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NEWS RELEASE

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Auditor of State Mary Mosiman today released a report on a review of certain Unemployment Insurance (UI) payments made by Iowa Workforce Development (IWD) during the period January 1, 2012 through January 13, 2015. The review was conducted in conjunction with the audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa* to determine if sufficient internal controls and oversight procedures have been implemented over UI. The review was performed following an investigation conducted by IWD regarding improper disbursements issued as a result of a fictitious employer scheme carried out between February 2013 and January 2015. In addition, during the review, IWD identified a separate concern regarding certain UI payments issued for the March 8, 2014 benefit week.

Mosiman reported the improper UI disbursements and uncollected penalties identified for the period reviewed total \$909,554.17, including \$66,162.49 of overpayments identified based on a review of selected employer accounts, \$97,119.29 resulting from the fictitious employer scheme, \$723,245.89 issued during the first quarter of 2014, primarily resulting from a telephone system malfunction which occurred on March 8, 2014, and \$23,026.50 of uncollected penalties assessed by IWD.

IWD's investigation reviewed all activity specifically related to the establishment of the fictitious employer accounts. In addition, IWD's investigation determined the improper UI benefits awarded to individuals filing UI claims against the fictitious employer accounts identified. However, the IWD investigation did not review other transactions to determine if there were additional improper payments or review the UI payment process to determine if any improvements were needed to ensure UI benefits are properly disbursed. As a result, the process for establishing an employer account and submitting information to IWD's online tax system, My Iowa UI (MIUI), as well as the benefit payment process for individual claimants, were reviewed by the Office of Auditor of State. Mosiman also reported certain UI payments directed to claimants residing outside Iowa were selected for testing. As a result, overpayments totaling \$66,162.49 were identified resulting from UI benefits being issued by IWD to claimants who were not eligible to receive UI.

Employers conducting business in Iowa are required to register with the UI division of IWD using the Report to Determine Liability, which is used to determine whether the employer is required to participate in UI. However, no independent verification of the information reported by the employers is performed. All liable employers are required to complete a quarterly Employer's

Contribution and Payroll Report, which is a record of wages employers paid to individual workers. It also includes the employers' total wages paid and total taxable wages, which are the main factors used to determine the employer's UI tax rate and corresponding quarterly UI contribution.

There are 18 eligibility requirements individuals must meet to receive UI and applications can be completed via the internet, through the employer, or in person at a Workforce Development Center. To submit a UI claim, claimants must answer specific questions, including whether they worked during the week for which they are claiming benefits, the gross wages for the week, current work status, and the number of employers contacted. Although IWD requires the job contact information be available upon request, no independent verification of the information submitted electronically by the claimants is performed. Most claimants receive payment through deposit to the Iowa EPPICard, a pre-paid debit card.

Mosiman reported the review verified \$112,741.00 of UI benefits were awarded to individual claimants based on the UI claims filed against the fictitious employer accounts IWD identified. Of this amount, \$94,509.00 was loaded to Iowa EPPICards, but only \$78,887.29 was drawn from those cards by the individual claimants. The difference of \$15,621.71 represents the amount recovered by IWD from the third-party administrator of the Iowa EPPICard once the fictitious employer scheme was identified. The remaining \$18,232.00 of improper UI benefits identified was deposited directly to the individual claimants' bank accounts. The unrecovered improper UI benefits identified total \$97,119.29.

Mosiman reported an IWD telephone system malfunction on March 8, 2014 resulted in certain claimants receiving UI benefits they were not entitled to. Specifically, when claimants called to submit their UI claims, the phone system did not properly record the information. IWD realized the error on Monday, March 10, after several claimants reported to IWD customer service the UI Benefits system showed no record of their UI claim. At that time, IWD decided to pay each claimant who received benefits the week prior his/her maximum weekly benefit for the March 8 benefit week in order to avoid withholding benefits from valid UI claims. According to IWD officials, it was also decided no further procedures would be performed to determine whether any invalid UI claims occurred for that benefit week.

IWD did not notify the Office of Auditor of State of this irregularity as required by section 11.2(2) of the *Code of Iowa*. However, a former IWD employee notified the Senate Government Oversight Committee subsequent to her retirement, and the Office of Auditor of State became aware of the issue through media reports. On August 27, 2014, representatives of IWD appeared before the Senate Government Oversight Committee and reported overpayments for the March 8 benefit week were limited to 85 claimants and UI benefits totaling \$27,000.00, but they were unable to provide supporting documentation to show how the 85 claimants or the \$27,000.00 was determined. IWD subsequently performed a query of the UI Benefits system and increased the number of claimants affected to 448 with a total overpayment of \$96,102.00.

Mosiman reported the review verified the 448 claimants and overpayment of \$96,102.00 identified by IWD's investigation and identified an additional 410 claimants and overpayment of \$88,839.83, for a total of 858 claimants and an overpayment of \$184,941.83. In addition, Mosiman reported IWD's UI Fraud Investigators identified an additional 694 claimants not included in IWD's investigation who received potential overpayments of \$248,924.41. However, because the Office of Auditor of State was delayed access to the UI Benefits system, the supporting information necessary to verify the additional potential overpayments identified by IWD's UI Fraud Investigators was no longer available.

Mosiman also reported the review identified \$289,379.65 of improper disbursements resulting from incorrect reporting of wages on UI claims for the first quarter of 2014. Based on the quarterly comparison performed, 557 claimants did not report the correct wages and received UI benefits they were not entitled to. In addition, IWD accumulated penalties totaling \$23,026.50 on these UI accounts. Improper UI benefits identified for the first quarter of 2014 total \$746,272.39, including the March 8 overpayments, improper benefits paid as a result of the incorrect reporting of wages, and the penalties assessed by IWD.

As a result of the procedures performed, Mosiman recommended IWD strengthen internal controls over UI, such as expanding existing verification procedures for both employers and claimants, ensuring the MIUI and UI Benefits systems contain accurate information, and strengthening current policies regarding UI claim overpayments.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1360-3090-BE01.pdf>.

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