

Office of the Secretary of State

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Audits Division

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April 6, 2021

David Gerstenfeld, Acting Director  
Oregon Employment Department  
875 Union St NE  
Salem, OR 97311

Dear Mr. Gerstenfeld:

We have completed audit work of a selected federal program at the Oregon Employment Department (department) for the year ended June 30, 2020.

<u>Assistance Listing Number</u>	<u>Program Name</u>	<u>Audit Amount</u>
17.225	Unemployment Insurance	\$ 4,735,799,800

This audit work was not a comprehensive audit of your federal program. We performed this federal compliance audit as part of our annual Statewide Single Audit. The Single Audit is a very specific and discrete set of tests to determine compliance with federal funding requirements, and does not conclude on general efficiency, effectiveness, or state-specific compliance issues. The Office of Management and Budget (OMB) Compliance Supplement identifies internal control and compliance requirements for federal programs. Auditors review and test internal controls over compliance for all federal programs selected for audit and perform specific audit procedures only for those compliance requirements that are direct and material to the federal program under audit. For the year ended June 30, 2020, we determined whether the department substantially complied with the following compliance requirements relevant to the federal program under audit.

<b>Compliance Requirement</b>	<b>General Summary of Audit Procedures Performed</b>
Activities Allowed or Unallowed	Determined whether federal monies were expended only for allowable activities.
Allowable Costs/Cost Principles	Determined whether charges to federal awards were for allowable costs and that indirect costs were appropriately allocated.
Eligibility	Determined whether only eligible individuals and organizations received assistance under federal programs, and amounts provided were calculated in accordance with program requirements.
Reporting	Verified the department submitted financial and performance reports to the federal government in accordance with the grant agreement and that those financial reports were supported by the accounting records.

Special Tests and Provisions	Determined whether the department complied with the additional federal requirements identified in the OMB Compliance Supplement.
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## Noncompliance

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and are described below. Our opinion on the federal program is not modified with respect to these matters.

## Internal Control over Compliance

Department management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the department’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and to test and report on internal control over compliance in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department’s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described below, that we consider to be a significant deficiency.

## Audit Findings and Recommendations

### *The department should ensure identity verifications occur to reduce improper payments*

<b>Federal Awarding Agency:</b>	Department of Labor
<b>Assistance Listing Name and Number:</b>	Unemployment Insurance, 17.225
<b>Federal Award Numbers and Years:</b>	UI-34080-20-55-A-41, 2020; UI-34737-20-55-A-41, 2020
<b>Compliance Requirement:</b>	Eligibility
<b>Type of Finding:</b>	Significant Deficiency, Noncompliance
<b>Prior Year Finding:</b>	N/A
<b>Questioned Costs:</b>	\$198,913 (known); \$65,756 (likely)
<b>Criteria:</b>	2 CFR §200.53; 20 CFR §604.1

The Oregon Employment Department (department) is responsible for establishing internal controls to ensure that benefits are only paid to eligible individuals. To ensure that claimants filing for regular unemployment insurance (UI) are not deceased at claim inception, the department verifies their identity through the federal Unemployment Insurance Interstate Connection Network (ICON) system in real-time. This verification compares the claimants social security number (SSN), name, and date of birth with Social Security Administration records. At the beginning of the pandemic this site experienced processing delays due to increased claim activity that were not resolved until April 2020. At this time the department continued real-time verification of identity for regular UI claims, and staff worked on the backlog of identity verifications from the period where the ICON system was delayed. Their review of the backlog was completed in October 2020.

The Coronavirus Aid, Relief, and Economic Security Act established the Pandemic Unemployment Assistance program (PUA), a program focusing on individuals who typically do not qualify for UI benefits. Due to programming constraints, the department did not begin to verify identities of PUA claimants through ICON until December 2020. When the programming was updated, all PUA claimants were batch processed for identity verification through ICON. To assist in mitigating PUA claim risks, the department implemented the ID Verification module of the National Association of State Workforce Agency's Integrity Data Hub and began processing PUA and regular claims in July 2020. For those claimants where an issue occurred, benefit weeks had been paid until the department put a stop flag on the claim. The programming provided for daily batch verifications for new claimants, and any issue identified resulted in no claim payments until the issue was resolved.

Due to the significant increase in benefit claims as a result of the onset of the COVID-19 pandemic and implementation of the CARES Act, we partnered with the United States Treasury (UST) to cross-match individuals who had attempted to claim unemployment benefits during the fiscal year with individuals who were reported as deceased in at least one of the five death databases available to the UST. The UST identified 502 unique matches. The UST also analyzed the Oregon data for quality in key information fields (e.g. SSN, name, date of birth etc.), and identified 626 individuals where key information appeared erroneous or incomplete.

We provided the deceased matches and data quality errors to the department for review and determination of improper payments. Based on responses provided by the department, we judgmentally selected claimants to review to determine whether the department's determination and improper payment amounts, if any, appeared reasonable. We reviewed all of the deceased matches where the department identified improper payments and confirmed the following:

- 10 claimants with known improper payments totaling \$93,869, with \$55,655 being funded as part of the PUA and Federal Pandemic Unemployment Compensation (FPUC) programs; and
- 11 claimants with potential improper payments totaling \$44,322, with \$26,400 being funded by the FPUC program.

We also reviewed all of the data quality errors where the department identified improper payments and confirmed the following:

- 30 claimants with known improper payments totaling \$105,044, with \$96,157 being funded by the PUA and FPUC programs; and
- 1 claimant with potential improper payments totaling \$21,434 all funded by the PUA and FPUC programs.

**We recommend** department management complete the review of claims where identity verification has not been resolved, and establish overpayment recoveries for all known improper payments.

## Response to Current Year Finding

The audit finding and recommendations above, along with your response, will be included in our Statewide Single Audit Report for the fiscal year ended June 30, 2020. Including your response satisfies the federal requirement that management prepare a Corrective Action Plan covering the reported audit finding. Satisfying the federal requirement in this manner, however, can only be accomplished if the response to the significant deficiency includes the information specified by the federal requirement, and only if the response is received in time to be included in the audit report. The following information is required for the response:

- 1) Your agreement or disagreement with the finding. If you do not agree with the audit finding or believe corrective action is not required, include in your response an explanation and specific reasons for your position.
- 2) The corrective action planned for each audit finding.
- 3) The anticipated completion date.
- 4) The contact person(s) responsible for corrective action.

Please provide a response to Kelly Olson, Audit Manager, by April 12, 2021 and provide Rob Hamilton, Statewide Accounting and Reporting Services (SARS) Manager, a copy of your Corrective Action Plan.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this communication is not suitable for any other purpose.

We appreciate your staff's assistance and cooperation during this audit. Should you have any questions, please contact Shelly Cardenas ([shelly.l.cardenas@oregon.gov](mailto:shelly.l.cardenas@oregon.gov)) or Kelly Olson ([kelly.l.olson@oregon.gov](mailto:kelly.l.olson@oregon.gov)).

Sincerely,

*Office of the Secretary of State, Audits Division*

cc: Jeannine Beatrice, Deputy Director  
Michael Smith, Chief Financial Officer  
Lindsay Leahy, Unemployment Insurance Division Director  
Gina DeLira-Brown, Chief Audit Executive  
Katy Coba, Director, Department of Administrative Services  
Rob Hamilton, SARS Manager, Department of Administrative Services