



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"> 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)
<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"> 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)
<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"> IDES experienced three fraud schemes from March 1, 2020, through September 6, 2021: identity theft, hijacked payments, and fictitious

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)

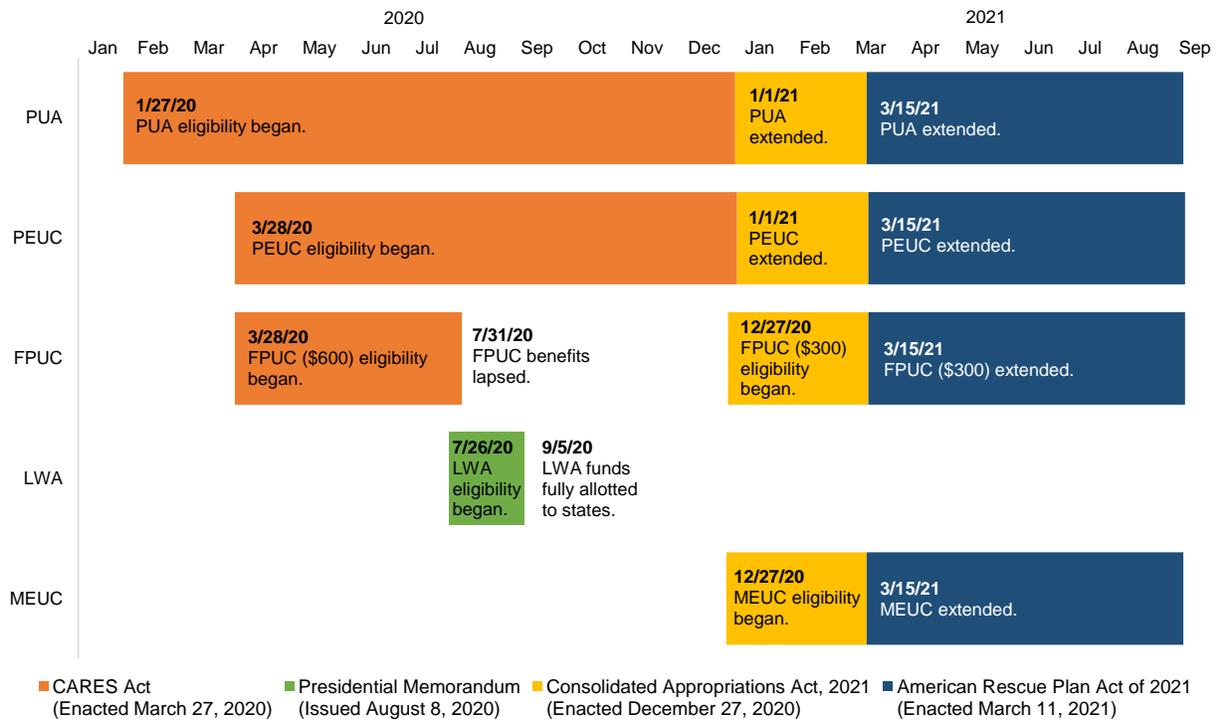
Source: OAG assessment of the audit determinations contained in LAC Resolution Number 158.

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, 2021¹



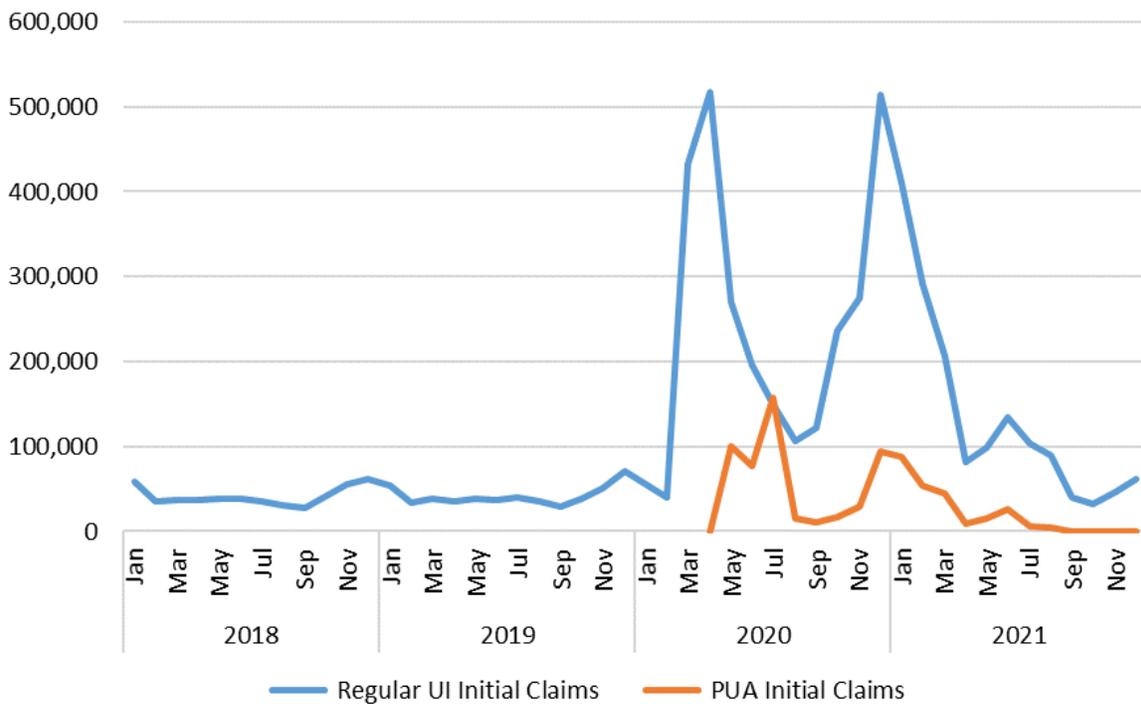
Note:
¹ While payments for PUA began on May 15, 2020, claimants were eligible for assistance for weeks of unemployment, partial unemployment, or inability to work beginning on or after January 27, 2020.

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	
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
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
Total	\$5,240,112,751

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 PAYMENTS TO DECEASED AND INCARCERATED INDIVIDUALS		
	# of Individuals	Total Payments
Deceased		
Regular UI	35	\$172,541
PUA	446	\$5,876,822
Incarcerated		
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 ¹	Initial Contract Amount	Final Contract Total	Total Expenditures ²
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
Total			\$33,526,105	\$226,365,393	\$160,497,056

Notes:

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

² 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

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

FRANK J. MAUTINO
Auditor General

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