraud schemes began to occur as the amount of federal funding expanded; and State Workforce Agencies experienced information technology system challenges. (pages 33-37)

### Delays in Processing Unemployment Claims

**IDES was not prepared to respond to the needs created by the pandemic.** Various delays were related to technology including the website and claims processing system. IDES' website was not equipped to respond to the needs created by the pandemic. Hits to its website increased from 161,502 in 2019 to over 126 million in 2020. The IBIS system crashed due to overload. In addition, PUA benefits could not be processed through IBIS, so there was a delay while a new system was put in place.

IDES was not prepared to quickly increase staffing to respond to the needs created by the pandemic. Staffing issues were compounded by retirements and staff being forced to work from home due to the pandemic. IDES also lacked an adequate procedure for processing payment tracer forms.

The delays in the unemployment benefit application process were exacerbated by a lack of planning prior to the pandemic. IDES did not have a plan in place for responding to recessions and potential surges in claims which contributed to the

delays. While the pandemic created an unprecedented increase in unemployment claims, and likely levels that could not have been anticipated, a UI Recession Plan could help provide direction in times of rapidly increasing claim volumes. (pages 54-59)

**Timeliness of Claims Tested**

Timeliness of IBIS determinations and first payments was reasonable for our sample. On average, the 50 IBIS claims sampled took 14 days from the application date to the date the finding was sent to the applicant. For approved claims that received at least one payment, it took approximately 16 days from the date of application to the date the first payment was made. Three out of 28 did not have a first payment within the federal timeliness standard of 21 days. We found that in all 3 cases, the claimant delayed their certification (by 3 days to 30 days) which could have impacted the timeliness of their payment.

For our PUA sample, the timeliness of first payments was reasonable; however PUA determinations were not timely. On average, the 50 PUA claims sampled took 38 days from the application date to the date the finding was sent to the applicant. Only 25 claims in our sample had a first payment date. For the 25 claims in our sample that received at least one payment, it took approximately 15 days from the application date to the date the first payment was made. Three out of 25 did not have a first payment within the regular UI federal timeliness standard of 21 days. These 3 claimants received a first payment 1 to 3 days late.

**IDES strived to pay claims as quickly as possible. However, when certain**

**cross-matches and controls were suspended, this increased the risk of making improper payments.** IDES made large payments of backdated benefits while controls were suspended which could have contributed to large overpayments and losses due to fraud and identity theft. As shown in Digest Exhibit 4, nine individuals received a PUA payment of more than \$40,000.

These are not necessarily fraudulent payments. However, given the increased risk of identity theft and the size of these payments, it would be a good practice to take

additional measures to ensure that these payments are issued to eligible claimants. (pages 95-102)

Digest Exhibit 4	
<b>PUA PAYMENTS GREATER THAN \$10,000</b>	
Paid Within 30 days of Application Submittal	
Payment Range	# of Payments
\$10,000 - \$14,999	83,333
\$15,000 - \$19,999	66,126
\$20,000 - \$24,999	7,346
\$25,000 - \$29,999	926
\$30,000 - \$34,999	263
\$35,000 - \$39,999	51
\$40,000 - \$44,999	9
Total	158,054
Source: OAG analysis of IDES PUA payment data.	

**Overpayments and Fraud**

Overpayments (which include fraud, non-fraud, and identity theft) were an issue in both the regular UI and PUA programs. **IDES reported overpayments for FY20 to FY22 of \$5.24 billion;** regular UI accounted for \$2.04 billion and PUA accounted for \$3.20 billion. Considering gross benefits associated with regular UI claims were 2.5 times higher than gross benefits associated with PUA claims, it shows the magnitude of fraud experienced in the PUA program. Auditors note that IDES’ figures are estimates as IDES is still in the process of identifying fraud

Overpayments and Fraud	
Regular UI	\$2,041,046,693
PUA	\$3,199,066,058
<b>Total</b>	<b>\$5,240,112,751</b>

through the previously suspended Quarterly Wage cross-match. As a result, it is possible that these overpayment numbers are understated. IDES noted stopped or recovered payments of \$150.36 million and \$361.34 million for the regular UI and PUA programs respectively. However, of the \$5.24 billion in overpayments, \$2.80 billion is classified as identity

theft, which is not considered recoverable because it cannot be collected from the real owner of the identity/social security number.

IDES experienced three different fraud schemes during the period of March 1, 2020, to September 6, 2021: identity theft, hijacked payments, and fictitious employers. The Department’s response to these fraud schemes varied and included items such as adding new fraud tools (such as fraud analytics reports and additional cross-matches), relying on payment tracer forms for reissuing payments that were diverted from the true claimant, and investigations by the Benefit Payment Control (BPC) Subdivision as time allowed.

However, other cross-matches were temporarily suspended early in the pandemic. These cross-matches were temporarily suspended and/or processed offline. This allowed IDES to better handle the increase in claims processing traffic; however, this left the unemployment programs more susceptible to fraud.

IDES went from receiving 4 to 10 payment tracer forms a year to receiving over 2,700 during the pandemic. IDES had to improvise and update the process as circumstances changed. Due to the changing process and improvising, there was no system in place for BPC to know that documents had been uploaded and a payment tracer case was ready to be worked. In some cases, BPC was not aware of the submitted payment tracer form until a claimant called to check on the status. Processing payment tracer forms took over 6 months from the date the payment tracer form was submitted to when the payment was authorized to be reissued.

The US DOL introduced additional cross-matches to combat fraud in October 2021 and February 2022 that IDES is not yet utilizing (Prisoner Update Processing System and Bank Account Verification service respectively).

The Department’s main partner in trying to recoup overpayments is the US Department of Labor’s Office of the Inspector General. IDES did not make any referrals to the Illinois Attorney General during the audit period. (pages 60-85)



**Payments Made to Deceased or Incarcerated Individuals**

We found paid claims for ineligible claimants. The data showed, for both regular

Digest Exhibit 5 <b>PAYMENTS TO DECEASED AND INCARCERATED INDIVIDUALS</b>		
	<b># of Individuals</b>	<b>Total Payments</b>
<b>Deceased</b>		
Regular UI	35	\$172,541
PUA	446	\$5,876,822
<b>Incarcerated</b>		
Regular UI	436	\$5,154,138
PUA	3,012	\$35,351,513
Source: OAG analysis of IDES claims data.		

UI and PUA combined, a total of 481 deceased individuals received 10,527 payments totaling \$6.0 million. In addition, 3,448 incarcerated individuals received 92,811 payments totaling \$40.5 million. Testing these cases showed that some overpayments had already been identified as fraud. However, auditors noted that overpayments noted on claimant accounts sometimes excluded payments made before January 2021 and, as a result, overpayments could be understated. By excluding these payments from overpayment balances for

individuals that were not eligible, the State is potentially missing out on opportunities to recoup overpayments. (pages 89-92)

**Call Data**

IDES’ call data records for April 2020 through April 2022 indicated it received over 37 million calls to its hotlines and made over 10 million callbacks. Hundreds of claimants called IDES more than 1,000 times; however, the average number of phone calls to the hotline was about 12 per phone number and the median value was 4 per phone number.

Our review of callback data indicated that some claimants received a callback in a matter of hours, while others waited two weeks or more. Additionally, not all claimants were successfully contacted after requesting a callback. (pages 93-97, 101-102)

**Federal Requirement Noncompliance**

IDES did not comply with all state and federal statutory and administrative requirements for processing and auditing claims. The US DOL Unemployment Insurance Program Letters (UIPLs) provide guidance and clarifications for the unemployment programs. The UIPs required a list of fraud tools and strongly recommended other fraud tools to help prevent and detect fraud. IDES did not implement one of the tools that was strongly recommended in May 2020 by the US Department of Labor (the Integrity Data Hub), until September 2021. IDES also failed to file 26 outstanding Employment and Training Administration (ETA) reports required by the US Department of Labor.

Additionally, IDES reporting to the US Department of Labor showed Illinois was not meeting the first payment promptness standard. Federal timeliness standards suggest that 87 percent of first payments should be paid within 21 days and 93 percent of first payments should be made within 35 days. Illinois fell below both of these standards in 2021 and 2022. In 2021 and 2022, the percent of payments made within 21 days was 75.5 and 71.4 percent, respectively. In 2021 and 2022,

the percent of payments made within 35 days was 90.0 and 91.5 percent, respectively. (pages 60-87)

### **Contracts and Agreements**

The Department entered into eight contracts including 29 amendments during the audit period for services and software related to administering the unemployment insurance and PUA programs. Pursuant to a Disaster Proclamation issued by the Governor, these contracts were deemed necessary to respond to the COVID-19 pandemic and were therefore exempt from bidding and the provisions of the Illinois Procurement Code. Nine of the 29 amendments were signed by IDES between 2 days and 45 days after the effective date of the amendment.

The eight contracts initially totaled \$33.5 million. However, with subsequent amendments, the eight contracts eventually totaled \$226.4 million, \$160.5 million of which had been expended through January 2023. Digest Exhibit 6 provides a summary of the contract purpose, procurement method, initial contract amount, total contracted amount, and the amount of expenditures as of January 2023. As shown, a significant percentage of the contracted amount has been expended for three of the contracts. In two of the contracts, less than 25 percent of the contract was expended, leaving several million dollars unexpended.

Digest Exhibit 6  
**PANDEMIC RELATED CONTRACTS AND AGREEMENTS**

	Purpose	Procurement Method <sup>1</sup>	Initial Contract Amount	Final Contract Total	Total Expenditures <sup>2</sup>
Deloitte Consulting LLP (Call Center)	Telephone agents (Tier 1)	COVID-19 exemption	\$12,736,700	\$98,472,182	\$76,231,114
Insight Global, LLC	Specialists to perform PUA claim verification services	COVID-19 exemption	\$3,990,313	\$73,544,157	\$51,613,787
Deloitte Consulting LLP (uFACTS)	PUA Software	COVID-19 exemption	\$9,490,000	\$33,834,194	\$27,694,784
Pitney Bowes, Inc.	Print and mail service	COVID-19 exemption	\$2,250,000	\$15,250,000	\$3,772,964
Fast Enterprises, LLC	Short-Time Compensation program software	COVID-19 exemption	\$4,006,000	\$4,171,480	\$150,645
Pondera Solutions, LLC	Fraud analytics	COVID-19 exemption	\$854,329	\$854,329	\$834,639
Carahsoft Technology Corp.	Additional languages for virtual agent	COVID-19 exemption	\$165,391	\$205,319	\$165,391
Multi-Lingual Connections, LLC	Editing/proof-reading for virtual agent in various languages	COVID-19 exemption	\$33,372	\$33,732	\$33,732
<b>Total</b>			<b>\$33,526,105</b>	<b>\$226,365,393</b>	<b>\$160,497,056</b>

Notes:

<sup>1</sup> On March 9, 2020, the Governor issued a Disaster Proclamation, which suspended the provisions of the Illinois Procurement Code.

<sup>2</sup> Total expenditures includes all FY20 and FY21 payments and FY22 payments through January 2023.

Source: OAG analysis of IDES and Comptroller data.

Auditors tested a total of 37 contract deliverables for six of the contracts. We found that the contract deliverables were met for all but one contract. IDES did not receive from Insight Global all required weekly reports. Additionally, not all nondisclosure agreements were filled out completely and filed before beginning work on the project. This deficiency limited IDES’ ability to ensure all contract employees were Illinois residents and also failed to ensure contract employees were made aware of confidentiality procedures before working with confidential data. (pages 38-53)

Third-party contractors input data into the PUA system. The PUA system then calculated the weekly benefit amount and payment amount based on the information (such as wages and dependents) that was input. While there was a procedure for verifying the accuracy of the weekly benefit amounts for regular UI weekly benefit amounts (since 2010), this procedure was not put into place to review PUA weekly benefit amount calculations until November 2021. (page 27)

## Audit Recommendations

The audit report contains seven recommendations directed to the Illinois Department of Employment Security. The Department agreed with the recommendations. The complete response from the Department is included in this report as Appendix F.

This performance audit was conducted by the staff of the Office of the Auditor General.

**SIGNED ORIGINAL ON FILE**

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JOE BUTCHER  
Division Director

This report is transmitted in accordance with Sections 3-14 and 3-15 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

FJM:TW

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## Acronyms

ARPA	American Rescue Plan Act of 2021
BAM	Benefit Accuracy Measurement
BAV	Bank Account Verification
BPC	Benefit Payment Control
BTQ	Benefits Timeliness and Quality Review
CAA	Consolidated Appropriations Act
CARES	Coronavirus Aid, Relief, and Economic Security
COVID-19	Coronavirus Disease 2019
DoIT	Illinois Department of Innovation and Technology
DUA	Disaster Unemployment Assistance
EB	Extended Benefits
ETA	US DOL Employment and Training Administration
FFCRA	Families First Coronavirus Response Act
FPUC	Federal Pandemic Unemployment Compensation
FY	Fiscal Year
GAO	Government Accountability Office
IBIS	Illinois Benefits Information System
ICON	Interstate Connection Network
IDES	Illinois Department of Employment Security
IP	Internet Protocol
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response
LAC	Legislative Audit Commission
LWA	Lost Wages Assistance
MEUC	Mixed Earner Unemployment Compensation
NASWA	National Association of State Workforce Agencies
OAG	Office of the Auditor General
OIG	Office of Inspector General
PEUC	Pandemic Emergency Unemployment Compensation
PRAC	Pandemic Response Accountability Committee
PUA	Pandemic Unemployment Assistance
PUPS	Prisoner Update Processing System
SAVE	Systematic Alien Verification for Entitlement
SIDES	State Information Data Exchange Systems
SSN	Social Security Number
STC	Short-Time Compensation
uFACTS	Unemployment Framework for Automated Claim & Tax Services
UI	Unemployment Insurance
UIPL	Unemployment Insurance Program Letter
US DOL	US Department of Labor
WBA	Weekly Benefit Amount





## Glossary

<b>American Rescue Plan Act (ARPA)</b>	Federal legislation extending Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC), Pandemic Emergency Unemployment Compensation (PEUC) and Mixed Earner Unemployment Compensation (MEUC) programs.
<b>Benefit Accuracy Measurement (BAM) Program</b>	Integrity assessment tool using representative samples of unemployment insurance payments and disqualifying ineligibility determinations. These samples are investigated to determine whether unemployment insurance benefits were properly administered to claimants and whether these claimants were paid the proper amounts, or appropriately denied.
<b>Benefit Payment Control (BPC)</b>	Subdivision of IDES responsible for ensuring the integrity of the benefits programs administered by the Department. BPC is charged with preventing, detecting and investigating improper payments of unemployment insurance benefits and making decisions on the legal entitlement to benefit payments in matters alleging willful misrepresentation or concealment of facts in the application, certification, or receipt of benefits by claimants.
<b>Benefits, Timeliness, and Quality (BTQ)</b>	The evaluation tool used in determining whether state workforce agencies are meeting the performance standards set by the US Department of Labor.
<b>Consolidated Appropriations Act, 2021 (CAA)</b>	Federal legislation extending unemployment programs established by the CARES Act. Created the Mixed Earner Unemployment Compensation (MEUC) program.
<b>Coronavirus Aid, Relief, and Economic Security (CARES) Act</b>	Federal legislation allowing states to provide unemployment insurance for workers impacted by the COVID-19 pandemic. Created the Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC), and Pandemic Emergency Unemployment Compensation (PEUC) programs.
<b>Extended Benefits</b>	State program which provides extra benefits in times of increased unemployment.
<b>Improper Payment</b>	An overpayment or an underpayment of unemployment compensation.

## Glossary

<b>Integrity Data Hub (IDH)</b>	NASWA's centralized platform for state workforce agencies to compare, analyze, and cross-match unemployment insurance claims data for enhanced detection and prevention of fraud and improper payments.
<b>Interstate Connection Network (ICON)</b>	NASWA system that allows state workforce agencies to request and receive data for use in filing and processing of claims.
<b>National Association of State Workforce Agencies (NASWA)</b>	National organization representing all 50 state workforce agencies, District of Columbia (D.C.) and US territories. NASWA provides policy expertise, shares promising state practices, and promotes state innovation and leadership in workforce development.
<b>Short-Time Compensation (STC)</b>	State program providing an alternative to company layoffs. Allows employees to work part-time and receive unemployment compensation for the difference.
<b>Unemployment Insurance Program Letter (UIPL)</b>	Guidance to states from the US Department of Labor.
<b>Unemployment Trust Fund</b>	Fund used to make transfers to the states for the payment of cash benefits to individuals with respect to their unemployment or the payment of expenses incurred by administration of its unemployment compensation law and public employment offices.

## Introduction

On September 1, 2021, the Legislative Audit Commission adopted Resolution Number 158 (see Appendix A) requiring a performance audit of the unemployment programs administered by the Illinois Department of Employment Security (IDES or Department) during the period of March 1, 2020, to September 6, 2021. The Resolution directed that the audit include, but not be limited to the following determinations:

1. A review of the application and review processes and the payment of benefits to individuals focusing on any fraud or inefficiencies which could be eliminated to contain costs and improve the delivery of benefits to eligible individuals;
2. To the extent feasible, a detailed account of the funds allegedly disbursed to ineligible and/or fraudulent claimants;
3. The types of unemployment fraud schemes the Illinois Department of Employment Security has experienced and what steps and procedures it has taken to detect and respond to fraudulent unemployment claims and whether it has cooperated with the Illinois Attorney General or federal authorities to detect, counter, and prosecute potentially fraudulent cases;
4. Whether the Illinois Department of Employment Security has complied with all state and federal statutory and administrative requirements for processing and auditing unemployment claims;
5. An examination of the Illinois Department of Employment Security's decision not to implement additional fraud-prevention tools in April 2020 as

- recommended by the federal government and a report on whether the state has, since that time, come into compliance with federal recommendations;
6. What factors caused and continue to cause delays in the Illinois Department of Employment Security's processing of unemployment claims, looking particularly at administrative decisions, technology, and staffing, and what steps the Illinois Department of Employment Security has taken to alleviate these delays;
  7. What third-party contractors did the Illinois Department of Employment Security utilize during this time period and were any of these contracts no-bid contracts; did a third-party contractor calculate weekly benefit amounts for Pandemic Unemployment Assistance claimants and, if so, were there any procedures to verify the accuracy of their calculations; did third-party contractors meet the performance measure established by the Illinois Department of Employment Security prior to the issuance of the contracts;
  8. A summary of the average case processing time, the timeliness of benefit payments, and the accuracy of these payments.

## Unemployment Insurance Background

Unemployment Insurance (UI) is a joint state-federal program that provides cash benefits to eligible unemployed individuals. Each state administers a separate Unemployment Insurance program, but all states follow guidelines established by federal law. At its core, unemployment insurance is a federal program with requirements set by the Social Security Act, Federal Unemployment Tax Act, and other federal acts. The Illinois Unemployment Insurance Act establishes additional requirements.

The US Department of Labor's Employment and Training Administration is the federal agency responsible for providing program direction and oversight. IDES works closely with the US Department of Labor (US DOL) to ensure what the State enacts conforms to federal requirements.

According to the US DOL, unemployment insurance benefits are intended to provide temporary financial assistance to unemployed workers who are unemployed through no fault of their own. The Unemployment Insurance program is designed to partially compensate a recipient for loss of wages when someone is out of work or works less than full-time due to lack of work until they are able to return to work.

### Pandemic Unemployment Programs

The federal government, through passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Consolidated Appropriations Act, 2021, and a presidential memorandum, created additional unemployment programs for individuals who were not traditionally eligible for unemployment benefits, such as those who are self-employed or contract-based employees. The Families First Coronavirus Response Act provided full federal funding for Extended Benefits.

The Department was responsible for implementing the Pandemic Unemployment Programs so the benefits could be distributed.

Exhibit 1 lists various Unemployment Programs administered by IDES which will be discussed in more detail later in the report.

Exhibit 1 <b>UNEMPLOYMENT PROGRAMS ADMINISTERED BY IDES</b>	
<b>Name</b>	<b>Description</b>
Regular Unemployment Insurance (UI)	State-operated insurance program designed to partially compensate eligible individuals for loss of wages when they are out of work.
Pandemic Unemployment Assistance (PUA)	Benefits for individuals who had been determined ineligible for regular state unemployment benefits and were unemployed, partially unemployed, or unable to work caused by a COVID-19 reason allowed by federal law.
Pandemic Emergency Unemployment Compensation (PEUC)	Additional weeks of unemployment benefits for those who had exhausted regular unemployment compensation under federal law and were able to work, available to work, and were actively seeking work.
Federal Pandemic Unemployment Compensation (FPUC)	An emergency increase in weekly unemployment compensation benefits to eligible claimants. Provided eligible individuals with \$600 per week in addition to the weekly benefit amount. Reduced to \$300 per week in December 2021.
Lost Wages Assistance (LWA)	A federally-funded supplemental payment. Provided eligible individuals with \$300 per week in addition to the weekly benefit amount.
Mixed Earner Unemployment Compensation (MEUC)	An additional \$100 weekly benefit for workers who earn money through both self-employment income (at least \$5,000) and traditional W2 employment.
Extended Benefits (EB)	Provides for 13 extra weeks of benefits in times of increased unemployment.
Short-Time Compensation (STC)	Benefits payable to employees under an approved Short-Time Compensation plan to avert layoffs by employers.

Source: OAG analysis of Unemployment Program information.

### Illinois Department of Employment Security

The Illinois Department of Employment Security (IDES or Department) administers the Unemployment Insurance program for the State of Illinois. The Department collects unemployment insurance taxes from the State’s liable employers and returns those dollars to eligible Illinois workers as unemployment insurance benefits. The Department also operates an employment service and other special programs for the unemployed and underemployed and matches employer labor needs with the skills of job seekers. Unemployment insurance benefit recipients are required to actively seek employment and register with the Illinois Employment Service systems.

<b>IDES Headcount</b>	
FY18	1,099
FY19	1,085
FY20	1,035
FY21	1,123
FY22	1,120

According to the Illinois State Budget Book the Department’s headcount dropped from 1,099 in FY18 to 1,035 in FY20. However, the headcount increased to 1,123 in FY21 and remained stable at 1,120 in FY22. The FY23 estimated headcount and the FY24 targeted headcount are both 1,120.

Exhibit 2 shows expenditures by funding source for the administration of the unemployment insurance programs in Illinois, reimbursements from the Road Fund for benefits paid to former State of Illinois employees, and funding in response to federal funding shortfalls. A majority of the unemployment insurance expenditures have federal funding sources and are used for operational and administrative expenses. For example, Illinois receives funding from the Title III Social Security and Employment Services Fund. Revenues from this fund are collected by the Internal Revenue Service (IRS) and distributed by the US DOL to designated State Workforce Agencies, or state employment agencies.

Exhibit 2 EXPENDITURES FOR ADMINISTRATION OF UNEMPLOYMENT PROGRAMS FY18-FY22					
Actual Expenditures	FY18	FY19	FY20	FY21	FY22
Federal funds	\$185,394,900	\$197,135,900	\$212,314,600	\$291,253,300	\$303,247,900
General Revenue Fund	\$46,291,300	\$19,408,800	\$19,532,800	\$107,561,500	\$70,382,800
Road Fund	\$3,938,800	\$4,000,000	\$4,000,000	\$0	\$2,092,300
Special Administration Acct	\$886,400	\$821,700	\$682,000	\$751,500	\$7,016,200
<b>Total</b>	<b>\$236,511,400</b>	<b>\$221,366,400</b>	<b>\$236,529,300</b>	<b>\$399,566,300</b>	<b>\$382,739,200</b>

Note: Numbers may not add due to rounding.  
Source: Illinois Budget Books.

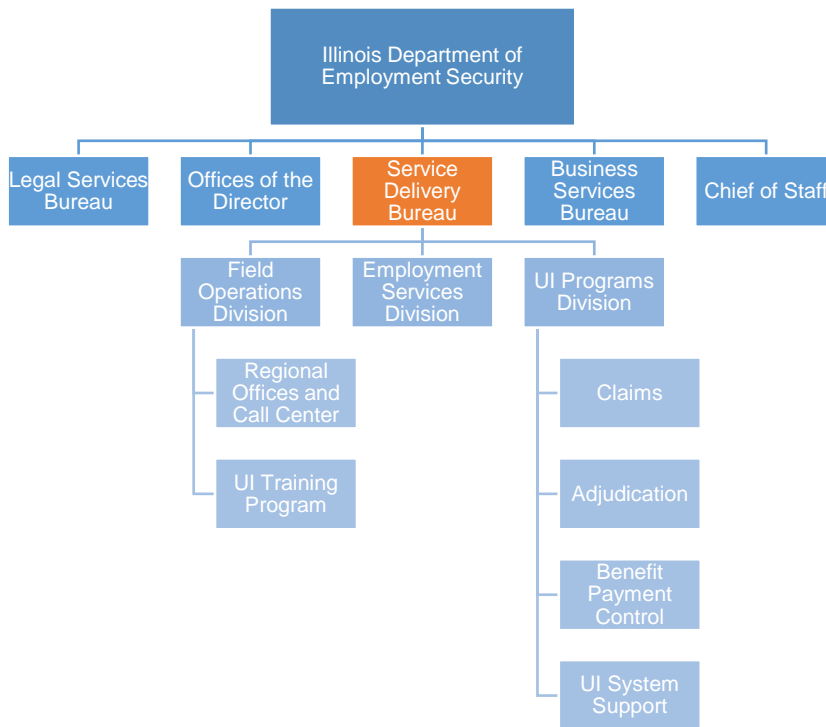
In FY22, IDES used the Federal Unemployment Compensation Special Administration Account to pay interest owed on Title XII advances. These payments substantially increased expenditures from this special administrative fund. The Unemployment Compensation Special Administration Account typically includes penalties and interest revenue from delinquent State unemployment insurance tax collections and improper payments to make up for federal funding shortfalls. See *Title XII Federal Loan and Trust Fund Solvency* section on page 103 for more information.

Unemployment benefits are paid out of the Unemployment Compensation Trust Fund. The Unemployment Compensation Trust Fund is a federally-held account into which the Department deposits the State unemployment insurance taxes it collects from employers. These funds can only be used to pay unemployment insurance benefits to eligible claimants. These funds are not appropriated by the General Assembly, and the payments are not processed through the Illinois Office of the Comptroller.

**IDES Staffing**

The Service Delivery Bureau is responsible for planning and directing Illinois’ employment security programs and services for claimants and employers. The Service Delivery Bureau is comprised of Employment Services, Field Operations, and Unemployment Insurance Programs divisions (see Exhibit 3). Employment Services provides assistance to unemployed workers seeking employment. This audit will primarily focus on the work done by the Field Operations division and the Unemployment Insurance Programs division.

Exhibit 3  
**ILLINOIS DEPARTMENT OF EMPLOYMENT SECURITY SERVICE DELIVERY BUREAU**  
 As of August 2021



Source: OAG analysis of IDES organizational charts.

In Field Operations, there are five regional offices and two call centers (also known as claimant service centers). There are a total of 18 local offices and 15 job centers. A call center is defined in IDES administrative rules as the modern day equivalent of the local office where claimants and employers can contact the Department for resolution of issues involving claims for unemployment insurance benefits. The majority of in-person appointments to address any claimant issues take place in local offices.

Prior to the pandemic, the main job titles routinely processing claims, determining eligibility, and answering phone calls included:

- **Employment Security Program Representative** – These frontline employees work with clients face-to-face to process applications and help determine eligibility by resolving minor unemployment insurance claim issues. They also assist with re-employment, including workshops, helping with work search and resumes, and assisting with navigating JobLink, an employment website run by IDES.
- **Employment Security Service Representative** – These adjudicators resolve major claims issues like discharge, voluntarily quitting, job refusal, and other activities that cannot be resolved by a program representative.
- **Revenue Analyst** – These analysts enter wages for UI claims and handle claimant issues related to wages such as an employer making a Social Security number (SSN) error in their payroll information.

The Unemployment Insurance Programs division consists of 4 subdivisions:

- **Claims** – The Claims subdivision is charged with interpreting unemployment insurance related statutes and regulations. The unit has developed training for Field Operations staff.
- **Adjudication** – The Adjudication subdivision monitors performance areas to ensure compliance with federal guidelines regarding determining eligibility for benefits after establishing monetary eligibility. The Adjudication subdivision also acts as a liaison between legal counsel, the US DOL, and the field for enacting federal and statewide policy changes.
- **Benefit Payment Control (BPC)** – BPC is responsible for ensuring the integrity of the benefits programs administered by IDES and is discussed in more detail later in this report.
- **UI System Support** – UI System Support is charged with the management and implementation of functions of the Illinois Benefits Information System (IBIS) for regular unemployment as well as providing system support for users.

### **Processing Applications**

Auditors inquired about staffing levels for positions that were processing applications, determining eligibility, calculating benefits, and answering claimant calls at the beginning of the audit period and at the end of the audit period.

At the start of the pandemic, there were 9 IDES staff processing applications, 13 staff calculating benefit amounts, and 190 determining eligibility for regular UI. By September 6, 2021, there were still 190 IDES staff determining eligibility, but IDES now had 19 staff calculating benefit amounts, and IDES could not provide a valid number for processing claims because IDES had brought in staff members from other departments to help.

IDES contracted with Deloitte in April 2020 to provide 200 telephone agents. A September 2020 contract amendment increased that number to 800. In July 2020, IDES contracted with Insight Global for up to 200 specialists to help with PUA



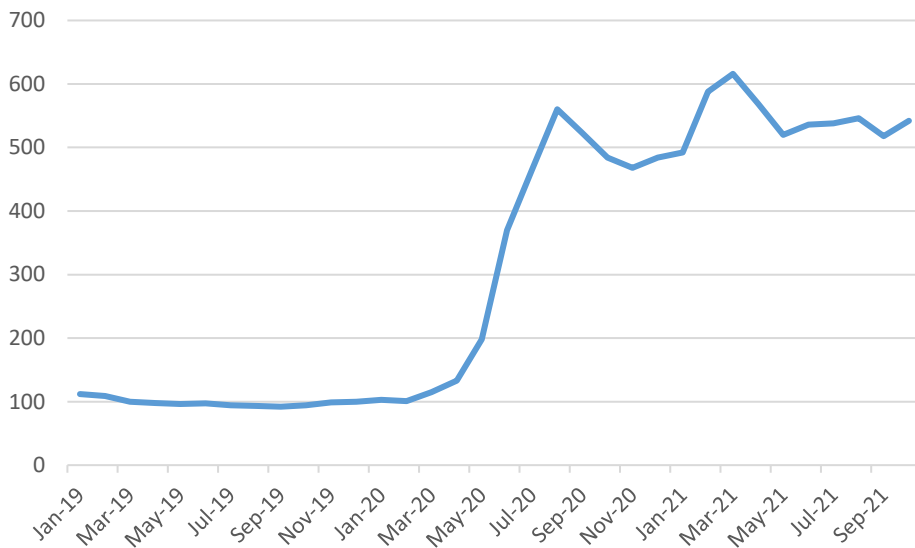
claim verification services, including verifying claimants’ wages and income. A December 2020 amendment to this contract increased the number of specialists from 200 to 350. See the *Contracts and Agreements* section on page 38 for information on these contracts.

At the end of the pandemic, the staffing had decreased from the peak levels; there were 15 staff processing applications (2 IDES, 13 contractual), 26 determining eligibility (13 IDES, 13 contractual), and 40 staff calculating benefit amounts (all contractual).

Exhibit 4 shows the average number of telephone agents handling claimant calls from January 2019 to October 2021. At the start of the pandemic, there were 107 agents answering telephone calls, none of whom were contractual. IDES faced complaints and criticism for their inability to answer every call. In June 2020, IDES reported only answering 15 percent of calls.

The Department contracted with Deloitte on April 28, 2020, and Insight Global on July 30, 2020, to onboard new agents. By July 2020, there were 465 agents handling telephone calls. As of September 2021, there were 141 Department employees and 410 contractual employees answering telephone calls. Delays caused by staffing and the Department’s response to those delays are discussed later in this report.

**Exhibit 4**  
**AVERAGE NUMBER OF IDES AND CONTRACTUAL AGENTS HANDLING CLAIMANT CALLS**  
 January 2019 through October 2021



Source: OAG analysis of Illinois Department of Employment Security data.

IDES has three subdivisions that work to ensure the integrity of benefit payments through different measures. The Benefit Payment Control subdivision is under the Service Delivery Bureau, while the Benefit Accuracy Measurement and

Benefits Timeliness and Quality Review subdivisions are part of the Quality Assurance and Compliance Review division (which is under the Chief of Staff.)

### **Benefit Payment Control**

According to the Department, the Benefit Payment Control (BPC) subdivision is responsible for ensuring the integrity of the benefits programs administered by the Illinois Department of Employment Security. The Benefit Payment Control subdivision is charged with **preventing, detecting, and investigating improper payments** of unemployment insurance benefits and issuing fraud determinations. This includes making decisions on the legal entitlement to benefit payments in matters alleging willful misrepresentation or concealment of facts in the application, certification, or receipt of benefits by claimants. Cases investigated are generated by various cross-matches and specific leads which are discussed in more detail later in the report.

BPC Special Investigations staff are responsible for wage entry, overpayment, and fraud/non-fraud determination. A claimant is presumed to have committed fraud if the claimant has received at least three weeks of unemployment insurance benefits either without reporting or severely under-reporting wages. Individuals found to have committed fraud are required to pay a penalty of 15 percent of the sum received in benefits. The IBIS system will automatically assess the penalty amount.

Fraud can be referred to BPC internally through a local office, the Benefit Accuracy Measurement program, and regional office employer protests. Fraud can also be referred through a private individual, another government agency, or other sources. During the pandemic, many of the fraud cases were reported to IDES by individuals that were victims of identity theft.

The IDES BPC Special Investigations unit is responsible for investigating suspected identity theft cases. According to Department officials, there were 4 investigators at the start of the pandemic, but that number grew to 20 as BPC staff members transferred to the Special Investigations unit. Even though IDES contracted with Pondera to help identify identity theft, the Special Investigations unit still had to review Pondera's weekly reports and the identity theft that had been identified and make the appropriate claimant determinations.

BPC is required to report external fraud activity to the US DOL Employment and Training Administration (ETA) on a quarterly ETA 227 Overpayment Detection and Recovery Activities Report. However, a US DOL Office of the Inspector General (OIG) report noted that many states were not completing required reporting for overpayments. Auditors requested the dates IDES submitted the quarterly ETA 227 reports to the US Department of Labor for the period of March 1, 2020, to June 30, 2021. All 6 of the reports were filed with the US DOL; however, all 6 were late ranging from 1 day late to 57 days late.

The IDES BPC Overpayment Recovery and Collections Unit pursues **recovering of benefit overpayments** to restore both fraud and non-fraud overpayment amounts. The US DOL required the same recovery activities for FPUC, PEUC,

and PUA programs that were normally performed for regular UI programs. If reasonable attempts to collect an overpayment have been made without success, the case can be submitted to the Attorney General. The case must also meet other criteria to be submitted to the Attorney General, such as the overpayment balance exceeds a certain threshold. According to Department officials, they refer both civil and criminal cases.

According to IDES, between March 1, 2020, and September 6, 2021, they did not refer any cases to the Attorney General, but they referred at least 79 matters/leads to the US DOL Office of the Inspector General. (As of February 2023, only two convictions had been completed and only \$450 had been received from restitution. Others could be pending.) In addition to cases that are referred to these agencies, IDES has recovered approximately \$511.7 million in recoveries and stopped payments.

### **Benefit Accuracy Measurement**

Benefit Accuracy Measurement (BAM) is a US DOL federally mandated program designed to determine the **accuracy of paid and denied claims** in major Unemployment Insurance programs. The unemployment insurance claims process is reconstructed for samples of weekly payments and denied claims using data verified by trained investigators. BAM is used to identify the root causes of improper payments. BAM determines the cause of and the party responsible for the error, the point in the unemployment insurance claims process at which the error was detected, and actions taken by the agency and employers prior to the error. BAM is a diagnostic tool for the federal and State Workforce Agency staff to use in identifying systemic errors and their causes and in correcting and tracking solutions to these problems. BAM staff are in the Department's Quality Assurance and Compliance Review Section.

The US DOL samples 360 cases per year in the 10 states with the smallest unemployment insurance workloads and 480 cases in the remainder of the states, unless the states have chosen to select larger samples. IDES procedures note that a control data file is updated weekly, and Illinois Department of Innovation and Technology staff randomly select a sample of paid cases and denied cases for audit. The sample cases are then assigned to an investigator. The investigator looks at 110 data elements for each sampled payment or denial. Data for 15 of these elements are captured both before and after the investigation.

According to a report released by the US DOL OIG, states suspended BAM operations beginning in April 2020. Unemployment Insurance Program Letter (UIPL) 23-20, dated May 11, 2020, noted that while states had been provided some flexibility in the short term to stop sampling under the BAM program, it would be critical for states to resume BAM audits at the earliest possible time. One UIPL describes BAM as a "mission critical audit function that provides states with valuable information on the quality and accuracy of their regular Unemployment Insurance program functions, and it supports estimation [of] the UI improper payment rate." An improper payment is any payment that should not have been made or that was made in an incorrect amount and includes any

payment to an ineligible recipient. The improper payment rate is a rate that consists of overpayments and underpayments.

UIPL 25-20, dated June 15, 2020, intended to provide guidance to State Workforce Agencies on changes in the operation of the BAM program as a result of the issues arising from the COVID-19 pandemic. States with one million weeks paid or more or \$1 billion in payments or more were instructed to temporarily suspend the BAM sampling process until changes could be made to accommodate the increased workload. This UIPL noted that with the large increase in claims as a result of the pandemic, several data elements in the software could not accommodate the population of workload counts or the paid benefit amounts that states were required to report. States were instructed to retain each week's unemployment insurance files, so the samples and population counts could be reconstructed retroactively when changes to the software application were completed; however, states are not expected to make up cases for the period to which the suspension applies. UIPL 25-20 also noted that BAM excluded FPUC, PEUC, and PUA. According to an IDES official, there is no system or process to measure payment and denied claims accuracy for these programs.

According to IDES officials, BAM audits were suspended for the first three months of the pandemic, but they were resumed on paid sample cases on July 6, 2020. BAM did not resume on denied cases until February 2021. The *Previous OAG Audits* section on page 33 contains more information on past BAM-related findings.

### **Benefits Timeliness and Quality**

Benefits Timeliness and Quality Review (BTQ) is a quarterly review conducted by Department staff to determine if federal standards and acceptable levels of performance are being met. BTQ focuses on evaluating the quality performance of nonmonetary determinations and is an evaluation tool used in determining if a representative's performance is meeting the standards that have been set by the US DOL. Nonmonetary determination status is based on reasons such as being not able or available to work, voluntary leaving of a job, discharge for misconduct, refusal to work, etc. The evaluations of nonmonetary determinations are necessary to ensure that the determination to allow or deny unemployment benefits is properly administered. The reviews also include a data validation component.

A sampling of nonmonetary determinations is reviewed each calendar quarter. Each nonmonetary determination in the sample must be independently reviewed, and the scoring for each element agreed upon by two individuals with nonmonetary expertise. Elements reviewed include issue codes/types, issue detection date, program type, week ending date of claim, and nonmonetary determination outcome. These reviews are conducted internally with the State's staff trained to conduct BTQ reviews. BTQ staff are in IDES' Quality Assurance and Compliance Review Section, but there is also work done by the Regional Field Operations staff. Every three years, states also participate in a national

review. The ETA provides a handbook that provides guidance on the conduct of BTQ reviews including information concerning sampling size as well as state training and technical assistance.

Nonmonetary determination performance is tracked over time to determine trends in performance, problems with particular facets of the nonmonetary process, and

timeliness of nonmonetary determinations (among other things). Each quarter’s results are compared to prior periods of performance to determine if improvement has occurred. The data may also be used by state and federal managers to determine if nonmonetary determinations performance was affected by fluctuations in the business cycle or changes in personnel, administrative procedures, or technology.

IDES submitted all 2020 and 2021 BTQ quarterly reviews timely with the exception of the report for the first quarter of 2020 which was waived by the US Department of Labor due to the COVID-19 pandemic. In each of the quarters during the audit period, Illinois exceeded the acceptable level of performance of 75 percent.

<b>ETA 9056 Nonmonetary Determination Quality Review Results</b>	
Period	Score
Q1 2020	US DOL Waived
Q2 2020	81.58%
Q3 2020	89.13%
Q4 2020	94.74%
Q1 2021	88.66%
Q2 2021	90.59%
Q3 2021	92.47%

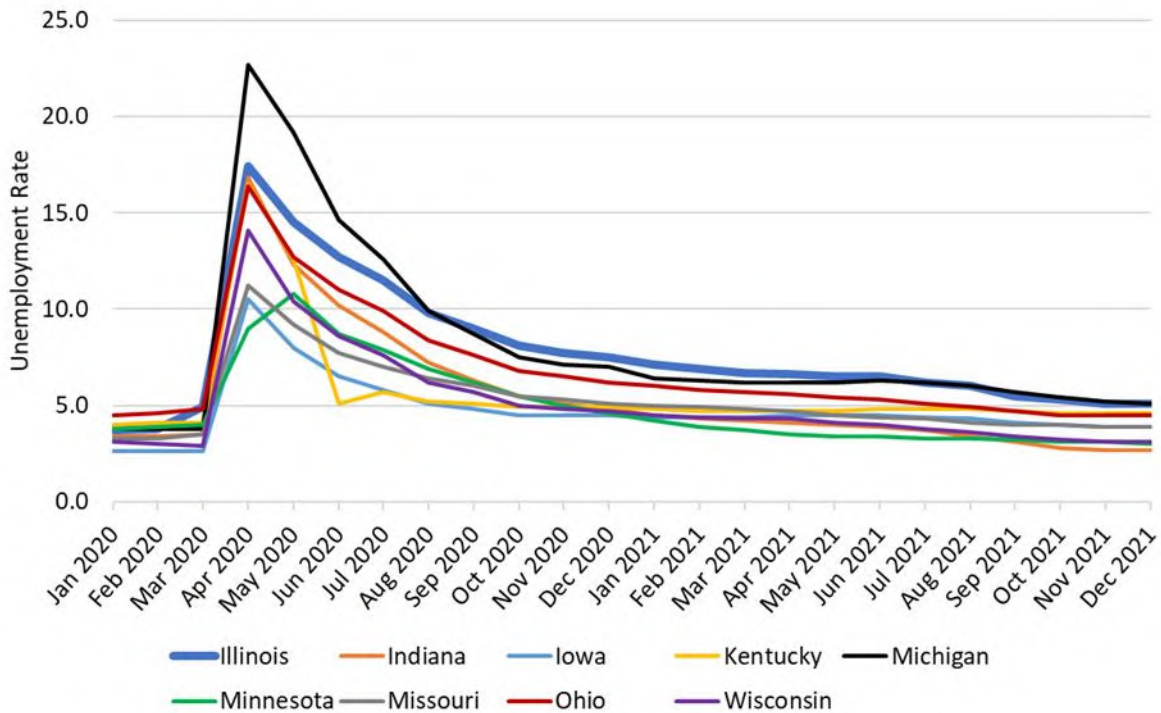
Minimum Acceptable Level: 75%

## Unemployment Rates and Claims

According to data from the US DOL Bureau of Labor Statistics, prior to the COVID-19 pandemic, states were experiencing the lowest unemployment rates the United States had seen since 1969. Illinois had record low unemployment rates during April 2019 through February 2020, ranging from 3.6 percent to 4.1 percent. From March 2020 to April 2020, Illinois' seasonally adjusted rate of unemployment grew from 4.9 percent to 17.4 percent. The unemployment rate remained above 10 percent until August 2020 when the rate dropped to 9.8 percent.

Exhibit 5 provides unemployment rates for states in the regional area for January 2020 through December 2021. As shown in the exhibit, Illinois' unemployment rate was higher than many of the states around Illinois (Indiana, Iowa, Kentucky, Minnesota, Missouri, Ohio, and Wisconsin). Between April 2020 and December 2021, Illinois and Michigan alternated as the regional state with the highest unemployment rate.

Exhibit 5  
**REGIONAL STATE UNEMPLOYMENT RATES**  
January 2020 through December 2021

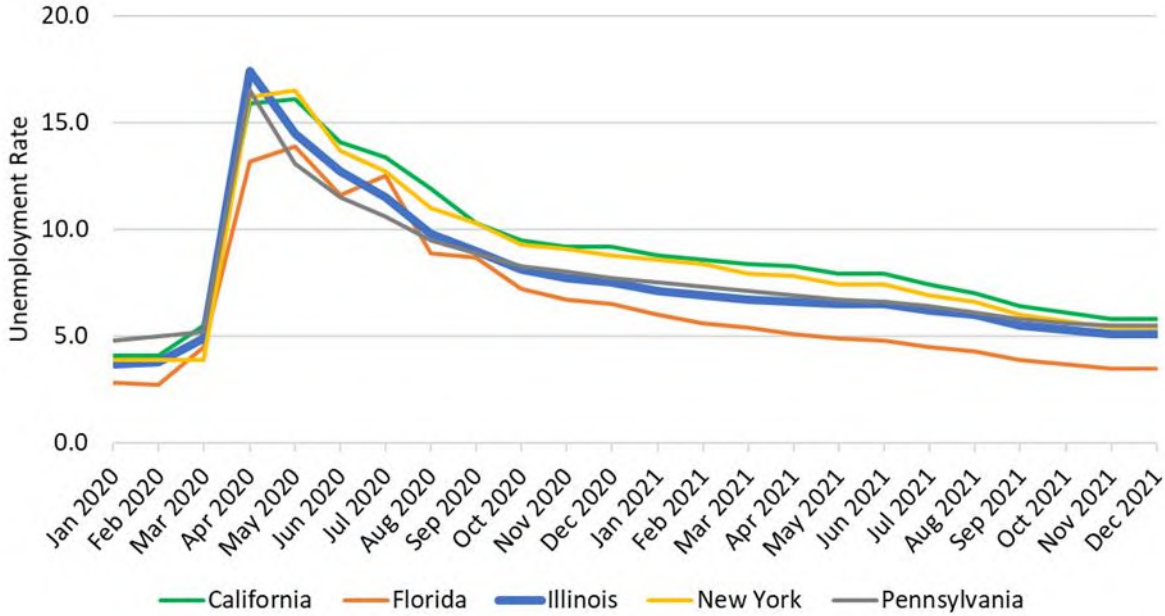


Source: US DOL Bureau of Labor Statistics.

However, Exhibit 6 shows Illinois was in line with other states that are economically similar to Illinois with at least one major city. In December 2021, Illinois' unemployment rate was 5.1 percent compared to 5.8 percent in

California, 3.5 percent in Florida, 5.4 percent in New York, and 5.5 percent in Pennsylvania.

**Exhibit 6**  
**COMPARISON STATE UNEMPLOYMENT RATES**  
 January 2020 through December 2021



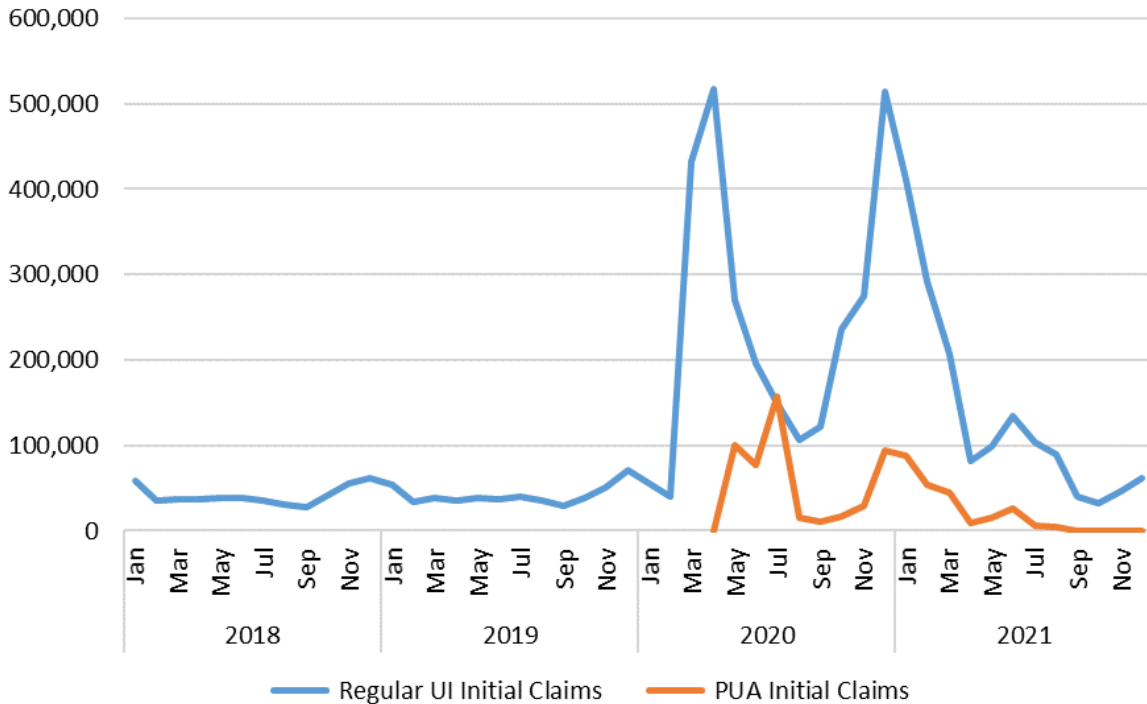
Source: US DOL Bureau of Labor Statistics.

**Unemployment Claims**

IDES’ website provides initial claims by month. The total initial claims were around 500,000 for both calendar year 2018 and 2019, while the total for calendar year 2020 was nearly 3 million. The monthly average for initial claims in calendar year 2018 and 2019 was 41,686 and 41,965 respectively, compared to 243,013 in 2020 and 132,999 in 2021. Exhibit 7 shows a drastic jump in initial regular unemployment insurance (UI) claims when claims jumped from 39,916 in February 2020 to 432,420 in March 2020. The monthly intake of initial claims were highest in April 2020 (517,948) and December 2020 (514,674).

IDES Regular UI Initial Claims	
CY18	500,233
CY19	503,579
CY20	2,916,151
CY21	1,595,984

**Exhibit 7**  
**REGULAR UI AND PUA INITIAL UNEMPLOYMENT INSURANCE CLAIMS APPLICATIONS**  
 January 2018 through December 2021



Source: OAG analysis of Illinois Department of Employment Security data.

IDES PUA Initial Claims	
CY20	502,411
CY21	249,390

The Department received 99,865 initial PUA claims in May 2020, 77,903 in June 2020, and 157,765 in July 2020 after which the number of claims dropped significantly. PUA initial claims increased again in late 2020 and early 2021 before decreasing again.

As the number of new claims rises, the number of claimants accessing agency resources also rises. According to IDES, hits to its website increased from 161,502 in 2019 to over 126 million in 2020. Calls to the IDES claimant services center also rose significantly.

The Department transitioned the IDES hotlines to the callback-only model in July 2020. The callback feature eliminated the option for claimants to wait on hold or the need to call multiple times a day to reach a claims representative. Instead, a claimant is placed in line in a queue they selected based on their reason for calling and then called back by a Department representative in the order their call was received. Some issues were dealt with by contractors, but more complex issues required Department staff to handle which required a longer wait time because there were not as many Department staff.



## Authorizing Legislation and Program Guidance

In addition to federal and State laws already in place (Social Security Act and Illinois Unemployment Insurance Act), there were several federal laws enacted in response to the pandemic. There were also numerous Unemployment Insurance Program Letters issued by the US DOL, which provided guidance and recommendations for administration of unemployment assistance programs during the pandemic. Exhibit 8 summarizes federal and State legislation and other guidance related to unemployment programs administered by the Department. See Appendix C for a timeline of important dates related to unemployment compensation in Illinois.

### Families First Coronavirus Response Act (FFCRA)

The federal Families First Coronavirus Response Act (FFCRA) was signed into law on March 18, 2020, and amended the Social Security Act by establishing emergency transfers to state accounts in the Unemployment Trust Fund. These emergency supplemental appropriations were in response to the pandemic and were to be used only for administration of the state’s unemployment compensation program, not for unemployment compensation payments.

The Families First Coronavirus Response Act also provided for full federal funding (reimbursement) of any Extended Benefits from the period of March 18, 2020, to December 31, 2020, as well as temporary federal matching for the first week of Extended Benefits during this period for states with no waiting week. Extended Benefits are extra benefits in times of increased unemployment.

Within one year after the enactment of the Families First Coronavirus Response Act, states receiving emergency administration grant funding were to submit to the Secretary of Labor, the Committee on Ways and Means of the House of Representatives, and to the Committee on Finance in the Senate a report. The report was to include an analysis of the reciprocity rate for unemployment compensation in the state and a description of steps the state intended to take to increase such reciprocity. The report was due on March 18, 2021. Upon request of the report in September 2022, IDES officials noted that the report had not been submitted, but that IDES was working on submitting the report. IDES submitted the report on November 17, 2022.

Overdue FFCRA Reciprocity Report	
Federal Due Date	3/18/21
IDES Submit Date	11/17/22
Days Overdue	609

### Coronavirus Aid, Relief, and Economic Security (CARES) Act

The CARES Act created the Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC), and Pandemic Emergency Unemployment Compensation (PEUC) programs. This expanded states’ ability to provide unemployment insurance for workers impacted by the COVID-19 pandemic, including workers who are not traditionally eligible for unemployment benefits.

Exhibit 8  
**AUTHORIZING LEGISLATION AND PROGRAM GUIDANCE**

Name	Description
Social Security Act	Established federal requirements and funding for state unemployment insurance programs.
Illinois Unemployment Insurance Act	Regulated unemployment insurance eligibility and the payment of benefits to claimants.
Families First Coronavirus Response Act (FFCRA)	Established emergency appropriations to state accounts in the Unemployment Trust Fund in response to the pandemic. These supplemental appropriations were to be used only for administration of a state’s unemployment compensation program, not for unemployment compensation benefits. Illinois’ share of the \$1 billion emergency administrative grants was \$41,979,378 (based on a ratio determined by the Social Security Act).
Coronavirus Aid, Relief, and Economic Security (CARES) Act	Expanded states’ ability to provide unemployment insurance for workers impacted by the COVID-19 pandemic, including workers who are not traditionally eligible for unemployment benefits. The CARES Act created the Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC), and Pandemic Emergency Unemployment Compensation (PEUC) programs. Provided full federal funding of the first week of compensable regular unemployment for states with no waiting week.
Presidential Memorandum	Approved a lost wages assistance program that authorized the Governor to provide a \$400 payment per week (\$300 of the \$400 payment would be a federal contribution) to eligible claimants from the week of unemployment ending August 1, 2020.
Consolidated Appropriations Act, 2021 (CAA)	Extended unemployment programs established by the CARES Act through March 14, 2021. CAA also extended certain provisions of the Families First Coronavirus Response Act, established the Mixed Earner Unemployment Compensation (MEUC) program, and amended the CARES Act to establish identity, employment, and income verification requirements for PUA applicants, most notably requiring PUA claimants to provide documentation to substantiate employment or self-employment. Also allowed for the waiver of repayment if payment was without fault on the part of the individual or if it would be contrary to equity and good conscience.
American Rescue Plan Act of 2021 (ARPA)	Extended PUA, FPUC, PEUC, and MEUC programs through September 6, 2021.
Unemployment Insurance Program Letters (UIPLs)	Provide official guidance from the US DOL ETA National Office relating to unemployment insurance.

Source: OAG analysis of Unemployment Insurance program legislation and guidance.

Regular UI typically required a “waiting week,” which is a qualifying week for which benefits are not paid. The CARES Act allowed states the option to enter into an agreement with the US DOL to suspend the “waiting week.”

The Act also required full reimbursement for the total amount of regular compensation paid and any additional administrative expenses resulting from the

agreement. In Illinois, funding began on March 29, 2020, and was to end on or before December 31, 2020.

### **Unemployment Insurance Program Letters (UIPLs)**

Unemployment Insurance Program Letters (UIPLs) are official guidance from the US DOL Employment and Training Administration National Office relating to unemployment insurance. According to a Memorandum of Law issued by IDES, UIPs undergo a vetting and clearance process, including review by ETA legal services and the ETA legislative team. UIPs provide guidance on a variety of topics, including the following:

- implementing federal legislation;
- operating, financial, and reporting instructions for unemployment programs; and
- mandatory and recommended measures to identify fraud and recover overpayments.

UIPLs are subject to change due to new legislation and additional guidance from the US DOL. When UIPs are changed, the US DOL releases an additional program letter with amendments. Frequently changing guidance from the US DOL posed additional challenges for the Department when implementing pandemic unemployment programs. Auditors reviewed **72 UIPs** related to the audit determinations. These 72 included numerous program letters that were reissued at later dates due to changes. For example, UIP 16-20 was first issued April 5, 2020; however, there were 6 subsequent changes issued from April 27, 2020, to September 3, 2021. Exhibit 9 shows UIP 16-20 and its subsequent changes, the subject of the change, and the date the guidance was issued.

Exhibit 9 UNEMPLOYMENT INSURANCE PROGRAM LETTER GUIDANCE CHANGE EXAMPLE		
UIPL	Subject	Date
16-20	CARES Act of 2020 – PUA Program Operating, Financial, and Reporting Instructions.	4/5/20
16-20, Change 1	CARES Act of 2020 – PUA Program Reporting Instructions and Questions and Answers.	4/27/20
16-20, Change 2	CARES Act of 2020 – PUA Additional Questions and Answers.	7/21/20
16-20, Change 3	CARES Act of 2020 – Eligibility of Individuals who are Caregivers for PUA in the Context of School Systems Reopening.	8/27/20
16-20, Change 4	Continued Assistance to Unemployed Workers Act of 2020 – PUA Program: Updated Operating Instructions and Reporting Changes.	1/8/21
16-20, Change 5	Expanded Eligibility Provisions for the PUA Program.	2/25/21
16-20, Change 6	PUA Program: Updated Operating Instructions and Reporting Changes.	9/3/21

Source: US Department of Labor.

Key UIPLs included guidance on the following:

- flexibility for claimants’ ability and availability for work, as well as flexible work search requirements;
- temporary emergency state staffing flexibility;
- PUA program operating, financial, and reporting instructions;
- addressing fraud in the unemployment insurance system and detecting fraud;
- implementing the Consolidated Appropriations Act, 2021 (CAA);
- implementing the American Rescue Plan Act of 2021 (ARPA); and
- identity verification requirements.

Appendix D is a listing of the 72 relevant UIPLs and UIPL changes issued by the US Department of Labor reviewed by auditors.

**National Association of State Workforce Agencies (NASWA)**

The National Association of State Workforce Agencies (NASWA) is a national organization representing all 50 State Workforce Agencies, the District of Columbia, and the US territories. According to NASWA, its mission is to enhance the State Workforce Agencies’ ability to accomplish their goals, statutory roles, and responsibilities.

The UI Integrity Center, established by the US DOL in October 2012, is operated by NASWA and was designed to assist states in their efforts to more effectively prevent, detect, and recover improper and fraudulent payments. Services

provided by the UI Integrity Center include fraud calls to discuss emergent fraud schemes, virtual and on-site consultation services to states, courses and certificate programs for staff administering unemployment assistance, resources on state practices and recommendations, and the Integrity Data Hub which is discussed in more detail later.

NASWA also operates the Unemployment Insurance Interstate Connection Network (ICON). ICON provides for the exchange of data between State Workforce Agencies and federal partners. ICON provides real-time information to assist state unemployment insurance staff in identifying if a claimant has a claim or wages in another state. IDES has been utilizing ICON for regular UI for many years. In addition, NASWA houses the Unemployment Insurance State Information Data Exchange System (SIDES), which is a web-based system that allows electronic transmission of information regarding unemployment insurance claims between State Workforce Agencies and employers.

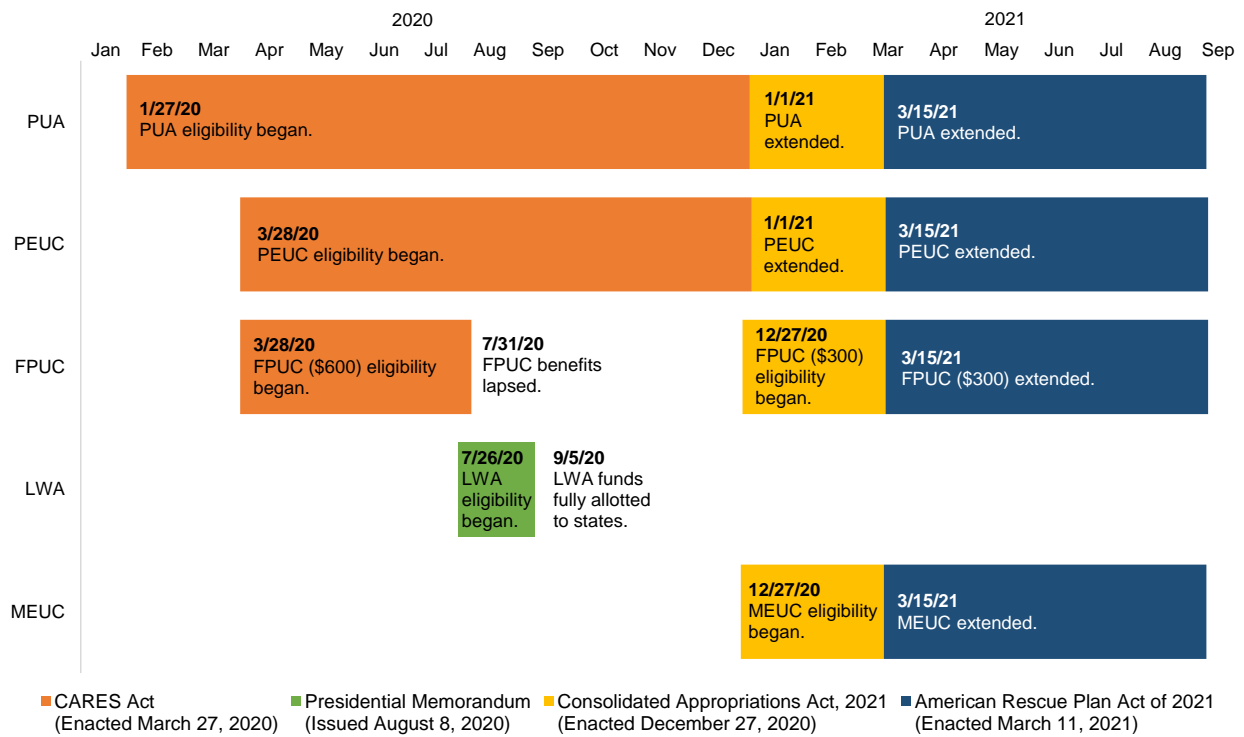
The US DOL Employment and Training Administration strongly encouraged states to access the technical assistance, tools, and resources available through the UI Integrity Center, including the Integrity Data Hub, ICON, and UI SIDES.

## Pandemic Unemployment Programs

The Department was responsible for implementing the new pandemic unemployment programs so the unemployment benefits could be distributed. These benefits were being distributed to individuals who were not traditionally eligible for unemployment benefits.

Exhibit 10 provides a timeline of the start and end date for the new pandemic unemployment programs based on the authorizing legislation.

**Exhibit 10**  
**TIMELINE OF NEW PANDEMIC PROGRAMS**  
January 2020 to September 2021<sup>1</sup>



**Note:**

<sup>1</sup> While payments for PUA began on May 15, 2020, claimants were eligible for assistance for weeks of unemployment, partial unemployment, or inability to work beginning on or after January 27, 2020.

Source: OAG analysis of pandemic unemployment programs.

### Pandemic Unemployment Assistance (PUA)

The CARES Act was signed into law on March 27, 2020, and established the Pandemic Unemployment Assistance (PUA) program. Any state entering into an agreement with the US DOL to provide PUA benefits was to be paid 100 percent of the total amount of assistance and any additional administrative expenses incurred due to the agreement. Illinois entered into an agreement on March 28, 2020, with the US DOL in order to carry out the provisions of the program.

The PUA program provided benefits for individuals who had been determined ineligible for regular State unemployment insurance benefits. Self-employed workers, those seeking part-time employment, those lacking a sufficient work history, or those who had exhausted regular benefits are examples of individuals who would be excluded from regular UI benefits, but could be eligible for PUA. PUA provided assistance for weeks of unemployment, partial unemployment, or inability to work caused by a COVID-19 reason allowed by federal law. The CARES Act required individuals to self-certify that they lost employment income due to a COVID-19 related reason. Exhibit 11 provides examples of reasons allowed by federal law.

Exhibit 11

**QUALIFYING COVID-19 RELATED REASONS**

- You have been diagnosed with COVID-19.
- You have a member of your household who has been diagnosed with COVID-19.
- You are providing care to a household or family member diagnosed with COVID-19.
- You have primary caregiving responsibility for a child or other person who is unable to attend school or another facility as a result of COVID-19.
- You are unable to reach the place of employment because you have been advised by a health care provider to self-quarantine.
- You were scheduled to start work and do not have a job because of COVID-19.
- You have become the major support for a household because the head of the household died because of COVID-19.
- You refused to return to work or accept an offer of work at a worksite that is not in compliance with local, state, or national health and safety standards directly related to COVID-19.
- You work for a school which is closed due to COVID-19.
- Your hours have been reduced or you were laid off as a direct result of COVID-19.

Source: CARES Act and US DOL UIPL 16-20.

**The PUA benefit amount was equal to the weekly benefit amount that would have been paid regularly as computed under the individual’s state unemployment compensation law** plus the Federal Pandemic Unemployment Compensation amount (see *Federal Pandemic Unemployment Compensation* section on page 22). The minimum weekly benefit amount was \$198 in Illinois; however, the weekly benefit amount would have been increased if the State had existing wage records or the applicant submitted additional supporting evidence of higher income.

To be eligible for PUA benefits, covered individuals were required to self-certify (primarily via online self-service and telephone) each week that they were meeting the requirements for the program, including the COVID-19 related reasons why they were unemployed, partially unemployed, or unable or unavailable to work. Auditors found evidence of PUA claimants certifying

weekly and evidence of the Department monitoring PUA certifications for claims. See *Analysis of Claims Data and Call Data* section on page 88 for more details on PUA certifications.

The PUA program was administered through a voluntary agreement between a state and the US Department of Labor. The cost of PUA benefits was 100 percent federally funded. Implementation costs and ongoing administrative costs were also 100 percent federally funded.

On April 28, 2020, the Department contracted with Deloitte to design and implement a fully-functional integrated unemployment insurance solution system necessary to administer the PUA program. On May 11, 2020, Illinois opened the PUA program for enrollment. The Department began issuing benefit payments to claimants on May 15, 2020.

Originally, under the CARES Act, PUA benefits were available for up to 39 weeks of unemployment, partial unemployment, or inability to work beginning on January 27, 2020, (which included backdating), and ending on or before

Maximum Weeks of PUA Available	
Under CARES Act Beginning 1/27/20	39 weeks
Under Consolidated Appropriations Act Beginning 1/1/21	50 weeks
Under American Rescue Plan Act Beginning 3/15/21	79 weeks

December 31, 2020. The Consolidated Appropriations Act, 2021 extended weeks of eligibility for PUA through March 14, 2021, and increased the duration of assistance to 50 total weeks. The American Rescue Plan Act of 2021 extended PUA assistance through September 6, 2021, and increased the duration of assistance to 79 total weeks. IDES stopped accepting PUA applications October 6, 2021, for retroactive PUA benefits.

According to Department data, gross PUA benefits paid from May 2020 through December 2021 totaled

\$4,305,265,988 (see Exhibit 12).

### Federal Pandemic Unemployment Compensation (FPUC)

The CARES Act established the Federal Pandemic Unemployment Compensation (FPUC) program. FPUC provided an emergency increase in weekly unemployment compensation benefits. From March 28, 2020 (based on the date Illinois entered into an agreement with the Department of Labor), to the week ending July 25, 2020, the FPUC provided **an additional \$600 per week** to eligible claimants in Illinois. This varies from the statutory end date of July 31, 2020, because Illinois’ benefit week begins on a Sunday and ends on a Saturday. (Statutory dates do not always align with a state’s benefit weeks.)

Claimants who received at least \$1 of regular or federal unemployment benefits were eligible for FPUC. In Illinois, claimants would automatically receive the FPUC supplement each week if the individual was currently receiving any kind of unemployment benefit. Illinois began paying FPUC wage supplements on April 8, 2020.

The Consolidated Appropriations Act, 2021 re-enacted FPUC **benefits of \$300 per week starting December 27, 2020**, and ending March 14, 2021. IDES began



paying out the \$300 FPUC benefit beginning January 4, 2021. The American Rescue Plan Act of 2021 further extended the \$300 FPUC benefit through September 6, 2021. The FPUC program in Illinois expired September 4, 2021.

These additional benefits and any additional administrative expenses incurred by Illinois for FPUC payments were 100 percent federally funded.

According to Department data, gross FPUC benefits paid from April 2020 through December 2021 totaled \$16,818,301,500 (see Exhibit 12).

### **Pandemic Emergency Unemployment Compensation (PEUC)**

The CARES Act also established the Pandemic Emergency Unemployment Compensation (PEUC) program, which provided **additional weeks of unemployment benefits** for those who had exhausted regular unemployment compensation (26 weeks of compensation) under federal law and were able to work, available to work, and were actively seeking work.

Under the CARES Act, PEUC benefits applied to weeks of unemployment beginning after March 28, 2020, (the date on which Illinois entered an agreement with the US DOL to participate in the programs) and ending on or before December 31, 2020. The Department began issuing PEUC payments on April 21, 2020. PEUC payments were made to individuals who met the following conditions:

- had exhausted all rights to regular compensation under state law or under federal law with respect to a benefit year (excluding any benefit year that ended before July 1, 2019);
- had no rights to regular compensation with respect to a week under such law or any other state employment compensation law or to compensation under any other federal law;
- were not receiving compensation with respect to such week under the unemployment compensation law of Canada; and
- were able to work, available to work, and actively seeking work.

According to the CARES Act, each eligible individual was to receive total PEUC benefits equal to 13 times the individual's average weekly benefit amount, including the amount of FPUC, for a benefit year (essentially 13 additional weeks of benefits.) The Consolidated Appropriations Act, 2021 increased PEUC benefits to 24 times the individual's average weekly benefit amount (essentially adding an additional 11 weeks for a total of 24 additional weeks of benefits) and extended weeks of eligibility to weeks of unemployment ending on or before March 14, 2021. The American Rescue Plan Act of 2021 increased PEUC benefits to 53 times the individual's average weekly benefit amount and extended unemployment to weeks ending on or before September 6, 2021. This makes a total of 79 weeks of unemployment compensation.

According to Department data, gross PEUC benefits paid from April 2020 through December 2021 totaled \$4,061,328,773 (see Exhibit 12).

### Mixed Earner Unemployment Compensation (MEUC)

The Consolidated Appropriations Act, 2021 was signed into law December 27, 2020, and amended the CARES Act to establish the Mixed Earner Unemployment Compensation (MEUC) program. Mixed earners are workers who earn money both through self-employment income and through traditional W2 employment. For example, a songwriter who also earns money as an administrative assistant is a mixed earner. Other examples of mixed earners are gig workers, freelancers, and other self-employed workers.

If approved for MEUC, claimants received an **additional \$100 weekly benefit** for each week they received other unemployment benefits. This is in addition to the automatic \$300 FPUC payment. PUA recipients were not eligible for MEUC.

To be eligible for MEUC, a recipient must meet all three of the following requirements:

- claimants must already be eligible for another unemployment program, such as regular unemployment, Extended Benefits, or PEUC;
- claimants must have received unemployment benefits for weeks between December 27, 2020, and September 4, 2021; and
- claimants must have earned at least \$5,000 in net self-employment income in the most recent tax year prior to the initial application for regular benefits.

MEUC benefits were available December 27, 2020, through September 6, 2021. The Department made initial payments to eligible Illinois claimants August 6, 2021. According to a Department official, payments were delayed because the Department was required to do marketing and outreach and took time to work with industry advocates. The official said they also created glossary guides to help define financial literacy terms.

According to Department data, gross MEUC benefits paid from August 2021 through December 2021 totaled \$441,500 (see Exhibit 12).

### Lost Wages Assistance (LWA)

On August 8, 2020, a presidential memorandum allocated \$44 billion from the Department of Homeland Security's Disaster Relief Fund to the Lost Wages Assistance (LWA) program. LWA authorized governors to give a \$400 supplemental payment (in addition to other unemployment compensation received) per week to eligible claimants. The memorandum authorized a 75 percent federal cost share, meaning \$300 would be paid with federal funding, and \$100 would be paid with state funding. States could count funds that were already used to provide regular UI payments toward the state match, meaning eligible claimants would receive **\$300 from the federal government in addition to their weekly benefit amount**. LWA started July 26, 2020, and could continue through December 27, 2020; however, the program ended on September 5, 2020, when funding was depleted. According to the Department, September 4, 2020, was the first week Illinois made payments to claimants.

According to Department data, gross LWA benefits paid from September 2020 through December 2021 totaled \$1,262,076,306 (see Exhibit 12).

### **Extended Benefits (EB)**

The Extended Benefits program provides for extra benefits in times of increased unemployment. During periods of high unemployment, the Illinois Unemployment Insurance Act (820 ILCS 405/409) provides for an additional 13 weeks of extended benefits once a claimant exhausts their initial 26 weeks of benefits. Claimants must also exhaust their weeks of PEUC benefits, if eligible. The claimant's weekly Extended Benefits amount should be the same as the weekly benefit amount during the benefit year.

Claimants are only able to collect Extended Benefits when the State Extended Benefits indicator is triggered on. Extended Benefits begin with the third week after a week for which there is a State "on" indicator. The Director of IDES can determine whether Extended Benefits should be triggered on based upon the Illinois unemployment rate as defined in the Illinois Unemployment Insurance Act. The US DOL Secretary can also cause Extended Benefits to be triggered on in certain circumstances, such as those experienced in 2009 and in 2020. Traditionally, Extended Benefits are only triggered on for 13 weeks, but the CARES Act allowed them to stay on longer.

On May 17, 2020, Illinois triggered on Extended Benefits to provide 13 extra weeks of benefits. Before 2020, Extended Benefits had not been triggered on in Illinois since 2010, according to Department officials. According to data provided by the Department, the first Extended Benefits payments were made in July 2020 and continued through December 2021. Illinois triggered off Extended Benefits the week ending September 11, 2021.

According to Department data, gross Extended Benefits paid from July 2020 through December 2021 totaled \$652,461,089 (see Exhibit 12).

### **Gross Benefits Paid**

Exhibit 12 provides the total gross benefits paid during March 2020 through December 2021 for regular UI and each of the PUA programs based on information provided by the Department. The Federal Pandemic Unemployment Compensation program, which paid out benefits on both regular UI and PUA claims, paid out gross benefits of \$16.8 billion, which was the highest amount paid out of these programs.

Exhibit 12  
**GROSS BENEFITS PAID BY PROGRAM**  
 March 2020 through December 2021

Program	Regular UI (IBIS)	PUA (uFACTS)	Gross Benefits Paid	Funding Source
FPUC	\$11,893,069,200	\$4,925,232,300	\$16,818,301,500	Federal
Regular UI	\$9,065,089,426		\$9,065,089,426	Employer
PUA		\$4,305,265,988	\$4,305,265,988	Federal
PEUC	\$4,061,328,773		\$4,061,328,773	Federal
LWA	\$899,916,306	\$362,160,000	\$1,262,076,306	Federal
Extended Benefits	\$652,461,089		\$652,461,089	Federal
MEUC	\$441,500		\$441,500	Federal
<b>Total</b>	<b>\$26,572,306,294</b>	<b>\$9,592,658,288</b>	<b>\$36,164,964,582</b>	

Source: OAG analysis of IDES data.

## UI and PUA Claim Application Processes

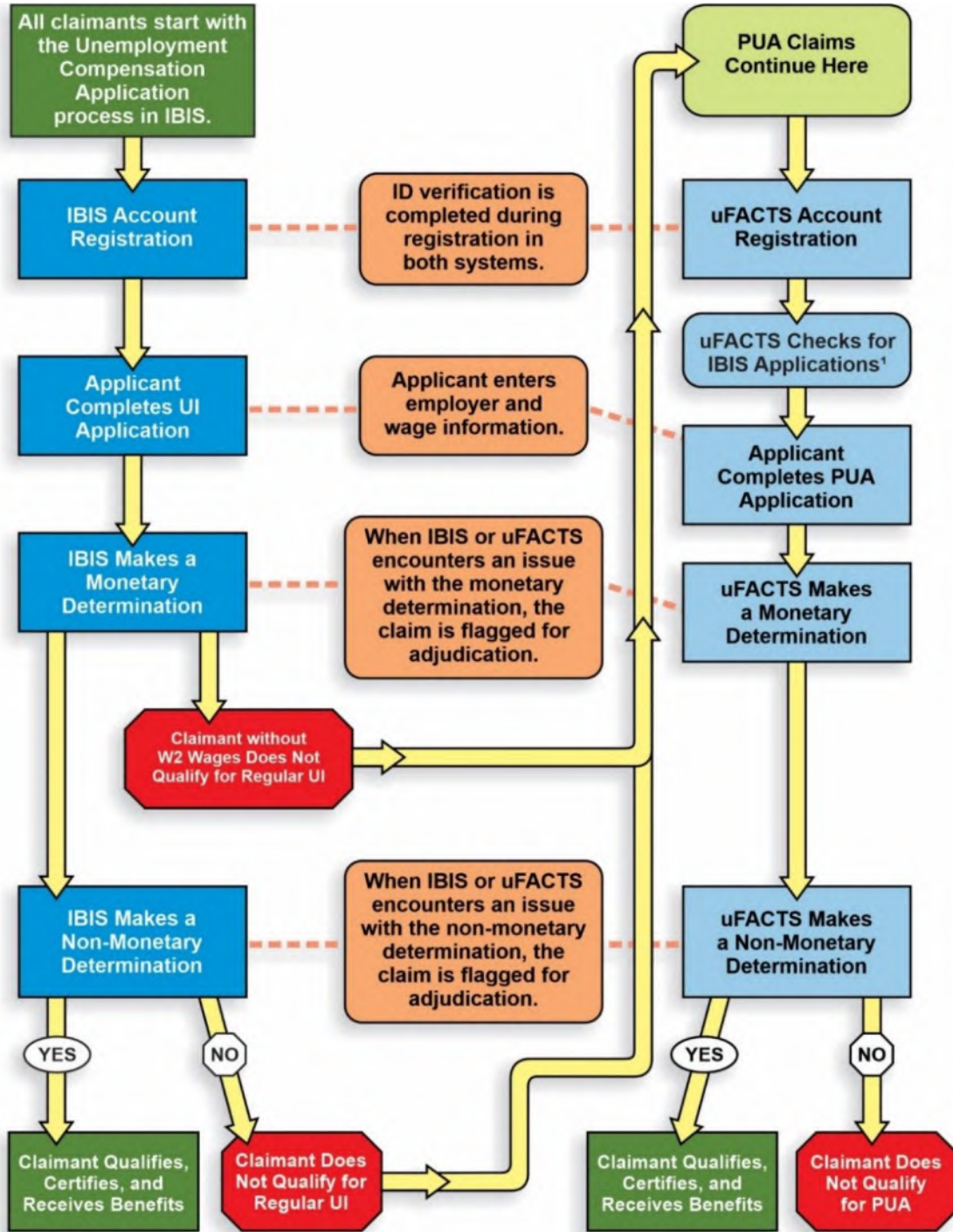
Regular UI claim applications are processed through the Illinois Benefits Information System (IBIS), which is the computerized system used by the Department to process and pay unemployment benefits. When a claimant submits an application for regular UI benefits through IBIS, the information submitted on the application goes through a number of identity verifications; these verifications were different from the PUA applicants which underwent a different identity verification process. PUA claim applications were processed through the Unemployment Framework for Automated Claim & Tax Services (uFACTS), which is a system developed, owned, and maintained by Deloitte. From the time uFACTS began accepting PUA applications on May 11, 2020, to July 18, 2020, uFACTS did not check with IBIS to verify a regular UI claim had been filed. Beginning July 18, 2020, PUA claimants had to apply through IBIS and be denied regular unemployment benefits before being able to apply for PUA benefits through uFACTS. This added additional verifications to PUA claims which had initially been lacking.

Third-party contractors input data into the PUA system. The PUA system then calculated the weekly benefit amount and payment amount based on the information (such as wages and dependents) that was input. While there was a procedure for verifying the accuracy of the weekly benefit amounts for regular UI weekly benefit amounts (since 2010), this procedure was not put into place to review PUA weekly benefit amount calculations until November 2021.

Determination 1 of LAC Resolution Number 158 asked us to review the application and review processes and the payment of benefits to individuals focusing on any fraud or inefficiencies which could be eliminated to contain costs and improve the delivery of benefits to eligible individuals. Determination 7 also asked us to determine if a third-party contractor calculated weekly benefit amounts for Pandemic Unemployment Assistance claimants and, if so, if there were any procedures to verify the accuracy of their calculations.

Applications for regular UI and PUA followed a similar process, but were accomplished through two different systems. Regular UI claim applications are processed through the Illinois Benefits Information System (IBIS), which is the computerized system used by the Department to process and pay unemployment benefits. PUA claim applications were processed through the Unemployment Framework for Automated Claim & Tax Services (uFACTS), which is a system developed, owned, and maintained by Deloitte. Illinois entered into a contract for the uFACTS system on April 28, 2020, and began accepting PUA applications on May 11, 2020. Exhibit 13 provides a simplified flowchart of the general unemployment claim process for both regular UI and PUA applications.

Exhibit 13  
**UI AND PUA APPLICATION PROCESS FLOWCHART**  
 July 18, 2020 to September 6, 2021



Note:  
 ¹ Flowchart represents the process after July 18, 2020. Prior to July 18, 2020, PUA applicants did not have to apply through IBIS and uFACTS did not check with IBIS to verify a regular UI claim had been filed.

Source: OAG analysis of Illinois Department of Employment Security information.

## Regular UI Process

When a claimant submits an application for regular UI benefits, the information

IBIS Identity Verifications	
Secretary of State	Validation of info against SOS data
Social Security Administration	Looks for claims with invalid SSNs
Wage Record Validation	Compares against wage records to determine monetary eligibility

submitted on the application goes through a number of identity verifications, including Secretary of State validation, Social Security Administration cross-match, and a Wage Record Validation cross-match. The system also performs monetary (i.e., earnings thresholds and wage history) and nonmonetary (i.e., job loss or being able, available, and actively seeking work) determinations. The system creates flags for any information preventing eligibility. For example, if a claim is submitted in IBIS with an invalid SSN, the cross-match against Social Security Administration data would flag the claim. Flags can only be removed **manually** after the flag is cleared.

According to the Department, IBIS automatically determines the correct claim type, the correct program, employer chargeability, dependent eligibility, and the weekly benefit amount (WBA) based upon the base period wage records in IBIS. (Wages are entered by the claimant or caseworker then those wages are cross-matched against wage records.) A regular UI finding will automatically be generated to the claimant, and a notice of claim will be sent to the claimant’s last 30-day employer and/or the last employer. This UI finding shows: the first certification date; the wages paid by each employer in each calendar quarter of the base period for insured work; the date of claim and benefit year begin and end dates; the weekly benefit amount and dependent allowance; and a maximum benefit balance. Auditors reviewed a sample of UI findings and letters to employers and found the correspondence generally included these components. According to the Department, employers also receive, on a quarterly basis, a listing of all regular UI and Extended Benefits claimants linked to the employer for the quarter.

If general eligibility requirements are met, the recipient will be provided some income while searching for a job for up to a maximum of 26 full weeks in a one-

year period. Exhibit 14 lists the general eligibility requirements. Eligibility requirements are designed to determine if an individual was recently employed and lost that employment through no fault of his/her own.

### Exhibit 14 UI GENERAL ELIGIBILITY REQUIREMENTS

- Unemployed through no fault of his/her own.
- Was paid \$1,600 or more in wages during the base period for insured work.
- Was paid at least \$440 of the base period wages at any time during the base period outside the calendar quarter in which wages were the highest.
- Registered for work with the Illinois Department of Employment Security.

According to a US DOL fact sheet, prior to the pandemic, a claimant could expect to receive the first benefit check generally two to three weeks after filing a claim, which included a waiting week. A “waiting week” is a qualifying period required by federal law for which benefits are not paid.

Source: Illinois Department of Employment Security Unemployment Insurance Benefits Handbook.

Regular UI typically requires this waiting week. However, during the audit period, the CARES Act allowed states the option to enter into an agreement with the US DOL to suspend the “waiting week” and pay benefits for two weeks, instead of one, after their first certification. The agreement with the US DOL also provides for full reimbursement for the first week of regular unemployment. Illinois entered into an agreement with the US DOL on March 28, 2020.

### **Benefit Payment**

During the audit period, once a claimant was determined eligible to receive benefits, IBIS automatically established payment of regular UI benefits via debit card, unless the claimant had enrolled for payment by direct deposit. Debit cards were valid for 24 months from issuance. An initial Benefit Payment Explanation should also be provided to the claimant.

Claimants are required to certify for benefits bi-weekly. Certification is the process of answering basic questions and attesting to facts to communicate a claimant’s employment status and establish a claimant’s continued eligibility. Claimants may certify through the online self-service, Tele-Serve, and/or paper certifications (allowed in limited circumstances). Certifications are required to occur in a timely manner, which according to IDES procedures is no later than one week after their scheduled certification day. Most of the certification process is automated through Tele-Serve and the online self-service.

Auditors found evidence of regular UI claimants certifying bi-weekly for a two week period and the Department monitoring regular UI certifications in IBIS. See the *Analysis of Claims Data and Call Data* section on page 88 for more details on regular UI certifications.

### **PUA Process**

To have been eligible for PUA benefits, a claimant was required to first be denied regular unemployment benefits. PUA claim applications were processed through uFACTS, a system developed, owned, and maintained by Deloitte. From the time uFACTS began accepting PUA applications on May 11, 2020, to July 18, 2020, there were no controls to prevent applicants with no recent claim filed in IBIS from filing for PUA. Prior to July 18, 2020, uFACTS did not check with IBIS to verify a regular UI claim had been filed. Also prior to July 2020, PUA applicants underwent a different identity verification process. The uFACTS system used Experian; however, a claimant could opt out of the Experian identity verification at which point the claim would go to adjudication and be worked by contractors and/or retirees on personal services contracts (whose positions ranged from Program Representatives to Field Office Supervisor).

Applicants who wanted to receive more than the minimum weekly benefit amount of \$198 had to provide tax documents from the previous tax year to support the applicant’s net income. According to Department officials, third-party contractors input data into the PUA system, whereupon the system then calculated the weekly benefit amount and payment amount based on the information, such as wages and dependents.



Pursuant to Determination 7 of the audit's resolution, auditors inquired if there were any procedures to verify the accuracy of the calculation of weekly benefit amounts for PUA claimants. According to IDES officials, since 2010, IDES and Illinois Department of Innovation and Technology staff conduct weekly benefit testing for regular UI claims every year from late November into December. The purpose of the testing is to ensure monetary determinations for weekly benefit amount and dependent allowances are correctly calculated based upon wages in the base period. IDES officials said this testing began on PUA claimants in November 2021 and was conducted by Deloitte and IDES staff. See the *Previous OAG Audits* section on page 33 for information on the Statewide Single Audit's finding related to weekly benefit amount calculations.

Beginning July 18, 2020, PUA claimants had to apply through IBIS and be denied regular unemployment benefits before being able to apply for PUA benefits through uFACTS. After July 18, 2020, once the applicant passed the identity verification in IBIS and IBIS determined the claimant was not eligible for regular UI, the applicant was directed to apply for PUA benefits through uFACTS. At this point, the claimant underwent additional identity verification checks through Experian. IDES staff were not assigned to make PUA eligibility determinations. PUA eligibility determinations were handled by agents of Insight Global, a contractor hired to help verify claimants' wages and income, and IDES retirees on personal services contracts.

Per the Consolidated Appropriations Act, 2021, after January 31, 2021, applicants had to substantiate employment or self-employment within 21 days after submitting an application for PUA. Applicants who had applied prior to January 31, 2021, were allowed 90 days to provide proof of employment. According to UIPL 16-20 Change 4, requiring the individual to submit this documentation to prove eligibility was intended to demonstrate a recent attachment to the labor force and serve as an important tool against fraud (rather than have such documentation automatically added to the file based on agency records). Applicants who had submitted documentation in support of a higher weekly benefit amount would already have met this requirement.

After applying for PUA, applicants would receive a PUA Finding Letter with information about the claim, including the weekly benefit amount. Benefit payments were retroactive, for weeks of unemployment, partial unemployment or inability to work due to COVID-19 reasons starting on or after January 27, 2020. To remain eligible for PUA benefits, an applicant had to certify on a weekly basis.

### **Other Unemployment Compensation Benefits**

Once an applicant was receiving regular UI benefits or PUA benefits, they could be entitled to benefits from the other programs (PEUC, FPUC, LWA, and MEUC). As a result, both the regular UI processing system (IBIS) and the PUA processing system (uFACTS) had to have the capability to process these additional benefits. Exhibit 15 shows which programs were processed through which system(s). For example, PEUC and MEUC could only be added to regular UI; therefore, it only had to be processed in IBIS. FPUC and LWA could be

added to regular UI or to PUA so these benefits were processed in both IBIS and uFACTS.

Claimants could be eligible for multiple programs. For example, an applicant receiving regular UI could be eligible (upon meeting individual program requirements) for all programs except PUA. Some programs, however, were exclusive to regular UI claimants. For example, PUA claimants could not receive PEUC or MEUC.

**Exhibit 15  
UNEMPLOYMENT PROGRAMS PROCESSING SYSTEMS**

	Regular UI (IBIS)	PUA (uFACTS)
Regular UI	Yes	-
PUA	-	Yes
PEUC	Yes	No
FPUC (\$600/\$300)	Yes	Yes
LWA	Yes	Yes
MEUC	Yes	No

Source: OAG auditor prepared based on Illinois Department of Employment Security information.

## Audits

Prior OAG audits have contained various findings related to IDES' unemployment process including failure to implement general information technology controls over the PUA system and inadequate process over determining appropriate benefit amounts for the PUA program.

In addition, audits from the US DOL Office of Inspector General and audits from other states have shown that the issues that occurred in Illinois were not limited to Illinois. States' difficulties with implementing the new unemployment programs were attributed to states' information technology systems not being modernized and staffing resources being insufficient to manage the increased number of new claims.

A report issued by the Pandemic Response Accountability Committee noted states experienced significant challenges in effectively providing their states with unemployment benefits. The report noted four common insights from unemployment insurance findings identified across 16 State Auditor Offices (including Illinois): unemployment insurance workloads surged for states; the claims surge exploited internal control weaknesses; uncommon and varying fraud schemes began to occur as the amount of federal funding expanded; and State Workforce Agencies experienced information technology system challenges.

Auditors reviewed recent audits for findings relevant to unemployment insurance, including programs funded by the CARES Act. Several audits were released by various sources, including the OAG, US DOL, and audits and reviews from other states. Some of the most relevant findings are noted below.

### Previous OAG Audits

There were various findings in prior OAG audits related to IDES' unemployment process. We reviewed the IDES Compliance Examinations for FY16 through FY21, Financial Audits for the Unemployment Compensation Trust Fund for FY20 and FY21, and Statewide Single Audits for FY19, FY20, and FY21.

A few of the most relevant findings from **OAG compliance examinations** and **financial audits** are noted below.

- **Failure to Implement General Information Technology Controls over the PUA System** is a repeated finding (for FY21) and noted the service provider for the PUA system maintained full control over the system and found specific issues with Change Control, Security, and Disaster Recovery.
- **Failure to Maintain Accurate and Complete Pandemic Unemployment Assistance Claimant Data** is a new finding for FY21. Auditors were unable to conclude the PUA claimant data records were complete and accurate under the Professional Standards promulgated by the American Institute of Certified Public Accountants. "Due to the inability to conduct detailed claimant testing, we were unable to determine whether the Department's financial statements accurately document the PUA benefits paid during Fiscal Year 2021."
- **Inadequate Controls over Service Providers** is a new finding for FY21 and noted the Department had not monitored compliance with the contract requirements for the service providers tested. We tested compliance with

contract requirements and deliverables; results of this testing can be found in the *Contracts and Agreements* section on page 38.

Two additional relevant findings were in past OAG audits, but could not be followed up on in the most recent FY21 audit: 1) the Department failed to ensure PUA claimants met eligibility requirements; and 2) the Department did not implement adequate controls over the PUA program processes, including system edits to prevent claimants who were between the ages of birth to 13 years old or 90 years or older. The audits noted that the Department was unable to provide complete and accurate claimant data; therefore, the auditors were unable to conduct detailed testing as part of the most recent FY21 audit.

These findings led the auditors to have a qualified opinion on the FY20 report and a disclaimer of opinion on the FY21 report. The FY20 audit notes that the system processing these claims had material weaknesses in the design and operation of internal control. As a result, the auditors were unable to obtain sufficient appropriate audit evidence to determine or verify by alternative means whether accrued claims and certain other paid claims met eligibility requirements.

The FY21 audit notes that the Department has not maintained certain accounting records and supporting documents for the Trust Fund relating to transactions with its beneficiaries, nor is the Trust Fund's internal control adequate to provide safeguards over Trust Fund assets and to assure the proper recording of transactions. Accordingly, auditors were unable to extend auditing procedures sufficiently to determine the extent to which the financial statements may have been affected by these conditions and therefore were unable to determine if the Department's FY21 Trust Fund financial statements were fairly presented.

Although there were some limitations to the data we received as part of this Performance audit, **for purposes of this audit only**, we found the data provided to be adequately reliable. As part of our sample, we verified information when appropriate. See Appendix B for a discussion of our testing.

We also reviewed the **Statewide Single Audits** released for FY19, FY20, and FY21. The FY21 Statewide Single auditors determined that the material noncompliance resulted in a qualified opinion on compliance for the Unemployment Insurance program.

Relevant findings for these audits include:

- **Inadequate Process over Determining Appropriate Benefit Amounts for the PUA Program** is a new finding for FY21 and noted IDES inaccurately calculated the weekly benefit amount (WBA) for certain claimants of the PUA program during the year ended June 30, 2021. The use of an outdated weekly benefit amount payment chart after January 1, 2021, resulted in the weekly benefit amount for some PUA claimants sampled being \$484 instead of \$505 (after a January 1, 2021 adjustment).
- **Inadequate Controls over Determining Eligibility for the PUA Program** is a repeated finding from FY20 and noted the Department did not establish adequate internal controls over its third party service organization who

administered the Unemployment Framework for Automated Claim & Tax Services (uFACTS) system used to determine eligibility for the PUA program. This included the absence, from May 2020 to February 2021, of a question for claimants to certify that they were self-employed (or similar).

- **Failure to Complete UI BAM Case File Reviews** is a repeated finding from FY20 and noted the Department did not complete the Benefit Accuracy Measurement (BAM) case file reviews in accordance with US DOL requirements for the Unemployment Insurance program.
- **Inadequate Controls over Determining Eligibility for Lost Wages Assistance Payments** is a new finding for FY21 and noted IDES did not establish adequate controls over its third-party service organization who administered the uFACTS system used to determine eligibility for the PUA program. Eligibility for PUA also determined eligibility for the LWA program. IDES has automated controls within uFACTS to validate weekly self-certifications for unemployment and monitoring of period of performance, including cutoff when maximum benefits have been issued. Therefore, controls over allowability, eligibility, and period of performance for LWA were not able to be tested.
- **Failure to Implement UI Program Integrity and Overpayment Reduction Requirements** is a repeated finding from FY19. Similar findings on this issue have been reported since 2015. While IDES developed written procedures relative to overpayments and entered into agreements to recover overpayments, the procedures did not address the requirement to impose a monetary penalty (not less than 15%) on fraud overpayments. In addition, these procedures did not address the prohibition on providing employers relief from charges to an employer's unemployment insurance account when overpayments are the result of the employer's failure to provide timely or adequate information.

### US DOL OIG Audits

The US DOL Office of the Inspector General (OIG) is an independent agency within and has primary oversight of the US Department of Labor and has released many reports and alert memorandums regarding the new unemployment programs. The US DOL OIG has made a number of recommendations to the US DOL ETA to improve management oversight of the Unemployment Insurance program.

Some of the audits also surveyed states or selected states for in-depth analysis. A report released in May 2021, covering the period March 27, 2020, to September 30, 2020, noted that Illinois was performing overpayment recoveries. However, the report noted that Illinois was only partially reporting identity theft overpayments for PUA, and it was not reporting overpayments for PEUC or FPUC.

The report noted that many states that did report overpayments still understated the total amount reported (by an estimated 89 percent). This demonstrates the

difficulties experienced by many states with reporting overpayments and performing overpayment recovery activities. The report also attributes the states' difficulties with implementing three of the new unemployment programs (PUA, PEUC, and FPUC) to: states' information technology systems were not modernized; staffing resources were insufficient to manage the increased number of new claims; and according to state officials, guidance from ETA was untimely and unclear.

A report released in September 2022 noted that, despite significant efforts made by the US DOL ETA, pandemic-related UI funds were not protected from historic levels of improper payments, including fraud. Improper payments and improper payment rates are discussed later in this report.

### **Other State Audits**

Several states have released audits of their state unemployment programs. Several common concerns emerged throughout the audit reports issued by other states:

- State Workforce Agencies were inundated with fraud;
- Agencies did not have modernized IT systems and/or internal controls required to prevent overpayments from occurring;
- Agencies did not pay benefits or adjudicate claims in a timely manner; and
- Agencies were not equipped to answer the number of calls into their call centers during the pandemic.

### **Pandemic Response Accountability Committee Report**

The Pandemic Response Accountability Committee (PRAC) was created in March 2020 by the CARES Act. The PRAC is responsible for conducting and coordinating oversight of pandemic-related funds and preventing and detecting fraud. A PRAC report released in December 2021 noted states experienced significant challenges in effectively providing their states with unemployment benefits. The purpose of the report was to identify key themes or common challenges identified during oversight activities completed by the US DOL OIG and the offices of State Auditors. The report noted four common insights from unemployment insurance findings identified across 16 State Auditor offices (including Illinois):

- unemployment insurance workloads surged for states;
- the claims surge exploited internal control weaknesses;
- uncommon and varying fraud schemes began to occur as the amount of federal funding expanded; and
- State Workforce Agencies experienced information technology system challenges.

According to the report, State Auditors found:

- the PUA eligibility requirements decreased internal controls, and
- state-specific control weaknesses for identity and eligibility verification negatively impacted the State Workforce Agencies' ability to detect fraud.

The PUA program did not include the typical verifications required for regular unemployment benefits, such as approving eligibility for unemployment benefits based on self-certification rather than requiring a claimant to provide documentation. This was the case until December 27, 2020, when the Consolidated Appropriations Act, 2021 required claimants to provide documentation to substantiate their employment or self-employment to be eligible to receive PUA.

## Contracts and Agreements

The Department entered into eight contracts including 29 amendments during the audit period for services and software related to administering the unemployment insurance and PUA programs. Pursuant to a Disaster Proclamation issued by the Governor, these contracts were exempt from bidding and the provisions of the Illinois Procurement Code.

The eight contracts initially totaled \$33.5 million. However, with subsequent amendments, the eight contracts eventually totaled \$226.4 million, \$160.5 million of which had been expended through January 2023. Nine of the 29 amendments were signed by IDES between 2 days and 45 days after the effective date of the amendment.

Auditors tested a total of 37 contract deliverables for six of the contracts. We found that the contract deliverables were met for all but one contract. IDES did not receive from Insight Global all required weekly reports. Additionally, not all nondisclosure agreements were filled out completely and filed before beginning work on the project. This deficiency limited IDES' ability to ensure all contract employees were Illinois residents and also failed to ensure contract employees were made aware of confidentiality procedures before working with confidential data.

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Determination 7 of LAC Resolution Number 158 asked us to determine what third-party contractors did the Illinois Department of Employment Security utilize during this time period and were any of these contracts no-bid contracts; did a third-party contractor calculate weekly benefit amounts for Pandemic Unemployment Assistance claimants and, if so, were there any procedures to verify the accuracy of their calculations; did third-party contractors meet the performance measure established by the Illinois Department of Employment Security prior to the issuance of the contracts.

During the audit period, the Department, beginning April 9, 2020, entered into eight no-bid contracts/agreements for services and software related to administering the unemployment insurance and PUA programs. On March 9, 2020, the Governor issued a Disaster Proclamation, which suspended the provisions of the Illinois Procurement Code that would in any way prevent, hinder, or delay necessary action in coping with the disaster as long as they were not required by federal law. **These eight contracts were deemed necessary to respond to the COVID-19 pandemic and were therefore exempt from bidding and the provisions of the Illinois Procurement Code.** Exhibit 16 provides a summary of the contract purpose, procurement method, initial contract amount, total contracted amount, and the amount of expenditures as of January 2023.



Exhibit 16  
**PANDEMIC RELATED CONTRACTS AND AGREEMENTS**

	Purpose	Procurement Method <sup>1</sup>	Initial Contract Amount	Final Contract Total	Total Expenditures <sup>2</sup>
Deloitte Consulting LLP (Call Center)	Telephone agents (Tier 1)	COVID-19 exemption	\$12,736,700	\$98,472,182	\$76,231,114
Insight Global LLC	Specialists to perform PUA claim verification services	COVID-19 exemption	\$3,990,313	\$73,544,157	\$51,613,787
Deloitte Consulting LLP (uFACTS)	PUA Software	COVID-19 exemption	\$9,490,000	\$33,834,194	\$27,694,784
Pitney Bowes, Inc.	Print and mail service	COVID-19 exemption	\$2,250,000	\$15,250,000	\$3,772,964
Fast Enterprises, LLC	Short-Time Compensation program software	COVID-19 exemption	\$4,006,000	\$4,171,480	\$150,645
Pondera Solutions, LLC	Fraud analytics	COVID-19 exemption	\$854,329	\$854,329	\$834,639
Carahsoft Technology Corp.	Additional languages for virtual agent	COVID-19 exemption	\$165,391	\$205,319	\$165,391
Multilingual Connections, LLC	Editing/proof-reading for virtual agent in various languages	COVID-19 exemption	\$33,372	\$33,732	\$33,732
<b>Total</b>			<b>\$33,526,105</b>	<b>\$226,365,393</b>	<b>\$160,497,056</b>

Notes:

<sup>1</sup> On March 9, 2020, the Governor issued a Disaster Proclamation, which suspended the provisions of the Illinois Procurement Code.

<sup>2</sup> Total expenditures includes all FY20 and FY21 payments and FY22 payments through January 2023.

Source: OAG analysis of IDES and Comptroller data.

The eight contracts included 29 amendments, 16 of which had an effective date before September 6, 2021.

Five contracts and one amendment were not signed by an IDES official; however, four of these contracts had effective dates in the spring/summer of 2020 when employees were likely sheltering in place.

Nine of the amendments were signed by IDES after the effective date of the amendment (four for Fast Enterprises, two for Insight Global, two for Deloitte Call Center, and one for Deloitte uFACTS). For these amendments, the IDES signatures were anywhere between 2 days and 45 days after the effective date of the contract amendment. For these amendments, the contractor and IDES were operating without a contract in place because the amendments were after the contract’s end date. For six of those nine, the vendor also signed after the effective date. Performing work without an effective contract in place increases risk for both the State and the contractor.

**Contract Signing**

**RECOMMENDATION  
NUMBER**

**1**

*The Illinois Department of Employment Security should ensure contracts and amendments are signed prior to the effective date of the contract or amendment.*

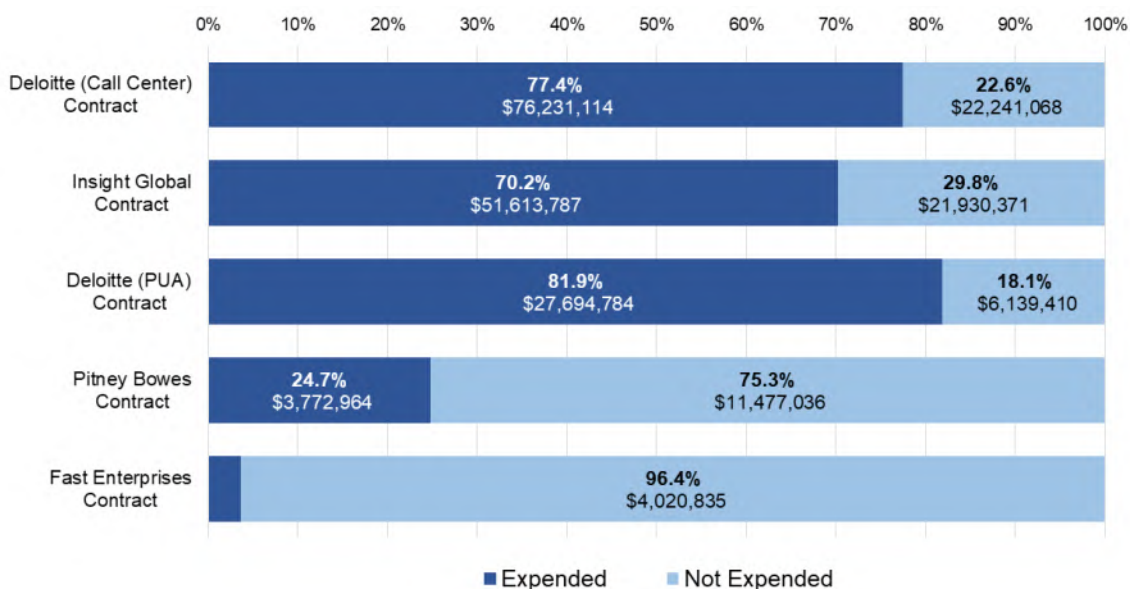
**Illinois Department of Employment Security Response:**

The Department accepts the Recommendation. Multiple contracts and amendments were deemed necessary and implemented to respond to the COVID-19 pandemic. The contracts were exempt from bidding and the provisions of the Illinois Procurement Code under emergency proclamations designed to expedite disaster response services. In addition, some contracts were negotiated and became effective when employees and vendors were sheltering in place or establishing remote work locations which created unique logistical issues requiring specialized solutions due to the pandemic. The Department recognizes the importance of having contracts in place prior to the receipt of goods or services. Efforts continue to improve management alignment and internal controls over procurement and contract areas, especially in times of emergency growth due to recession and economic events or other extraordinary circumstances.

**Contract/Agreement Expenditures**

Exhibit 17 provides the amount and percent of expenditures for each of the discussed contracts that had a total contract amount greater than \$1 million. As shown, a significant percentage of the contracted amount has been expended for three of the contracts. In two of the contracts, less than 25 percent of the contract was expended, leaving several million dollars unexpended. Each of the contracts, including deliverable testing, are discussed below.

**Exhibit 17**  
**PERCENT EXPENDED VS NOT EXPENDED FOR CONTRACTS GREATER THAN \$1 MILLION**  
 FY20 to FY22



Source: OAG analysis of Illinois Comptroller data as of January 2023.

**Deloitte Consulting LLP Telephone Agent Services (Call Center)**

The Department initially contracted with Deloitte Consulting to provide a team of 200 Tier 1 full-time equivalent telephone agents. These telephone agents were to have access to the IDES contact center and corresponding system(s) to answer, diagnose, and resolve or properly transfer calls IDES was receiving. Tier 1 agents were to answer frequently asked questions for employees, information on how to file a claim, and how to file an appeal. Upon agreement, agents could answer Tier 2 call types, which included questions about account access, change of address or telephone number, and direct deposit/payment information.

Amendments to the contract both increased the number of call agents and contract amount and extended the contract end date (see Exhibit 18). The initial contract included two subcontractors. Within 8 months, an additional 13 subcontractors were added (1 was subsequently deleted), and up to an additional 800 telephone agents could be deployed by the vendor as needed as determined by the Department. The initial contract amount was \$12.7 million with an end date of December 31, 2020; after 9 amendments, the total contract amount was \$98.5 million and the contract end date is June 30, 2023. As of January 2023, \$76.2 million of the total contract amount (77.4%) had been expended.

Exhibit 18  
DELOITTE CALL CENTER CONTRACT SUMMARY<sup>1</sup>

Contract/ Amendment	Purpose	Start Date	End Date	Contract Amount	Revised Amount
FY20 Contract	200 telephone agents	4/28/2020	12/31/2020	\$12,736,700	-
<i>Amendment 1</i>	Added 2 additional subcontractors	6/4/2020	12/31/2020	+\$0	\$12,736,700
<i>Amendment 2</i>	800 additional telephone agents, a quality assurance program, and extended hours of operation	9/10/2020	12/31/2020	+\$12,500,000	\$25,236,700
<i>Amendment 3</i>	Extended contract term and added 11 subcontractors	12/22/2020	2/28/2021	+\$9,700,000	\$34,936,700
<i>Amendment 4</i>	Extended contract term, increased contract amount, and removed 1 subcontractor	2/28/2021	4/30/2021	+\$7,800,000	\$42,736,700
<i>Amendment 5</i>	Increased contract amount and extended term	5/1/2021	6/30/2021	+\$7,000,000	\$49,736,700
<i>Amendment 6</i>	Increased contract amount and extended term	7/1/2021	9/30/2021	+\$6,000,000	\$55,736,700
<i>Amendment 7</i>	Increased contract amount and extended term, and provided for the number of agents to fluctuate during the contract term.	10/1/2021	6/30/2022	+\$31,495,813	\$87,232,513
<i>Amendment 8</i>	Increased contract amount and extended term	7/1/2022	12/31/2022	+\$6,239,669	\$93,472,182
<i>Amendment 9</i>	Increased contract amount and extended term	1/1/2023	6/30/2023	+\$5,000,000	\$98,472,182
<b>Total Contracted Amount:</b>					<b>\$98,472,182</b>
Expended as of January 2023:					\$76,231,114
<b>Percentage Expended:</b>					<b>77.4%</b>

Note:

<sup>1</sup> Contract amounts and expenditures rounded to the nearest dollar.

Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.

We conducted testing on a sample of contract deliverables. All contract requirements tested were met.

The Department contracted with Deloitte Consulting to provide a team of 200 Tier 1 full-time equivalent telephone agents. Of these initial 200 agents, not less than 150 were to be Illinois residents prior to the performance of the work under the contract. Each agent was required to return a completed and signed copy of the nondisclosure acknowledgement form prior to the agent doing any work. One

of the conditions listed on the nondisclosure obligation acknowledgement form is that the agent would perform all work under the contract at the work location provided. Auditors tested 10 Deloitte nondisclosure agreements, which included contract employees' addresses to ensure the process was followed and the agents were Illinois residents. All 10 addresses were Illinois addresses. Additionally, all the forms were filled out prior to the employee's start date.

Deloitte was required to establish a **quality assurance plan** to monitor and track each agent's performance of work. Auditors requested and reviewed the quality assurance plan and determined the requirement was satisfied. Deloitte was also required to submit **weekly written reports** describing work performed, number of calls, number of calls transferred, average talk time, average response time, average handle time, and problems encountered and their resolutions. Auditors requested and reviewed all weekly reports covering May 2020 through December 2021. Auditors determined that the weekly reports met contract requirements.

Deloitte was to share **quality data** on a daily basis with IDES as well. Auditors inquired with the Department and officials reported receiving quality data on a daily basis. In a later amendment to the contract, Deloitte was required to implement and administer a **quality assurance program** for its agents to increase efficiency and productivity upon successful implementation of a Silent Monitoring telephony solution by the State. Auditors determined that this requirement was completed.

Among other items, the State was responsible for providing call center technology to agents within the timeframes needed to support call center mobilization. Auditors reviewed sources for technology IDES provided to Deloitte call center agents and considered timing between the contract dates and when call center reports show Deloitte beginning handling calls. Auditors determined that the State sufficiently met the tested contract deliverable.

### **Insight Global LLC PUA Verification Services**

The Department initially contracted with Insight Global to provide up to 200 qualified specialists, including verifiers, team leads, trainers, and operations managers, to perform services such as verifying claimants' wages and income. The number of specialists increased to 350 in December 2020. These specialists would:

- review claimant records, including tax documents, and when applicable, contact claimants and employers;
- verify and determine claimants' employment, income, and wages on a case-by-case basis in accordance with IDES guidance and procedures;
- fax and index PUA claims in accordance with IDES guidance and procedures; and
- enter the determination, notes, calculations, and any and all supporting data into the IDES database and systems.

Team leads and operations managers, among other tasks, monitored and reviewed specialists’ work performance for compliance to ensure each specialist complied with the process, procedures, guidance, documentation, performance, and accuracy requirements established by IDES. Insight Global trainers were to train the agents who would be working these issues and were charged with overseeing their work by conducting weekly audits. The weekly audits involved the completion of a quality assurance score card including agent name, date issue worked, claimant ID, claim type, agent resolution, and a pass/fail designation.

The initial contract amount was \$4 million with an end date of December 31, 2020 (see Exhibit 19). After 7 amendments, the total contract amount was \$73.5 million, and the end date was June 30, 2023. As of January 2023, about \$51.6 million of the total contract amount (70.2%) had been expended.

Exhibit 19 INSIGHT GLOBAL CONTRACT SUMMARY <sup>1</sup>					
Contract/ Amendment	Purpose	Start Date	End Date	Contract Amount	Revised Amount
FY21 Contract	PUA claims verification (up to 200 vendor staff)	7/30/2020	12/31/2020	\$3,990,313	-
<i>Amendment 1</i>	Extended contract term and increased vendor staffing to 350	12/22/2020	<i>3/31/2021</i>	<i>+\$4,064,454</i>	\$8,054,767
<i>Amendment 2</i>	Allowed for IDES and the vendor “to mutually agree on the number” of specialists to perform services; increased contract amount and extended term	3/1/2021	<i>6/30/2021</i>	<i>+\$15,394,838</i>	\$23,449,605
<i>Amendment 3</i>	Extended contract term	7/1/2021	<i>7/31/2021</i>	<i>+\$0</i>	\$23,449,605
<i>Amendment 4</i>	Increased contract amount and extended term	8/1/2021	<i>9/30/2021</i>	<i>+\$8,725,958</i>	\$32,175,562
<i>Amendment 5</i>	Increased contract amount and extended term	10/1/2021	<i>6/30/2022</i>	<i>+\$30,394,962</i>	\$62,570,524
<i>Amendment 6</i>	Increased contract amount and extended term	7/1/2022	<i>12/31/22</i>	<i>+\$5,973,633</i>	\$68,544,157
<i>Amendment 7</i>	Increased contract amount and extended term	1/1/2023	<i>6/30/2023</i>	<i>+\$5,000,000</i>	\$73,544,157
<b>Total Contracted Amount:</b>					<b>\$73,544,157</b>
Expended as of January 2023:					\$51,613,787
<b>Percentage Expended:</b>					<b>70.2%</b>
Note: <sup>1</sup> Contract amounts and expenditures rounded to the nearest dollar.					
Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.					

We conducted testing on a sample of contract deliverables. This testing indicated that **not all contract requirements were met**.

Each specialist was required to be an Illinois resident prior to his or her performance of work under this contract unless an exception is approved, in writing, by IDES. One of the conditions listed on the nondisclosure obligation acknowledgement form required to be filled out by each specialist is that the specialist will perform all work under the contract at the work location provided. Auditors tested 10 nondisclosure agreements containing the contract employees' addresses to ensure process was followed and the specialists were residents. Three of the 10 nondisclosure agreements tested did not provide an address of the specialist, which means the Illinois residency of these 3 could not be confirmed prior to working on the contract. A document reviewed for another purpose listed an Illinois city for these three individuals; however, the document was a post-work summary of hours. Without a location listed on the 3 nondisclosure forms, it is unclear how IDES ensured that the individuals were Illinois residents prior to performance of work. IDES reported there were no written exceptions to the Illinois residency requirements.

In addition, the contract stated, "a specialist will become authorized to perform work under this Contract when IDES receives from the Vendor a completed and signed copy of the Specialist's Nondisclosure Obligation Acknowledgement form." Seven nondisclosure agreements tested had a signature date several months after the employee's start date; these forms were signed anywhere from 146 days to 233 days after the employee's start date. This is also concerning because the nondisclosure obligation acknowledgment form discusses the specialist's access to confidential information, asks the specialist to agree to the conditions, and notes the consequences associated with disclosing confidential information.

The vendor was also required to provide the IDES liaison with two types of reports: 1) weekly reports and 2) attendance reports. Auditors reviewed and determined the weekly reports did not satisfy contract requirements based on the documents provided. The weekly reports generally contained necessary requirements but there were many invalid reports, such as multiple reports with data repeated from a previous week instead of current data. An Insight Global Representative also noted in an email that IDES never logged in to view these reports.

Auditors inquired if IDES had received the required attendance reports. IDES sent auditors a quarterly hours report. Upon review, auditors determined the attendance report requirement was satisfied.

### **Deloitte Consulting LLP PUA uFACTS System**

The Department contracted with Deloitte to provide software to process PUA claims. IDES' system for processing unemployment insurance claims (IBIS) was not able to process PUA claims. IBIS had parameters in place to support FPUC payments due to a previous program, but PUA covered a new group of individuals who were not traditionally covered and for whom IDES did not have any

experience with. According to Department officials, IDES contracted with Deloitte because Deloitte “came to them first” and was also doing work in two other states (Ohio and Colorado).

Deloitte Consulting was to implement a cloud-based version of the Unemployment Framework for Automated Claim & Tax Services (uFACTS) solution to meet PUA requirements of the CARES Act. The solution was to provide PUA functionality necessary to support the CARES Act, processing the additional claims load, and making PUA and FPUC payments. The projected date for uFACTS to “go live” was May 8, 2020. The actual go-live date was May 11, 2020.

The contract included assumptions by which the parties acknowledged that departure from these assumptions may affect the outcome and timeliness of the engagement. According to an IDES official, the Department had to weigh the benefits compared to the time and additional dollars. Some of the key assumptions were:

- **Critical Functionality** – The contract stated, “In light of the COVID-19 crisis and the pressing need to implement PUA, the State and [vendor] will be required to prioritize critical functionality over non-critical functionality; decisions will be governed by the need to pay eligible recipients and not non-essential or desirable functionality.” The contract defined critical functionality as core functionality required to process PUA claims in accordance with the requirements of the CARES Act and other applicable laws and regulations.
- **Suspension of federal integrity checks** – The contract noted the “recent compromised performance of Federal integrity checks may require that they be suspended to ease the customer experience.” The contract states that integrity may have to be enforced by the State on the back end or through subsequent releases of cross-match or other integrity capabilities.
- **Appeals** – Appeals functionality was not within the scope of the contract.
- **Interstate Connection Network (ICON) interface** – There would be no interface between uFACTS to ICON services which assist state UI staff in identifying if a claimant has a claim or wages in another state.
- **Identity authentication services** – The uFACTS solution included integration with identity authentication services. Failure to authenticate would not prevent claimants from applying for benefits but would create a request for identity information from the claimant and create an identity issue within the system.

The original contract amount was \$9,490,000 with a term of April 28, 2020, to December 31, 2020 (see Exhibit 20). However, after seven amendments, the final contracted amount increased to \$33,834,194 with an end date of December 31, 2023. As of January 2023, \$27.7 million of the total contract amount (81.9%) had been expended.



Exhibit 20 DELOITTE uFACTS CONTRACT SUMMARY <sup>1</sup>					
Contract/ Amendment	Purpose	Start Date	End Date	Contract Amount	Revised Amount
FY20 Contract	Cloud-based system for PUA benefits	4/28/2020	12/31/2020	\$9,490,000	-
<i>Amendment 1</i>	Added Lost Wages Assistance component	9/10/2020	12/31/2020	+\$325,000	\$9,815,000
<i>Amendment 2</i>	Extended period of vendor support	12/15/2020	6/30/2021	+\$4,550,000	\$14,365,000
<i>Amendment 3</i>	Extended contract term	7/1/2021	7/15/2021	+\$0	\$14,365,000
<i>Amendment 4</i>	Additional staff and increased hosting, address validation and identity match, and SOC report	7/16/2021	12/31/2021	+\$6,377,000	\$20,742,000
<i>Amendment 5</i>	Additional staff and increased hosting	9/21/2021	12/31/2021	+\$1,692,998	\$22,434,998
<i>Amendment 6</i>	Extended period of vendor support	1/1/2022	12/31/2022	+\$6,847,774	\$29,282,772
<i>Amendment 7</i>	Extended period of vendor support	1/1/2023	12/31/2023	+\$4,551,422	\$33,834,194
<b>Total Contracted Amount:</b>					<b>\$33,834,194</b>
Expended as of January 2023:					\$27,694,784
<b>Percentage Expended:</b>					<b>81.9%</b>
Note: <sup>1</sup> Contract amounts and expenditures rounded to the nearest dollar. Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.					

We conducted testing on a sample of contract deliverables. This testing indicated that all 14 contract requirements tested were met. Below are examples of requirements tested.

uFACTS was to **interface** with other systems, including systems for: scanning and indexing; printing (to generate outbound correspondence to the claimant); payment and bank information (daily outbound payment files to existing banks or payment services); accounting (outbound interface to the State financial account system); and IBIS (the UI benefits system for routine interfaces that provide existing claim information along with the status of the claims and claimant wage information). An optional interface included a nightly batch interface to allow for child support offsets. According to IDES, uFACTS was able to interface with all these systems as required.

The vendor was to submit **weekly written progress reports** describing work performed, accomplishments, problems encountered and resolutions, conformance to schedule, and effort required to complete the assignments. In addition, 30 days after the go-live date, the vendor was to provide a written **After Action Report** that included lessons learned and analyzed performance during each phase of the project and made recommendations for best practices. Auditors reviewed these documents and determined that they met the contractual

requirements. Auditors also determined that the vendor conducted **training** for State users prior to uFACTS going live and provided training materials as required by the contract.

IDES was required to provide **staff for positions** needed to help implement each of the three project phases (Adaptation and Implementation, Hypercare, and Maintenance and Operations). For example, IDES was required to provide a State Project Manager, a Policy Staff person, and various other positions. Auditors determined that IDES filled these positions as appropriate.

The contract noted that the Vendor warrants that the software would be free from Severity 1 and 2 material defects at the time of delivery. The contract also notes that uFACTS will be deemed accepted when IDES is satisfied with testing and IDES gives approval for uFACTS to “go live,” which is within IDES’ sole discretion. According to IDES, there were Severity 1, 2, and 3 defects and these were discussed in weekly status reports. From reviewing the weekly reports, it appears as though some of these were identified prior to “go live,” while others were identified afterward. The weekly status reports, as previously discussed, described problems encountered, priority level of the issue, and resolutions or efforts required to complete the task or remedy the issue. According to an IDES official, all Severity 1 and 2 defects were corrected at no additional cost to IDES, in accordance with the contract.

#### **uFACTS Contract Observations**

From the PUA go-live date on May 11, 2020, to July 18, 2020 (when claimants had to first apply through IBIS), despite the requirement to be denied regular UI benefits first, there was no check to ensure the PUA applicant had first applied and been denied regular UI benefits. IDES said claimants were expected to file for regular UI in IBIS before applying for PUA and, before beginning the filing process, claimants were asked in the PUA application if they had filed an unemployment claim and been denied since April 1, 2019. If the applicant stated no, then they were not able to file a PUA application. If the applicant responded “yes,” then they were able to continue on to file a PUA application. According to an IDES official, there was a monetary check using wage records to see if the individual had Illinois income and determine if the individual was monetarily eligible for benefits. This issue was resolved July 18, 2020, when PUA applicants were required to first apply through IBIS (see Exhibit 13).

#### **Pitney Bowes, Inc.**

According to the contract, Pitney Bowes, Inc. agreed to provide IDES with mailing, printing, and fulfillment center services. The vendor was to print, fold, insert, and mail IDES documents. IDES was to submit PDF files to software provided by the vendor and installed at an IDES location. This software was to normalize data, prepare documents, and bundle files to submit documents via secure file transfer protocol. Finally, the vendor was to set up IDES users in a client portal for job tracking, address reports, document history, and a document image archive. No subcontractors were utilized as part of the contract. IDES signed two contracts with the vendor (one for FY20 and an identical contract for

FY21) and two amendments to the FY21 contract (see Exhibit 21). The combined contract period was from April 9, 2020, to January 31, 2022, and the combined total for both contracts was \$15,250,000.

According to a Department official, this contract was entered into because, by the end of March 2020, the Department’s mail room was inoperative, but there were 600,000 to 700,000 pieces of mail that needed to go out. The Department tried to partner with other agencies with mail room functions, but due to software and technology differences, that was not a viable option. Because the Department already used Pitney Bowes equipment (software and machinery), going with another company would have taken months.

The FY20 contract amount was \$2.25 million with a term of April 9, 2020, to June 30, 2020. The initial FY21 contract amount was \$5.0 million with a term of July 1, 2020, to February 15, 2021. The contract was amended twice, and the total FY21 contract amount was \$13.0 million with an end date of January 31, 2022. As of January 2023, \$3.77 million of the total contracted amount (24.7%) had been expended.

Exhibit 21 PITNEY BOWES CONTRACT SUMMARY <sup>1</sup>						
Contract/ Amendment	Purpose	Start Date	End Date	Contract Amount	Revised Amount	
FY20 Contract	Printing and mail services	4/9/2020	6/30/2020	\$2,250,000	-	
FY21 Contract	Printing and mail services	7/1/2020	2/15/2021	\$5,000,000	-	
<i>Amendment 1</i>	Increased contract amount and extended term	2/15/2021	<i>6/30/2021</i>	<i>+\$3,000,000</i>	\$8,000,000	
<i>Amendment 2</i>	Increased contract amount and extended term	7/1/2021	<i>1/31/2022</i>	<i>+\$5,000,000</i>	\$13,000,000	
<b>Total Contracted Amount:</b>					<b>\$15,250,000</b>	
Expended as of January 2023:					\$3,772,964	
<b>Percentage Expended:</b>					<b>24.7%</b>	
Note:						
<sup>1</sup> Contract amounts and expenditures rounded to the nearest dollar.						
Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.						

Auditors requested a copy of a report of returned and undelivered mail items that was required by contract. However, according to IDES officials, all items that are returned or undeliverable are done so from the United States Postal Service directly to IDES. As a result, Pitney Bowes would not have any record of those items and could not create a report.

**Fast Enterprises, LLC Short-Time Compensation Program**

The Department contracted with Fast Enterprises, LLC to provide the supplies and services for the design, installation, and configurations of its software for the administration of Short-Time Compensation (STC) programs. The software is called FastWS. FastWS was to provide IDES with the necessary functionality and business capabilities to administer STC plans and claims in compliance with

applicable laws and regulations including, but not limited to, Section 502 of the Illinois Unemployment Insurance Act. The vendor was to work with IDES to identify the workflows, business rules, and requirements for documenting, automating, and managing STC plans and claims. The vendor was to provide maintenance, support and hosting services, information related to the use of FastWS, and all project management services and reports as required by the contract.

The FastWS contract contained a provision about a mutually agreed upon defect tracking tool. This tool was to ensure each user issue was properly documented, tracked, and resolved.

The total contract amount was \$4.2 million with a term of December 15, 2020, to June 30, 2022 (see Exhibit 22). As of January 2023, only \$150,645 of the total contract amount (3.6%) had been expended.

Exhibit 22 FAST ENTERPRISES CONTRACT SUMMARY <sup>1</sup>					
Contract/ Amendment	Purpose	Start Date	End Date	Contract Amount	Revised Amount
FY21 Contract	STC program software	12/15/2020	12/31/2021	\$4,006,000	-
<i>Amendment 1</i>	Increased contract amount and extended term	1/1/2022	2/15/2022	+\$41,370	\$4,047,370
<i>Amendment 2</i>	Increased contract amount and extended term	2/16/2022	3/15/2022	+\$27,580	\$4,074,950
<i>Amendment 3</i>	Increased contract amount and extended term	3/16/2022	4/15/2022	+\$27,580	\$4,102,530
<i>Amendment 4</i>	Increased contract amount and extended term	4/16/2022	6/30/2022	+\$68,950	\$4,171,480
<b>Total Contracted Amount:</b>					<b>\$4,171,480</b>
Expended as of January 2023:					\$150,645
<b>Percentage Expended:</b>					<b>3.6%</b>

Note:  
<sup>1</sup> Contract amounts and expenditures rounded to the nearest dollar.  
 Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.

We conducted testing on two contract deliverables. The contract required Fast Enterprises to deliver: **user training** to IDES through a variety of offline and online methods; and **written status reports** on a weekly basis. Auditors inquired about the completion of these two requirements and determined that these deliverables were met.

**Pondera Solutions, LLC Fraud Analytics**

Pondera Solutions, LLC was to provide the necessary implementation services for the installation and configuration of its fraud analytics and case management solutions (collectively referred to as system). The contract begin date was September 11, 2020, with an estimated go-live date for the system of February 22, 2021. However, prior to that date, Pondera conducted other fraud reviews.

The vendor contracted to run claimants through the fraud analytics solution to identify areas of risk such as shared values (such as home address, IP address, email address), deceased participants, behavioral pattern matching, and other anomalies. Pondera was also to run existing employers through the system to identify areas of risk.

The total contract amount was \$854,329 with a term of September 11, 2020, to September 15, 2021. As of January 2023, \$834,639 of the total contract amount (97.7%) had been expended (see Exhibit 23).

Exhibit 23 PONDERA SOLUTIONS CONTRACT SUMMARY <sup>1</sup>					
Contract/ Amendment	Purpose	Start Date	End Date	Contract Amount	Revised Amount
FY21 Contract	Fraud analytics and case management system	9/11/2020	9/15/2021	\$854,329	-
				<b>Total Contracted Amount:</b>	<b>\$854,329</b>
				Expended as of January 2023:	\$834,639
				<b>Percentage Expended:</b>	<b>97.7%</b>

Note:  
<sup>1</sup> Contract amounts and expenditures rounded to the nearest dollar.  
 Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.

We conducted testing on a sample of contract deliverables. All contract requirements tested were met.

The vendor contracted to verify up to 1,250 new claimants per day. Also, the vendor would verify the identity of current claimants for initial claims from March 1, 2020, to September 15, 2020, (about 1.1 million unique claimants). IDES began receiving reports from Pondera on December 29, 2020. An April 2021 report identified over 13 percent of the 1.1 million claimants as high risk. Auditors reviewed an example of the match results from April 2021. The results showed whether individuals matched or did not match on various items including: name, date of birth, SSN, and address. The results also provide a fraud risk score and also a summary of all of the reasons in which the individual’s information did not pass the identity verification. Auditors determined that Pondera met the contract requirements.

The contract required Pondera to submit a preliminary leads findings report which includes results from the claimant and employer validation components. Pondera’s preliminary leads findings report was submitted in December of 2020. As required, the report provided details of the data sets run and included categories of risk with a count of the types of flags that were tripped. The report identified about 11 percent of the 1.1 million claimants as high risk. The report also included a summary of the analysis performed by its Special Investigations Unit. Auditors determined that the preliminary leads findings report met contract requirements.

**Carahsoft Technology Corp. Virtual Agent Dashboard and Training**

According to the Basic Ordering Agreement, Carahsoft would provide a performance analytics dashboard for the IDES virtual agent, as well as training for the IDES virtual agent in the languages of Spanish, Polish, Hindi, Chinese – Cantonese, and Chinese – Mandarin.

The five additional languages were to be added to the virtual agent for both chat and voice on the IDES website and the telephone system. All professional services for this agreement were to be delivered by Quantiphi, Inc.

The total agreement amount was \$205,319 with an amended term of January 13, 2021, to November 22, 2021 (see Exhibit 24). As of January 2023, \$165,391 of the total agreement amount (80.6%) had been expended.

Exhibit 24 CARAHSOFT TECHNOLOGY BASIC ORDERING AGREEMENT SUMMARY <sup>1</sup>					
Agreement	Purpose	Start Date	End Date	Agreement Amount	Revised Amount
FY21	IDES virtual agents in Spanish, Polish, Hindi, Cantonese, and Mandarin, and a performance analytics dashboard	1/13/2021	6/30/2021	\$165,391	-
FY22 <sup>2</sup>	IDES virtual agents in Spanish, Polish, Hindi, Cantonese, and Mandarin, and a performance analytics dashboard	7/1/2021	11/22/2021	\$39,928	-
				<b>Total Agreement Amount:</b>	<b>\$205,319</b>
				Expended as of January 2023:	\$165,391
				<b>Percentage Expended:</b>	<b>80.6%</b>
Notes:					
<sup>1</sup> Agreement amounts and expenditures rounded to the nearest dollar.					
<sup>2</sup> Vendor was unable to complete the FY21 agreement tasks within the contract term.					
Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.					

**Multilingual Connections, LLC**

Multilingual Connections, LLC was to provide editing and proof-reading services for the validation of chatbox text for the languages of Spanish, Polish, Hindi, Traditional Chinese, and Simplified Chinese.

The agreement amount was \$33,732 with a term of May 1, 2021, to June 30, 2021 (see Exhibit 25). As of June 30, 2022, the total agreement amount had been expended.

Exhibit 25  
**MULTILINGUAL CONNECTIONS BASIC ORDERING AGREEMENT SUMMARY<sup>1</sup>**

Agreement	Purpose	Start Date	End Date	Agreement Amount	Revised Amount
FY21 Contract	Editing and proof-reading services for chatbot in Spanish, Polish, Hindi, Traditional Chinese, and Simplified Chinese	5/1/2021	6/30/2021	\$33,732	-
				<b>Total Agreement Amount:</b>	<b>\$33,732</b>
				Expended as of June 30, 2022:	\$33,732
				<b>Percentage Expended:</b>	<b>100.0%</b>

Note:

<sup>1</sup> Agreement amounts and expenditures rounded to the nearest dollar.

Source: OAG analysis of IDES contracts and contract payment data from the Illinois Comptroller.

## Delays in Processing Unemployment Claims

IDES was not prepared to respond to the needs created by the pandemic. Various delays were related to technology including the website and claims processing system. IDES' website was not equipped to respond to the needs created by the pandemic. Hits to its website increased from 161,502 in 2019 to over 126 million in 2020. The IBIS system, which is used to process regular UI claims, crashed due to overload. In addition, PUA benefits could not be processed through IBIS, so there was a delay while a new system was put in place.

IDES was not prepared to quickly increase staffing to respond to the needs created by the pandemic. Staffing issues were compounded by retirements and staff being forced to work from home due to the pandemic. IDES also lacked an adequate procedure for processing payment tracer forms.

The delays in the unemployment benefit application process were exacerbated by a lack of planning prior to the pandemic. IDES did not have a plan in place for responding to recessions and potential surges in claims which contributed to the delays. While the pandemic created an unprecedented increase in unemployment claims, and likely levels that could not have been anticipated, a UI Recession Plan could help provide direction in times of rapidly increasing claim volumes.

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Determination 6 of LAC Resolution Number 158 asked us to determine what factors caused and continue to cause delays in the Illinois Department of Employment Security's processing of unemployment claims, looking particularly at administrative decisions, technology, and staffing, and what steps the Illinois Department of Employment Security has taken to alleviate these delays. There were various delays in the unemployment process during the period of March 1, 2020, through September 6, 2021. Claimants experienced the longest delays in the callback process, processing of claims, and the payment tracer process. There are various items that can cause delays.

Timeliness of claim processing and callbacks is discussed in the *Results of Claim Testing* section on page 95.

### Administrative Decisions

There were many decisions made during the pandemic intended to decrease or eliminate delays. When searching for contractors to implement a PUA system, IDES officials chose the first vendor that approached them with the promise of implementing a PUA system quickly. The Department appears to have prioritized paying PUA claimants as soon as possible. Additionally, some identity/integrity cross-matches and controls were suspended because they were slowing down or stopping the claims process. These decisions likely led to other issues (see *Suspended Controls in Illinois* section on page 62), but again, the intention appears to have been to more quickly get payments out to claimants.

There was a lack of planning prior to the pandemic that contributed to the delays. The magnitude of the COVID-19 pandemic was unimaginable, but the concept of planning for massive economic downturns remains the same.



IDES was not prepared to handle the influx of claims for a new population of applicants. Prior to the pandemic, IDES had a Disaster Unemployment Assistance process, but IDES estimated it could handle less than 100 DUA claims. A DUA claim was handled manually on paper except for the DUA claimant first being denied in IBIS and another system calculating the DUA weekly benefit amount. IDES officials noted that prior to the pandemic they had not seen a Disaster Unemployment Assistance claim in years.

Claimants with missing or hijacked payments experienced substantial delays in getting their payments reissued. This is attributable to there being an inadequate procedure to process and handle payment tracer forms, especially in times of high demand. Payment tracer forms are forms submitted by claimants who did not receive their benefit payments because the payments were diverted by fraudsters. Prior to the pandemic, the forms were routed through Accounting. But the drastic increase in payment tracer forms rendered that process inadequate and the decision was made for the Benefit Payment Control (BPC) subdivision to take over the payment tracer affidavit processing. However, there was an inadequate procedure in place to guide the process, especially in times of high demand.

### **Technology**

IDES experienced various delays, especially early in the pandemic, related to technology:

- The IBIS system crashed due to overload;
- IDES' website was not prepared to respond to the needs created by the pandemic; and
- PUA benefits could not be processed through IBIS (because it was a new group of individuals that were not traditionally covered by unemployment insurance); therefore, PUA benefits could not be paid out until a PUA payment system was in place.

This created delays in claimants being able to access and file claims on the IDES website and short delays in applying for the newly created PUA program.

### **IDES' Response to Delays Caused by Technology**

The IBIS system for regular UI crashed due to overload. According to IDES, IBIS processed about 10,000 to 11,000 claims a week before the pandemic, but there were 500,000 claims received during the first week of the pandemic. IDES moved to a more stable web-based application and provided online services to claimants.

According to IDES, hits to its website increased from 161,502 in 2019 to over 126 million in 2020. IDES responded by redesigning the external website and enhancing the website to address the increased web traffic. IDES added servers and memory in order to withstand the influx of web traffic.

In addition, PUA could not be processed through IBIS; therefore, on April 28, 2020, IDES entered into a contract with Deloitte to design a system to administer

the PUA program. On May 11, 2020, Illinois opened the PUA program for enrollment. The Department began issuing benefit payments to claimants on May 15, 2020. The PUA program was created when the CARES Act was signed into law on March 27, 2020. According to a US DOL OIG report, many states took more than 30 days to implement the PUA program. With regards to days until first payment, Illinois was one of the latest taking 48 days.

### **Staffing**

IDES was not prepared to quickly increase staffing to respond to the needs created by the pandemic. This created delays in answering phone calls and processing claims and other related documents such as payment tracer affidavits. In a matter of days, Illinois went from record low unemployment levels to record highs. IDES reported heading into the pandemic with baseline staffing numbers at an all-time low. US DOL OIG concluded that states struggled to implement the new unemployment programs in part due to insufficient staffing resources to manage the increased number of new claims.

By March 2020, IDES had sent approximately one-quarter of the IDES workforce home and closed regional offices in order to limit the spread of COVID-19. All employees who were able to telework and employees who were not immediately needed for the delivery of the UI program were asked to begin working from home. Moving employees to remote work meant that training on all the new federal programs and all the programmatic training had to be conducted virtually.

While IDES hoped to maintain all UI functionality and most of its workforce services, the Department predicted there would be necessary lapses in operation in certain departments, namely Audit, Collections, and Benefit Accuracy Measurement. Some of these lapses were the result of reassigning staff to different jobs to help with the unprecedented increase in incoming unemployment claims. In addition to reassigning IDES staff, IDES contracted with various vendors to better manage the increase in claims, calls, and fraud. Other states reporting using similar means to addressing staffing shortages in a June 2022 US Government Accountability Office (GAO) report.

As noted previously, according to the Illinois State Budget Book, the Department's headcount dropped from 1,099 in FY18 to 1,035 in FY20. However, the headcount increased to 1,123 in FY21 and remained stable at 1,120 in FY22. The FY23 estimated headcount and the FY24 targeted headcount are both 1,120.

### **Resource Justification Model for Funding**

The Department's administrative funding comes from employer taxes collected by the federal government. The federal government distributes funds to states based on the Resource Justification Model. The Resource Justification Model is based on the workload levels of an agency over three years and uses past data to dictate funding (and therefore staffing levels needed) for the next year. The model uses the previous year, the current year, and the next (budget) year (plus inflation).

According to a June 2022 report by the GAO, funding declined steadily during the decade before the pandemic due to reduced workloads as a result of low unemployment levels. In the three years leading up to this crisis, Illinois' unemployment rate was at a historical low. According to the Resource Justification Model and the previous three years' data, IDES's staffing numbers were justified; however, the model could not have predicted this type of staffing increase. The federal funding model also did not support a reserve staff which could have allowed states to train individuals to be activated during a recession.

### **Onboarding Obstacles**

Onboarding obstacles posed a staffing challenge to IDES even prior to the pandemic. The noted obstacles included the time it takes to get staff onboarded and trained, and difficulty attracting and retaining qualified applicants.

IDES officials reported they have focused efforts on hiring but are subject to state civil service laws that make it difficult to quickly ramp up staffing levels. IDES noted in normal times, it usually takes around 6 months to post a job and fill it. Then it takes 9 months for managers to train that person on enough of the unemployment basics to handle calls from a UI claimant. It is also increasingly difficult to devote time to training when managers and supervisors are often serving multiple roles and performing the work of multiple employees. Additionally, training now had to be conducted virtually.

IDES also reported having a difficult time attracting qualified applicants and getting new employees to stay in the job.

### **Retirements**

Additionally, many employees were retirement-eligible and retirements began happening in greater numbers and faster than the State could replace them. According to an IDES official, from April 1 to June 18, 2020, IDES hired 18 full-time staff, but had 11 retirements. As of June 18, 2020, IDES had 170 full-time position vacancies. A retiring workforce also affected the amount of institutional knowledge at IDES. In 2014, 87 percent of the Department's workforce had more than 5 years of UI experience. At the beginning of 2020, that number dropped 20 percent.

The Benefit Payment Control (BPC) subdivision in particular is experiencing staffing shortages due to retirements. Employees move into BPC towards the end of their careers due to the knowledge and experience required. BPC positions (UI Special Agents) require three years of major adjudication experience, but they are having a hard time finding candidates with enough adjudication experience. According to an IDES official, IDES usually hires BPC employees from local unemployment offices because they have adjudication experience. Complicating the matter is that over the past ten to twelve years, IDES has moved from primarily utilizing unemployment offices to utilizing call centers; the call center model hires more people for taking claims, but not as many for adjudication.

## **IDES' Response to Delays Caused by Staffing**

IDES responded to the delays caused by staffing shortages created by an increase in claims and calls by:

- Moving IDES staff into critical need positions;
- Contracting with Deloitte and Insight Global to provide agents to answer claimant phone calls and questions;
- Updating multiple aspects of the call center equipment in an attempt to accommodate the high volume of calls;
- Implementing artificial intelligence in the phone system and on the IDES website;
- Answering and creating hundreds of employer and claimant frequently asked questions;
- Developing and posting a new UI claims video so claimants could understand the basics of the filing process;
- Training Legislative District Office staff so they understand the system better to assist their constituents or at least explain the process while they wait to get through on the phones; and
- Creating Rapid Response PowerPoint for employers and the business community on the basics of the UI system and unemployment process.

According to IDES officials, IDES would like to increase staffing in the Benefit Payment Control subdivision. As of August 31, 2021, BPC consisted of 39 staff members and had various vacant positions. BPC Special Investigations, a unit dedicated to identity theft, was historically two people plus the supervisor; during the pandemic, two staff were added. But because identity theft has become more sophisticated and prevalent, additional staffing could be helpful in this area.

IDES has contracted with Pondera to help address the identity theft, but reviewing the weekly reports produced by Pondera which indicate possible identity theft takes time and additional staffing in BPC Special Investigations would help. Additionally, due to the drastic increase in identity theft and fraud, BPC had to process over 2,700 payment tracer affidavit forms, which often meant investigating the prior issues and payment history.

IDES has proposed lowering the requirement from 3 years of experience to 1-1.5 years to create a larger pool of candidates, but the changes have not been made. IDES has also proposed a new position for BPC. The current position is a closed competitive position, meaning it is only open to internal applicants which also limits the pool of candidates.

## **Conclusion**

IDES was not prepared to respond to the needs created by the pandemic. IDES did not have a plan for responding to recessions and potential surges in claims. While the pandemic created an unprecedented increase in unemployment claims,

and likely levels that could not have been anticipated, a UI Recession Plan could help provide direction in times of rapidly increasing claim volumes. A Recession Plan would also ensure that lessons learned from the COVID-19 pandemic can be accessible to IDES officials in the future.

**UI Recession Plan**

**RECOMMENDATION  
NUMBER  
2**

*The Illinois Department of Employment Security should develop a Recession Plan, including lessons learned during the COVID-19 pandemic, for future reference in times of rapidly increasing claim volumes.*

**Illinois Department of Employment Security Response:**

The Department accepts the Recommendation. The pandemic created an unprecedented increase in unemployment claims at levels that could not have been anticipated. Building on pandemic experience and recommendations, the Department recognizes an opportunity to develop planning, to provide direction in times of rapidly increasing claim volumes. This planning will also incorporate the challenges and timeframes around IT modernization, contract procurement, staffing and training, and will endeavor to discover opportunities and resources. The Department has upgraded its public facing website to the newest technology provided by DoIT and the underlying servers are robust enough to handle high volumes of traffic. In addition, the Illinois Benefit Information System (IBIS) is constantly monitored to prevent malicious external attacks and ensure sufficient load capacity across its servers.

## Overpayments and Fraud

Overpayments (which include fraud, non-fraud, and identity theft) were an issue in both the regular UI and PUA programs. IDES reported overpayments for FY20-FY22 totaled \$5.24 billion; regular UI accounted for \$2.04 billion and PUA accounted for \$3.20 billion. Considering gross benefits associated with regular UI claims were 2.5 times higher than gross benefits associated with PUA claims, it shows the magnitude of fraud experienced in the PUA program. IDES noted stopped or recovered payments of \$150.36 million and \$361.34 million for the regular UI and PUA programs respectively.

IDES experienced three different fraud schemes during the period of March 1, 2020, to September 6, 2021: identity theft, hijacked payments, and fictitious employers. The Department's response to these fraud schemes varied and included items such as adding new fraud tools (such as fraud analytics reports and additional cross-matches), relying on payment tracer forms for reissuing payments that were diverted from the true claimant, and investigations by the Benefit Payment Control (BPC) subdivision as time allowed.

However, other cross-matches were temporarily suspended early in the pandemic. These cross-matches were temporarily suspended and/or processed offline. This allowed IDES to better handle the increase in claims processing traffic; however, **this left the unemployment programs more susceptible to fraud.**

IDES went from receiving 4 to 10 payment tracer forms a year to receiving over 2,700 during the pandemic. IDES had to improvise and update the process as circumstances changed. Due to the changing process and improvising, there was no system in place for BPC to know that documents had been uploaded and a payment tracer case was ready to be worked. In some cases, BPC was not aware of the submitted payment tracer form until a claimant called to check on the status. Processing payment tracer forms took over 6 months from the date the payment tracer form was submitted to when the payment was authorized to be reissued.

IDES did not comply with all state and federal statutory and administrative requirements for processing and auditing claims. The US DOL Unemployment Insurance Program Letters (UIPLs) provide guidance and clarifications for the unemployment programs. The UIPLs required a list of fraud tools and strongly recommended other fraud tools to help prevent and detect fraud. **IDES did not implement one of the tools that was strongly recommended in May 2020 by the US Department of Labor (the Integrity Data Hub), until September 2021.** IDES also failed to file 26 outstanding Employment and Training Administration (ETA) reports required by the US Department of Labor.

The US DOL introduced additional cross-matches to combat fraud in October 2021 and February 2022 that IDES is not yet utilizing (Prisoner Update Processing System and Bank Account Verification service respectively).

The Department's main partner in trying to recoup overpayments is the US Department of Labor's Office of the Inspector General. IDES did not make any referrals to the Illinois Attorney General during the audit period.

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LAC Resolution Number 158 contained several determinations related to fraud. Determination 2 asked us to determine to the extent feasible, a detailed account of the funds allegedly disbursed to ineligible and/or fraudulent claimants.

Determination 3 asked us to determine the types of unemployment fraud schemes the Illinois Department of Employment Security has experienced and what steps and procedures it has taken to detect and respond to fraudulent unemployment claims and whether it has cooperated with the Illinois Attorney General or federal authorities to detect, counter, and prosecute potentially fraudulent cases.

Determination 4 asked us to determine whether the Department had complied with all state and federal statutory and administrative requirements for processing and auditing unemployment claims. Determination 5 asked us to examine the Department's decision not to implement additional fraud-prevention tools in April 2020 as recommended by the federal government and a report on whether the state has, since that time, come into compliance with federal recommendations.

### **Improper Payments**

Improper payments are payments that should not have been made or that were made in an incorrect amount (overpayment or underpayment). Some improper payments are unintentional; however, some improper payments are the result of benefit fraud or identity theft fraud. Benefit fraud is when an individual might be entitled to benefits, but does not provide accurate information or does not notify the Department when they return to employment (and continue to receive unemployment benefits). Identity theft fraud is when claims are filed and/or benefits are collected using stolen identities.

Preventing overpayments and detecting fraud in the UI system while ensuring unemployed Illinois residents received benefits in a timely manner proved to be inherently difficult. During the pandemic, many unemployment programs experienced a vast amount of fraud due to a surge in claims, the state's efforts to pay those claims quickly, and looser requirements for a new federal unemployment benefits program. Additionally, UI programs were a key target for fraud because fraudsters could receive a large amount of money in one payment.

States were required to pay many more claims during the pandemic and expected to do so just as quickly as prior to the pandemic. Even prior to the pandemic, the US DOL Office of the Inspector General (OIG) reported on areas of concern and continuing matters. The US DOL OIG has repeatedly reported significant concerns with US DOL and State Workforce Agencies' abilities to deploy program benefits expeditiously and efficiently while ensuring integrity and adequate oversight, particularly in response to national emergencies and disasters.

According to a report released in December 2021 by the Pandemic Response Accountability Committee, the PUA program did not include the typical verifications required for regular unemployment benefits and "this reduction in controls to receive PUA benefits was a direct cause of the widespread fraud seen across states." Additionally, according to the US DOL OIG, reliance on self-certifications rendered the PUA program highly vulnerable to improper payments and fraud.

## Fraud Schemes Experienced by IDES

Determination 3 asked for the types of unemployment fraud schemes IDES experienced and what steps it has taken to detect and respond to the fraudulent unemployment claims. According to Department officials, IDES experienced three types of fraud schemes from March 1, 2020, through September 6, 2021:

- **Identity Theft** – stolen Personally Identifiable Information is used to file online claims allowing fraudsters to receive unemployment insurance benefits;
- **Hijacked Payments** – fraudsters hijack payments online and divert payments for their own use; and
- **Fictitious Employers** – fraudsters steal Personally Identifiable Information and set up companies to file claims.

In addition, IDES regularly monitors for:

- **Traditional Fraud** – misstating a material fact specifically to underreport or not report wages while collecting unemployment benefits; and
- **Overpayments** – created when a state determines that the individual received a payment, or a portion of a payment, to which the individual is not entitled. Traditionally, overpayments have been classified as either fraud or non-fraud.

Numerous news sources reported about fraudulent unemployment claims soaring in Illinois with scammers directing jobless benefits to their own accounts even as record numbers of residents sought relief due to the COVID-19 pandemic. News sources also reported fraud cases that involved identity theft, where victims discover they are a victim when they receive, or their employer receives, a letter from the Department saying a claim has been filed in their name.

## Suspended Controls in Illinois

Several of IDES' defenses against fraud could not handle the exponential increase in claims. Claimants were unable to register for claims since they were required to pass these cross-matches in order to file. Beginning in March 2020, IDES suspended some routine identity cross-matches performed in IBIS on all claims filed because the cross-matches required time to run and constricted the system severely. These cross-matches, discussed below, were temporarily suspended and/or processed offline. This allowed IDES to better handle the increase in claims processing traffic; however, this left the unemployment programs more susceptible to fraud. Exhibit 26 provides a list of all cross-matches that were in place prior to March 1, 2020, and the dates of any of those cross-match suspensions.

On March 18, 2020, the **Social Security Administration cross-match** moved from real-time hourly processing to nightly offline processing with substantial backlogs. This move was made to decrease stress on the Social Security Administration's system.



On March 23, 2020, the **Secretary of State real-time cross-match** was suspended. In July 2020 there was an offline batch validation of all IBIS claimants who filed since March, and all PUA claimants since the inception of PUA. About 10 percent of the batch consisting of 824,258 records did not match the Secretary of State’s records and required manual handling for documents received from claimants.

Exhibit 26  
**IDES CROSS-MATCHES AND FRAUD TOOLS FOR PRE-PANDEMIC UNEMPLOYMENT CLAIMS**  
 In place prior to March 1, 2020

Cross-Match	Mandatory or Recommended <sup>1</sup>	Occurrence	Suspended	Resumed
National New Hire	Mandatory	Weekly	-	-
Quarterly Wage <sup>2</sup>	Mandatory	Quarterly	2/14/20	3/29/22
Systematic Alien Verification for Entitlement (SAVE)	Mandatory	Upon filing	-	-
Social Security Administration	Recommended	Upon Filing	3/18/20	4/6/20
State New Hire	Recommended	Weekly	-	-
Incarceration Database	Recommended	Weekly	5/3/20	1/27/22
Interstate Connection Network (ICON) & Interstate Benefits (IB)	Recommended	Upon filing when claimant is out of state	-	-
State Information Data Exchange System (SIDES)	Recommended	Daily	-	-
Multiple Claimants/Single Address <sup>2</sup>	No	Monthly	4/2020	12/2020
Multiple Claimants/Same Bank Account	No	Daily/weekly	-	-
Wage Record Validation	No	Upon filing	4/6/20	6/25/20
Monthly Wage <sup>2</sup>	No	Monthly	8/1/21	2/22/22
Secretary of State	No	Upon Filing	3/23/20	10/29/20
Specific Leads	No	Upon receipt of lead	-	-
Internet Claims Selection Review	No	If Claim is Flagged	-	-

Notes:  
<sup>1</sup> Mandatory or recommended by the US Department of Labor (UIPL 23-20).  
<sup>2</sup> While these reports were still being run, results were not being worked due to lack of available BPC staff.

Source: Meetings with IDES, fraud narratives and program timelines provided by the Department.

In March 2020, the effect of some **Benefit Payment Control cross-matches** (Quarterly Wage, Monthly Wage, National New Hire, State New Hire, Multiple Claimant/Single Address) was lessened when the Department’s Benefit Payment

Control personnel had to help with the volume of incoming phone calls. According to IDES officials, most cross-matches were still being conducted; however, the BPC personnel were unable to work the match results. In July 2020, BPC personnel shifted to begin handling calls related to unemployment insurance identity theft. The Department secured additional contractual support, which began to handle unemployment insurance identity theft calls, allowing BPC to resume some normal functions in October 2020. As of March 2023, IDES was still catching up on Quarterly Wage cross-matches. According to IDES officials, under the Illinois Unemployment Insurance Act (820 ILCS 405/703) IDES can go back three years (statute of limitations) to assess claims. Beginning in 2022, IDES ran the Quarterly Wage cross-match for Quarter 4 of 2019 and Quarters 1 and 2 of 2020. As of March 2023, IDES was running the 2020 Quarters 3 and 4 Quarterly Wage cross-match. The Benefit Payment Control subdivision cross-matching is discussed in more detail later in this report.

On April 6, 2020, the **Wage Record Validation cross-match** was suspended in response to a significant increase in call volume from claimants who were unable to register because of wage record validation issues.

On May 3, 2020, the **Department of Corrections Incarceration Database cross-match** was suspended because, according to IDES officials, the business process required claimants to report to local offices to prove identity. Local offices were closed to the public for a period of time during the pandemic.

### **Identification and Prevention of Fraudulent Claims**

The Department was made aware of fraudulent claims by both internal and external means. Before the pandemic, IDES had various cross-matches in place to deter and detect fraud such as those listed previously in Exhibit 26 (above). Fraud is also reported by various entities external to IDES. The Department received protests from employers, reporting from claimants, reporting from victims of identity theft, Pondera reports, OIG reports, and payments stopped by banks which all helped stop fraudulent claims.

The manual process, which requires staff to handle each case, limits the number of fraud cases that can be worked quickly. This became even more challenging during the pandemic. Traditional fraud overpayments require BPC staff attention. Very early in the pandemic, BPC staff was reassigned to other duties to reduce backlogs in benefit processing. BPC staff also took on additional duties representing the agency on the frontlines, to serve individuals reporting cases of identity theft.

### **IDES Fraud-Prevention Cross-matching**

IDES' Benefit Payment Control (BPC) subdivision is responsible for ensuring the integrity of the benefits programs administered by IDES. Cases to be investigated are generated by the quarterly, monthly, new hire, and multiple claimant/single address cross-matches, and specific leads, which are discussed below. When accounts are noted as fraudulent, a letter goes out to the claimant and to the employer of record (chargeable employer). The IBIS and uFACTS systems

automatically generate letters depending on actions taken on the claim. A reply due date appears on all correspondence requiring a response.

The **Quarterly Wage cross-match** indicates earnings during quarters in which benefits were paid and no wages were reported. Notices mailed as part of the quarterly cross-match include a Quarterly Earnings Verification Request to the employer, a Claimant Notice of Audit to the claimant if they are not in pay status, or a Notice of Telephone Interview to the claimant if they are in pay status. If the wages do not match on the employer and employee's responses, a follow-up investigation is conducted and a call to both the claimant and employer may be necessary to resolve disputed wages. IDES determines overpayment, if any, and makes a fraud or non-fraud decision on the claim. When an overpayment is determined, the claimant is sent a Notice of Overpayment and Recoupment Decision and Repayment Agreement.

The **Monthly Wage cross-match** indicates earnings during a month in which benefits were paid and no wages were reported. Notices mailed as part of the monthly cross-match include a Monthly Earnings Verification Request to the employer and a Monthly Benefit Audit Notice to the claimant. IDES determines overpayment, if any, and makes a fraud or non-fraud decision on the claim. When an overpayment is determined, the claimant is sent a Notice of Overpayment and Recoupment Decision and Repayment Agreement.

The **New Hire cross-match** indicates benefits were paid after an employer-reported new hire date. Notices mailed as a result of the new hire cross-match include the New Hire Earnings Verification Request to the employer and the New Hire Benefit Audit Notice to the claimant. All Earnings Verification Requests and Notices contain instructions to return them either by mail or by fax. Each notice has a dedicated assignment queue. The Investigations supervisors assign items from each queue to their staff for wage entry and overpayment and fraud/non-fraud determination. However, BPC staff was transferred to help with calls temporarily suspending BPC investigations from March to October 2020. The cross-matches were still being performed/run, but no BPC staff were working or investigating the results. If the claimant does not respond timely, all further UI benefits are stopped, and IDES makes an overpayment decision. When an overpayment is determined, the claimant is sent a Notice of Overpayment and Recoupment Decision and Repayment Agreement.

Fraud allegations received by **specific leads** are received through agency referrals or tips from anonymous or known sources (a private individual, another government agency, or other source). Agency referrals include referrals from local offices, Benefit Accuracy Measurement (BAM) program findings, or employer protests.

IDES' BPC Special Investigations unit receives a **monthly multiple claimant/single address report** to identify addresses at which three or more unemployment insurance claims display the same mailing address. BPC reviews the report, identifies suspicious addresses, and investigates further. Individual claim issues are referred to the local office for resolution. According to

Department officials, there were 4 investigators at the start of the pandemic, but that number grew to 20 as BPC staff members transferred to the Special Investigations unit.

In addition to the cross-matches already in place at the start of the pandemic (see Exhibit 26), Exhibit 27 provides a list of cross-matches IDES put in place during the pandemic to prevent or detect fraud. See Appendix E for a description of each cross-match.

**Exhibit 27**  
**IDES CROSS-MATCHES AND FRAUD TOOLS FOR REGULAR UI AND PUA CLAIMS**  
**IMPLEMENTED DURING THE PANDEMIC**  
 March 1, 2020 through September 6, 2021

Cross-Match	Mandatory or Recommended <sup>1</sup>	Occurrence	Implementation Date
ID Proofing through uFACTS	No	Upon filing	May 2020
Akamai	No	Upon filing	June 2020
Fraud Analytics Report	No	Daily and Weekly	June 2020
Block List/Daily Scans	No	Daily	July 2020
IBIS and PUA Scans	No	Nightly	July 2020
US DOL OIG Analytics <sup>1</sup>	Mandatory	Single occurrence	Sept 2020
Pondera	No	Weekly	Oct 2020
ID Proofing through IBIS	No	Upon filing	Sept 2021
ILogin	No	Upon login	Sept 2021
Integrity Data Hub	Recommended	Weekly	Sept 2021
Ekata	No	N/A	Partially Implemented

Note:  
<sup>1</sup> Mandatory or recommended by the US Department of Labor (UIPL 23-20). In the case of the US DOL OIG Analytics, the US DOL OIG filed a subpoena with all states and territories requesting new claims data and performed various cross-matches on the data received.

Source: Meetings with IDES, fraud narratives, and program timelines provided by the Department.

**Department Response to Identity Theft**

During the pandemic, fraudsters stole identities and used them to fraudulently receive unemployment benefits. Beginning in March 2020, IDES suspended and/or processed offline some routine identity cross-matches performed in IBIS on all claims filed because the cross-matches required time to run and constricted the system severely. This allowed IDES to better handle the increase in claims processing traffic; however, this left the unemployment programs more susceptible to identity fraud. IDES subsequently took various steps to respond to identity theft within the unemployment system.

Beginning in June 2020, fraud analytics and internal measures were implemented to identify potentially fraudulent claimants as discussed below.

On June 12, 2020, IDES implemented the **fraud analytics report**. The report performs many different claimant searches in the IBIS database, gathers each result, and combines them into a single list. The list includes a variety of searches such as instances of multiple claimants sharing the same personally identifiable information.

In June 2020, IDES implemented a fraud tool called **Akamai**, which is a protection for the website application. IDES also plans to implement **Ekata**, an additional fraud prevention tool. Akamai and Ekata provide identity verification and email crosschecks.

In July 2020, IDES added a new **block list** database table to support scanning within IBIS for items BPC previously deemed to be fraudulent including claimants, bank accounts, email addresses, and IP addresses. The block list is continuously populated as BPC staff evaluate lists of flagged claimants from a wide range of sources, such as US DOL OIG, claimant complaints forwarded by the debit card provider, claimants related to fraudulent IP addresses, the fraud analytics report, and various fraudulent activity searches in PUA. The block list is also populated from BPC audit issues posted in PUA every night so that PUA BPC blocks are also reflected in IBIS.

The PUA program included **Experian** identity proofing for all claimants. Experian has been updated several times beginning in July 2020 to develop a more robust identity examination. The updates included:

- July 19, 2020, update to address potential use of compromised data and a bot concern;
- February 26, 2021, update to Experian IEN, which is a tool that analyzes the use of identities across various consumer transactions in the past 90 days to identify when an identity has been compromised or shows unusual activity. Examples include the number of records with the same phone number but different last names and the number of different phone numbers associated with an SSN;
- June 8, 2021, update to limit the use of the same PIN and SSN to 3 attempts in 30 days; and
- June 9, 2021, update to create an issue in PUA if a claimant attempts identity verification more than 3 times.

Starting July 18, 2020, the Department required **all PUA claimants to apply first through IBIS** (regular unemployment) before applying for PUA. IDES determined this would increase up-front identity verification by adding IBIS cross-matches to the Experian check already in the PUA system.

In July and August 2020, BPC began coordinating identity theft payment returns from banks as a result of the **banks' fraud enforcement actions**. However, when suspected identity theft payments were returned to IDES from banks, they were sent in lump sums with no account information or individual amounts, and could not be linked to the claimants for which they were made.

In August 2020, IDES started flagging claimants who changed their payment method to a direct deposit account already in use by another claimant and added additional questions for resetting passwords.

In September 2020, **Insight Global began training staff to assist with identity theft calls** to the BPC hotline.

In September 2020, IDES entered into a contract with Pondera to perform fraud analytics and help the BPC investigation unit. In October 2020, IDES sent a file to **Pondera** containing over 1 million claimants. Beginning December 29, 2020, the Department started receiving a weekly summary report. In April 2021, Pondera began completing analytics on new claimant IDs on a weekly basis. Claimant identities were returned as clean or with three increasing levels of concern. BPC personnel had access to a Pondera-supplied website, which contained the results of their scans for individual claimants. BPC works all reports and analyzes claims for markers of fraud.

In June 2020, the US DOL OIG filed a subpoena with all states and territories requesting information regarding new pandemic claims in both regular UI and PUA. The US DOL OIG performed a cross-match on all IBIS and PUA claimants, which included cross-matching claims to a number of databases, including federal incarceration data, questionable bank accounts, known fraud addresses, and others (covering March 2020 through October 2020). The results of their comparisons were returned to the states to investigate as possible fraud.

Starting in 2021, IDES began **working with employers** to prevent fraudulent activity. On January 26, 2021, IDES began an employer email campaign to announce the development of a new reporting form that allows employers to report identity theft for multiple employee claims. The email campaign also encouraged the use of SIDES (State Information Data Exchange System), a web-based system provided by the National Association of State Workforce Agencies that allows for the electronic exchange of unemployment claim information between UI agencies and employers. On April 27, 2021, IDES sent a follow-up email campaign promoting the identity theft reporting form. On July 15, 2021, and August 25, 2021, IDES sent employer email campaigns regarding fraud and phishing schemes. On September 7, 2021, IDES introduced multifactor authentication for employers to access MyTax Illinois as part of a system enhancement. Multifactor authentication is the use of two or more methods to authenticate or verify an individual's identity.

As recommended by the US DOL, IDES began **participating in the National Association of State Workforce Agencies' Integrity Data Hub** in September 2021. The Integrity Data Hub provides cross-matching functionality with other states' data to help states with suspicious email domains, data analysis, the suspicious actor repository, identity verification, multi-state claims, fraud alerting, and foreign IP addresses.

In September 2021, IDES required IBIS filers to register with **ILogin** to access their accounts. ILogin is an Illinois Department of Innovation and Technology enterprise tool that allows users to access multiple State of Illinois platforms with

one account. The cloud-based system includes identity proofing, authentication methods, fraud analytics, and threat monitoring. The new system also utilizes multifactor authentication.

### **Department Response to Hijacked Payments**

During the pandemic period, fraudsters hijacked payments by diverting payments from legitimate unemployment claimants to fraudulent accounts. Claimants in these situations during the audit period were directed to fill out a Payment Tracer and Affidavit of Non-Receipt of UI Benefits form (payment tracer affidavit).

This form required the applicant to note the weeks for which payment was not received, the proper bank name and account number, and to certify that he or she had not received the benefits. Along with the form, the claimant was to provide identification to verify his or her identity. The form, previously revised in 2018, was updated in November 2021 and again in December 2021.

According to an IDES official, prior to the pandemic, the Department received 4 to 10 payment tracer forms a year. These payment tracer forms were reviewed by the Accounting Division and only forwarded to BPC if the payment problem could not be resolved. This process proved to be inadequate when the number of hijacked payments increased. Also, there was not a process in place to track submissions of payment tracer forms which became problematic when the number increased substantially.

During the pandemic, IDES received over 2,700 payment tracer forms and had to improvise and update the process as circumstances changed. For example, when local unemployment offices were not open, IDES could not verify the claimant's identity in person. As a result, items were sometimes uploaded to IBIS. Due to the changing process and improvising, **there was no system in place for BPC to know that documents had been uploaded and a payment tracer case was ready to be worked until a claimant called to check on the status.**

IDES provided informal lists, as of July and October 2022, of payments tracer forms that were completed, not completed, in-process, and denied. Exhibit 28 shows the breakdown of the population by program and status of the form (completed, denied, etc.). We randomly selected claimants from each category for a total of 143 claimants. There were 208 forms submitted for these 143 claimants.

Exhibit 28  
**REGULAR UI AND PUA PAYMENT TRACER FORMS**  
 As of July/October 2022

	Population	Sample of Claimant ID	Total Forms for Claimants Sampled
<b>Regular UI</b>			
Completed	2,057	100	160
Denied	19	4	8
Not Completed	563	25	26
<b>Total Regular UI</b>	<b>2,639</b>	<b>129</b>	<b>194</b>
<b>PUA</b>			
Completed	38	5	5
In-process	21	5	5
Not Completed	52	4	4
<b>Total PUA</b>	<b>111</b>	<b>14</b>	<b>14</b>
<b>Total Regular UI &amp; PUA</b>	<b>2,750<sup>1</sup></b>	<b>143</b>	<b>208</b>

Note:

<sup>1</sup> Auditors were unable to determine, for the population, if any forms were duplicates (multiple forms submitted for the same benefit period); therefore, the number of forms could be overstated.

Source: Illinois Department of Employment Security and OAG sample of payment tracer forms.

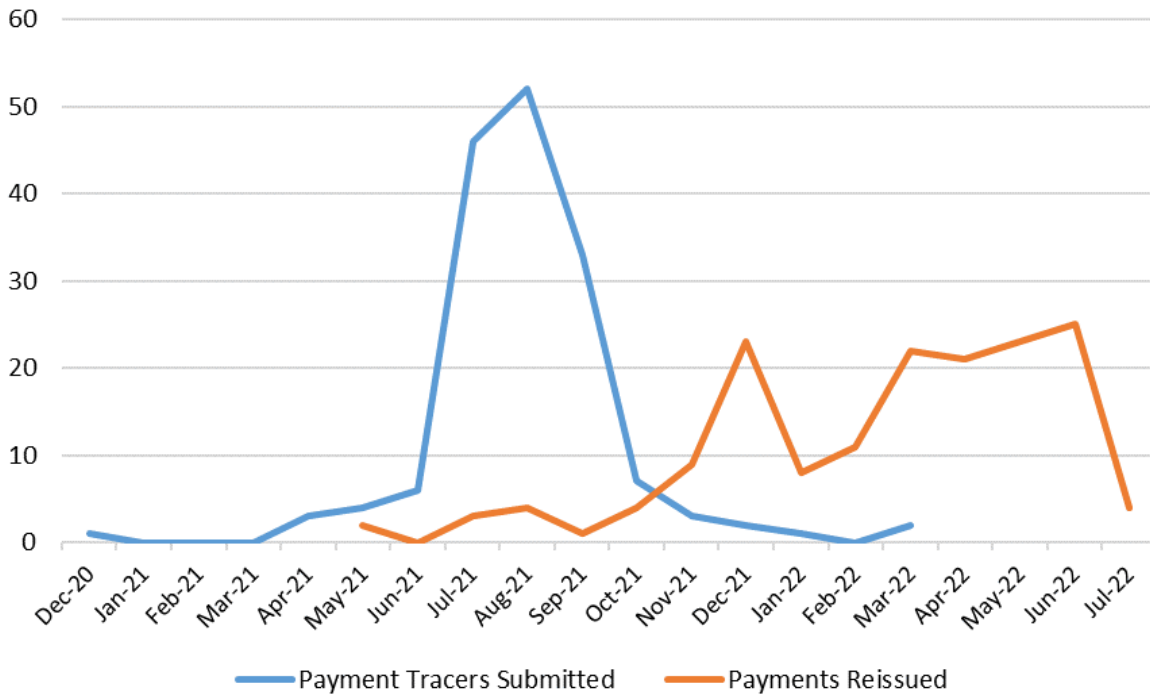
We calculated the amount of time it took IDES to process the form until the time the payment was reissued or denied, or in the cases where the tracer processing was not yet complete, November 2022 (the date of our testing).

When calculating the time to process payment tracer forms, we used the date the payment tracer affidavit was signed or the date IDES received the affidavit as the process start date, whichever was later.

For IBIS payment tracers that had been paid, we chose a random sample of 100 claimants, for a total of 160 payment tracer affidavits (out of a population of 2,057 payment tracer affidavits). As shown in Exhibit 29, many of the payment tracer forms sampled were submitted in July through September 2021. For this sample, the first payments were reissued in May 2021; however, for the entire population, there were nine payments issued in January through April 2021.



Exhibit 29  
**SAMPLE OF IBIS PAID PAYMENT TRACER FORMS RECEIVED VS. PAYMENTS REISSUED**  
 December 2020 to July 2022



Source: OAG analysis of IBIS paid payment tracer forms.

**From the start of the process to the date a payment was reissued, it took 198 days on average.** It took 185 days from the start of the process (a form being submitted to IDES) to when a memo was sent to Accounting to authorize reissuing the payment. The remaining 13 days of the 198 were spent reissuing the payment.

As of October 2022, 19 IBIS payment tracer affidavits had been denied reissuance of payment. We sampled 4 claimants (a total of 8 payment tracer forms) and found that, on average, it took 104 days from the start of the process to the date of the denial letter.

An additional 563 payment tracers were not completed, but in various states of being worked. We sampled 25 claimants, for a total of 26 payment tracer forms. Eleven payment tracer affidavits were incomplete and, as of November 30, 2022, had been in the process for an average of 353 days. From these 11, one individual had waited 525 days (as of November 2022) and had filed a payment tracer affidavit on June 23, 2021. Fifteen more were incomplete as of the time of the list (October 2022), but were subsequently paid prior to our testing in November 2022. Those 15 payments tracers took, on average, 225 days to be processed (from the start of the process to the date a memo was drafted to instruct Accounting to authorize reissuance of the payment).

Payment tracer forms were also submitted for PUA payments including 38 which had been completed, 21 that were in-process, and 52 were incomplete. Reissued payments were processed through an IT request for the PUA program rather than through IDES Accounting; therefore, there were no memos to Accounting for the PUA population. We chose a random sample from each category.

**For PUA payment tracer forms that had been paid, it took an average of 445 days (ranging from 372 to 590 days) from the time IDES received the payment tracer to the date the payment was reissued.** The in-process and not completed cases were assessed as of our testing in November 2022. For PUA payment tracer forms that were in-process, the sampled cases were submitted in 2021 and 2022 and took an average of 375 days, ranging from 244 days to 471 days. For PUA payment tracer forms that were not in-process or completed, the sampled cases took an average of 498 days, ranging from 457 days to 562 days.

**Payment Tracer Affidavit Form Procedure**

**RECOMMENDATION  
NUMBER  
3**

*The Illinois Department of Employment Security should update its procedure for handling payment tracer affidavit forms to allow the Department to better handle a large influx of forms. This update should include a process for tracking the submission of payment tracer affidavit forms. If possible, the Department should explore best practices in this area to determine if more efficient methods and tools are available.*

**Illinois Department of Employment Security Response:**

The Department accepts the Recommendation. The drastic increase in payment tracer forms rendered the existing process insufficient and the decision was made for the Benefit Payment Control Subdivision to take over affidavit processing. The Department is improving process procedures and incorporating planning for times of high demand. Federal testimony consistently outlines that implementing and expediting new federal programs will continue to challenge states nationwide, due to insufficient baseline staffing resources and federal budget models that do not adapt quickly to changing situations.

**Department Response to Fictitious Employers**

IDES procedures address fictitious employer schemes and describe this scheme as involving an individual or group registering a fictitious company for the sole purpose of filing fraudulent UI claims. Fictitious employer categories include:

- **Fictitious Employer** – typically involves the registration of a non-existing business entity as a liable employer for the purpose of filing fraudulent UI claims. Contribution taxes may be paid; in many instances, the taxes are delinquent. Once wage credits have been established, fraudulent UI claims are usually immediately filed.
- **Fictitious Employee** – a fictitious employee is an individual who never worked for a company but is listed on the quarterly wage reports or has filed an affidavit stating that a certain amount of wages was earned. This is done for the purpose of collecting UI benefits to which the individual is not rightly entitled.

- **Employer Fraud** – an employer legitimately establishes a business as a liable employing unit. All necessary forms are completed and, initially, contribution taxes are paid. The employer provides false information on the quarterly reports or omits pertinent information for the purpose of collecting or assisting another individual in receiving benefits to which they are not rightfully entitled.
- **Employer/Employee Collusion** – a legitimate company removes employees from the payroll but continues to employ them full-time while paying them unreported cash wages. The employees file for UI to supplement the employment compensation. This scheme involves an agreement between employer and employee.

Alleged cases of fictitious employer fraud are investigated by BPC. The allegation can come from sources within the Department such as Field Audit, Operations, and Internal Investigations or from phone tips or letters from persons outside the Department.

### **Fraud Prevention Tools Required by Federal Guidance**

Determination 5 asked us to examine IDES' decision to not implement additional fraud-prevention tools in April 2020 as recommended. UIPL 23-20, released May 11, 2020, reminded states of program integrity functions for the regular UI program and provided states with guidance regarding program integrity functions for PUA, FPUC, and PEUC. It also discussed **mandatory** Benefit Payment Control activities such as using a National Directory of New Hires cross-match and a Quarterly Wage cross-match. The UIPL also discussed **strongly recommended** Benefit Payment Control activities such as utilizing a Social Security Administration cross-match and an Interstate Benefits cross-match.

Exhibit 30 provides a list of the federally mandated and recommended anti-fraud tools noted in UIPL 23-20. As can be seen in the exhibit, IDES had implemented all of the mandatory and recommended tools before the pandemic except the Integrity Data Hub tools, which were not implemented until September 2021. Despite being implemented prior to the pandemic, three other federally mandated or recommended tools were suspended for a period during the pandemic.

**Exhibit 30  
IDES IMPLEMENTATION OF FEDERALLY MANDATED AND RECOMMENDED ANTI-FRAUD TOOLS**

<b>Control</b>	<b>Mandatory/ Recommended</b>	<b>Implemented<sup>1</sup></b>	<b>Suspended</b>	<b>Resumed</b>
National Directory of New Hires Cross-Match	Mandatory	Pre-Pandemic	-	-
Quarterly Wage Cross-Match <sup>2</sup>	Mandatory	Pre-Pandemic	2/14/20	3/29/22
Systematic Alien Verification for Entitlement (SAVE)	Mandatory	Pre-Pandemic	-	-
State Directory of New Hires Cross-Match	Recommended	Pre-Pandemic	-	-
Social Security Administration Cross-Match <sup>3</sup>	Recommended	Pre-Pandemic	3/18/20	4/6/20
Interstate Connection Network (ICON) and Interstate Benefits (IB) Cross-Match	Recommended	Pre-Pandemic	-	-
State Information Data Exchange System (SIDES)	Recommended	Pre-Pandemic	-	-
Identity Verification <sup>4</sup>	Recommended	Pre-Pandemic	-	-
Incarceration Cross-Match	Recommended	Pre-Pandemic	5/3/20	1/27/22
Integrity Data Hub Tools	Recommended	Sept. 2021	-	-

Notes:

- <sup>1</sup> “Pre-Pandemic” indicates the cross-match was fully implemented prior to CY2020.
- <sup>2</sup> While these reports were still being run, results were not being worked due to lack of available BPC staff.
- <sup>3</sup> Social Security Administration cross-match was moved from real-time hourly processing to nightly offline processing with substantial backlogs.
- <sup>4</sup> UIPL 23-20 does not define identity verification; however, UIPL 28-20 examples of identity verification cross-matches include Social Security Administration, SAVE, Incarceration, ICON, IP Address, and data analytics. IDES has implemented identity verification in varying levels.

Source: OAG auditor prepared using UIPL 23-20 and information provided by the Department.

**Integrity Data Hub**

IDES did not start utilizing the Integrity Data Hub until well into the pandemic. UIPL 23-20 released May 11, 2020, and a US DOL Employment and Training Administration notice published on August 31, 2020, strongly encouraged states to use the Integrity Data Hub as an important integrity tool in combatting unemployment insurance fraud. Both US DOL notices stated that the Integrity Data Hub was available to all State Workforce Agencies and each state should strongly consider integrating the Integrity Data Hub tools as part of an effective Benefit Payment Control operation for the regular UI programs and temporary unemployment programs, including PUA and PEUC. According to the ETA notice, the Integrity Data Hub undergoes regular audits and testing to ensure maximum security. According to a report released in December 2021 by the Pandemic Response Accountability Committee, as of December 2020, just 32 of 54 State Workforce Agencies used or partially used the Integrity Data Hub.

The Integrity Data Hub provides cross-matching functionality to address unemployment insurance fraud and is available to participating states at no cost. The Integrity Data Hub includes the following tools:

- Suspicious Actor Repository – states match current claims against a state-populated database of fraudulent and suspicious claims data;
- Suspicious Email Domains – states receive flags on claims containing email domains associated with fraudulent activity;
- Foreign Internet Protocol (IP) Addresses – states receive flags on claims filed from IP addresses outside of the US;
- Data Analysis – provides the ability to analyze national claims data and conduct cross-state analysis within a secure system;
- Multi-State Cross-match – allows states to submit current unemployment insurance and PUA claims for cross-matching and receive notifications when potentially fraudulent claims are filed in multiple states;
- Identity Verification – provides centralized identity verification for all claims in participating states by returning identity scoring information and helping states prioritize investigations of questionable identities; and
- Fraud Alerting – states share information on emerging fraudulent activity within a secure messaging platform. Registered users receive email notifications when fraud alerts are created and updated.

According to IDES, Illinois began participating in the Integrity Data Hub in September 2021. The Department chose not to participate in the Integrity Data Hub because other IT-related projects during the pandemic were of greater urgency. However, when it came to the IDES Director’s Office’s attention that IDES was not participating in the Integrity Data Hub, IDES expressed its intention to begin participation as soon as possible. This required the Illinois Department of Innovation and Technology (DoIT) to collaborate with the National Association of State Workforce Agencies. DoIT began testing data files in July 2021. The testing of files took longer than DoIT anticipated; therefore, participation did not begin until September 2021.

According to IDES, the Department began submitting claims data daily on September 1, 2021, and received weekly reports for flagged claims beginning September 20, 2021. According to an IDES official, this report contained about 13 hits a week because the Integrity Data Hub was still in its beginning stages, but there are hopes that it will yield more hits in the future. A May 5, 2022 US DOL ETA notice stated that the Integrity Data Hub continues to evolve as more states regularly submit UI claims data to the Hub.

### **Suspended Cross-matches**

As noted previously, the Quarterly Wage cross-match, the Social Security Administration cross-match, and the Incarceration cross-match were all suspended during the pandemic.

- The Quarterly Wage cross-match report could still be run, but the BPC staff that investigated the match results were not available to work the results; BPC staff had been shifted to other areas of need such as taking phone calls related to unemployment insurance identity theft.
- The Social Security Administration cross-match moved from real-time hourly processing to nightly offline processing with substantial backlogs. This move was made March 18, 2020, in order to decrease stress on the Social Security Administration's system which was also receiving an unprecedented number of Social Security number verification inquiries.
- The Incarceration cross-match was suspended on May 3, 2020, and did not resume until January 27, 2022. According to IDES officials, the business process required claimants to report to local offices to prove identity. Local offices were closed to the public from March 17, 2020, to August 26, 2021; however, the cross-match was not resumed until five months after the local offices were reopened to the public.

### **Post-Pandemic Cross-match Opportunities**

Additional cross-matches to combat fraud were introduced that IDES was not utilizing. These cross-matches are either funded by or made available through the US Department of Labor.

#### **Prisoner Update Processing System Data Match**

In March 2022, IDES officials said the Department did not have access to a cross-match with **federal** correctional facilities. However, in October 2021, UIPL 1-22 announced the availability of an incarceration data exchange system between ICON and the Social Security Administration Prisoner Update Processing System (PUPS). As of September 2022, according to an IDES official, they were unaware of this potential federal incarceration data match. However, in a review completed just months prior to the onset of the pandemic, the National Association of State Workforce Agencies recommended IDES take advantage of the PUPS cross-match which was in development with an estimated go-live date of CY2020. Although the cross-match was not available until October 2021, IDES should have been awaiting the PUPS release and been aware upon release of UIPL 1-22. Upon inquiry, IDES officials said the Department planned to implement the PUPS cross-match during the first quarter of calendar year 2023.

According to a GAO UI report, a US DOL official noted that as of August 2022, one state was using the new incarceration data exchange and at least ten states had submitted a request to access the incarceration data. However, 12 states already receive incarceration data through direct agreements with the Social Security Administration and therefore would not be expected to request access to this service.

#### **Bank Account Verification (BAV) Service**

A new Bank Account Verification (BAV) service was released into Integrity Data Hub production on February 16, 2022. The US DOL strongly recommends using the Bank Account Verification service to mitigate occurrences of improper

payments due to unemployment identity fraud. This service is intended to help states proactively identify and authenticate bank account information on the UI claim by validating the account’s status and ensuring the individual identified as the claimant is the account owner and/or authorized user prior to initiating the UI benefit payment. According to IDES officials, as of January 2023, Illinois was not participating in the Bank Account Verification service, but IDES planned to get it set up and utilized sometime in the future. According to a GAO UI report, a US DOL official noted that as of October 2022, 31 states were using the Bank Account Verification service.

**Additional Cross-match Opportunities**

**RECOMMENDATION NUMBER**

**4**

*The Illinois Department of Employment Security should research and implement further cross-match and fraud prevention tools that may be available. The Department should specifically consider implementing the Prisoner Update Processing System data match and the Bank Account Verification service. These tools would provide the Department with more opportunities to identify and prevent payment of fraudulent claims.*

**Illinois Department of Employment Security Response:**

The Department accepts the Recommendation. IDES implemented all of the federal required and recommended tools; 90% of the tools were implemented prior to the pandemic. Timely payment of benefits and preventing fraud are competing processes, and during the Covid-19 pandemic certain crossmatches and controls were suspended or delayed in an effort to reduce delays in claimant benefit distribution. As the effects of the pandemic lessened, the Department reinstated these crossmatches and controls. The Department will continue to research and implement further crossmatch and fraud prevention tools, including the Prisoner Update Processing System and bank account verification services. The Department will work closely with NASWA’s Integrity Data Hub to take advantage of additional services beyond those currently utilized.

**Cooperation with Authorities**

The Department’s main partner in trying to recoup overpayments is the US Department of Labor’s Office of the Inspector General. The Department refers cases for investigation that have a credible lead. According to a Department official, the Benefit Payment Control subdivision helps gather information and provides the claims data to the US DOL OIG. Between May 2020 and October 2021, IDES reported referring at least 79 matters/leads to the US DOL OIG.

IDES also works with the US DOL OIG on cases that might have originated from other sources. The US DOL OIG reported multiple prosecutions involving fraud committed against IDES through its unemployment system. For example, one Georgia resident was prosecuted for defrauding IDES of more than \$4 million from September 2020 through July 2021. This scheme involved the use of stolen identities, which were often associated with elderly Illinois residents. An Illinois resident was prosecuted for his role in a scheme to defraud the federal government and several states, including Illinois, of nearly \$1 million in UI benefits. This scheme involved the use of stolen identities and took place between May 2020 and April 2021.

The BPC unit refers cases to the Illinois Attorney General when overpayments between \$2,500 and \$10,000 have occurred, according to a Department official. **During the audit period, however, no referrals were made to the Attorney General.** Referrals, in the past, have also been made to the Federal Bureau of Investigation and Postal Inspectors.

IDES voluntarily applied for a UI Tiger Team grant in March 2022 and was chosen to be in the third round of states assessed. The purpose of the Tiger Teams was to help states find solutions to address fraud, timeliness of benefit payments, and equitable access. Illinois began work with the Tiger Team consultants in April 2022 and concluded the interviews, information sharing, data analysis, and discovery phase in July 2022. As of December 2022, IDES was assessing the Tiger Team recommendations and working with the US DOL to determine which recommendations and projects meet the scope, timeframe, cost estimate, internal capacity, and procurement process. Illinois' Tiger Team allocation is \$5.2 million and will draw down from this allocation by submitting Project Synopsis reports to the US DOL.

IDES also applied for a UI Equity grant. The UI Equity grants are designed to help states improve their UI systems to ensure benefits go to workers who need them, eliminate administrative barriers to benefit application, reduce state workload backlogs, improve the timeliness of unemployment compensation payments to eligible individuals, and ensure equity in fraud prevention, detection, and recovery activities. Illinois' Equity grant allocation is \$6.84 million.

### Overpayments and Fraud Numbers

Overpayments were an issue in both the regular UI and PUA programs. Fraud overpayments require IDES staff to handle each case and limits the number of fraud cases that can be routinely worked. BPC staff are responsible for investigating overpayments. Very early in the pandemic, BPC staff were reassigned to other duties to reduce backlogs in benefit processing. BPC staff also took on additional duties representing the agency on the frontlines, to serve individuals reporting cases of identity theft.

Overpayments were classified by IDES as fraud, non-fraud, or identity theft:

- Fraud is when an individual might be entitled to benefits, but knowingly makes a false statement or fails to disclose material facts for the purpose of obtaining benefits, such as returning to work and earning wages without accurately or completely reporting those facts.
- Non-fraud is when the overpayment is without fault or fraud on the individual's part.
- ID theft is the use of stolen Personally Identifiable Information to file claims and receive unemployment benefits.

IDES provided auditors with overpayment methodologies and spreadsheet summaries of overpayments and fraud for FY20 to FY22. Exhibit 31 summarizes overpayments figures provided by IDES for both IBIS and PUA. The exhibit also



notes payments recovered and stopped payments and any overpayments for which IDES has issued waivers.

Auditors note that these figures are estimates as IDES is still in the process of identifying fraud through the previously suspended Quarterly Wage cross-match. As a result, it is possible that these overpayment numbers are understated. Additionally, the US DOL OIG estimates an improper payment rate for pandemic UI programs to be greater than the reported 21.52 percent. IDES numbers indicate a rate of approximately 14.5 percent.

For **IBIS** overpayments (which includes regular UI, PEUC, Extended Benefits, FPUC, MEUC, and LWA), IDES did not provide complete figures for FY20; however, it did note \$9.19 million in overpayments due to identity theft. FY21 overpayments were noted as \$1.02 billion. The Department noted that a total of \$80.55 million was stopped or recovered. FY22 figures were similar. FY22 overpayments were noted as \$1.01 billion. There was a total of \$69.80 million stopped or recovered. IDES estimated uncollectible non-fraud and fraud overpayments at 75 percent for FY20 and 80 percent for FY21 and FY22.

Exhibit 31 IBIS AND PUA OVERPAYMENTS AND FRAUD					
	FY20	FY21	FY22	Total	
<b>IBIS</b>					
ID Theft	\$9,185,890	\$292,544,810	\$208,862,419	\$510,593,119	
Fraud & Non-fraud <sup>1</sup>	-	\$726,752,486	\$803,701,088	\$1,530,453,574	
<b>Total IBIS</b>	<b>\$9,185,890</b>	<b>\$1,019,297,296</b>	<b>\$1,012,563,507</b>	<b>\$2,041,046,693</b>	
Recoveries & Stopped Payments	-	\$80,552,710	\$69,803,643	\$150,356,353	
Overpayment Waiver Balance Reduction <sup>2</sup>	N/A	N/A	N/A		
<b>Net IBIS Overpayments<sup>3</sup></b>	<b>\$9,185,890</b>	<b>\$938,744,586</b>	<b>\$942,759,865</b>	<b>\$1,890,690,341</b>	
<b>PUA</b>					
Fraud	\$24,570	\$22,475,937	\$26,184,202	\$48,684,709	
ID Theft	\$220,847	\$2,074,462,877	\$217,795,043	\$2,292,478,767	
Non-fraud	\$4,876,538	\$672,462,491	\$180,563,553	\$857,902,582	
<b>Total PUA</b>	<b>\$5,121,955</b>	<b>\$2,769,401,305</b>	<b>\$424,542,798</b>	<b>\$3,199,066,058</b>	
Recoveries & Stopped Payments	\$11,528	\$285,310,367	\$76,015,679	\$361,337,574	
Overpayment Waiver Balance Reduction	N/A	\$57,134,173	\$63,374,347	\$120,508,520	
<b>Net PUA Overpayments</b>	<b>\$5,110,427</b>	<b>\$2,426,956,765</b>	<b>\$285,152,772</b>	<b>\$2,717,219,964</b>	
<b>Total Net IBIS &amp; PUA Overpayments<sup>3</sup></b>	<b>\$14,296,317</b>	<b>\$3,365,701,351</b>	<b>\$1,227,912,637</b>	<b>\$4,607,910,305</b>	

Notes:  
<sup>1</sup> IBIS did not have the capability to separate fraud and non-fraud.  
<sup>2</sup> No IBIS waivers were finalized prior to the end of FY22.  
<sup>3</sup> Totals may not add due to rounding.

Source: Illinois Department of Employment Security.

For FY20 and FY21, IDES reported \$2.77 billion in overpayments for the **PUA** program (which also includes FPUC and LWA overpayments). The Department estimates that approximately \$2.07 billion is the result of identity theft, \$22.50 million is the result of traditional fraud, and \$677.34 million is non-fraud overpayments. The Department noted that \$285.32 million was stopped or recovered. According to IDES figures, in FY22 total PUA overpayments totaled \$424.54 million, down from \$2.77 billion in FY21. There was a total of \$76.02 million in stopped or recovered payments.

Limitations in the third party software used to administer PUA did not allow recovered overpayments from fraud and non-fraud to be allocated to the specific federal programs. The recoveries and stopped payments could not be broken

down by program because the recoveries and stopped payments are at the claimant level, not the program level. For FY20 to FY22, IDES estimated allowances for uncollectible non-fraud overpayments at 90 percent, fraud at 95 percent, and identity theft at 98 percent.

The Illinois Unemployment Insurance Act establishes a recoupment process for cases in which an individual receives benefits he or she is found to have been ineligible for. Overpayments due to identity theft **are not considered recoverable** because they cannot be collected from the real owner of the identity/Social Security number. Fraud and non-fraud overpayments which are connected to a valid claim for benefits occur for several reasons such as a claimant returning to work and continuing to collect payment without reporting earnings or when a separation issue is resolved after payment has been issued. These types of overpayments are considered recoverable. The Illinois Unemployment Insurance Act also provides for a process for a waiver of recovery if the individual is without fault and recoupment would be against good conscience (an economic hardship for the claimant to repay the benefits).

### Waivers of Recovery of Overpayments

PUA overpayment waivers began in March 2021. States were provided instructions in the form of UIPLs for processing waivers of recovery of PUA overpayments. The instructions provided circumstances in which a state could waive recovery of overpayments under the CARES Act Unemployment Insurance programs. States were instructed that recovery activities for fraudulent overpayments could never be waived.

In order to be eligible for a waiver, the overpayment must be 1) without fault on the part of the individual and 2) recovery of the overpayment must be “contrary to equity and good conscience.” This means that an overpayment can be waived if it would cause financial hardship to the person from whom it is sought and recovery could be unconscionable under the circumstances. Waiver determinations must be made on the facts and circumstances of each individual claim. IDES used a questionnaire to help make that determination. Once the determination is made, staff can waive the overpayment balance and, if needed, issue refunds. Overpayment waivers in PUA began in September 2021.

The US Department of Labor, however, does permit a state to approve a blanket waiver under certain circumstances. There are seven scenarios identified by the US Department of Labor that permit a state to approve a blanket waiver which do not require additional fact-finding or submission of individual requests. In each of the seven scenarios, the individual affected must still be determined to be without fault in the creation of the overpayments and that recovery would be contrary to equity and good conscience.

According to IDES’ website, overpayment waiver request form notices were sent to eligible claimants with overpayments along with a questionnaire and instructions on how to file the waiver with IDES.

The regular UI (IBIS) waiver process started in early 2022. On January 10, 2022, the Department sent out the first emails notifying the first 10,000 claimants a letter was coming about an overpayment waiver. On January 19, the Department sent out the first 10,000 letters to claimants. After that, every other week the Department sent an email then letter to the next 10,000 claimants. A team at the local office level was set up to review the overpayment waivers. According to IDES, this is a very manual process as each overpayment must be reviewed because different programs have different rules. For example, for regular UI, only the balance of the overpayment could be waived. For COVID-19 programs, the established amount was waived and if the claimant had repaid any of the established amount then the claimant was due a refund.

According to the Department's website, a claimant will receive a written determination stating the amount of recovery of overpayment that has been waived. If a claimant is found to be ineligible for an Overpayment Recovery Waiver, the instructions on how, when, and where to appeal will be included in the written determination.

If an overpayment is not waived or recovered, overpayments can be recovered by the Illinois Comptroller's Office intercepting money that would normally be paid, by taking a portion of future unemployment benefits, and in certain cases, by filing with the Internal Revenue Service to withhold a federal tax return.

### **Fraud Reporting Requirements**

The US DOL Employment and Training Administration (ETA) requires various forms to be filed in order to monitor program progress, overpayments, and recovery. Form ETA 227 Overpayment Detection and Recovery Activities provides information on determinations, overpayments, and recoveries of overpayments for regular UI. Form ETA 902P Pandemic Unemployment Assistance Activities provides monthly data on PUA activities including fraud and non-fraud overpayments and recoveries. Forms ETA 9178-P and ETA 9178-F are used to monitor a State's progress related to PUA implementation and a State's ability to address fraud.

The US DOL OIG notes that the US DOL ETA and Congress need the information to fully assess state activities and mitigate the risk of overpayments and fraud. A US DOL Office of Inspector General report noted that many states were not completing required reporting for overpayments. According to Department officials, IDES was partially reporting on the ETA 902P, and the ETA 227 for PEUC and FPUC reporting was still under development. ETA 227 was broken out for PEUC, FPUC, and MEUC.

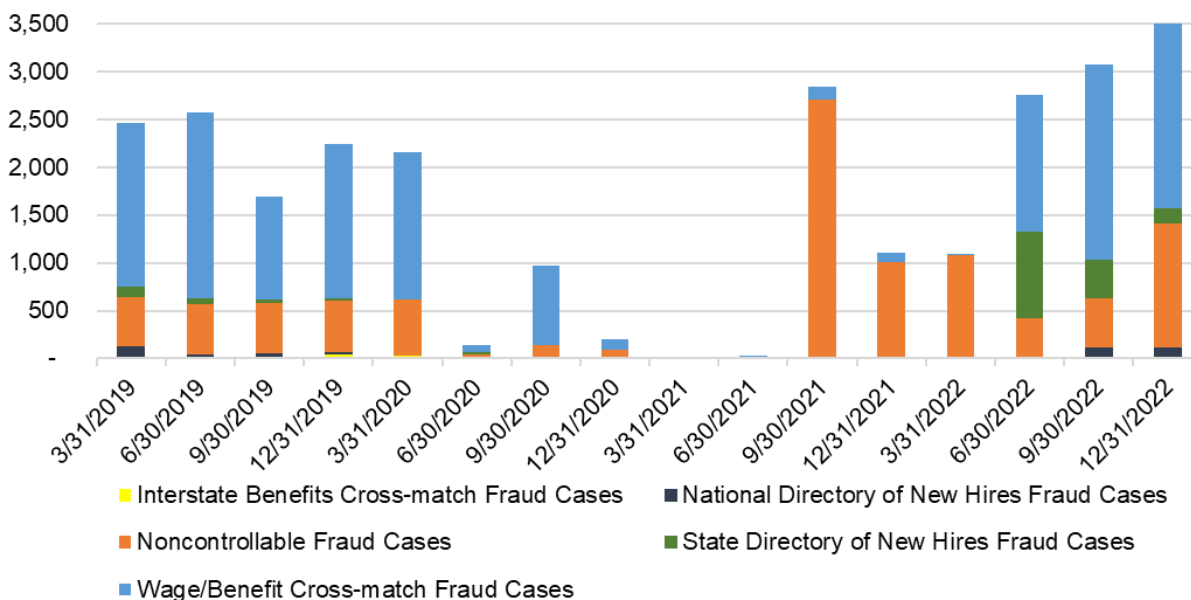
Overdue ETA 227 Reports	
Period Ending	Days Overdue
3/31/20	5
6/30/20	24
9/30/20	11
12/31/20	57
3/31/21	11
6/30/21	1

Auditors requested the dates IDES submitted the quarterly ETA 227 reports to the US Department of Labor during the audit period. All six of the reports were filed with the US DOL; however, all six were late ranging from 1 day late to 57 days late.

Exhibit 32 is a chart of fraud overpayment cases reported to the US DOL by IDES on Form ETA 227. According to IDES reporting, there was a dramatic shift in ways in which fraud was identified. Prior to the

pandemic, the high majority came from fraud wage/benefit cross-match cases; however, with the quarter ended September 30, 2021, there was a shift to overpayments for which IDES did not take an active role in detection (noncontrollable fraud category). Beginning with the quarter ended June 30, 2022, the reported fraud cases shifted back to wage/benefit cross-match, but also had a significant number detected by the State Directory of New Hires cross-match.

Exhibit 32  
**FRAUD OVERPAYMENT CASES REPORTED TO US DOL**  
 Calendar Years 2019 to 2022

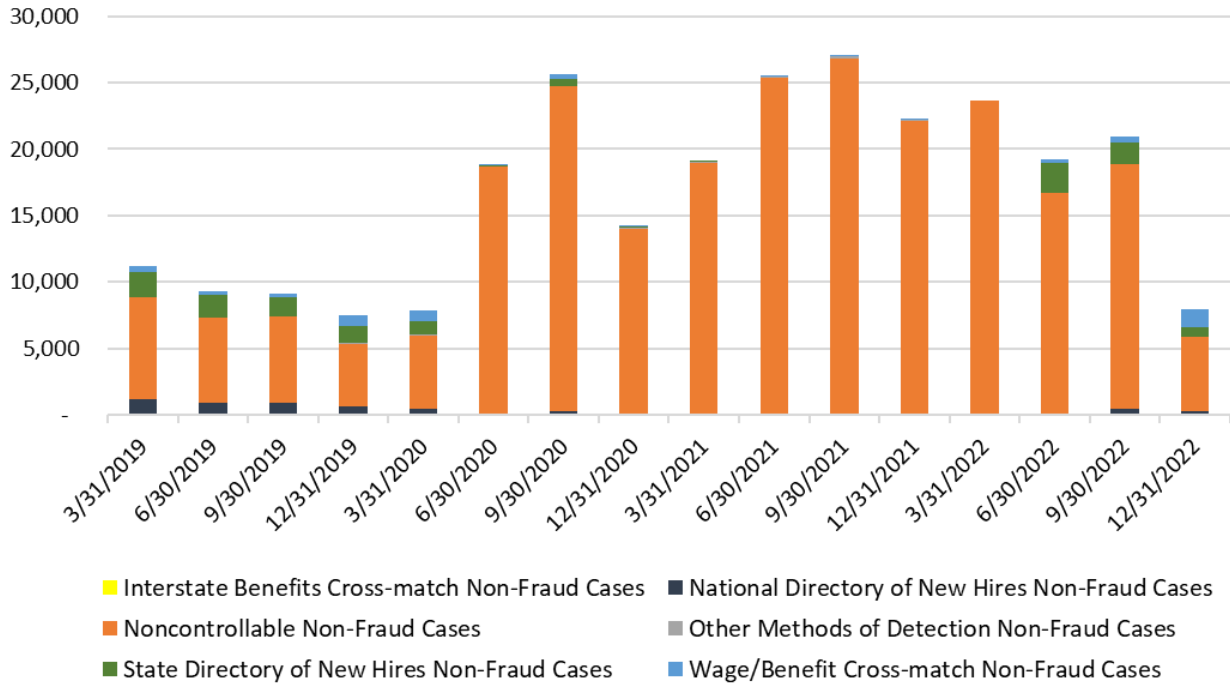


Source: Data reported to the US DOL on Form ETA 227.

Exhibit 33 is a chart of non-fraud overpayment cases reported to the US DOL by IDES on Form ETA 227. This shows that, dating back to 2019, the number of non-fraud cases reported has been higher than the number of fraud cases reported. Noncontrollable cases, or overpayments for which IDES did not take an active role in detection, accounted for the majority of non-fraud cases even prior to the pandemic and 90.7 percent of the non-fraud cases for 2019 to 2022. Non-fraud

cases are defined by IDES as overpayments that are without fault or fraud on the individual’s part.

**Exhibit 33**  
**NON-FRAUD OVERPAYMENT CASES REPORTED TO US DOL**  
 Calendar Years 2019 to 2022



Source: Data reported to the US DOL on Form ETA 227.

IDES did not submit the required ETA 9178-P or ETA 9178-F quarterly progress reports timely during the pandemic.

UIPL 16-20, Change 1 requires states that receive supplemental grant awards to submit a Quarterly Progress Report using the Form ETA 9178-P. ETA 9178-P is a monitoring instrument used by the ETA to track a grantee’s progress toward completing project activities related to PUA implementation costs reimbursement for one time and additional administrative costs. ETA 9178-P requires the grantee to provide the ETA with narrative updates on supplemental grant activities and helps ensure that the grantee achieves the goals described in the supplemental grant application. Grantees must submit ETA 9178-P within 45 days of each quarter’s end.

UIPL 28-20 requires states to report quarterly progress on Form ETA 9178-F. ETA 9178-F is a monitoring instrument used by the ETA to track each state’s progress in addressing fraud in the PUA and PEUC programs with funds provided by the US Department of Labor. States were permitted to use this targeted funding for staff or contract services to conduct fraud investigations and other fraud detection-related activities, or to implement tools to increase prevention,

detection, and recovery of fraudulent improper payments in the PUA and PEUC programs.

According to Department officials, IDES was working on a plan to complete the 26 outstanding federal ETA 9178 reports and planned to submit the completed reports on or before April 30, 2023. IDES’ failure to submit these reports results in noncompliance with US DOL requirements. Additionally, without the required quarterly reports, it diminishes the US DOL’s ability to properly monitor the programs and ensure resources are used efficiently.

**Fraud Reporting Requirements**

**RECOMMENDATION NUMBER**

**5**

*The Illinois Department of Employment Security should submit all overdue ETA 9178-P and ETA 9178-F quarterly progress reports as required by UIPL 16-20 Change 1 and UIPL 28-20 and continue to submit the reports on a timely basis.*

**Illinois Department of Employment Security Response:**

The Department accepts the Recommendation. IDES developed a plan with the DOL to come into compliance for outstanding federal reports, and those reports have been submitted. The Department continues to plan and implement improved internal controls across the agency and is currently mapping improved processes for grant tracking and reporting.

**Improper Payment Rate**

In December 2022, the US DOL reported an improper payment rate of 21.52 percent for the UI program, which is also applied to PEUC and FPUC. As of February 8, 2023, the US DOL had not yet reported the PUA improper payment rate. Historically, the UI program experienced some of the highest improper payment rates among federal government benefit programs. The US DOL established 10 percent as the acceptable maximum percentage of overpaid or underpaid payments. According to the US DOL OIG, the reported improper payment rate estimate for the regular UI program has been above 10 percent for 15 of the last 19 years. The ETA reported, as of January 2023, more than \$888 billion in total federal and state UI benefits were paid for benefit weeks during the UI pandemic period, with a significant portion attributable to fraud. According to the US DOL OIG, the improper payment rate for pandemic UI programs is likely higher than the reported improper payment rate of 21.52 percent because the rate does not include estimates for the PUA program.

## Timeliness and Performance Measures

IDES reporting to the US Department of Labor showed Illinois was not meeting the first payment promptness standard. Federal timeliness standards suggest that 87 percent of first payments should be paid within 21 days and 93 percent of first payments should be made within 35 days. Illinois fell below both of these standards in 2021 and 2022. In 2021 and 2022, the percent of payments made within 21 days was 75.5 and 71.4 percent, respectively. In 2021 and 2022, the percent of payments made within 35 days was 90.0 and 91.5 percent, respectively.

Determination 4 of LAC Resolution Number 158 asked us to determine whether IDES has complied with all State and federal statutory and administrative requirements for processing and auditing unemployment claims. Determination 8 asked for a summary of the average case processing time, the timeliness of benefit payments, and the accuracy of these payments.

State Workforce Agencies are required by the US DOL and federal law to meet various timeliness standards and other accuracy measures when processing claims. Auditors reviewed IDES' past and current performance.

According to IDES' reporting to the US DOL, IDES' regular UI claims processing did not meet federal standards for first payment promptness. Federal standards are established to determine whether states are substantially compliant with regards to the timeliness of first payment issuance. The US DOL established Acceptable Levels of Performance for benefit payment timeliness and determination quality by which all eligibility determinations are to be measured. The US DOL established 87 percent as the acceptable percentage of all first payments made within 14 days of the first compensable week (21 days when not utilizing a waiting week).

Exhibit 34 provides federal timeliness standards and IDES' performance for intrastate payments the year ending March 31. For example, in 2019 and 2020 (ending March 31, 2020), IDES made more than 90 percent of first payments within 14 days. This met the acceptable level of performance of 87 percent. In 2021 (April 1, 2020 – March 31, 2021) and 2022 (April 1, 2021 – March 31, 2022), the percent of payments made within 21 days (21 instead of 14 days due to Illinois not using a waiting week) dropped to 75.5 and 71.4 percent, respectively. Federal timeliness standards suggest that 93 percent of payments should be made within 35 days. Again, Illinois met this standard in 2019 and 2020, but dropped below the 93 percent in 2021 and 2022.



Exhibit 34  
**FEDERALLY REQUIRED TIMELINESS STANDARDS FOR REGULAR UI AND IDES PERFORMANCE**  
 Year Ending March 31

Timeliness Category	Standard	IDES' Performance			
		2019	2020	2021	2022
Intrastate First Payment Promptness: percentage of all 1 <sup>st</sup> payments made within 21 days (14 days when using a waiting week)	87%	92.5%	93.0%	75.5%	71.4%
Intrastate First Payment Promptness: percentage of all 1 <sup>st</sup> payments made within 35 days	93%	97.7%	97.9%	90.0%	91.5%

Note: Federal standards for payment promptness are based on the 12-month period ending March 31 of each year.

Source: US Department of Labor.

In a report released in May 2021 by the US DOL OIG, Illinois was one of two states (out of 12) that paid 87 percent of PEUC and the only state that met the timeliness standard for the FPUC program. The report focused on the DOL’s implementation of PUA, PEUC, and FPUC using the same performance standard applied to the regular UI program and selected 12 states, including Illinois, for in-depth analysis of timeliness of benefit payments.

**Management Reports**

IBIS has the capability to run various management reports that potentially serve as a useful internal control for the Department. Auditors requested and reviewed an example of various daily, weekly, quarterly, and on demand reports. These reports were claim detail and summary reports, claim time lapse summary reports, fraud overpayment reports, intra/interstate untimely first payment reports, and pending issues detail and summary reports. IDES also has the capability to run a multiple claimant/single address report, which identifies three or more UI claims utilizing the same mailing address.

Auditors inquired if any similar reports were generated for PUA. According to Department officials, IDES did not have daily PUA reports similar to those used for IBIS claims. Department officials said, in April 2021, Deloitte began providing a Daily Overpayment Waiver Report and a list of Overpayment Waiver Issues with Returned Claimant Fact-Findings. Beginning in May 2021, IDES began receiving daily Issue Activity Reports. The Department also had a daily PUA Dashboard available featuring Pending and Processed Payment Status, Indexing Status, and Claims Submission and Work Queue Status. Auditors reviewed examples of available PUA reports.

## Analysis of Claims Data and Call Data

IDES data shows payments were made to ineligible claimants. We found paid claims for deceased individuals and incarcerated individuals. The data showed, for both regular UI and PUA combined, a total of 481 deceased individuals received 10,527 payments totaling \$6.0 million. In addition, 3,448 incarcerated individuals received 92,811 payments totaling \$40.5 million. Testing these cases showed that some overpayments had been identified. However, auditors noted that overpayments sometimes excluded payments made before January 2021 and, as a result, overpayments could be understated. By excluding these payments from overpayment balances for individuals that were not eligible, the State is potentially missing out on opportunities to recoup overpayments.

IDES data also shows benefits being paid out to individuals that were born before January 1, 1935, (at least 85 as of March 2020) and after September 6, 2006, (younger than 15 as of September 2021). Claims for these ages are not prohibited and are not necessarily fraud; however, they are suspicious. The data showed, for both regular UI and PUA combined, a total of 4,639 individuals receiving 120,663 payments totaling \$65.8 million. The birth years ranged from 1901 to 2021.

IDES' call data records for April 2020 through April 2022 indicated it received over 37 million calls to its hotlines and made over 10 million callbacks. Hundreds of claimants called IDES more than 1,000 times; however, the average number of phone calls to the hotline was about 12 per phone number and the median value was 4 per phone number.

Auditors requested all PUA claims and all regular UI claims for the period of March 1, 2020, through September 6, 2021, including any regular UI claims filed before March 1, 2020, that might have subsequently received FPUC, EB, LWA, PEUC, and/or MEUC for that claim. The data provided by IDES included numerous tables and fields and millions of records.

Auditors ran many validity checks on the data to ensure it was sufficiently reliable for answering the audit's determinations. For example, auditors checked distribution of items such as program codes and eligibility status for reasonableness; checked various dates (such as processing dates) to ensure they were within an appropriate range; looked for null values in instances where it would suggest an issue or lack of data; and reviewed week-ending dates and the timing of payments. Auditors evaluated the appropriateness of the data by looking for obvious inconsistency errors and completeness. Auditors followed up with IDES officials about values that seemed unreasonable. Auditors determined that the data was adequately reliable for the purposes of this Performance report. For detailed analysis, based on data issues noted in other OAG reports, auditors chose to sample claims so that the accuracy of the information could be verified.

### IBIS Data

There were 7,069,239 regular UI claims submitted to IDES for 3,689,014 claimants. Many of these (66.7%) were new claims. Also, 56.3 percent were filed in 2020 and 42.8 percent were filed in 2021 (the remaining 1% were claimants that were already on regular UI). About 3.5 million of the claims have

a benefit chargeable employer. Over 65 percent of the claims were filed on the internet. An additional 25 percent were filed in the “system” (for example, claims transitioning from regular UI to PEUC/Extended Benefits), and the remaining were filed by telephone, teleserve, or in person. According to the data, there were 2,148,128 (or 58.2%) of claimants with one or more issues that had to be resolved.

### **PUA Data**

There were 855,835 PUA claimants. Unlike regular UI, PUA claims did not transition to another program (such as PEUC or Extended Benefits); therefore, a claimant retained the same claim identification number for the entirety of their PUA benefits. According to the data, there were 834,549 PUA claimant IDs with one or more issues.

The Department’s data indicated 288,131 claims were either identity theft or regular fraud. The overwhelming majority (285,552, or 99.1%) were noted as identity theft. Only 2,579 were noted as regular fraud.

There were 153,747 claimants (18.0%) that did not have any PUA payments according to IDES’ data. According to an IDES official, this happens when there is a denial due to an associated issue, which happens frequently. Many (128,491) of these claimant IDs were flagged as fraud (128,455 out of 128,491 were identity theft). Only 25,256 that did not have any payments were listed as “Not Fraud.”

### **Certifications**

In the regular UI data, 1,975,087 claimants had at least one certification for unemployment benefits. Additionally, auditors could see multiple certifications for a single claim, indicating claimants had certified for more than one week. The Department captured the method used in claimant certification including internet, phone, and paper certifications. The Department tracked the program type for the certifications, including regular UI and Extended Benefits. The Department also tracked the status of the claimants’ certifications.

Auditors found evidence of PUA claimants certifying weekly, and the Department monitoring PUA certifications for claims. In the PUA system, PUA payments had a corresponding certification date and certification status. In the entire PUA payment population (approximately 24.8 million records), there were only 5 instances where the payment date was prior to the certification date.

### **Lack of Enforcement of Eligibility Criteria**

IDES data shows payments were made to ineligible claimants. We found paid claims for deceased individuals and incarcerated individuals. We also found payments to individuals with ages that are suspicious for being eligible for regular UI or PUA benefits.

#### **Payments to Deceased Individuals**

Auditors tested the SSN and date of birth of deceased individuals against IDES’ claims data. The results show benefits being paid out in the name of deceased individuals.

In the regular UI data, auditors found 35 individuals receiving 534 payments totaling \$172,541 that were paid to claimants for periods occurring after a date of death. Total benefits paid out by claimant ranged from \$110 to \$33,228.

<b>Regular UI Payments to Deceased Individuals</b>	
Count of Deceased	35
Total Payments	534
Greatest Total Amount Paid to a Single Claimant	\$33,228
<b>Total Payments</b>	<b>\$172,541</b>

Auditors tested 5 (out of 35) individuals to determine if the claims had been identified as inappropriate payments. All 5 of these appeared to have been identified by questionnaires completed by employers and have overpayments noted on the accounts. The overpayment amounts ranged from \$968 to \$3,031. Auditors noted that it took between 20 days and 123

days for a fraudulent claim letter to be sent out after the employer questionnaire was completed. For example, one individual had a date of death of December 1, 2019, but had the following actions after the date of death:

- December 16, 2020 – a claim was filed using the individual’s information.
- December 23, 2020 – an employer questionnaire response was received.
- January 11, 2021 – there were two payments processed totaling \$968.
- January 12, 2021 – a fraudulent claim letter went out with an overpayment balance on the account noted as \$968.

In the PUA data, auditors found 446 individuals receiving 9,993 payments totaling \$5,876,822 that were paid to claimants for periods occurring after a date of death. Deceased claimants received anywhere between 1 payment and 78

<b>PUA Payments to Deceased Individuals</b>	
Count of Deceased	446
Total Payments	9,993
Greatest Total Amount Paid to a Single Claimant	\$43,440
<b>Total Payments</b>	<b>\$5,876,822</b>

payments. Total benefits paid out by claimant ranged from \$198 to \$43,440. Ninety-four claimants had payments of more than \$20,000.

Auditors tested 5 individuals (out of 446) to determine if the claims had been identified as inappropriate payments. There were overpayment balances established for 4 out of the 5 individuals. The overpayment balances ranged from \$2,988 to \$21,012.

For one of the four, it is unclear if the overpayment balance reflects the full overpayment. This individual passed away in November 2017. A claim was submitted for this individual on December 9, 2020. By January 29, 2021, 6 payments totaling \$32,464 were paid for backdated benefits (February 2020 through claim submission). Three additional payments totaling \$9,408 went out over the next 3 months. Payments to the individual totaled \$41,872, but the PUA system only showed an overpayment balance of \$9,408 and the overpayment letter noted it was for the period January 2021 to April 2021. Because the date of death was in 2017, all payments to this individual should have been deemed overpayments.

The one (out of five) that did not have an overpayment balance was noted as identity verified and employment evidence provided. IDES noted that there is a

copy of a Social Security card and State Identification card in the file and that the individual passed Experian Identity Proofing. IDES officials noted that IDES was not matching claims against death records. Auditors further confirmed the date of death, date of birth, and name with information on the internet.

**Payments to Incarcerated Individuals**

Auditors compared the regular UI and PUA claims to a list from the Department of Corrections of incarcerated individuals and found benefits being paid out to ineligible individuals.

<b>Regular UI Payments to Incarcerated Individuals</b>	
Count of Incarcerated	436
Total Payments	17,980
Greatest Total Amount Paid to a Single Claimant	\$66,299
<b>Total Payments</b>	<b>\$5,154,138</b>

The regular UI claims data included 436 incarcerated individuals receiving 17,980 payments totaling \$5,154,138. Total payments to individuals ranged from \$102 to \$66,299. Auditors tested five individuals to determine if the claims had been identified as inappropriate payments and found that in two of the five cases, the Social Security numbers and dates of birth matched, but the name in IBIS did not match the name in the IDOC data. It is unclear to auditors how the identity was verified with the Social Security Administration if the name did not match the Social

Security number. The other three had overpayment amounts already noted. One of those three specifically mentioned the claimant being ineligible due to incarceration.

<b>PUA Payments to Incarcerated Individuals</b>	
Count of Incarcerated	3,012
Total Payments	74,831
Greatest Total Amount Paid to a Single Claimant	\$60,808
<b>Total Payments</b>	<b>\$35,351,513</b>

The PUA claims data included 3,012 incarcerated individuals receiving 74,831 payments totaling \$35,351,513. Total payments to individuals ranged from \$198 to \$60,808 with an average total per individual of \$15,107. Auditors tested five individuals to determine if the claims had been identified as inappropriate payments:

- One of the five did not receive any payments because the identity was not verified.
- One of the five inappropriately received payments for four weeks in which he/she was incarcerated. The individual was then paroled and subsequently eligible. However, there are no notes in the PUA system to suggest that IDES identified those four weeks as overpayments.
- Three of the five had been identified as ineligible as a result of the claimant not responding to the employment evidence verification. There was no evidence to suggest that the individuals had been identified as ineligible due to incarceration. In these three cases, an overpayment was established, but only beginning in January 2021 when the new employment evidence requirement went into effect. One of these received a first payment of \$17,724 for back pay benefits in 2020 and received total payments of \$24,600, yet the overpayment amount in the PUA system was only \$1,494.

Auditors provided IDES with a list of claimants potentially ineligible due to incarceration.

IDES should seek to identify and recoup as appropriate any payments made for benefit weeks prior to January 2021 for which applicants were deceased or ineligible due to incarceration. Many of the first payments made to individuals included months of back pay benefits and were a substantial percentage of the individual’s total benefit amount. By excluding these payments from overpayment balances for individuals that were not eligible, the State is potentially missing out on opportunities to recoup overpayments.

According to IDES, the Department was not matching claims against death records and the Department suspended cross-matching with Department of Corrections records from May 2020 through January 2022.

**Identifying and Recouping Payments Made to Ineligible Individuals**

**RECOMMENDATION NUMBER**

**6**

*The Illinois Department of Employment Security should seek to identify and recoup as appropriate any payments for applicants who received inappropriate benefits. In addition, the Department should specifically target any payments made to applicants who were deceased or ineligible due to incarceration. IDES should pay special attention to overpayment balances that only considered January 2021 moving forward.*

**Illinois Department of Employment Security Response:**

The Department accepts the Recommendation. IDES data shows that during the midst of the COVID-19 pandemic payments were made to ineligible claimants, due to a number of factors, including the evolving guidance for administering the CARES Act programs and the sheer volume of claims brought on by the effects of the pandemic. For example, during this time, IDES received over 37 million calls to hotlines regarding 68 million certified claims, an increase of 800% over the prior fiscal year’s total number of new claims. In the effort to expedite emergency benefit payments to millions of recipients, the Department accepted that overpayment and fraud recovery would be negatively impacted, especially as certain crossmatches and controls were suspended. The Department has reinstated these crossmatches and controls and plans to institute PUPS and continue to use the Social Security verification process.

**Payments to Suspicious Ages**

Auditors analyzed the date of birth of regular UI and PUA applicants. The results show benefits being paid out to individuals that were born before January 1, 1935, (at least 85 as of March 2020) and after September 6, 2006, (younger than 15 as of September 2021). Claims for these ages are not prohibited and are not necessarily fraud; however, they are suspicious.

The regular UI claims data included 486 individuals receiving 29,632 payments totaling \$8,007,474. Total payments to individuals ranged from \$204 to \$59,584. The birth years ranged from 1906 to 2021.

The PUA claims data included 4,153 individuals receiving 91,031 payments totaling \$57,825,755. Total payments to individuals ranged from \$198 to \$59,936. The birth years ranged from 1901 to 2021.

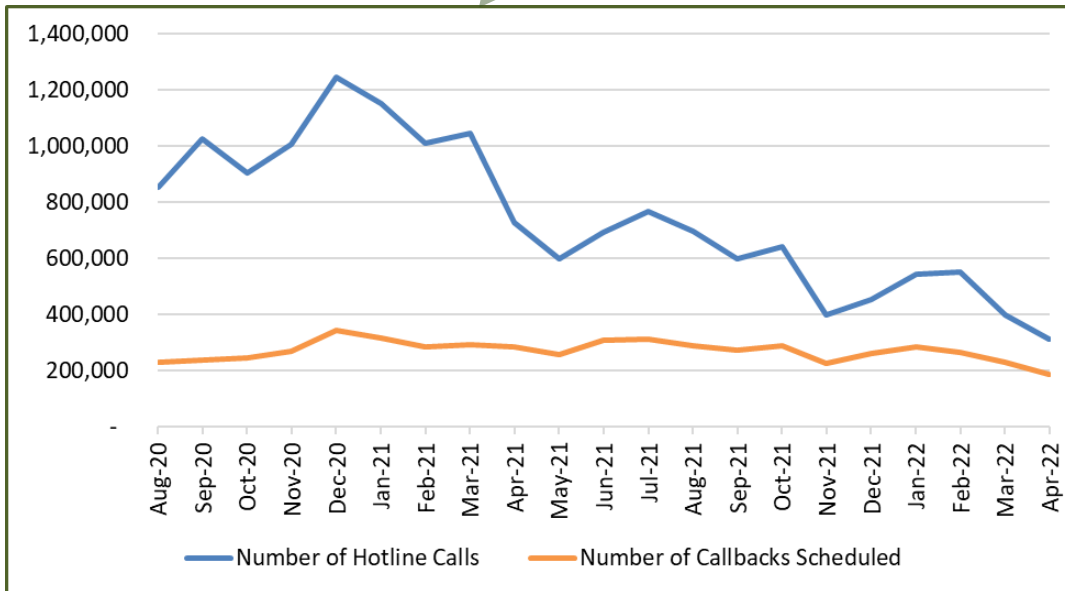
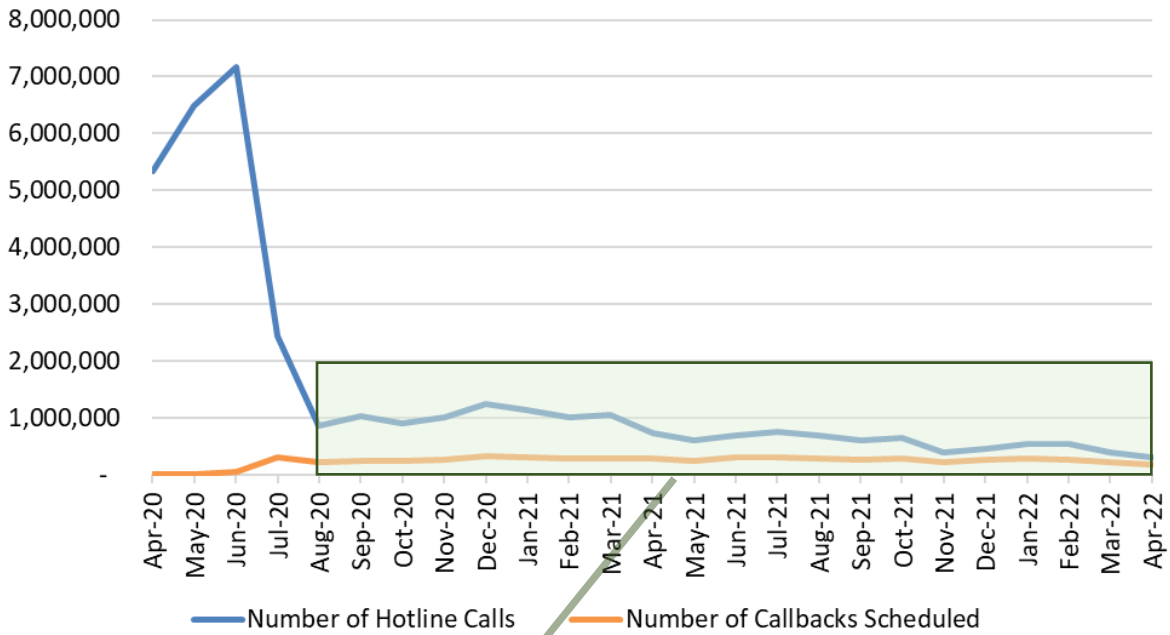
### Call Data

IDES' call data records for April 2020 through April 2022 indicated it received over 37 million calls to its hotlines and made over 10 million callbacks. Hundreds of claimants called IDES more than 1,000 times; however, the average number of phone calls to the hotline was about 12 per phone number and the median value was 4 per phone number. The vast majority of hotline calls (74.2%) were noted as "Handled in IVR." According to an IDES official, "Handled in IVR" (Interactive Voice Response) meant that the caller hung up and did not choose an option that went to a contact center queue. The next highest hotline result was "Callback Scheduled" (16.3%).

In July 2020, IDES transitioned to a callback-only model. The callback feature eliminated the option for claimants to wait on hold or the need to call multiple times a day to reach a claims representative. Exhibit 35 shows a drastic reduction in hotline calls from 7.2 million calls in June 2020, to 2.4 million in July 2020, to 854,000 in August 2020. It is unclear if there was a drastic reduction due to the switch to the callback-only model or if not all the phone calls were able to get into the call system due to high volumes (and therefore, the incoming call would not be recorded and the data might not capture all the people that were trying to call IDES). The call data showed an increase in callbacks scheduled from a low of 13,913 in April 2020 to 317,573 in July 2020, with an average of 242,194 a month from April 2020 to April 2022.

Over 6.0 million callbacks were scheduled and 10.3 million callback attempts were made. However, not all callbacks resulted in reaching a claimant. For example, some callbacks ended when voicemail was detected or the phone was not answered. About 5.7 million claimant callbacks were noted as "Handled by Agent" (55.4%). An additional 2.4 million were noted as "Voicemail Detected" (23.5%). According to IDES officials, there should be three attempts to contact a claimant. Auditors tested this in the sample of 50 regular UI claims and 50 PUA claims. Results can be found in the *Results of Claim Testing* section that follows on page 95.

**Exhibit 35**  
**IDES HOTLINE CALLS BY MONTH**  
 April 2020 through April 2022



Source: OAG analysis of Illinois Department of Employment Security call data.



## Results of Claim Testing

IDES strived to pay claims as quickly as possible. However, when certain cross-matches and controls are suspended, this increases the risk of making improper payments. IDES made large payments of backdated benefits while controls were suspended which could have contributed to large overpayments and losses due to fraud and identity theft. IDES should consider instituting additional controls/holds on payments exceeding a determined amount to minimize loss from fraud when issuing payments for backdated claims and/or large benefit payment amounts.

Timeliness of IBIS determinations and first payments was reasonable for our sample. On average, the 50 regular UI claims sampled took 14 days from the application date to the date the finding was sent to the applicant. For approved claims that received at least one payment, it took approximately 16 days from the date of application to the date the first payment was made. Three out of 28 did not have a first payment within the federal timeliness standard of 21 days.

For our sample, the timeliness of PUA first payments was reasonable; however PUA determinations were not timely. On average, the 50 PUA claims sampled took 38 days from the application date to the date the finding was sent to the applicant. Only 25 claims in our sample had a first payment date. For the 25 claims in our sample that received at least one payment, it took approximately 15 days from the application date to the date the first payment was made. Three out of 25 did not have a first payment within the regular UI federal timeliness standard of 21 days.

Our review of callback data indicated that some claimants received a callback in a matter of hours, while others waited two to three weeks or more. Additionally, not all claimants were successfully contacted after requesting a callback.

Determination 8 of LAC Resolution Number 158 asked for a summary of the average case processing time, the timeliness of benefit payments, and the accuracy of these payments. For this detailed analysis, based on data issues noted in other OAG reports, auditors chose to sample claims so that the accuracy of the information could be verified. Determination 4 of LAC Resolution Number 158 asked us to determine whether the Illinois Department of Employment Security has complied with all state and federal statutory and administrative requirements for processing and auditing unemployment claims. We tested 45 requirements as part of claims testing.

Auditors conducted testing of the processing of 50 regular UI claims and 50 PUA claims. We tested timeliness, calls to the call center, and various other program requirements laid out in state and federal statute and administrative rules. The sampled claims were submitted during the time period from June 2020 to August 2021.

### Regular UI Findings, Determinations, Etc.

Auditors randomly sampled 50 regular UI claims submitted. Auditors found that the weekly benefit amount and maximum benefit amount were reasonable. Auditors also found that the last employing unit was notified when appropriate.

Out of the total 50 sampled, 29 were approved and 21 were denied. Of the 29 that were **approved**, auditors noted that recertifications were happening for all approved applications. In 11 of these 29, there was evidence of a question arising concerning the claimant’s monetary or nonmonetary eligibility. In each of these 11 cases, the claimant was notified in writing as required and informed as to the eligibility issue.

All 21 of the denied claims were also notified in writing as required and informed of the reason for their ineligibility. Claims were denied due to being monetarily ineligible, failing Secretary of State validation, and being identified as fraudulent claims.

### Timeliness of Regular UI Determination and Payments

Overall, timeliness of IBIS determinations and first payments was reasonable. On average, the 50 regular UI claims sampled took 14 days from the application date to the date the finding was sent to the applicant. For cases with no issues, the finding date is the date that IDES notified the applicant of the potential weekly benefit amount. For cases with issues, this date might be later due to adjudication of issues. For the 21 claims that were ultimately denied, the average number of days from application to the date the finding was sent to the applicant was 23 days, ranging from 2 to 128 days. This is compared to only 7 days for the claims that were approved, ranging from 2 to 17 days.

Regular UI Timeliness Summary	
Average Days from Application to:	
Decision (Denied & Approved)	14 days
Denied	23 days
Approved	7 days
First Payment	16 days

For approved claims that received at least one payment (28 out of the 29 approved IBIS claims), it took 16 days from the date of application to the date the first payment was made. Twenty-five out of 28 had a first payment within the federal timeliness standard of 21 days. The remaining 3 cases had 23 days, 25 days, and 46 days elapse between application date and the first payment.

For the first payments not processed timely, we tried to determine the cause of the delay or lack of timeliness. We found that in all 3 cases, the claimant delayed their certification (by 3 days to 30 days) which could have impacted the timeliness of their payment.

After a claimant certified for the first time, it generally took only a day for the first payment to be issued. It only took longer than a day in two instances; in these instances it took two days and four days. IDES’ Administrative Code sets a goal of no more than 15 days for first payment after first certification.

### Regular UI Callback Process

Unemployment applicants experienced delays in receiving assistance when calling IDES. We looked at the call frequency and pattern of callbacks for the regular UI claimants in our sample. Not all claimants had placed a call to the call center. IDES call center data showed that there was a call to IDES for 30 out of 50 regular UI claims tested. Some claimants called the hotline only 1 time and

one claimant called the hotline 477 times. The median number of hotline calls for these 30 claimants was 12.

In July 2020, IDES switched from taking live calls to scheduling callbacks. According to IDES officials, if a claimant was not reached the first time when an agent attempted a callback, the claimant was to receive two more attempts (for a total of three callback attempts). According to an IDES official, if a third attempt is necessary, it should be made on another day to give the claimant various opportunities to answer the call.

After requesting a callback, it took, on average, six days for the claimant to receive a callback. **Some claimants received a callback in a matter of hours, while others waited three weeks or more.**

Out of the 30 claimants that called the IDES hotline and requested a callback, **12 were not successfully contacted** when called back and did not meet IDES' goal for callback attempts. Three claimants received the three attempts suggested by IDES; however, all three attempts were on the same day. This is not ideal because, as noted above, a third attempt should be made on another day to give the claimant various opportunities to answer the call. There were nine claimants that on at least one occasion requested a callback, were not reached, and only received one or two callback attempts.

According to the data provided by IDES, 1 of the claimants called IDES at least 477 times between April 30, 2020, and September 6, 2021. However, 461 of these 477 were between April 30, 2020, and June 19, 2020, which was before IDES transitioned in July 2020 to a callback-only model.

The majority of the 461 (448 of 461) resulted in a call result of "Handled in IVR" and only 6 were handled by an agent. According to an IDES official, "Handled in IVR" (Interactive Voice Response) meant that the caller hung up and did not choose an option that went to a contact center queue. Because the call times were short in duration and often several times a day (ranging from 1 call a day to 120 calls in a day), it appears there was little to no resolution provided. There was a break in phone calls until September 11, 2020, when the claimant called again and scheduled a callback. The claimant got a callback 26 days later on October 7, 2020; however, from the callback data, it appears the claimant was not reached and there were no other callback attempts. Over the next year, the claimant called IDES and scheduled a callback 4 additional times and received a callback for each. Two of these callbacks were within a day, one was 8 days later, and one was 11 days later.

### **PUA Findings, Determinations, Etc.**

Auditors randomly sampled 50 PUA claims submitted. Of the 50 claims tested, 25 did not have a first payment date, indicating that the claim was denied or never certified. Claims were primarily denied due to failure to provide identification and/or were identified as fraudulent claims.

Auditors noted many issues with claimants meeting eligibility requirements. Only 12 PUA applicants in our sample were noted in the data as meeting

eligibility criteria; however, two of them were later determined ineligible for PUA. **Both of these were discovered after employment verifications were returned by the claimants.**

The remaining 38 were noted in the data as not meeting eligibility due to fraud, employment evidence, identity verification, or a combination. Some of the denial issues were identified by BPC, some by evidence of employment, some by banks, and some by identity cross-matches or more than one of these methods. **Of those 38 noted as not meeting eligibility criteria, 14 still received at least one payment.** These 14 received a first payment ranging from 3 days to 211 days after the application date. The payment taking 211 days was an outlier due to adjudication on the case.

Out of 50 claims sampled, 6 did not have an issue letter sent to the claimant, but were later found to be fraud. There were no payments associated with these 6. It was unclear to auditors why there were no payments issued.

According to IDES' weekly benefit amount charts and the claimant's income listed, one weekly benefit amount in our sample appeared to be wrong. The weekly benefit amount was \$294, when the weekly benefit amount according to the charts (and income listed) should have been \$329. However, no payments were made to this claimant due to a failed identity verification. Most of the calculated weekly benefit amounts in our sample (44 out of 50) had a weekly benefit amount of the minimum \$198, which indicates the claimant did not earn enough wages to qualify for a greater weekly benefit amount (or provide documentation to support higher wages).

In order to address improper payments and fraud, the Consolidated Appropriations Act, 2021 and UIPL 16-20 Change 4 required PUA applicants to submit evidence of employment or self-employment based on whether they applied before or after January 31, 2021. Claimants filing before January 31, 2021, who received assistance on or after December 27, 2020, were required to provide documentation to substantiate employment or self-employment (or planned commencement of employment or self-employment) within 90 days of the application date or notice from the Department (whichever is later). Claimants filing on or after January 31, 2021, were required to provide documentation to substantiate employment or self-employment (or planned commencement of employment or self-employment) within 21 days of application. Of the 50 applications, 25 did not receive any benefit payments.

Eight of the 25 that received payments submitted evidence to substantiate employment or self-employment. Six of the 8 submitted it within the required time frame (21 days or 90 days). Two submitted documentation within 25 days and 103 days respectively.

**The submittal or lack of submittal of employment evidence had an impact on the eligibility for many applicants in our sample.** As a result of the submittal of employment evidence, one resulted in an overpayment established on the account and one was determined to be eligible for regular UI instead.

Overpayments were also posted on seven claimants' accounts for not responding to the employment or self-employment evidence requirement.

Auditors did not see employment evidence for the remaining 10 claimants. However, 5 of these 10 were identified as fraud and 1 was noted as having an unresolved identity issue. All 6 had an overpayment established on the account. Auditors could not determine if there were overpayments established on the remaining 4.

### **Voided Issues**

As part of claims testing, auditors encountered two cases where a claimant's certifications (and resulting payments for those weeks) were held due to pending issues. However, the issues got "incorrectly voided" (on November 25, 2020) which released the payments. Both were later determined to be ineligible in December 2020. Overpayments were established in both cases in the amount of \$18,930 and \$20,118 respectively.

According to IDES officials, in the process of eliminating duplicate identity issues, 22,578 were correctly voided. IDES officials said that the vendor conducted a review and it was determined that these two noted cases were the only two incorrectly voided. However, auditors noted that they sampled just five PUA claims out of 36,835 submitted in October 2020 and encountered these two cases.

### **Quick Payment of Backdated Benefits**

Paying claims quickly, especially those with months of backdated benefits, increases the risk of large overpayments. These claims often had large first payments for weeks of backdated benefits including \$600 FPUC. Some claims were filed and paid within two weeks, sometimes a matter of days. And in some cases, fraudulent activity was subsequently detected.

For example, one PUA claim was submitted on June 29, 2020, and received a first payment of \$9,372 on July 6, 2020, a second payment of \$3,192 on July 16, 2020, and a third payment of \$1,992 on August 14, 2020. BPC Special Investigations determined the claim was the result of fraud and on September 8, 2020, IDES sent the claimant a determination that he/she did not qualify and the payments (totaling \$14,556) were classified as overpayments. PUA program benefits accounted for 29.9 percent of the payments while FPUC benefits accounted for 70.1 percent.

Another PUA claim was submitted on June 27, 2020. On June 30, 2020, the first and only payment was made on the claim in the amount of \$10,572 for the period from March 22, 2020, to June 21, 2020. On September 10, 2020, BPC mailed a determination noting the suspected fraudulent activity and on December 7, 2020, IDES mailed an overpayment notification. PUA program benefits accounted for 26.2 percent of the payments while FPUC benefits accounted for 73.8 percent.

Auditors found 158,054 PUA claimants that received a single payment of \$10,000 or more (totaling \$2,360,459,961) and received that payment within 30 days of application. Exhibit 36 provides a breakdown of the number of these payments by range. About one third (32.4%) of these payments were paid within one week

of the submittal. Another 30.7 percent were paid within 7 to 14 days. Nearly 95 percent of these claimants received a check for between \$10,000 and \$20,000.

Exhibit 36  
**PUA PAYMENTS GREATER THAN \$10,000**  
 Paid Within 30 days of Application Submittal

Payment Range	# of Payments
\$10,000 - \$14,999	83,333
\$15,000 - \$19,999	66,126
\$20,000 - \$24,999	7,346
\$25,000 - \$29,999	926
\$30,000 - \$34,999	263
\$35,000 - \$39,999	51
\$40,000 - \$44,999	9
<b>Total</b>	<b>158,054</b>

Source: OAG analysis of IDES PUA payment data.

Nine people received a payment for more than \$40,000. All nine of these applications were submitted between November 30, 2020, and December 24, 2020, and each requested backdated benefits beginning February 2, 2020. Seven out of nine of these payments were made within 16 days after application submittal.

It is important to note that these are not necessarily fraudulent payments. However, given the increased risk of identity theft and the size of these payments, it would be a good practice to take additional measures to ensure

that these payments are issued to eligible claimants.

Normally, certifications force a weekly check in and represent an important control in the process. However, for backdated claims, claimants are able to complete their weekly certifications at the time of application. For example, a claimant requesting 10 weeks of backdated benefits would certify for all 10 of those weeks on the application date.

Timely payment of benefits and preventing fraud are competing concepts. Quickly paying claims, especially when certain cross-matches and controls are suspended, increases the risk of making improper payments. And, quick payment of backdated benefits could contribute to large overpayments and losses due to fraud and identity theft. However, preventing fraud, especially in new programs with evolving guidance and guidelines, likely would require additional processing time and a possible delay in benefit distribution to claimants. To strike a balance, IDES should consider instituting additional controls when issuing payments for backdated claims and issuing large benefit payment amounts.

**Quick Payment of Backdated Benefits****RECOMMENDATION  
NUMBER****7**

*The Illinois Department of Employment Security should consider instituting additional controls/holds on payments exceeding a determined amount to minimize loss from fraud when issuing payments for backdated claims and/or large benefit payment amounts.*

**Illinois Department of Employment Security Response:**

The Department accepts the Recommendation. The Department prioritized expediting emergency benefit payments during the COVID-19 pandemic; however, quick payment of backdated benefits contributed to overpayments due to fraud and identify theft. In addition, the Department was implementing and responding to over 70 federal program and policy guidelines and changes relevant to these programs. The new pandemic-related programs required additional processing time, and certain cross-checks caused a delay in benefit distribution. These cross-checks are currently active. The Department will plan for controls that would be necessary for backdated claims (emergency programs such as PUA), and institute additional controls for large benefit payment amounts.

**Timeliness of PUA Determinations and Payments**

For our sample, the timeliness of PUA first payments was reasonable; however, PUA determinations were not timely. On average, the 50 PUA claims sampled took 38 days from the application date to the date the finding was sent to the applicant. For cases with no issues, the finding date is the date that IDES notified the applicant of the potential weekly benefit amount. For cases with issues, this date might be later due to adjudication of issues.

Only 25 claims in our sample had payments. Twelve out of the 25 that did not have a payment date were noted as fraudulent claims. For the 25 that received a payment, the first payment was typically received approximately 15 days (excluding an adjudication case) after the application date. Nineteen out of 25 had a first payment within the regular UI federal timeliness standard of 21 days. Six were not processed timely; however, 2 of those were only paid after the issues were incorrectly voided and 1 was an adjudication case. The remaining 3 claimants received a first payment 1 to 3 days late.

Letters were sent out to 42 out of 50 claimants following up or noting an issue on the case. More than half of these letters were sent out within 3 days of the application date. The rest of the letters went out 4 to 124 days after the application date. The average number of days from application date to the date the issue letter was sent out was 14 days. In 11 cases, the issue letter was sent out between 1 and 72 days after the first payment. In 12 cases the issue letter was sent out before the first payment.

**PUA Callback Process**

Unemployment applicants experienced delays in receiving assistance when calling IDES. We looked at the call frequency and pattern of callbacks for the PUA claimants in our sample. Not all claimants had placed a call to the call

center. IDES call center data showed that 19 out of 50 PUA claims tested had called IDES. Some claimants called the hotline only once while 1 claimant called the hotline 447 times. The median number of hotline calls for these 19 claimants was 8.

After requesting a callback, it took, on average, a little over six calendar days for the claimant to receive a callback. Some claimants received a callback in a matter of hours, while others waited two weeks or more.

Only 17 of the 19 claimants that called the IDES hotline requested a callback. Of those 17, **8 were not always successfully contacted.**

- Six claimants had requested a callback and, at least once, were not successfully contacted for that callback request. Three of the 6 received the 3 attempts suggested by IDES, but all 3 attempts were on the same day within 4 hours of each other. This is not ideal because a third attempt should be made on another day, according to an IDES official, to give the claimant various opportunities to answer the call. The remaining 3 claimants, on at least one occasion, requested a callback, were not reached, and only received 1 attempt.
- Two claimants did not receive any callback for at least one callback scheduled. For one claimant, we saw evidence of a callback for 7 out of 9 callbacks scheduled, but not the remaining 2. The other claimant requested a callback one time, but there is no evidence to suggest he/she received that callback.

According to the data provided by IDES, 1 of the claimants called IDES at least 447 times between May 26, 2020, and August 24, 2021. However, 431 of these 447 were between May 26, 2020, and June 17, 2020, which was before IDES transitioned in July 2020 to a callback-only model.

Nearly all of the 431 (429 of 431) resulted in a call result of “Handled in IVR” and only 2 had a different result (IVR Transfer Out and Abandoned in Queue). According to an IDES official, “Handled in IVR” (Interactive Voice Response) meant that the caller hung up and did not choose an option, before hanging up, that went to a contact center queue. Because the call times were short in duration and often several times a day (ranging from 1 call a day to 183 calls in a day), it appears there was little to no resolution provided. Then, there was a break in phone calls until January 26, 2021 and February 17, 2021, when the claimant called again and scheduled callbacks; however, there are not callback records to support that the applicant received a callback. Finally, on March 8, 2021, the applicant scheduled and received a callback 19 days later on March 27, 2021. Over the next five months, the applicant scheduled six additional callbacks and received a callback for each. The longest it took for any of these callbacks was six days.



## Title XII Federal Loan and Trust Fund Solvency

With the onslaught of unemployment claims when the pandemic began, the funds in Illinois' Unemployment Compensation Trust Fund were depleted quickly. Pursuant to the provisions of Title XII of the Social Security Act, as amended by the Emergency Unemployment Insurance Stabilization and Access Act of 2020, the Department began taking advances from the federal government on June 23, 2020. This borrowing continued through December 2021.

The loans were interest free through September 6, 2021, at which point, the State was required to pay an interest rate of 2.2777 percent with that rate dropping to 1.59 percent effective January 1, 2022. Interest payments cannot be paid from the Unemployment Compensation Trust Fund.

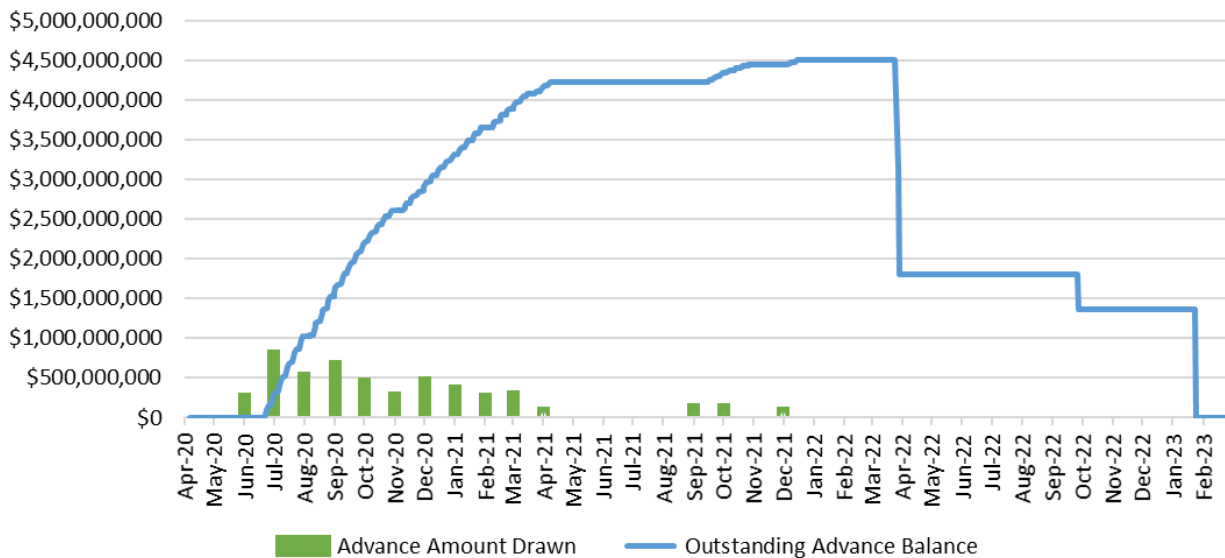
At the beginning of March 2022, the outstanding advance balance was at its highest at \$4.5 billion. On March 25, 2022, Public Act 102-0696 appropriated the sum of \$2.7 billion from the State Coronavirus Urgent Remediation Emergency Fund to IDES for partial repayment of Title XII advances. IDES applied those funds to the outstanding Title XII loan balance resulting in a remaining loan balance of \$1.8 billion by April 2022. In September 2022, the balance dropped again to \$1.4 billion and was paid off at the end of January 2023.

Exhibit 37 shows the Title XII advances by month as well as the outstanding Advance Balance, not including interest.

Exhibit 37

### ILLINOIS' TITLE XII ADVANCES BY MONTH AND OUTSTANDING ADVANCE BALANCE

April 2020 through February 2023



Note: Exhibit does not include interest.

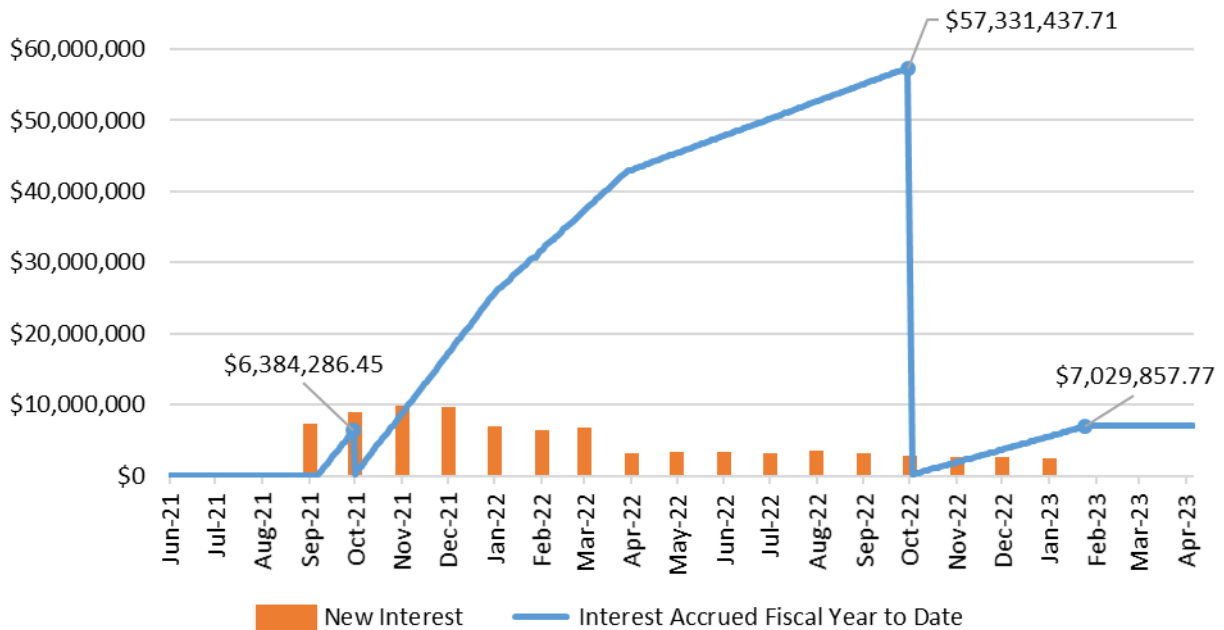
Source: OAG analysis of US Department of Treasury data.

The State’s regular UI benefits are funded by tax dollars collected from Illinois employers. (The temporary federal unemployment programs were federally funded.)

If a state fails to repay the outstanding federal Title XII advance by November 10 of the year in which a second January 1 has passed, then all taxable employers in the state will be subject to a reduced credit on their Federal Unemployment Tax Act tax of 0.3 percent. For calendar year 2022, Illinois was one of five states/territories that experienced the Federal Unemployment Tax Act credit reduction due to having outstanding federal advances. The same five states/territories had an advance balance on January 1, 2023. For each consecutive January 1 a state or territory passes with an outstanding advance, following the second one, employers in the state are subject to an additional 0.3 percent reduction in their Federal Unemployment Tax Act credit.

At the point at which the advance balance was paid off, Illinois stopped accruing interest; however, by this point, Illinois had accrued interest in the amount of \$70.7 million. The interest was required to be paid off at the end of each federal fiscal year (September 30). As of April 2023, Illinois had paid off \$63,715,724 in interest and had an interest balance of \$7,029,858 left to pay off. Exhibit 38 shows the interest expense by month and as well as the total accrued interest.

**Exhibit 38**  
**ILLINOIS’ TITLE XII INTEREST BY MONTH AND ACCRUED**  
 June 2021 through April 2023



Note: Interest was required to be paid off at the end of each federal fiscal year.

Source: OAG analysis of US Department of Treasury data.

In FY22, IDES used a special administrative account (the Federal Unemployment Compensation Special Administration Account) to pay interest owed on Title XII advances. The Unemployment Compensation Special Administration Account typically includes penalties and interest revenue from delinquent State unemployment insurance tax collections and improper payments to make up for federal funding shortfalls.



## Appendix A

# LAC Resolution Number 158

### Legislative Audit Commission

#### RESOLUTION NO. 158

Offered by Senator Rose.

**WHEREAS**, a new coronavirus known as SARS-CoV-2 (COVID-19) was discovered in China at the end of 2019 and rapidly spread around the globe;

**WHEREAS**, the Trump Administration declared a public health emergency on January 31, 2020 in response to COVID-19;

**WHEREAS**, the World Health Organization characterized the outbreak of the COVID-19 as a pandemic on March 11, 2020;

**WHEREAS**, governmental efforts to contain and restrict the spread of COVID-19 led to widespread economic dislocation and unemployment;

**WHEREAS**, President Trump signed the Families First Coronavirus Response Act on March 18, 2020, providing \$1 billion to the states to use in the administration and processing of their unemployment claims;

**WHEREAS**, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020, providing \$250 billion to expand unemployment benefits, extending benefits to more workers, increasing weekly payments, and prolonging eligibility for unemployed workers;

**WHEREAS**, the CARES Act also created a \$150 billion Coronavirus Relief Fund for state, local, and tribal governments; these funds could be used by states for unemployment costs caused by COVID-19;

**WHEREAS**, President Trump took executive action to bolster unemployment benefits in August, authorizing the expenditure of up to an additional \$44 billion;

**WHEREAS**, the federal government provided states additional flexibility in the administration of many programs, including the unemployment insurance program;

**WHEREAS**, the American Rescue Plan Act provided additional federal aid and extended a number of unemployment programs, including the Pandemic Unemployment Assistance (PUA) Program, through September 6, 2021;

**WHEREAS**, states, while receiving federal financial assistance, are ultimately responsible to run their own unemployment programs;

**WHEREAS**, Illinois experienced significant unemployment due to the pandemic and the resultant governmental actions; after an initial spike in unemployment claims to over 970,000 in April 2020, the number of unemployment claims declined through October 2020 and remained through June 2021 within a band of 430,000 and 480,000 per month, approximately double the pre-pandemic rate;

**WHEREAS**, Illinois has had consistently higher unemployment rates during the pandemic than any of its neighboring states; in June 2021, Illinois's unemployment rate was 7.2%, Indiana's was 4.1%, Iowa's was 4.0%, Kentucky's was 4.4%, Missouri's was 4.3%, and Wisconsin's was 3.9%, according to data released by the federal Bureau of Labor Statistics;

**WHEREAS**, the Illinois Department of Employment Security had 1,041 employees in April 2020, according to the Better Government Association, a decline from January 2019 when Governor Pritzker assumed office;

**WHEREAS**, the Illinois Department of Employment Security, using federal funds, initially contracted with Deloitte to hire an additional 500 individuals to assist with the increased call volume;

**WHEREAS**, the Illinois Department of Employment Security, in conjunction with Deloitte, took two months to set up the Pandemic Employment Assistance Program provided for by the CARES Act; its implementation of the Pandemic Unemployment Assistance program lagged most other states;

**WHEREAS**, from March 21, 2020 through June 13, 2020, the Illinois Department of Employment Security received an average of 200,000 unique callers per week, but, on average, only answered 10% of them; at its lowest point during that period, only 5% of calls were answered;

**WHEREAS**, many Illinois residents have been targeted and victimized by fraudulent unemployment claims made in their names;

**WHEREAS**, it has proven extremely difficult for claimants and fraud victims alike to contact the Illinois Department of Employment Security, with many waiting months to receive a call back; leaving them in financial limbo and accentuating the challenges of navigating the COVID-19 pandemic;

**WHEREAS**, according to the Better Government Association, the Illinois Department of Employment Security had only been issuing approximately 1% of its unemployment checks within seven days of the application for benefits through September, 2020, resulting in Illinois being the slowest state in the nation; one of only ten states that fell below 10%;

**WHEREAS**, the Better Government Association further reported that Illinois failed to achieve federal standards for its unemployment program in five out of 10 performance measures;

**WHEREAS**, the Chicago Tribune reported that, despite the federal government in April 2020 “strongly” recommending that the state use additional fraud-prevention tools, the Illinois Department of Employment Security failed to implement the recommended anti-fraud tools;

**WHEREAS**, the Auditor General released a financial audit of the Illinois Department of Employment Security on July 28, 2021;

**WHEREAS**, the financial audit of the Illinois Department of Employment Security only covered fiscal year 2020 (July 1, 2019 – June 30, 2020) and only overlapped with the Pandemic Unemployment Assistance Program for seven weeks, from May 11, 2020, through June 30, 2020;

**WHEREAS**, the Pandemic Unemployment Assistance Program has been repeatedly extended and now continues through September 6, 2021;

**WHEREAS**, the financial audit released by the Auditor General only examined approximately 10% of the time period covered by the Pandemic Unemployment Assistance Program;

**WHEREAS**, the financial audit stated that, during these seven weeks, the Illinois Department of Employment Security failed to accurately document eligibility, resulting in potentially ineligible claimants receiving benefits totaling \$154,906,354, including:

- failing to validate the identities of 4,579 claimants before paying them \$41,697,272;
- paying both Pandemic Unemployment Assistance and regular unemployment insurance benefits to 638 claimants, resulting in the claimants receiving benefits under both programs;
- paying benefits to 266 claimants that had birthdays the same day as or after the date of the claim submission with at least one claimant with a recorded birth date in 2029; and
- paying benefits to 35 deceased claimants;

**WHEREAS**, the financial audit additionally found that the Illinois Department of Employment Security had, prior to July 1, 2020:

- paid Pandemic Unemployment Assistance benefits to 63 claimants who were 90 years old or older;
- paid Pandemic Unemployment Assistance benefits to 164 claimants who were between the ages of birth and 13 years of age; and
- paid Pandemic Unemployment Assistance benefits to 31 claimants who submitted multiple Social Security numbers and multiple claimant IDs;

**WHEREAS**, the Illinois Department of Employment Security has acknowledged paying out \$14.8 million in fraudulent claims to individuals who had either failed to report or underreported earnings;

**WHEREAS**, the Illinois Department of Employment Security has refused to release any numbers pertaining to identity theft-related unemployment fraud;

**WHEREAS**, an official with LexisNexis Risk Solutions testified at a hearing of the House Cybersecurity Committee that Illinois had lost an estimated \$1 billion to unemployment insurance fraud; and

**WHEREAS**, Illinois' Unemployment Trust Fund faces a multibillion dollar deficit, which will fall on small business owners across the state; therefore be it

**RESOLVED, BY THE LEGISLATIVE AUDIT COMMISSION**, that the Auditor General is directed to conduct a performance audit of the unemployment programs administered by the Illinois Department of Employment Security during the period of March 1, 2020 and September 6, 2021; and be it further

**RESOLVED**, that the audit include, but not be limited to, the following determinations:

- 1) A review of the application and review processes and the payment of benefits to individuals focusing on any fraud or inefficiencies which could be eliminated to contain costs and improve the delivery of benefits to eligible individuals;
- 2) To the extent feasible, a detailed account of the funds allegedly disbursed to ineligible and/or fraudulent claimants;
- 3) The types of unemployment fraud schemes the Illinois Department of Employment Security has experienced and what steps and procedures it has taken to detect and respond to fraudulent unemployment claims and whether it has cooperated with the Illinois Attorney General or federal authorities to detect, counter, and prosecute potentially fraudulent cases;
- 4) Whether the Illinois Department of Employment Security has complied with all state and federal statutory and administrative requirements for processing and auditing unemployment claims;
- 5) An examination of the Illinois Department of Employment Security's decision not to implement additional fraud-prevention tools in April 2020 as recommended by the federal government and a report on whether the state has, since that time, come into compliance with federal recommendations;
- 6) What factors caused and continue to cause delays in the Illinois Department of Employment Security's processing of unemployment claims, looking particularly at administrative decisions, technology, and staffing, and what steps the Illinois Department of Employment Security has taken to alleviate these delays;
- 7) What third-party contractors did the Illinois Department of Employment Security utilize during this time period and were any of these contracts no-bid contracts; did a third-party contractor calculate weekly benefit amounts for Pandemic Unemployment Assistance claimants and, if so, were there any procedures to verify the accuracy of their calculations; did third-party contractors meet the performance measure established by the Illinois Department of Employment Security prior to the issuance of the contracts;
- 8) A summary of the average case processing time, the timeliness of benefit payments, and the accuracy of these payments; and be it further

**RESOLVED**, that the Auditor General commence this audit as soon as possible and report his findings and recommendations upon completion in accordance with the provisions of Section 3-14 of the Illinois State Auditing Act; and be it further

**RESOLVED**, that the Illinois Department of Employment Security and the Office of the Governor cooperate fully and promptly with the Auditor General in the conduct of this audit; and be it further

**RESOLVED**, that for the purpose of this resolution, the conclusion of this audit shall not be deemed to have taken place until the Legislative Audit Commission has reviewed the findings of this audit in a public meeting, and the General Assembly has been accorded adequate time on its legislative calendar to take any actions that may be reasonably deemed necessary or desirable to implement any recommendation made by the audit and to remedy any problems or dysfunctions uncovered by the audit; and be it further

**RESOLVED**, that a copy of this resolution be delivered to the Auditor General, the Illinois Department of Employment Security, and the Office of the Governor.

Adopted this 1st Day of September, 2021.



**SIGNED ORIGINAL ON FILE**

Senator Jason Barickman  
Co-Chair, Legislative Audit Commission

**SIGNED ORIGINAL ON FILE**

Representative Fred Crespo  
Co-Chair, Legislative Audit Commission

## Appendix B

# Audit Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310. Audit 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 found in Legislative Audit Commission Resolution Number 158.

We examined the five components of internal control – control environment, risk assessment, control activities, information and communication, and monitoring – along with the underlying principles. We considered all five components to be significant to the audit objectives. Any deficiencies in internal control that were significant within the context of the audit objectives are discussed in the body of the report.

The audit objectives delineated by Legislative Audit Commission Resolution Number 158 directed the Auditor General to conduct a performance audit of the unemployment programs administered by the Illinois Department of Employment Security (IDES) during the period of March 1, 2020, to September 6, 2021. The Resolution contained eight determinations (see Appendix A).

In conducting this audit, auditors reviewed applicable State statutes, rules, and Department policies. Because unemployment insurance (UI) is a joint federal-state program, we reviewed applicable federal laws. We reviewed the previous financial audits and compliance examinations of the Illinois Department of Employment Security released by the Office of the Auditor General, as well as the Statewide Single Audit. We also reviewed management controls and assessed risk related to the audit's objectives. A risk assessment was conducted to identify areas that needed closer examination. Any significant weaknesses in those controls are included in this report.

In conducting this audit, we requested and reviewed specific documents and data related to the unemployment insurance programs. These included process narratives, audits, staffing information, training documents, policies and procedures, unemployment benefit system management reports, reports submitted to the US Department of Labor, contracts, and claims data.

We requested data for the population of unemployment claims in our audit period. For regular UI, we requested all claims submitted in IBIS requesting regular UI benefits for the period of March 1, 2020, through September 6, 2021. We also requested all claims that were submitted in IBIS before March 1, 2020, to capture claims submitted prior to March 1, 2020, but that subsequently received FPUC, EB, LWA, PEUC and/or MEUC for that claim. Because the uFACTS system was specific to the PUA program (and therefore our audit time period), we requested all claims submitted to the uFACTS system.



There are two primary computer systems involved in the application for benefits process, including: 1) IBIS, the system used to process regular unemployment insurance claims; and 2) uFACTS, the third-party software used to process PUA applications. We have reviewed prior audit findings related to unemployment insurance and have communicated with OAG auditors regarding ongoing audits and audit issues.

The data provided by IDES included numerous tables and fields and millions of records. There were 7,069,239 regular UI claims for 3,689,014 claimants. There were 874,851 total PUA claims for 855,835 claimants. Auditors reviewed at least 10 tables from the IBIS system, with each table containing 3 to 38 columns of data and as many as 75 million records. Auditors reviewed at least 5 tables from the PUA system, with each table containing 9 to 17 columns of data and as many as 24 million records.

We sampled 50 IBIS claims and 50 PUA claims submitted in various months in 2020 and 2021. The sample design allowed auditors to test claims throughout the audit period and to include claims for both regular UI and PUA. We randomly sampled from every other month beginning in June 2020. We chose to sample from claims submitted as opposed to claims paid because we did not want to exclude the claims identified as fraud prior to being paid. Results of testing can be found throughout the report.

IDES provided call data for the period of April 2020 to April 2022. There were over 37 million calls to IDES and over 10 million callbacks during this period. Auditors tested call data (all calls into the IDES hotline and all callbacks) for each of the 50 IBIS claims and 50 PUA claims to see if the claimant had called IDES and requested a callback and if the claimant received a callback. Results of testing can be found throughout the report.

We assessed the reliability of computerized data provided by IDES. Auditors ran many validity checks on the data to ensure it was sufficiently reliable for answering the audit's determinations. For example, auditors checked distribution of items such as program codes and eligibility status for reasonableness; checked various dates (such as processing dates) to ensure they were within an appropriate range; looked for null values in instances where it would suggest an issue or lack of data; and reviewed week-ending dates and the timing of payments. Auditors evaluated the appropriateness of the data by looking for obvious inconsistency errors and completeness. When possible, we corroborated it to public data. We followed up with IDES officials when there were values that seemed unreasonable. We determined that the data was adequately reliable for the purposes of this Performance report and answering the audit's determinations. Based on data issues noted in other OAG reports, for detailed analysis, auditors chose to sample so that the accuracy of the information could be verified.

We reviewed eight contracts entered into during the audit period and related to the audit's objectives. We reviewed contract amounts, amendments, expenditures, and procurement method. Auditors reviewed all of the contract deliverables within each contract and chose 37 contract deliverables to test, including IDES

deliverables (9) and vendor deliverables (28). The contract deliverables tested were chosen based upon feasibility of testing and relevancy to the audit determinations. Results of contract testing are presented in the Contracts and Agreements section.

IDES provided informal lists of Payment Tracer and Affidavits of Non-Receipt of UI Benefits. From these lists (completed, not completed, in-process, and denied), we randomly sampled 143 claimants. The majority of the Payment Tracer and Affidavits of Non-Receipt of UI Benefits listed were for regular UI claims (2,639 regular UI affidavits and 111 PUA affidavits). Auditors sampled 129 regular UI claimants and 14 PUA claimants. There were 208 forms submitted for these 143 claimants. We calculated the time it took IDES to process the forms. Results of testing are noted in the report.

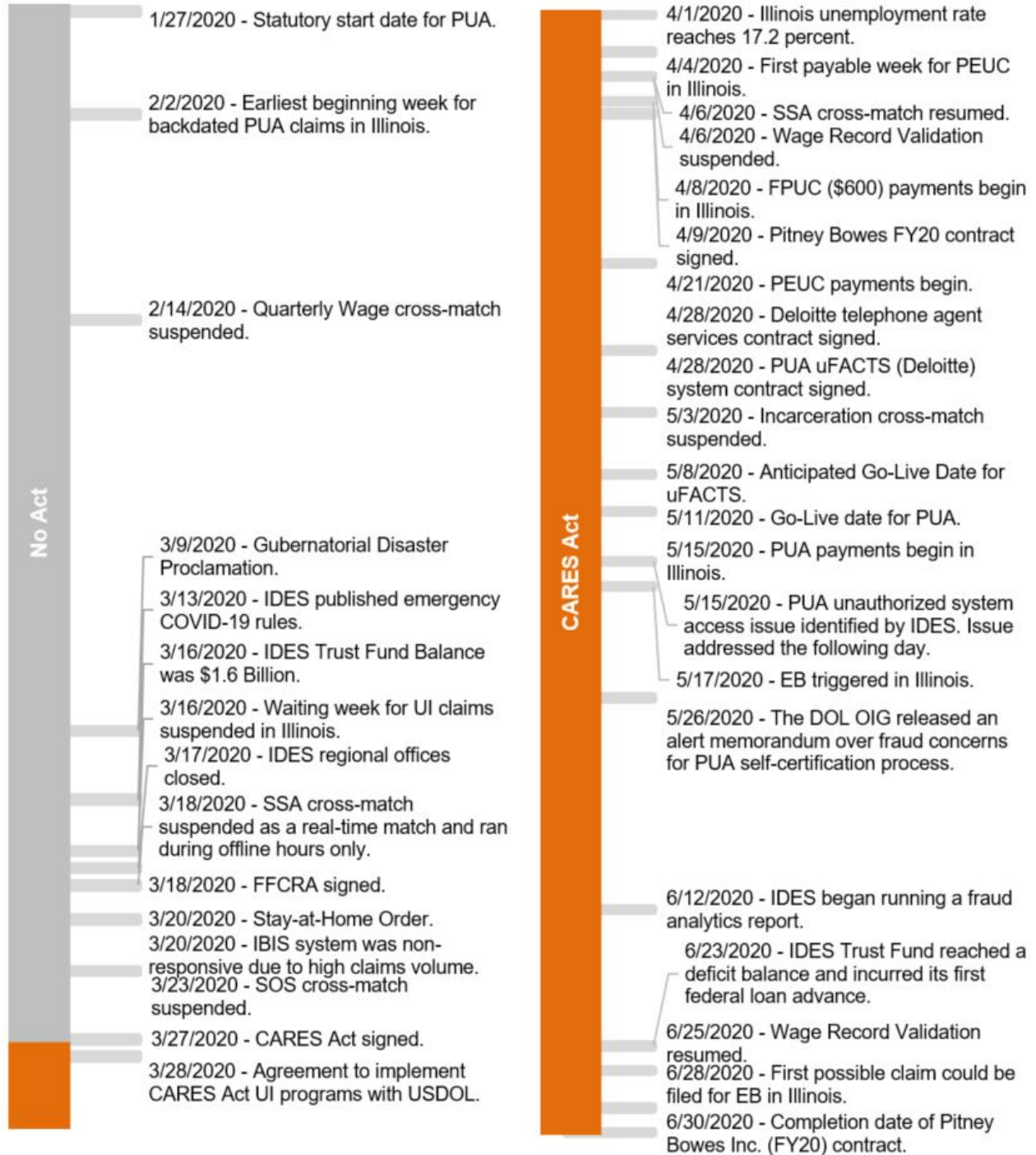
We reviewed a summary of overpayments for State fiscal year 2020 through 2022 provided by the Department. This included funds allegedly disbursed to ineligible and/or fraudulent claims (identity theft, fraud, and non-fraud).

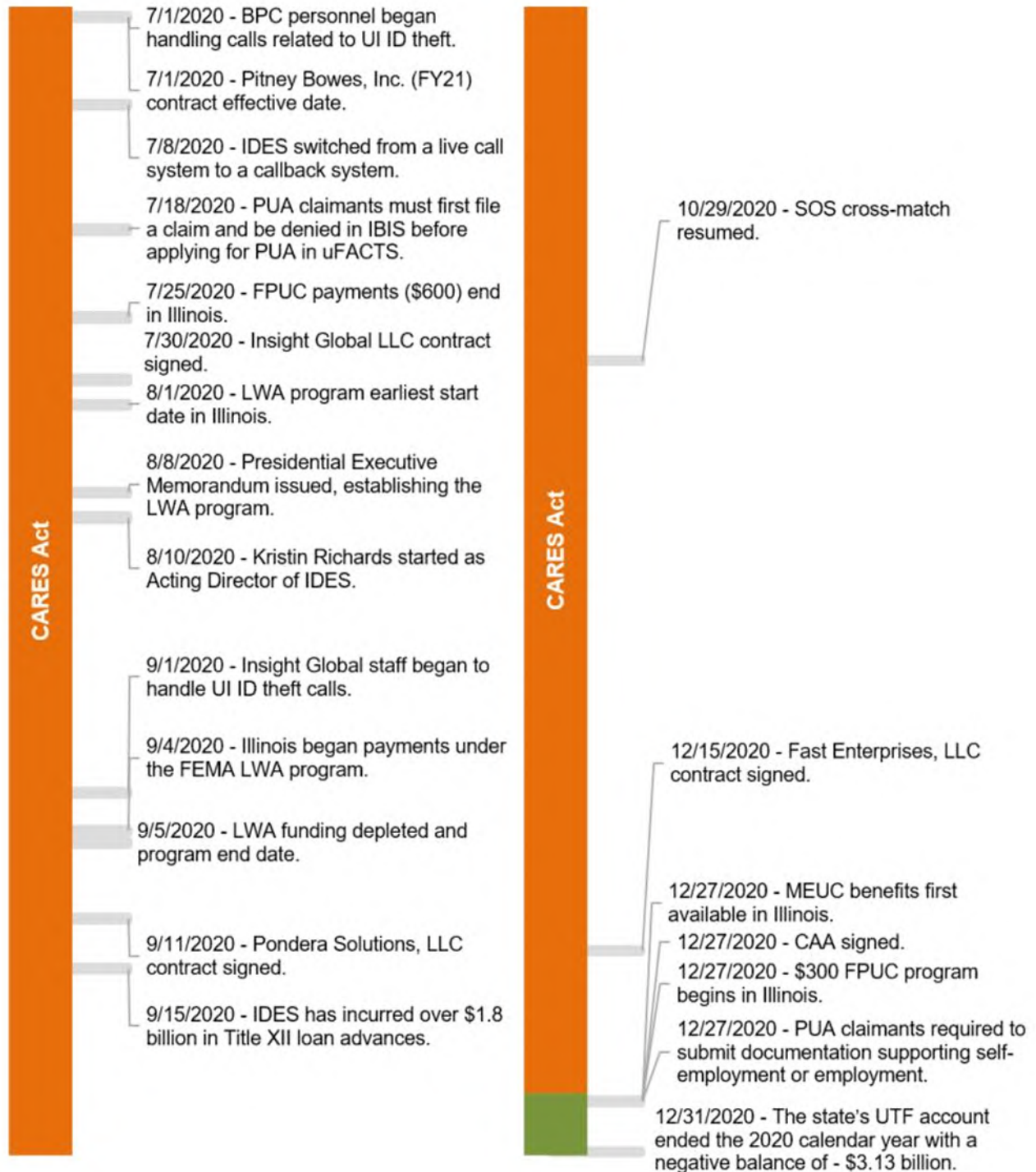
The samples selected for all sample testing were not statistically significant; therefore, the results should not be projected to the population for any of the samples.

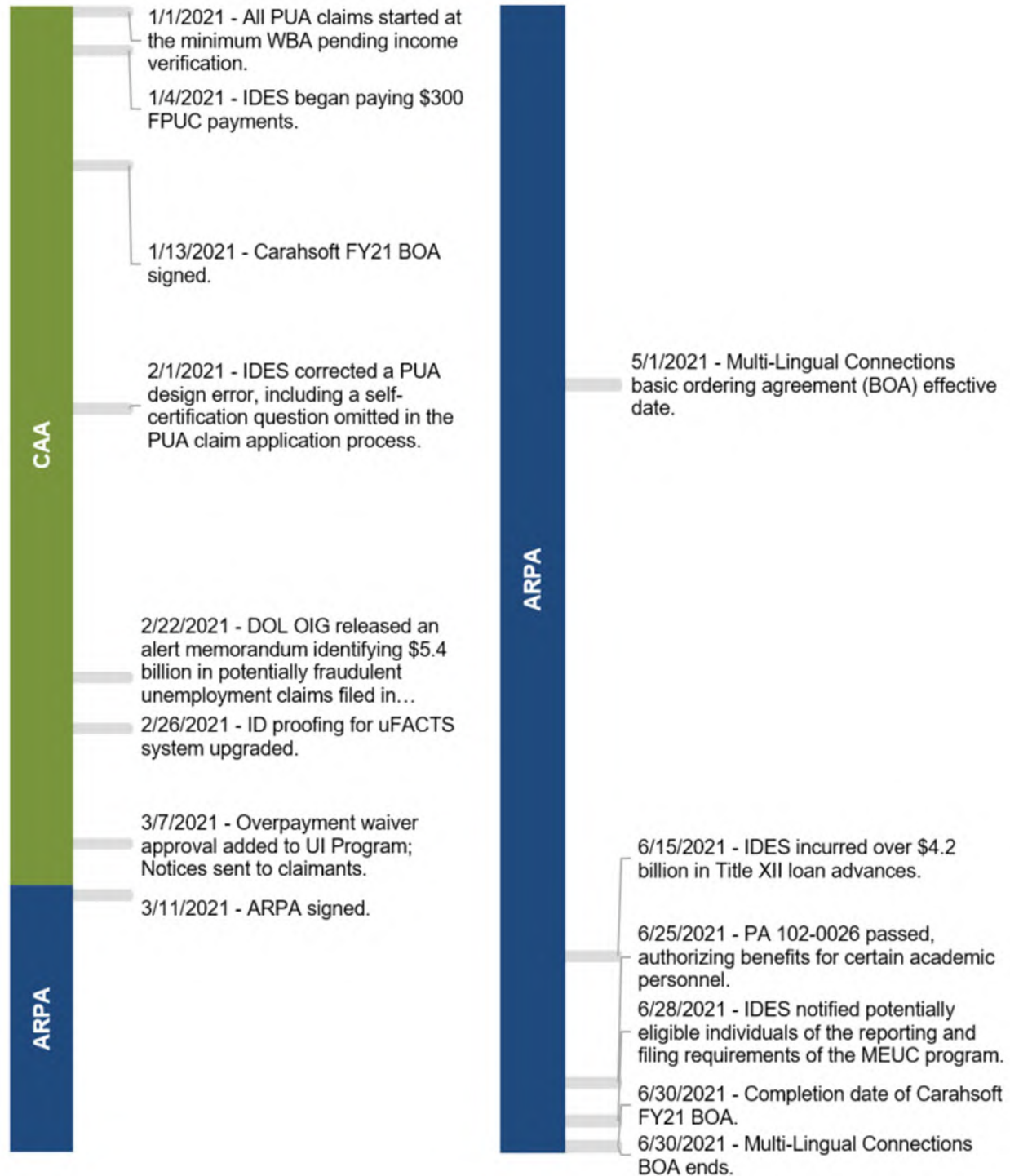
The date of the Exit Conference along with the principal attendees are noted below:

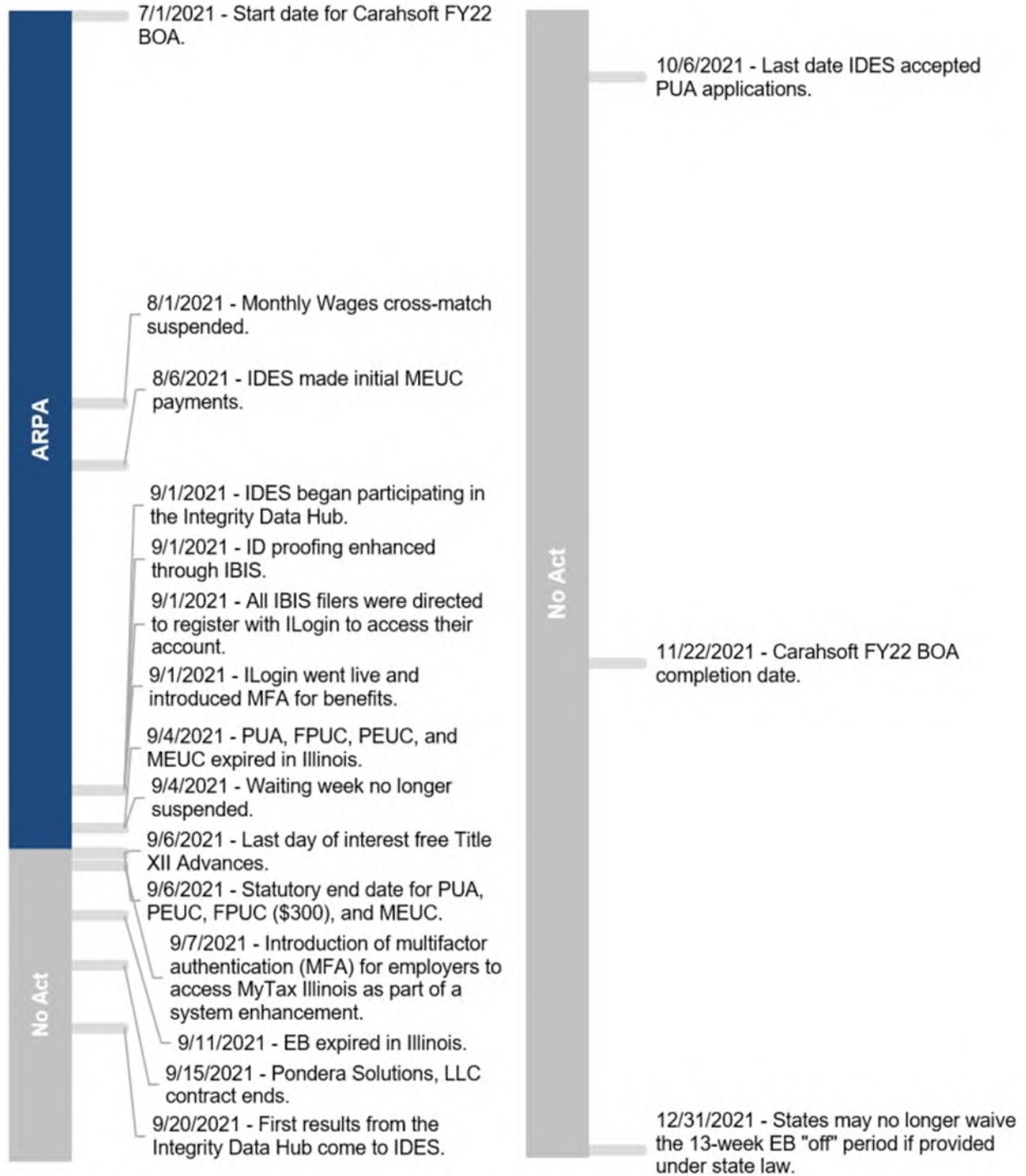
<b>Exit Conference</b>		<b>June 20, 2023</b>
<b>Agency</b>	<b>Name and Title</b>	
Illinois Department of Employment Security	<ul style="list-style-type: none"> <li>• Raymond Marchiori, Acting Director</li> <li>• Melissa Coultas, Chief of Staff</li> <li>• Kevin Lovellette, Chief Legal Counsel</li> <li>• Thomas Revane, Chief Information Officer</li> <li>• Isaac Burrows, Chief Financial Officer</li> <li>• Marcia Armstrong, Director's Office Representative</li> <li>• Jim Schreiber, Audit Liaison</li> <li>• Kelly McGrath, Manager of Accounting and Reporting</li> <li>• Derek Michaels, Private Secretary to the Director</li> </ul>	
Illinois Office of the Auditor General	<ul style="list-style-type: none"> <li>• Tricia Wagner, Senior Audit Manager</li> <li>• Alison Storm, Audit Supervisor</li> <li>• Sydney Payne, Audit Staff</li> <li>• Ryan Rizner, Audit Staff</li> </ul>	

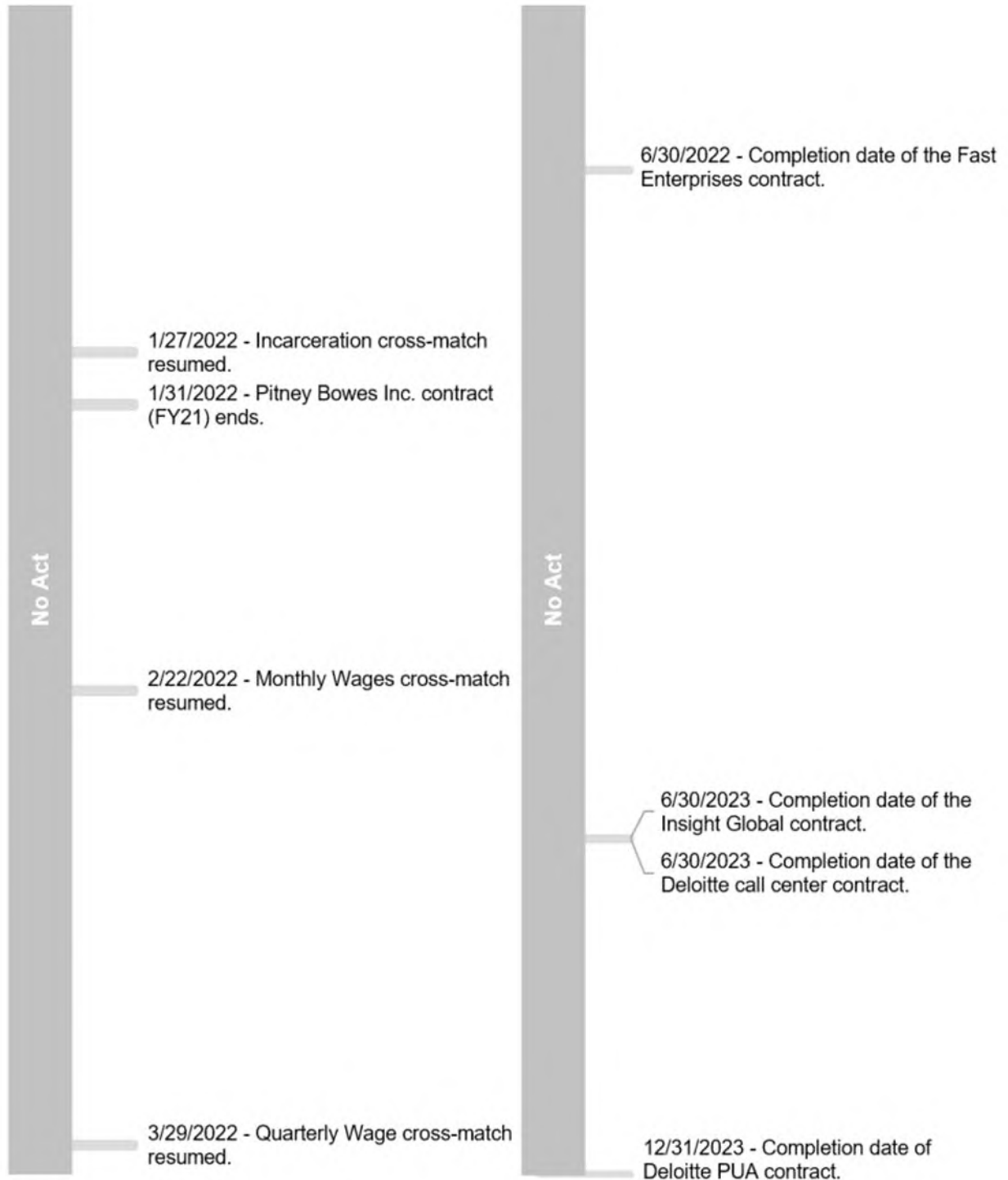
# Appendix C Timeline of Unemployment Compensation in Illinois











Note:  
Differences in event dates reported by IDES and dates reported previously in the audit are attributable to the Illinois benefit week starting on Sundays and ending on Saturdays while program dates set by federal laws start and end on different days of the week.

Source: OAG auditor prepared.

## Appendix D

# Unemployment Insurance Program Letter Listing

UIPL	Subject	Issue Date
12-01	Outsourcing of Unemployment Compensation Administrative Function.	12/28/2000
14-05	Changes to UI Performs.	2/18/2005
14-05, Change 1	Performance Criterion for the Overpayment Detection Measure; Clarification of Appeals Timeliness Measures; and Implementation of Tax Quality Measure Corrective Action Plans.	10/12/2005
14-05, Change 2	Performance Criteria for Appeals Case Aging Measures and the Starting Date for Measuring Nonmonetary Determinations Time Lapse.	12/13/2006
12-01, Change 1	Outsourcing of Unemployment Compensation Administrative Functions - Claims Taking.	11/26/2007
14-05, Change 3	Acceptable Levels of Performance Criteria for Appeals Case Aging Measures and Nonmonetary Determination Quality Review.	4/16/2008
19-11	National Effort to Reduce Improper Payments in the Unemployment Insurance Program.	6/10/2011
28-11	Unemployment Insurance State Integrity Task Forces and Strategic Plans.	9/1/2011
12-14	Required Use of the Treasury Offset Program to Collect Covered Unemployment Compensation Debt.	5/20/2014
1-16	Federal Requirements to Protect Individual Rights in State Unemployment Compensation Overpayment Prevention and Recovery Procedures.	10/1/2015
4-17	Disclosure of Confidential Unemployment Compensation Information to the Department of Labor's Office of Inspector General.	12/16/2016
1-16, Change 1	Federal Requirements to Protect Claimant Rights in State Unemployment Compensation Overpayment Prevention and Recovery Procedures - Questions and Answers.	1/13/2017
2-19	Recovery of Certain Unemployment Compensation Debts under the Treasury Offset Program.	12/12/2018
13-19	National Directory of New Hires and State Directory of New Hires Guidance and Best Practices.	6/7/2019
3-20	Minimum Disaster Unemployment Assistance Weekly Benefit Amount January 1 - March 31, 2020.	12/12/2019
10-20	Unemployment Compensation for Individuals Affected by COVID-19.	3/12/2020
13-20	Families First Coronavirus Response Act, Division D Emergency Unemployment Insurance Stabilization and Access Act of 2020.	3/22/2020
14-20	CARES Act of 2020 - Summary of Key Unemployment Insurance Provisions and Guidance Regarding Temporary Emergency State Staffing Flexibility.	4/2/2020
15-20	CARES Act of 2020 - FPUC Program Operating, Financial, and Reporting Instructions.	4/4/2020



UIPL	Subject	Issue Date
16-20	CARES Act of 2020 - PUA Program Operating, Financial, and Reporting Instructions.	4/5/2020
17-20	CARES Act of 2020 - PEUC Program Operating, Financial, and Reporting Instructions.	4/10/2020
16-20, Change 1	CARES Act of 2020 - PUA Program Reporting Instructions and Questions and Answers.	4/27/2020
18-20	CARES Act of 2020 - Emergency Unemployment Relief for State and Local Governmental Entities, Certain Nonprofit Organizations, and Federally-Recognized Indian Tribes.	4/27/2020
20-20	CARES Act of 2020 - Operating, Financial, and Reporting Instructions for Section 2105: Temporary Full Federal Funding of the First Week of Compensable Regular Unemployment for States with No Waiting Week.	4/30/2020
21-20	CARES Act of 2020 - Short-Time Compensation Program Provisions and Guidance Regarding 100 Percent Federal Reimbursement of Certain State STC Payments.	5/3/2020
13-20, Change 1	Families First Coronavirus Response Act, Division D Emergency Unemployment Insurance Stabilization and Access Act of 2020 - Reporting Instructions, Modification to Emergency Administrative Grants Application Requirement, and Questions and Answers.	5/4/2020
15-20, Change 1	CARES Act of 2020 - FPUC Program Reporting Instructions and Questions and Answers.	5/9/2020
23-20	Program Integrity for the Unemployment Insurance Program and the UI Programs Authorized by the CARES Act of 2020 - FPUC, PUA, and PEUC Programs.	5/11/2020
17-20, Change 1	CARES Act of 2020 - PEUC Program: Questions and Answers, and Revised Reporting Instructions for the PEUC ETA 227.	5/13/2020
24-20	Temporary Changes to the Federal-State Extended Benefits Program in Response to the Economic Impacts of the Coronavirus Disease 2019 Pandemic Emergency.	5/14/2020
10-20, Change 1	Interpretation of "Between and Within Terms" Denial Provisions in Section 3304(a)(6)(A) of the Federal Unemployment Tax Act.	5/15/2020
15-20, Change 2	CARES Act of 2020 - New Data Collection Instrument and Revised Reporting Instructions for FPUC.	6/15/2020
25-20	Benefit Accuracy Measurement Program Operations in Response to the COVID-19 Pandemic.	6/15/2020
16-20, Change 2	CARES Act of 2020 - PUA Additional Questions and Answers.	7/21/2020
14-20, Change 1	CARES Act of 2020 - Questions and Answers.	8/12/2020
18-20, Change 1	Amendments to the CARES Act of 2020 - Emergency Unemployment Relief for State and Local Governmental Entities, Certain Nonprofit Organizations, and Federally Recognized Indian Tribes.	8/12/2020

UIPL	Subject	Issue Date
27-20	Presidential Memorandum on Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to COVID-19 - Unemployment Insurance-Related Technical Assistance for States Administering LWA.	8/12/2020
27-20, Change 1	Unemployment Insurance Related Technical Assistance for States Administering LWA Questions and Answers.	8/17/2020
16-20, Change 3	CARES Act of 2020 - Eligibility of Individuals who are Caregivers for PUA in the Context of School Systems Reopening.	8/27/2020
28-20	Addressing Fraud in the Unemployment Insurance System and Providing States with Funding to Assist with Efforts to Prevent and Detect Fraud and Identity Theft and Recover Fraud Overpayments in the PUA and PEUC Programs.	8/31/2020
27-20, Change 2	Unemployment Insurance Related Technical Assistance for States Administering LWA.	11/16/2020
9-21	Continued Assistance for Unemployed Workers Act of 2020 - Summary of Key Unemployment Insurance Provisions.	12/30/2020
17-20, Change 2	Continued Assistance for Unemployed Workers Act of 2020 - PEUC Program: Extension, Transition Rule, Increase in Total Benefits, and Coordination Rules.	12/31/2020
24-20, Change 1	Continued Assistance Act of 2020 - Provisions Affecting the Federal-State Extended Benefits Program.	12/31/2020
15-20, Change 3	Continued Assistance Act of 2020 - FPUC Program Reauthorization and Modification and MEUC Program Operating, Reporting, and Financial Instructions.	1/5/2021
12-01, Change 2	States' Ability to Exercise Flexibility in Staffing Models for the Performance of Certain Unemployment Compensation (UC) Administrative Activities.	1/8/2021
16-20, Change 4	Continued Assistance to Unemployed Workers Act of 2020 - PUA Program: Updated Operating Instructions and Reporting Changes.	1/8/2021
28-20, Change 1	Additional Funding for Identity Verification or Verification of PUA Claimants and Funding to Assist with Efforts to Prevent and Detect Fraud and Identity Theft as well as Recover Fraud Overpayments in the PUA and PEUC Programs.	1/15/2021
16-20, Change 5	Expanded Eligibility Provisions for the PUA Program.	2/25/2021
14-21	American Rescue Plan Act of 2021 - Key Unemployment Insurance Provisions.	3/15/2021
15-20, Change 4	American Rescue Plan Act of 2021 - Extensions to the FPUC Program and MEUC Program.	3/26/2021
17-20, Change 3	American Rescue Plan Act of 2021 - PEUC Program: Extension, Elimination of Transition Rule, Increase in Total Benefits, and Extension of Coordination Rule.	3/26/2021
18-20, Change 2	American Rescue Plan Act of 2021 - Amendments to the Emergency Unemployment Relief for State and Local Governmental Entities, Certain Nonprofit Organizations, and Federally-Recognized Indian Tribes.	3/26/2021

UIPL	Subject	Issue Date
24-20, Change 2	American Rescue Plan Act of 2021 - Provisions Affecting the Federal-State Extended Benefits Program.	4/7/2021
16-21	Identity Verification for Unemployment Insurance Claims.	4/13/2021
19-21	Benefits Held by Banks and Financial Institutions as a Result of Suspicious and/or Potentially Fraudulent Activity and the Proportional Distribution Methodology Required for Recovering/Returning Federally Funded Unemployment Compensation (UC) Program Funds.	5/4/2021
20-21	State Instructions for Assessing Fraud Penalties and Processing Overpayment Waivers under the CARES Act.	5/5/2021
10-20, Change 2	Short-Time Compensation for Reopening the Economy.	5/25/2021
13-20, Change 2	Review of State Compliance for Receipt of Emergency Administrative Grants and Clarification on Benefit Offset Requirements.	6/3/2021
13-20, Change 3	Ending the Emergency Flexibilities Authorized under Section 4102(b).	7/1/2021
14-21, Change 1	State Responsibilities After the Temporary Unemployment Benefit Programs under the CARES Act End Due to State Termination of Administration or When the Programs Expire.	7/12/2021
4-17, Change 1	Requirement for States to Refer Allegations of Unemployment Compensation Fraud, Waste, Abuse, Mismanagement, or Misconduct to the DOL OIG and to Disclose Information Related to the CARES Act to DOL OIG for Purposes of UC Fraud Investigation and Audits.	8/3/2021
28-20, Change 2	Additional Funding to Assist with Strengthening Fraud Detection and Prevention Efforts and the Recovery of Overpayments in the PUA and PEUC Programs, as well as Guidance on Processes for Combatting Identity Fraud.	8/11/2021
22-21	Grant Opportunity to Support States with Fraud Detection and Prevention, Including Identity Verification and Overpayment Recovery Activities.	8/11/2021
16-20, Change 6	PUA Program: Updated Operating Instructions and Reporting Changes.	9/3/2021
28-20, Change 3	Extension of Time to Submit Request for Funding under Grant Opportunity Announced in Unemployment Insurance Program Letter No. 28-20, Change 2.	9/17/2021
22-21, Change 1	Extension of Time to Submit Request for Funding under Grant Opportunity Announced in Unemployment Insurance Program Letter No. 22-21.	9/17/2021
1-22	Announcing the Availability of an Incarceration Data Exchange and Instructions to Access the Data Exchange between the Unemployment Insurance ICON and the Social Security Administration Prisoner Update Processing System (PUPS).	10/29/2021
2-22	Grant Opportunity to Support States Following a Consultative Assessment for Fraud Detection and Prevention, Promoting Equitable Access, and Ensuring the Timely Payment of Benefits, including Backlog Reduction, for all Unemployment Compensation Programs.	11/2/2021

UIPL	Subject	Issue Date
20-21, Change 1	Additional State Instructions for Processing Waivers of Recovery of Overpayments under the CARES Act.	2/7/2022
2-22, Change 1	Extension of Time for States to Express Interest in the Grant Opportunity Announced in Unemployment Insurance Program Letter No. 2-22.	2/16/2022
2-22, Change 2	Additional Extension of Time for States to Express Interest in the Grant Opportunity Announced in Unemployment Insurance Program Letter No. 2-22.	9/19/2022

Source: US Department of Labor.

## Appendix E

# Description of Available Cross-matches and Fraud Prevention Tools

Name	Description
<b>Akamai</b>	Performs identity verification and email cross-matches similar to Ekata.
<b>Block List/Daily Scans</b>	Database table to support scanning within IBIS for claimants, bank accounts, email addresses, and IP addresses that BPC deemed to be fraudulent.
<b>DOL OIG Cross-Match</b>	Audit performed by the Department of Labor Office of the Inspector General on all states and territories requesting new pandemic claims in both regular UI and PUA. The audit included cross-matching claims to a number of databases including incarceration data, questionable bank accounts, known fraud addresses, and others. The results of their comparisons were returned to the states.
<b>Ekata</b>	Performs identity verification and email cross-matches.
<b>Foreign Internet Protocol (IP) Address Detection</b>	Integrity Data Hub tool that matches claims against a continuously updated list of Foreign (non-US) based IP addresses.
<b>Fraud Alerting Capability</b>	Integrity Data Hub tool that allows states to share information on emergent fraud schemes/activity identified in their states to improve awareness across the community.
<b>Fraud Analytics Report</b>	Performs claimant searches in the IBIS database, gathers each result, and combines them into a single list; i.e. Email address shared among multiple claimants.
<b>IBIS and PUA Scans</b>	Nightly report queries run/provided by the DoIT team.
<b>ID Proofing</b>	Uses questions to verify identity, i.e. In 1985 you bought your first car. What color was it? ID proofing was upgraded to analyze the use of identities across all transactions in the past 90 days to identify when an identity has been compromised or shows unusual activity.
<b>ILogin</b>	Multi-factor authenticated login implemented in August 2021 for use across State benefit programs.
<b>Inmate Database</b>	Illinois Department of Corrections cross-match; provides access to records provided by state and local police departments and incarceration facilities, including data from other states.
<b>Internet Claims Selection (ICS) Review</b>	Manual review of claims for particular cases (e.g. an employer is not in the system, and other eligibility issues).
<b>Interstate Connection Network (ICON) &amp; Interstate Benefits (IB)</b>	Checks if claimant has filed for benefits in another state when the claimant has out of state wages.
<b>Monthly Wages</b>	Compares monthly wages paid and benefits received.
<b>Multiple Claimants, Same Address</b>	Identifies addresses in which multiple claimants receive five or more Unemployment Insurance benefit payments at a single address.

Name	Description
<b>Multiple Claimants, Same Bank Account</b>	Flags claims where two or more claimants are using the same bank account.
<b>Multi-State Cross-Match (MSCM)</b>	Integrity Data Hub tool that identifies where UI claims data is being used across multiple states (for example, flagging a Social Security number that is being used across four different states).
<b>National New Hire</b>	Information originally collected for nationwide child support enforcement purposes from the ICON system used to identify claimants who continue to receive benefits after they have resumed work.
<b>Pondera Cross-Match</b>	Analytics on new claimant identities. Claimant identities are returned as clean or with three increasing levels of concern.
<b>Quarterly Wages</b>	Matches employer quarterly wages reported for a claimant with UI benefits paid to a claimant during a quarter.
<b>Secretary of State (SOS)</b>	Matches name, birth date and weight on the identification card.
<b>Social Security Administration (SSA)</b>	Matches name and birth date.
<b>Specific Leads</b>	Leads provided by IDES staff, anonymous sources, or employers to consider fraud.
<b>State Information Data Exchange System (SIDES)</b>	Various data exchange formats for requesting and receiving information from employers and third party administrators; ensures complete and valid information is received in an established consistent format.
<b>State New Hire</b>	Illinois employer reported information containing the name, address, Social Security number, and date of hire of each newly hired individual and the hiring employer's information to identify claimants who continue to receive benefits after they have resumed work.
<b>Suspicious Actor Repository (SAR)</b>	Integrity Data Hub tool that matches UI claims against other states' known suspicious claims data.
<b>Suspicious Email Domains</b>	Integrity Data Hub tool that matches claims against a database of suspicious email domains that have been associated with fraudulent activity.
<b>Systematic Alien Verification for Entitlement (SAVE)</b>	Department of Homeland Security's system to verify if an alien individual has been lawfully admitted for permanent residence in the US and is eligible for public benefits.
<b>Wage Record Validation</b>	Matches wages reported by employers with wage information submitted by claimants when claimants file their initial claim.

Source: OAG auditor prepared.

## Appendix F

# Agency Responses



JB Pritzker  
*Governor*

Raymond P. Marchiori  
*Acting Director*

June 27, 2023

Tricia Wagner  
Performance Audit Manager  
Illinois Office of the Auditor General  
Iles Park Plaza, 740 East Ash  
Springfield, IL 62703

Dear Ms. Wagner:

Pursuant to your draft report (dated 6.13.23) on the performance audit of the unemployment insurance programs administered by the Illinois Department of Employment Security (IDES), we have enclosed the IDES responses in electronic form on the recommendations contained in the draft report.

Please contact the agency's Audit Liaison, James Schreiber at 312-793-2091 or by email at [james.schreiber@illinois.gov](mailto:james.schreiber@illinois.gov) with any questions. Thank you for your consideration.

Respectfully,

**SIGNED ORIGINAL ON FILE**

Raymond P. Marchiori  
Acting Director  
Illinois Department of Employment Security

JB Pritzker  
*Governor*



Raymond P. Marchiori  
*Acting Director*

## OAG PERFORMANCE AUDIT RECOMMENDATIONS AND RESPONSES

### RECOMMENDATION 1

The Illinois Department of Employment Security should ensure contracts and amendments are signed prior to the effective date of the contract or amendment.

### RECOMMENDATION 1 RESPONSE

The Department accepts the Recommendation. Multiple contracts and amendments were deemed necessary and implemented to respond to the COVID-19 pandemic. The contracts were exempt from bidding and the provisions of the Illinois Procurement Code under emergency proclamations designed to expedite disaster response services. In addition, some contracts were negotiated and became effective when employees and vendors were sheltering in place or establishing remote work locations which created unique logistical issues requiring specialized solutions due to the pandemic. The Department recognizes the importance of having contracts in place prior to the receipt of goods or services. Efforts continue to improve management alignment and internal controls over procurement and contract areas, especially in times of emergency growth due to recession and economic events or other extraordinary circumstances.

### RECOMMENDATION 2

The Illinois Department of Employment Security should develop a Recession Plan, including lessons learned during the COVID-19 pandemic, for future reference in times of rapidly increasing claim volumes.

### RECOMMENDATION 2 RESPONSE

The Department accepts the Recommendation. The pandemic created an unprecedented increase in unemployment claims at levels that could not have been anticipated. Building on pandemic experience and recommendations, the Department recognizes an opportunity to develop planning, to provide direction in times of rapidly increasing claim volumes. This planning will also incorporate the challenges and timeframes around IT modernization, contract procurement, staffing and training, and will endeavor to discover opportunities and resources. The Department has upgraded its public facing website to the newest technology provided by DoIT and the underlying servers are robust enough to handle high volumes of traffic. In addition, the Illinois Benefit Information System (IBIS) is constantly monitored to prevent malicious external attacks and ensure sufficient load capacity across its servers.



**RECOMMENDATION 3**

The Illinois Department of Employment Security should update its procedure for handling payment tracer affidavit forms to allow the Department to better handle a large influx of forms. This update should include a process for tracking the submission of payment tracer affidavit forms. If possible, the Department should explore best practices in this area to determine if more efficient methods and tools are available.

**RECOMMENDATION 3 RESPONSE**

The Department accepts the Recommendation. The drastic increase in payment tracer forms rendered the existing process insufficient and the decision was made for the Benefit Payment Control Subdivision to take over affidavit processing. The Department is improving process procedures and incorporating planning for times of high demand. Federal testimony consistently outlines that implementing and expediting new federal programs will continue to challenge states nationwide, due to insufficient baseline staffing resources and federal budget models that do not adapt quickly to changing situations.

**RECOMMENDATION 4**

The Illinois Department of Employment Security should research and implement further crossmatch and fraud prevention tools that may be available. The Department should specifically consider implementing the Prisoner Update Processing System data match and the Bank Account Verification service.

**RECOMMENDATION 4 RESPONSE**

The Department accepts the Recommendation. IDES implemented all of the federal required and recommended tools; 90% of the tools were implemented prior to the pandemic. Timely payment of benefits and preventing fraud are competing processes, and during the Covid-19 pandemic certain crossmatches and controls were suspended or delayed in an effort to reduce delays in claimant benefit distribution. As the effects of the pandemic lessened, the Department reinstated these crossmatches and controls. The Department will continue to research and implement further crossmatch and fraud prevention tools, including the Prisoner Update Processing System and bank account verification services. The Department will work closely with NASWA's Integrity Data Hub to take advantage of additional services beyond those currently utilized.

**RECOMMENDATION 5**

The Illinois Department of Employment Security should submit all overdue ETA 9178-P and ETA 9178-F quarterly progress reports as required by UIPL 16-20 Change 1 and UIPL 28-20 and continue to submit the reports on a timely basis.

**RECOMMENDATION 5 RESPONSE**

The Department accepts the Recommendation. IDES developed a plan with the DOL to come into compliance for outstanding federal reports, and those reports have been submitted. The Department continues to plan and implement improved internal controls across the agency and is currently mapping improved processes for grant tracking and reporting.

**RECOMMENDATION 6**

The Illinois Department of Employment Security should seek to identify and recoup as appropriate any payment for applicants who received inappropriate benefits. In addition, the Department should specifically target any payments made to applicants who were deceased or ineligible due to incarceration. IDES should pay special attention to overpayment balances that only considered January 2021 and moving forward.

**RECOMMENDATION 6 RESPONSE**

The Department accepts the Recommendation. IDES data shows that during the midst of the COVID-19 pandemic payments were made to ineligible claimants, due to a number of factors, including the evolving guidance for administering the CARES Act programs and the sheer volume of claims brought on by the effects of the pandemic. For example, during this time, IDES received over 37 million calls to hotlines regarding 68 million certified claims, an increase of 800% over the prior fiscal year's total number of new claims. In the effort to expedite emergency benefit payments to millions of recipients, the Department accepted that overpayment and fraud recovery would be negatively impacted, especially as certain crossmatches and controls were suspended. The Department has reinstated these crossmatches and controls and plans to institute PUPS and continue to use the Social Security verification process.

**RECOMMENDATION 7**

The Illinois Department of Employment Security should consider instituting additional controls/holds on checks exceeding a determined amount to minimize loss from fraud when issuing payments for backdated claims and/or large benefit payment amounts.

**RECOMMENDATION 7 RESPONSE**

The Department accepts the Recommendation. The Department prioritized expediting emergency benefit payments during the COVID-19 pandemic; however, quick payment of backdated benefits contributed to overpayments due to fraud and identify theft. In addition, the Department was implementing and responding to over 70 federal program and policy guidelines and changes relevant to these programs. The new pandemic-related programs required additional processing time, and certain cross-checks caused a delay in benefit distribution. These cross-checks are currently active. The Department will plan for controls that would be necessary for backdated claims (emergency programs such as PUA), and institute additional controls for large benefit payment amounts.



