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January 2020

Report No: ILR 2020-A

Representative Kyle R. Andersen
Utah House of Representatives
350 State Capitol
Salt Lake City, Utah 84114

A Survey to Determine Whether Utah Unemployment Insurance (UI) Overpayment Practices Contain Systemic Problems

Representative Andersen,

You requested that our office determine whether the Department of Workforce Services' Division of Unemployment Insurance (UI) has systemic problems dealing with overpayments. The co-chairs of the Legislative Audit Subcommittee approved this limited review.¹ You provided documentation from your constituent that demonstrated a small overpayment that had been credited to their company's account. The statements you provided indicated that UI inappropriately charged your constituent's account for interest on the overpayment, which then reduced the overpayment instead of refunding it. UI officials agreed that this was an IT system problem but was not occurring system wide.

In June 2019, UI officials identified an IT system problem in your constituent's account and reprogrammed their IT system to correct any future inaccurate statements. Finally, UI officials determined that the problem was an anomaly limited to your constituent. Our audit survey indicates that the IT statement problem was very limited. It is possible that no other UI clients were impacted because of circumstances to be explained later in this letter. In the next section, we tested a sample of overpayments that proved to be managed correctly; however, this was not the source of your constituent's statement complications.

UI's Overpayments Practice Appears to Be Applied Consistently in Audited Sample Cases

UI's practice is to tolerate both under- and overpayments of less than five dollars (meaning they are not returned or reported as owed). Essentially, they accept under- or overpayments

¹ The co-chairs of the Legislative Audit Subcommittee are the Speaker of the House and the President of the Senate.

of less than five dollars as if they were paid in full. In 2018, DWS received more than 188,000 individual unemployment insurance payments for a total of nearly \$164 million. Figure 1 shows the amounts and percentages of the total \$164 million that were overpayments or underpayments of less than five dollars.

Figure 1 Total Values of Under- and Overpayments to Utah’s Unemployment Insurance were Small in Calendar Year 2018. The difference between under- and overpayments was only \$700 in calendar year 2018.

	Percent of Total	Total Amount
Overpayments Less than \$5	0.003	\$5,300
Underpayments Less than \$5	0.004	\$6,000
Difference		\$700

Source: Auditor analysis of UI data

When compared with total UI payments of nearly \$164 million, the resulting \$700 in Figure 1.1 represents a very small amount.

UI provided a list of overpayments less than five dollars for the second quarter of calendar year 2019 and a list of underpayments less than five dollars for the fourth quarter of calendar year 2018. This list also contained the employer’s unique identifier number, the time period, and the amount of the under- or overpayment. There were thousands of under- and overpayments on each list. We tested a random sample of seven overpaid cases of less than five dollars. In each case the overpayment was managed consistently with UI’s practice. The overpayments for all test cases were tolerated and the dollar amounts were not returned. Our sample is unusually small because the constituent’s case had a unique anomaly which will be discussed next.

**Unique Anomaly Created
An Isolated IT System Problem**

UI officials identified, and we verified, the cause of the inaccurate statements in your constituent’s account. The following timeline identifies the dates and actions that occurred relating to your constituent’s concerns with incorrect UI statements:

- **February 2017:** Constituent received a statement stating they owed \$35.70.
- **March 2017:** UI received an IRS Tax Intercept payment of \$26.37 for your constituent’s debt.
- **April 2017:** The IRS Tax Intercept was rescinded, leaving the balance owed.
- **May 2017 to April 2018:** Constituent remained current on all billing.
- **May 2018:** UI received a returned check for insufficient funds from your constituent’s account and charged a penalty and interest.
- **December 2018 to May 2019:** Your constituent received six incorrect statements, indicating interest was charged on a credit balance.

- **June 2019:** Constituent contacted UI regarding inaccurate statements.
- **June 2019:** UI officials determined the erroneous statements were due to an IRS April 2017 action to rescind a payment.
- **June 2019:** UI officials unsuccessfully attempted to contact your constituent.
- **July 2019:** UI officials programmed their IT system to correct actions caused by the IRS rescinding a previous payment.
- **July 2019:** Management attempted to resolve the issue by crediting your constituent for the returned check penalty and interest amounts.
- **July 2019:** UI officials stated the cause of the erroneous statements was an anomaly, specific to your constituent.

The specific problem occurred in March and April of 2017, about 20 months prior to the first erroneous statement received by your constituent in December 2018. UI officials described the April 2017 IRS Tax Intercept Program rescinding of their previous payment as very uncommon. They also stated that the UI system was never programmed for the event of IRS rescinding a payment. Consequently, when the payment was rescinded in April 2017, the system did not have the ability to correctly make an account adjustment on your constituent's statement. As a result, every statement your constituent received from December 2018 forward was inaccurate.

Your constituent paid all balances in full until they paid the \$3.74 due in April 2018 by check. On May 4, 2018 that check was returned for insufficient funds, which resulted in the system automatically charging a \$20 returned check penalty. Your constituent was then left with a balance owed of \$23.74. If the \$20 returned check fee had not occurred, the \$3.74 that was due would have eventually been tolerated. With the IT system recognizing the \$3.74 due and the \$20 returned check fee it began assessing 1 percent interest (4 cents) per month, on the \$3.74 owed.

In June 2019, after your constituent contacted UI, the UI officials determined that the amounts in your constituent's statements were not consistent with the amounts in UI's accounting system. Their accounting system was correctly reporting the amounts due and payments received but did not correctly transfer that data to your constituent's six statements from December 2018 forward. UI officials were able to explain the cause of the problem, starting with the IRS rescinded amount. On the other hand, the officials could not explain the logic within the IT system that generated a credit balance where none existed in the accounting system, nor why the system was charging interest on the statement's credit balance. UI officials report that they did not believe it was cost effective to explore the anomaly any further.

Consequently, six incorrect statements reported a false credit on the account and charged interest on that credit.² UI officials were not aware of sending the erroneous statements until your constituent made contact in June 2019. UI officials state that they unsuccessfully attempted to contact your constituent to discuss and resolve the issue. Once UI management identified that the statements were in error, they resolved the issue by crediting your constituent's account for the \$20 penalty and all interest assessed, which reduced the account balance to \$3.74. This amount (\$3.74) was below the five-dollar limit discussed earlier and so it was tolerated.

UI has only been accepting payments from the IRS Tax Intercept Program for about four years. During that time, UI officials stated that they were unaware of the IRS Tax Intercept Program rescinding a payment for any other clients. UI officials have stated that the error was limited to just your constituent. Our limited survey concludes that the incorrect statements were most likely limited to your constituent and very few (if any) others. Nevertheless, we do not recommend further audit work at this time.

We hope this letter addresses your concerns. We thank you for the survey request and the data made available to assist our review. If you have further questions please feel free to contact Brian Dean, Deputy Auditor General, at 801-326-1730.

Sincerely,



Kade R. Minchey, CIA, CFE
Auditor General

² These statements were sent to your constituent on the following dates: December 31, 2018; February 17, 2019; February 28, 2019; March 31, 2019; May 17, 2019; and May 31, 2019.

Agency Response

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**Department of
Workforce Services**

JON S. PIERPONT
Executive Director

CASEY R. CAMERON
Deputy Director

GREG PARAS
Deputy Director

To: The Office of the Legislative Auditor General

The Department of Workforce Services Unemployment Division has received a copy of "A Survey to Determine Whether Utah Unemployment Insurance (UI) Overpayment Practices Contain Systemic Problems".

The Department agrees with the summary and has already taken necessary actions to prevent the same scenario from reoccurring. The Department appreciates the work of the OLAG.

Kevin Burt
State of Utah – Department of Workforce Services
Unemployment Insurance Division Director
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Office of the Legislative Auditor General

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