

Evaluating the Kansas Department of Labor's Response to COVID-19 Unemployment Claims

Audit Objectives

- What factors caused delays in the Kansas Department of Labor's unemployment claims processing during the COVID-19 pandemic?
- What types of unemployment fraud schemes is the Kansas Department of Labor aware of and how are they being addressed?
- What I'll cover:
 - Brief background on Unemployment Benefits
 - How fraud schemes occurred in Kansas during the Pandemic
 - Methodology and results from our fraud estimate

Unemployment Background

- In Kansas, the Regular Unemployment Insurance Program is administered by the Kansas Department of Labor (KDOL) and gives financial aid to unemployed individuals.
- In 2020, the federal government created several temporary unemployment insurance programs to help individuals who lost their jobs due to COVID-19.
 - Pandemic Unemployment Assistance (PUA)
 - Federal Pandemic Unemployment Compensation (FPUC)
 - Pandemic Emergency Unemployment Compensation (PEUC)

Fraud Schemes

- Nationally, fraudsters targeted the Pandemic Unemployment Assistance (PUA) program because of weaknesses in its application process.
- Fraudsters relied on large-scale identity theft to exploit those weaknesses in PUA's application process. Allowed them to apply multiple times.
- Fraudsters maximized payment by claiming backpay and receiving additional benefits (FPUC).
- Fraudsters also began to hit the state's regular unemployment insurance program in late 2020.

KDOL's Fraud Detection Process

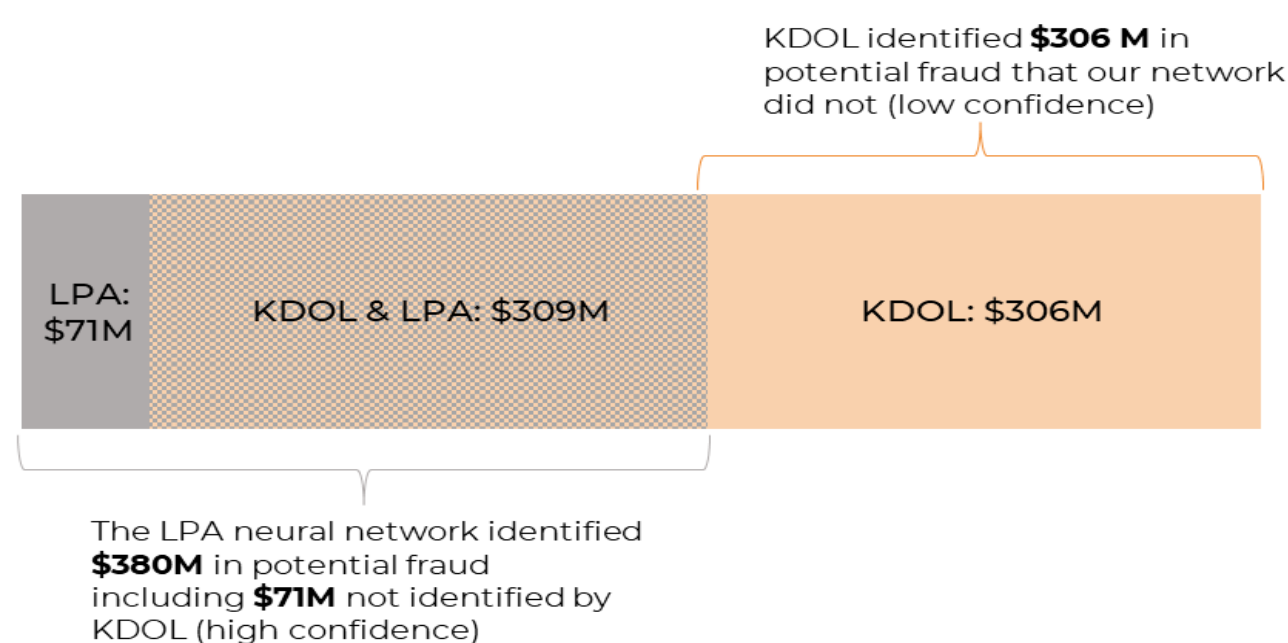
- KDOL's fraud detection process was designed to detect wage fraud in the Regular Unemployment program, not large-scale imposter fraud.
 - Relied on employers to report suspicious activity
 - Manually reviewed wage reports
 - Manually reviewed claims data for suspicious information

LPA's Fraud Estimate

- We used a neural network to estimate unemployment fraud in Kansas. Neural networks are a form of machine learning that help replicate human decision making.
- We manually reviewed a random sample of 1,000 claims application looking for 26 indicators of fraud.
- We used the results of our sample to train the neural network to identify fraud in all remaining claims from January 2020 to February 2021 (about 1.08 million claims).

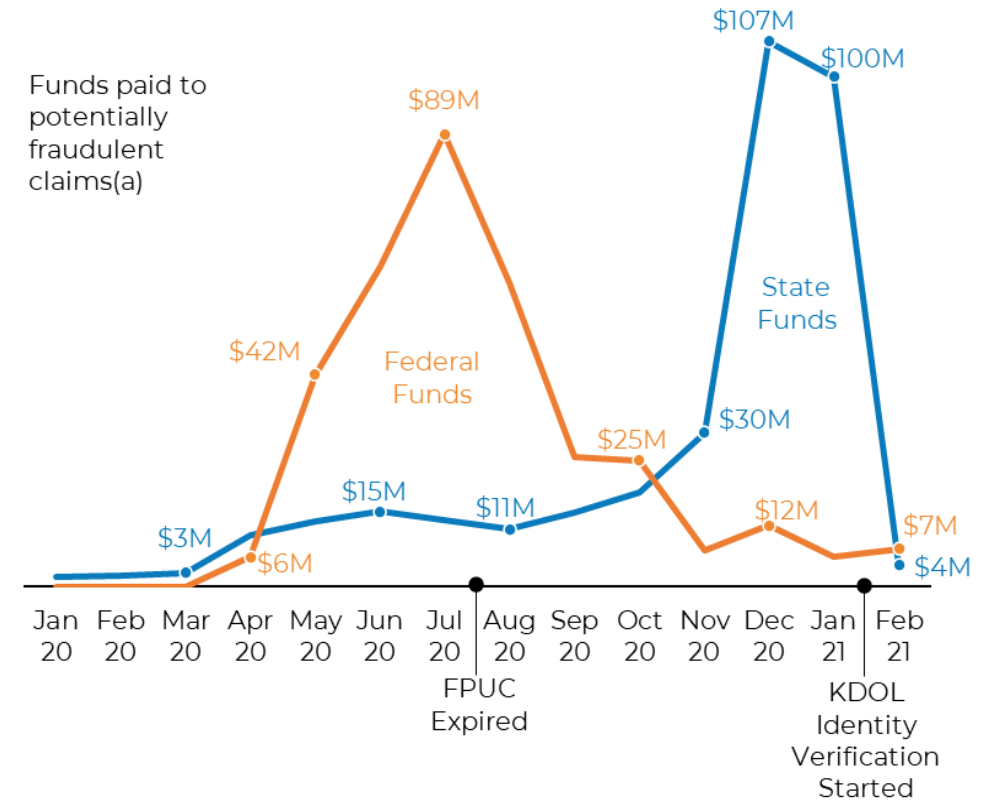
LPA's Fraud Estimate

- We estimated about \$700 million in potentially fraudulent payments could have been made in Kansas during the pandemic.
- Ultimately, our estimate is a combination of the neural network results and claims KDOL already flagged as fraud in its data.



LPA's Fraud Estimate

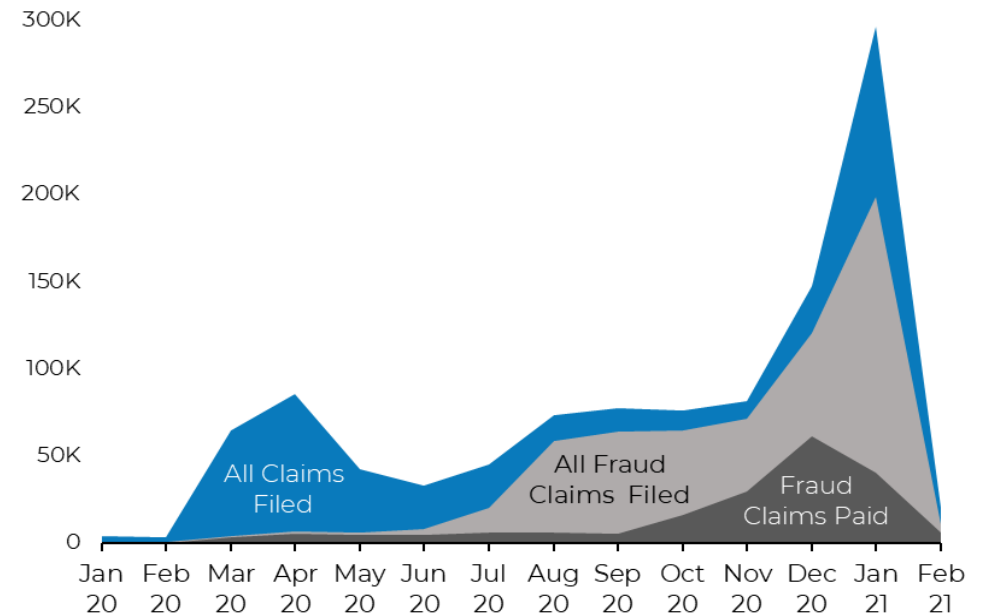
- Of the estimated \$700 million in fraudulent payments, about half (343 million) came from federal funds and half (\$344 million) from state funds.



Source: LPA Analysis of KDOL data from 2020-2021 (audited)
 (a) Payment date errors in KDOL's claims data could affect the distribution of fraudulent payments.

LPA's Fraud Estimate

- A little more than half of all claims filed during the pandemic could have been fraudulent.
- About 30% of those attempts were paid.
- About 70% of fraudulent attempts were stopped, which we estimate had a value of about \$2 billion.



Source: LPA Analysis of KDOL data from 2020-2021 (audited)
 (a) Payment date errors in KDOL's claims data could affect the distribution of fraudulent claims paid