AUDIT PROPOSAL

Kansas Department of Labor's COVID-19 Unemployment Claim Response

SOURCE
This audit proposal was requested by the Legislative Post Audit Committee.

BACKGROUND
The Department of Labor is a cabinet level agency headed by a secretary appointed by the Governor. The Department has two major divisions: Workers Compensation and Employment Security. The programs of the Department serve the entire labor force and business community in Kansas. One of the programs administered by the Department is Unemployment Insurance. Employer payroll taxes are collected under this program, and unemployment benefits are paid to eligible individuals.

On March 18, 2020, President Trump signed the Families First Coronavirus Response Act (FFCRA). The act provided additional flexibility for state unemployment insurance agencies and administrative funding to respond to the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27. It expands states' ability to provide unemployment insurance for many workers impacted by the COVID-19 pandemic, including workers who are not ordinarily eligible for unemployment benefits.

More than 200,000 Kansans filed initial unemployment claims in seven weeks in response to the COVID-19 pandemic. The Kansas Department of Labor experienced website crashes, system failures, and delays in payments as it attempted to handle the unprecedented volume of calls and claims. Further, recent news articles have highlighted unemployment claim fraud schemes in Kansas and across the country related to the pandemic.

Legislators have expressed concerns about the Department's response and want more information about what caused the problems and delays with claims processing. Further, legislators are concerned about what controls the Department has in place to detect and prevent fraudulent claims.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY
The audit objectives listed below are the questions we would answer through our audit work. The steps listed for each objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: What factors caused delays in the Kansas Department of Labor's unemployment claims processing in Spring 2020? Our tentative methodology would include the following:

- Work with department officials and analyze data to identify factors that increased claim volume during the COVID-19 pandemic (e.g. spikes in unemployment, changes in federal requirements, etc.).

- Work with department officials and analyze data to identify the impact of those factors on processing times, claim backlogs, the number of claimants affected, dollar amount of claims, system downtime, etc.

- Work with department officials and analyze data to identify what steps the department took to address the influx of claims, including changes to staffing levels, streamlining processes, communications with claimants, website changes, infrastructure, etc.

- Interview Department officials to gather their opinions on the effectiveness of those steps.

- Confer with the Governor's special investigation team and work with department officials and staff to gather information needed for a root cause analysis of any problems we identified. This could include evaluations of overtime data, system funding issues, system error logs, and department communications from both before and during the COVID-19 timeframe.

Objective 2: How did the Kansas Department of Labor's response to COVID-19 compare to other states? Our tentative methodology includes the following:

- Conduct a literature review regarding the types of issues state labor departments had due to COVID-19's increase in claims. Potential problems could include poor system capabilities, poor system performance, poor management, and inadequate staffing or resources.

- Work with federal or national oversight groups to identify how state departments of labor responded to COVID-19. Compare Kansas to other states in terms of the number and value of claims processed, processing times, backlogs, etc.

- Contact a sample of states regarding their experience with COVID-19, the corresponding changes they made to their systems or processes, and how important metrics (e.g. processing times) were affected.

- Using data from Objective 1, compare Kansas to other states in terms of the impact of COVID-19 on claim volumes, backlogs, steps taken by management, and root issues of common problems we identified.

Objective 3: What types of unemployment claims fraud schemes is the Kansas Department of Labor aware of and how are they being addressed? Our tentative methodology includes the following:

- Talk with KDOL, Homeland Security, FBI, Multi-State Information Sharing and Analytics group, other states and affected individuals to identify current unemployment claim fraud schemes affecting Kansas during COVID-19.

- Evaluate claims data to during the past couple of years to determine what effect COVID-19 has had on the number of potentially fraudulent claims.

- Survey KDOL employees and contractor staff, for their opinions about KDOL's ability to handle fraudulent claims (in terms of staffing or mainframe abilities).

- Review KDOL's control process for flagging, reviewing, and resolving potential fraudulent unemployment claims and review a few fraudulent claims in detail to see if the process is working.

ESTIMATED RESOURCES
We estimate this audit would require a team of **3 auditors** for a total of **7 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).