



Office of the
Washington
State Auditor
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PERFORMANCE AUDIT

Report Highlights

Washington's Unemployment Benefit Programs in 2020:

Understanding improper payments and service delays during the COVID-19 pandemic

The novel coronavirus quickly became a global pandemic in 2020. In March 2020, Congress passed the CARES Act to help provide support for those affected by the pandemic. Washington's Employment Security Department administers the state's unemployment compensation program.

From early in the pandemic, news organizations reported on customer service delays and fraud in Washington's unemployment insurance program. This audit examines the scope of and reasons behind substantial fraud and customer service delays in the state's unemployment benefits program during the COVID-19 pandemic.

The economic effects of the COVID-19 pandemic dramatically increased unemployment claims and efforts to help unemployed workers led to massive fraud totaling at least \$647 million

Efforts to slow the spread of COVID-19 affected businesses and their workers, causing unemployment claims to surge exponentially within weeks of the first statewide lockdown. Bad actors exploited the spike in unemployment claims and policies intended to quickly distribute relief funds to commit massive imposter fraud using stolen personal information.

As of December 2020, ESD had identified \$647 million in fraudulent payments made during the pandemic, but the total is likely greater. The unemployment insurance fraud could impose at least some costs on businesses. Washington was not the only state to experience widespread imposter fraud in its Unemployment Insurance program during the pandemic.

ESD's pre-pandemic fraud detection and prevention portfolio was not capable of combating a large, sophisticated imposter fraud

Prior to the pandemic, ESD lacked a robust anti-fraud unit and the tools necessary to respond to widespread imposter fraud. Compounding the problem, some tools within the fraud-prevention portfolio were not working in the first part of 2020. ESD has since taken steps to resolve many of the issues it faced at the start of the pandemic.

The explosion of unemployment insurance claims during the pandemic strained ESD's ability to maintain its previous level of customer service

High volumes of claims and efforts to limit fraud caused long delays in benefit payment times. The need for customer assistance grew as the number of unemployment claims increased. As the number of claims grew exponentially, so did the number of customer calls – and the agency still struggles to respond to them. Other states also struggled to deliver customer service in their unemployment programs during the pandemic.

State Auditor's Conclusions

COVID-19 and the efforts to control its spread created an unprecedented surge in unemployment claims, both in Washington and nationwide. State unemployment agencies across the country were overwhelmed by the volume of claims, and Washington's Employment Security Department (ESD) was no different. In the early stages of the unemployment surge, ESD's primary focus was on paying claims quickly in an effort to provide financial relief to Washingtonians who had been affected economically by the pandemic.

By the middle of May 2020, ESD realized that bad actors had capitalized on the surge in claims, the state's efforts to pay those claims quickly, and looser requirements for a new federal unemployment benefits program. These factors led to a massive imposter fraud unlike anything Washington had ever seen. When ESD implemented new controls to detect suspicious claims, it helped control the fraud but also significantly increased the time it takes to provide benefits.

A year into the pandemic, ESD still is struggling to manage the customer services demands it faces. Since late fall of 2020, ESD's call center has only been able to handle a small share of the volume of calls it has received from Washingtonians trying to get answers about their claims. ESD officials have said they are taking steps to address this, but it has not been enough. With more federal funds for COVID relief on the way in 2021, another wave of claims seems likely and the agency's ability to handle the volume of calls is of concern. Improvements to the customer service experience are necessary to restore public confidence in the benefit system.

Recommendations

ESD has already taken steps to restructure and expand its fraud program. The agency has also hired additional staff to address concerns about customer service. This audit made no additional formal recommendations, but strongly encouraged ESD to continue to its efforts to address these issues.