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Hugh McDonald
SECRETARY OF COMMERCE

Charisse Childers, Ph.D.
DIRECTOR
DIVISION OF WORKFORCE SERVICES

December 29, 2023

MEMORANDUM

TO: Senator Terry Rice, Co-Chair, Arkansas Legislative Council
Representative Jeff Wardlaw, Co-Chair, Arkansas Legislative Council

FROM: Charisse Childers, Ph.D., Director, Arkansas Division of Workforce Services

RE: Arkansas Division of Workforce Services Report to Arkansas Legislative Council

As required by Act 667 of the 2021 Regular Session, the Division of Workforce Services respectfully submits the following report describing our on-going efforts to identify and recover improper unemployment insurance (UI) payments, and to enhance the integrity of the UI system.

IMPACT OF FRAUD ON THE UNEMPLOYMENT INSURANCE PROGRAM:

Several important requirements should be mentioned to better understand what factors led to the significant increase in the number of overpayment of benefits during this time.

- An Executive Order was issued March 19, 2020, which removed the requirement for UI claimants to go in-person to one of 34 local workforce offices to verify their identification. This requirement is what kept Arkansas as a top tier state in preventing fraudulent payments with a 4.63% improper payment rate ranking 4th in the nation. However, as an accommodation for the health concerns of ADWS staff and UI claimants, this in-person step was not reinstated until December 2020 when the waiver was rescinded.
- This same Executive Order removed the waiting week that was previously in place, which allows time for ADWS to confirm with employers that a claimant qualifies for UI benefits. The removal of this week, the temporary closing of many businesses, and increased claim volume allowed for benefit payments to be processed prior to verifying with employers. This requirement was rescinded in June 2021.
- The JAVA rule applies to these payments; once ADWS initiates benefit payments, they cannot be stopped while an employer appeals the decision to pay benefits. This is consistent with the requirement of section 303(a)(1) of the Social Security Act. Therefore, by waiving ID verification and the waiting week, benefit payments were being made before an employer could appeal, and ADWS is required to continue those payments until the appeal process is completed. The appeal process could take the entire time benefits are paid due to significant increase in claims and therefore appeals.
- Arkansas has been operating on an antiquated system that had not been modernized for decades. The steps to process claims was a very manual, high touch process. The increase in claims from pre-pandemic levels of 1,700 claims per week, to a high of 62,086 per week led to a huge backlog of claims to process. This, in combination with an additional pandemic benefit payment that the system was not designed to accommodate and included new rules that were being revised throughout, created an impossible task for UI staff to navigate easily. Many lessons were learned and a plan to improve this system was born from this experience, as well as legislative support from Act 667 of the 2021 Regular Session.

In Arkansas, this resulted in the following estimated improper payments:

Overpayments Created			
	State Programs	Federal Programs	Totals
*2020	\$ 7,451,505.70	\$ 16,427,668.30	\$ 23,879,174.00
2021	\$ 12,823,997.13	\$ 33,921,275.87	\$ 46,745,273.00
2022	\$ 8,765,038.58	\$ 26,030,765.59	\$ 34,795,804.17
**2023	\$ 4,111,962.22	\$ 18,930,538.77	\$ 23,042,500.99
Totals	\$ 33,152,503.63	\$ 95,310,248.53	\$ 128,462,725.16
* 04/01/2020 – 12/31/2020			
** 01/01/2023 – 11/30/2023			

DWS EFFORTS TO PREVENT AND DETECT FRAUD AND RECOVER IMPROPER PAYMENTS:

As a result of the lessons learned from the pandemic, ADWS has implemented the following improvements, as well as developed plans for future improvements, to prevent and detect improper payments:

- Continue to cross match weekly claims for benefits with the New Hire Registry. This step would identify if a claimant had been reported by an employer as a New Hire, as required per Act 1276 of the 1997 Regular Session. This tool was upgraded in August 2023, and has allowed for expedited data verification leading to enhanced fraud prevention and is less expensive to support.
- Continue cross match of claimants with the Arkansas Department of Corrections roster. This has been in place for regular UI benefits since 2008, and Pandemic Unemployment Assistance (PUA) since August 2020.
- Continue to work with the Social Security Administration on requirements, as we have been since October 2022, to receive approval to access Prisoner Updated Processing System (PUPS) data to identify fraudulent applicants.
- Continue to prevent fraudulent claims by verifying claimants against the State’s Death Records, as has been in place since August 2020.
- All claims are sent to the National Association of Workforce Agencies Integrity Data Hub, identifying potential fraudulent claims nationally that are then researched by ADWS staff.
 - Suspicious Actor Repository
 - Multi-State Crossmatch
 - Identity Verification
 - Bank Account Verification
 - Fraud Alerts
 - Foreign Internet Protocol Address Detection
 - Suspicious Email Domains
- Continue to flag all claims where the mailing address or email address has been used repetitively. This has been in place since 2020.
- Continue to cross match claims of state employees for wage accuracy.
- As of March 2023, ADWS has implemented a new method of verifying identification by being the first in the nation to allow claimants to visit any U.S. Post Office for ID verification. This allows more convenience to claimants, as there are 617 post offices across Arkansas, while keeping the integrity of the program as in-person ID verification proves to be the most secure method. The option to verify ID through LogIn.gov is still available for claimants to verify their ID more conveniently than prior to the pandemic.
- In partnership with the Department of Information Systems (DIS), ADWS utilizes up-to-date cloud-based security protocols to secure the system from unauthorized access and to block IP addresses outside of the United States.
- For out of state claims, a dedicated team has been established to ensure close monitoring, and to actively communicate with the other states involved regarding combined wages and work search registration.
- All U.S. Department of Labor CARES Act audit findings regarding overpayments have been addressed and are waiting for final clearance.

- ADWS is modernizing its IT system. This is being done outside of state general revenue, and will result in a more modern, accurate, and secure systems that will safeguard taxpayer resources. Collaborating with the business community to redesign our employer portal will result in employers responding to notifications in a more streamlined and timely manner, improving the improper payment rate.
- ADWS UI and Legal areas are strengthening processes for prosecuting UI fraud. Currently, it takes staff several days to prepare files to build a criminal referral case. With modernization, this process should become less tedious resulting in more frequent referrals of cases for prosecution. ADWS Legal continues to build relationships with prosecutors and local law enforcement around the state in the effort to increase the number of criminal prosecutions of UI fraud.
- Since 2020, ADWS has referred 132 Arkansas cases to the US DOL Office of Inspector General involving more than 1,200 claims. These cases primarily involve criminal rings engaged in identity theft. To date, there have been five successful prosecutions with a total restitution amount of approximately \$660,000.
- ADWS along with DIS' AR Launch program has implemented the additional requirement for claimants to perform and record job search requirements at the time of submitting their claim and before benefit payment can be processed, as required in Act 197 of 2023. This will further ensure that ineligible claimants (those not meeting the work search requirements) are unable to receive benefits, as well as drive UI claimants to this tool which offers an array of services and training opportunities to reattach workers to employment as quickly as possible. It will also help ADWS facilitate the job search audit requirement by simplifying and consolidating the process for claimants.