



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR
March 17, 2021

Financial Audit Management Report

Jackie Turner, Executive Director
Mississippi Department of Employment Security
1235 Echelon Parkway
Jackson, MS 39215

Dear Ms. Turner:

Enclosed for your review are the financial audit findings for the Mississippi Department of Employment Security for the Fiscal Year 2020. In these findings, the Auditor's Office recommends the Mississippi Department of Employment Security:

1. Strengthen controls over MAGIC segregation of duties and quarterly access review;
2. Strengthen controls over the reconciliation of MAGIC to ReEmploy; and
3. Strengthen controls over the Unemployment Insurance Benefits Paid.

Please review the recommendations and submit a plan to implement them by March 31, 2021. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Department of Employment Security's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Department of Employment Security's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Employment Security to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Employment Security throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

Stephanie C. Palmertree, CPA CGMA
Director, Financial Audit and Compliance Division

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Employment Security for the year ended June 30, 2020. These financial statements will be consolidated into the State of Mississippi's *Comprehensive Annual Financial Report*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Office of the State Auditor's staff members participating in this engagement included Michael Torres, CPA; JT Newell, CPA; Alan Jarrett; Lasabre Charleston, CPA; and Kari Horn.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements of the Department of Employment Security as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Department of Employment Security's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Accordingly, we do not express an opinion on the effectiveness of the Department of Employment Security's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify the following deficiencies, identified in this letter as items **2020-006** and **2020-007**, to be material weaknesses. Additionally, we identified the deficiency identified in this letter as **2020-005** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Employment Security are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

MATERIAL WEAKNESSES

Finding and Recommendation

2020-006 Controls Should Be Strengthened Over the Reconciliation of the State's Financial Accounting System to the Third Party Unemployment Software - ReEmploy.

Repeating Finding No.

Criteria *The Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), specifies that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective. Proper segregation of duties is essential to minimizing the risk of fictitious transactions and misstated financial position.

Condition The Mississippi Department of Employment Security (MDES) submitted the accrual amount entries for the accounts "Claims Payable", "Federal Income Tax (FIT) Withholding payable", and "Due to Other Funds" to the Department of Finance and Administration (DFA) in the statutorily required GAAP package. Upon review of the claims detailed report from ReEmploy (the third party vendor utilized by MDES to enter, track, and monitor unemployment claims data) it was determined that the accrual entries made in the GAAP package were not correct. We reviewed the accounts payable detail and the payments made to claimants from July 1, 2020 through December 10, 2020 with Claim Week Ending June 30, 2020 or before, and determined the total Claims Payable, FIT Withholding Payable, and Due to Other Funds entry amounts were improperly accrued.

As a result:

- Claims Benefits Payable was overstated by \$179,423,666;
- Federal Income Tax (FIT) Withholding Payable was overstated by \$7,953,401;
- Due to Other Funds was overstated by \$778,122;
- Subsidies Loans and Grants was overstated by \$188,155,18;
- Federal Revenue was overstated by \$189,747,435; and
- Due from Federal Government was overstated by \$189,747,435.

Additionally, MDES submitted the accrual amount entries for the accounts "Accounts Receivable" and "Allowance for Uncollectable Accounts Receivable" to DFA in the statutorily required GAAP package. Upon review of the receivable detailed report from ReEmploy, it was determined that the accrual entries made in the GAAP package were not correct. It was determined the Accounts Receivable and Allowance for Uncollectable Accounts Receivable entry amounts were improperly accrued.

As a result:

- Subsidies, Loans, and Grants was understated by \$19,951,628;
- Accounts Receivable was overstated by \$161,551,642;
- Allowance for Uncollectable Accounts Receivable was overstated by \$141,600,014;
- Due from Federal Government was understated by \$19,951,333;
- Unearned Federal Revenue was overstated by \$295; and
- Federal Revenue was understated by \$19,951,628.

Cause	<p>MDES did not properly reconcile amounts amalgamated in the reports from ReEmploy to the financial information. Based on information submitted by MDES personnel for query to produce the reports from ReEmploy, the same transactions were in the report population multiple times, causing material overstatements in the accrual entries computed by personnel at MDES. Ultimately, data related to the new Federal Pandemic Unemployment Compensation (FPUC) program was pulled into the system with multiple errors that went undetected by MDES personnel.</p> <p>Additionally, MDES only performed financial statement reconciliations of unemployment data once annually at the end of the fiscal year. The information was also not entered into the statewide accounting system - Mississippi Accountability System for Government Information and Collaboration (MAGIC) but once at year end. These untimely reconciliations and agreement of financial statements to ReEmploy caused excessive delays in the preparation of financial statements of MDES.</p>
Effect	<p>Failure to properly record accruals and failure to perform timely and accurate reconciliations of data greatly increase the risk of fraud and misappropriation of assets and liabilities which can result in material misstatements of financial statements. Several accounts were overstated for fiscal year 2020 and required material audit adjustments to correctly report the financial status of MDES.</p>
Recommendation	<p>We recommend the Mississippi Department of Employment Security strengthen controls to ensure accrual entries are correct and to record entries in the statewide accounting system more frequently than once annually. Additionally, personnel should complete timely and accurate reconciliations to ensure information is reported correctly.</p>

Finding and Recommendation

2020-007	<p><u>Controls Should Be Strengthened Over Unemployment Insurance Benefits Paid.</u></p>
Repeating Finding	<p>No.</p>
Criteria	<p><i>The Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when control activities, such as authorization, approval, verification, and adherence to policy and procedures are implemented and followed. These activities are essential to minimizing the risk of fictitious claims and misstated financial position.</i></p> <p><i>The Mississippi State Code Annotated (1972) §71-5-511 states that one is eligible to receive benefits that “has been unemployed for a waiting period of one (1) week”; “participates in reemployment services, such as job search assistance services, if, in accordance with a profiling system established by the department, it has been determined that he is likely to exhaust regular benefits and needs reemployment services”; “is able to work, available for work and actively seeking work”.</i></p> <p><i>The Mississippi State Code Annotated §71-5-505(1) states “For weeks beginning on or after July 1, 1991, each eligible individual who is totally unemployed or part totally unemployed in any week shall be paid with respect to such week a benefit in an amount equal to his weekly benefit amount less that part of his</i></p>

wages, if any, payable to him with respect to such week which is in excess of Forty Dollars (\$40.00).”

The *Mississippi State Code Annotated §71-5-513* describes reason for separation that disqualifies the individual as “(a) For the week, or fraction thereof, which immediately follows the day on which he left work voluntarily without good cause, if so found by the department, and for each week thereafter until he has earned remuneration for personal services performed for an employer, as in this chapter defined, equal to not less than eight (8) times his weekly benefit amount, as determined in each case; however, marital, filial and domestic circumstances and obligations shall not be deemed good cause within the meaning of this subsection. Pregnancy shall not be deemed to be a marital, filial or domestic circumstance for the purpose of this subsection. (b) For the week, or fraction thereof, which immediately follows the day on which he was discharged for misconduct connected with his work, if so found by the department, and for each week thereafter until he has earned remuneration for personal services performed for an employer, as in this chapter defined, equal to not less than eight (8) times his weekly benefit amount, as determined in each case. (c) The burden of proof of good cause for leaving work shall be on the claimant, and the burden of proof of misconduct shall be on the employer.”

Condition

The Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted by the federal government in response to the COVID-19 pandemic required state unemployment agencies to increase the amount of benefits paid to claimants. Additionally, claimants were able to collect unemployment payments for an expanded time frame, and claimants who would otherwise not qualify for benefits (such as independent contractors and self-employment persons) were able to qualify for benefits. In order to process the multitude of claims in an expeditious manner, MDES opted to override the existing controls designed in the internal control system. Proven and tested controls over Unemployment Insurance claims were altered or disregarded for the periods of March 2020 through December 2020. Controls altered for the claims submitted in the noted timeframes were:

- Waived; One week waiting period; March 8, 2020 – December 26, 2020;
- Waived; Work Search Requirements; March 8, 2020 – August 8, 2020;
- Waived; Able to work, Available to work, and Actively Seeking Work (A&A); March 8, 2020 – September 26, 2020;
- Altered; Weekly Earning Allowance increased from \$40 to \$200; May 3, 2020 – September 26, 2020; and
- Altered; Reason for separation from *ALL* employers in base period changed to separation from *MOST RECENT* employer; March 8, 2020 - September 26, 2020.

Additionally, claims were approved without social security number verification during the period March 2020 – May 2020.

Due to these controls being ignored or overridden, MDES was unable to properly monitor the immense influx of claims and to properly vet those claims for fraud. During fiscal year 2020, total unemployment benefit claims increased from \$59,639,208 (fiscal year 2019) to \$2,146,060,996, a 3,498% increase. Included in that total was \$117,948,403, or 5.5%, identified as overpayments. These payments include:

- Payments made to individuals who never lost or had a reduction in wages;
- Fraudulent payments due to stolen identity;

- Payments made to incarcerated individuals;
- Payments made to deceased individuals; and
- International unemployment fraud named “Scattered Canary” by federal authorities.

In particular, MDES inadvertently allowed incarcerated individuals to receive payment when the control that required claimants to verify that they were “actively seeking work” was waived. Incarcerated individuals were then able to apply for benefits and receive approval without any additional verification from MDES.

MDES personnel were initially overwhelmed by the influx of claims and were unable to accurately report the amount of increased loss the State was subject too, and were unable to adequately monitor the fraud that was reported by individuals when they received notification of benefits received.

Cause MDES did not have proper internal controls in place due to overriding or waiving existing controls. This caused MDES the inability to verify that unemployment claims were paid to proper claimants.

The Social Security Administration (SSA) application for verifying Social Security numbers was down for period of time between March 2020 and May 2020. The Unemployment Insurance system would “verify” the numbers automatically and approve the claim when unable to connect to the SSA’s application. Claimants were not recertified until several months after receiving payments due to the increase in volume of claims, which allowed errors to go undetected.

Effect Failure to properly enable controls and follow policies and procedures increases the risk of fraud and misappropriation which can result in material misstatements of financial statements. The waiver of strict controls on Unemployment Insurance benefits resulted in an increase of known overpayments of 79.1% from FY 2019 to FY 2020.

Recommendation We recommend the Mississippi Department of Employment Security strengthen controls over policies and procedures to ensure internal controls are never disabled or circumvented. Additionally, we recommend further analysis of the overpayments of unemployment claims is performed in order to maximize the potential for recovery of fraudulent payments.

SIGNIFICANT DEFICIENCY

Finding and Recommendation

2020-005 Controls Should Be Strengthened over Mississippi’s Accountability System for Government Information and Collaboration (MAGIC) Segregation of Duties, and Quarterly Security Certification Process.

Repeating Finding No.

Criteria *The Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), specifies that a satisfactory control environment is only effective when control activities, such as proper segregation of duties, exist and are effective. Proper segregation of duties

is essential to minimizing the risk of fictitious transactions and misstated financial position.

Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person or department. At a minimum, the following functions are considered incompatible for proper segregation of duties:

- Custody;
- Authorization or approval; and
- Recording or reporting

When proper segregation of duties is not practical, compensating controls, such as increased review and reconciliation, should be implemented to ensure proper internal control activities have been met. Good internal controls require effective segregation of duties within MAGIC to ensure critical business functions are performed by separate individuals to prevent incompatible duties which may allow users to perpetuate and conceal errors or fraud in the normal course of duty.

Additionally, *The Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual section 30.60.00 dictates that security roles should be reviewed on a quarterly basis to ensure that duties are segregated.

Condition

The Mississippi Department of Employment Security submitted certification to DFA quarterly during state fiscal year 2020 stating that it was in compliance with policies regarding MAGIC security. Upon review of the security roles assigned and the exceptions noted below, the agency did not have proper segregation of duties, improperly certified their agency had proper segregation of duties, and submitted the certifications late three out of four quarters in fiscal year 2020.

During our review of MAGIC security roles, we noted the following exceptions:

- Six instances in which there were role violations related to improper segregation of duties; and
- Three MAGIC Quarterly Security Report Reviews were submitted late: 2nd quarter (7 days), 3rd quarter (19 days), and 4th quarter (15 days)

Cause

MDES did not properly review and monitor their MAGIC security roles assigned to employees. They also did not sign and return the MAGIC Quarterly Security Certification by the due date set by DFA.

Effect

Failure to properly segregate duties and limit user access among agency personnel greatly increases the risk of fraud, misappropriation of assets, inappropriate changes to data or files, and unauthorized activity which can result in material misstatements of financial statements.

Recommendation

We recommend the Mississippi Department of Employment Security strengthen controls over MAGIC security and ensure that roles are properly assigned, duties are segregated, and reviewed in accordance with the MAAPP manual and implement procedures to ensure the timely completion of their MAGIC Quarterly Security Certification.

End of Report



MISSISSIPPI DEPARTMENT *of* EMPLOYMENT SECURITY

OFFICE OF THE GOVERNOR
JACQUELINE A. TURNER
EXECUTIVE DIRECTOR

FINANCIAL AUDIT FINDINGS

April 2, 2021

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

The Mississippi Department of Employment Security (hereafter MDES) team has reviewed the financial findings and have the following responses:

2020-005 Controls should be strengthened over Mississippi's Accountability System for Government Information and Collaboration (MAGIC) Segregation of Duties, and Quarterly Security Certification Process.

Response:

MDES concurs with the finding.

Corrective Action Plan:

MDES has reviewed the role assignments and the segregation of duties have been corrected.

2020-006 Controls should be strengthened over the reconciliation of the State's Financial Accounting System to the Third Party Unemployment Software - ReEmployUSA.

Response:

MDES concurs with the finding.

Corrective Action Plan:

MDES will strengthen controls over financial reporting by establishing a claims payable report in the system with predefined parameters for each program. MDES will also have the report's data approved by a knowledgeable Information Technology staff member before reporting on the GAAP Packet Reports.

2020-007 Controls should be strengthened over Unemployment Insurance Benefits Paid

Response:

Other than to acknowledge that a number of overpayments and improper payments occurred, MDES respectfully disagrees with Finding 007 in its entirety, both in scope and holding. MDES properly complied with emergency measures enacted by both the federal government and the State of Mississippi in response to the COVID-19 pandemic. In order to explain the actions of MDES during this unprecedented pandemic, it is necessary to place the actions described in the audit finding in context, so that proper perspective, understanding, and appreciation can be ascertained.

On March 13, 2020, President Trump declared the COVID-19 pandemic a national emergency. On March 14, 2020, Governor Tate Reeves issued a Proclamation declaring a State of Emergency in the State of Mississippi. Because the COVID-19 pandemic was declared a national emergency both at the federal and state level, any resulting State or Federal Executive Order, or federal or state legislation, became law, and thus controlled the procedures of MDES. This new "emergency law" supplanted existing current state and federal law in many areas including certain state unemployment insurance statutes. Thus, normal agency measures, controls, practices, and other criteria, as referenced in Finding 007, conflicted with duly enacted Executive Orders and certain legislation, and therefore had to be adjusted. This need to adjust procedures clearly distinguishes 2020 from any other year in recent memory, and explains and supports the fact that MDES did not "waive" state law, rather, it followed all emergency law measures, which included the temporary suspension of certain eligibility requirements to expeditiously deliver much-needed relief to hundreds of thousands of Mississippians.

SUSPENSION OF ELIGIBILITY MEASURES

In order to adequately explain MDES's decision to temporarily suspend certain unemployment insurance eligibility measures, and to modify other unemployment insurance statutes such as the weekly earnings allowance, it is necessary to review pertinent federal pandemic relief legislation enacted during the early stages of the pandemic. On March 18, 2020, President Trump signed the Families First Coronavirus Response Act (FFCRA), specifically Division D, the Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA). Per the United States Department of Labor's (DOL) guidance, "the EUISAA sets out requirements for emergency

administrative grants to states, and authorizes emergency flexibility allowing states to temporarily modify certain aspects of their unemployment compensation (UC) laws.”

In order to receive the emergency administrative grants under Section 903(h)(3)(B), SSA, (42 U.S.C. §1103(h)(3)(B)) pursuant to EUISAA, each state must show the “steps it has taken, . . . , to ease eligibility requirements and access to UC, including: modifying or suspending work search requirements and the waiting week.”

In compliance with this statutory requirement, Mississippi then executed a series of Executive Orders which specifically addressed the directive to temporarily suspend the work search requirement and the one-week waiting period as well as provide flexibility in the interpretation of the able and available requirement.

Executive Orders also included a provision that temporarily increased the weekly earnings allowance, encouraging employers to retain employees in the face of the most generous temporary unemployment benefits measures in history. This modification proved highly successful, especially in the food industry. Another provision, although flagged by Finding 007, was also authorized by Executive Order, and allowed MDES to determine UI eligibility based on job separation from the most recent employer, rather than from all previous employers in the employee’s base period, as is the normal procedure. This measure expedited UI services to thousands of claimants filing for benefits en masse and at a most critical time. MDES temporarily modified its controls in order to comply with the provisions of EUISAA, In compliance with EUISAA, all of these modifications to Mississippi law were temporary. After these Executive Orders expired, MDES returned to its normal pre-COVID procedures.

The measures taken by MDES during the most severe part of the pandemic were necessary, proper under the circumstances, narrowly targeted in scope and time, and authorized by federal and state law. However, finding 007 indicates that MDES simply “opted to override existing controls” without support in state or federal law. Further, the report implies that the actions of MDES were the sole cause of the significant increase in claims and subsequent overpayments.

As explained herein, the requirements of the new federal unemployment provisions coupled with the unprecedented mass unemployment crisis, dictated the actions taken by MDES during the audit period in 2020. When the entire state shut down, except for essential services, for a number of weeks, claims naturally increased. Therefore, statistically speaking, it follows that the number of overpayments increased as a result of the increase in unemployment claims filed.

It is MDES’ position that the numerical figures from the relevant time period are more accurate: 94.5% of UI benefit payments went to eligible claimants, and resulted in identified overpayments of only 5.5%. Moreover, MDES would contend that the one-week waiting period, the work search requirements, and more flexibility in the able and available criteria are not, in fact, controls, but existing state law. MDES is unaware of any statutes which defines these state laws as controls.

When the Executive Order changed the law concerning these eligibility measures, MDES complied accordingly.

VERIFICATION AND OVERPAYMENTS DISCUSSION

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES) which created new unemployment compensation programs. Because of the economic devastation created by the pandemic, the CARES Act specifically required MDES to pay claims for all applicants to these new federal pandemic unemployment insurance programs before fully verifying their identities and then establishing an overpayment in the event of an improper payment. The normal procedure mandates claimant identity verification first, before the payment of benefits.

The audit finding states that claims were approved without social security verification during the period March 2020 to May 2020, and that this procedure led to an increase in claims and prevented MDES from vetting those claims for fraud. This finding further remarks that the resulting overpayment total was comprised of different categories, specifically: fraudulent payments, payments to incarcerated and deceased individuals, and verification issues. However, overpayments and verification issues in these categories were a direct result of the pandemic. Specifically:

1. System and technical difficulties (including the Social Security verification issue) caused by the unprecedented number of UI claims being filed at the onset of the pandemic.
2. Suspension of eligibility measures mandated by federal and/or state law, which caused payment to incarcerated and deceased individuals.
3. Creation of new unemployment insurance programs, such as Pandemic Unemployment Assistance, which allowed the disbursement of unemployment benefits to categories of claimants that would otherwise be ineligible to receive benefits. This includes independent contractors and other individuals who would not normally be eligible to receive benefits under the UI system. This resulted in an increase in fraudulent payments.

Another category mentioned in the finding was payments made to individuals who never lost or had a reduction in wages. It is important to clarify that under the then-current Mississippi Employment Security Law, this type of payment was not defined as an overpayment. State law did not prohibit claimants from receiving voluntary payments from their employers in addition to the receipt of Unemployment Insurance benefits because the individual was not considered “unemployed.” Mississippi, however, has recently passed legislation that directly addresses this issue. The revised statute denies payment of unemployment insurance benefits to claimants who receive voluntary payments, up to the full amount of their wages, from their employers for the

same period covered by their unemployment insurance benefits. This prevents such an occurrence from ever happening again.

It is worth repeating that the total percentage of identified overpayments for 2020 was 5.5%. This overpayment total includes all of the categories listed in Finding 007. This means that 94.5% of all payments were valid, eligible claims that helped hundreds of thousands of Mississippians at a time of crisis. This is an incredible percentage considering the circumstances.

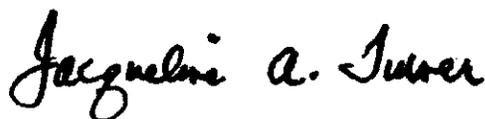
CONCLUSION

During a pandemic, difficult issues arise that require prompt and decisive action. In normal non-pandemic times, if MDES had received an audit report finding such as Finding 007, it would have simply taken note and made the recommended changes. In this instance, however, MDES respectfully disagrees with this finding because it does not acknowledge or allow for the existence of this pandemic, or the radically new and different federal programs implemented during the disaster. 2020 was not just a regular year, and MDES respectfully disagrees with the conclusion of Finding 007 that MDES failed to follow policies and procedures because the normal rules and procedures were changed by state and federal law. MDES went to great lengths to follow the new, authorized rules and procedures that were put in place by Federal and State emergency declarations. Moreover, MDES will pursue all measures available to recoup all overpayments and improper payments incurred during the pandemic.

The audit report also recommended that MDES never disable or circumvent internal controls again in the future, however, should the same circumstances as those that occurred during the pandemic arise again, MDES would again follow state and federal law.

MDES appreciates the opportunity to respond to this Finding 007.

Sincerely,

A handwritten signature in black ink that reads "Jacqueline A. Turner". The signature is written in a cursive, flowing style.

Jacqueline A. Turner
Executive Director



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR**

June 14, 2021

Single Audit Management Report

Jackie Turner, Executive Director
Mississippi Department of Employment Security
550 High Street, Suite 1000
Jackson, MS 39201

Dear Ms. Turner:

Enclosed for your review are the single audit findings for the Mississippi Department of Employment Security for Fiscal Year 2020. In these findings, the Auditor's Office recommends the Mississippi Department of Employment Security:

1. Strengthen Controls to Ensure Compliance with Eligibility Requirements.

Please review the recommendations and submit a plan to implement them by June 21, 2021. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Office of Management and Budget's Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Employment Security to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Employment Security throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

Stephanie Palmertree, CPA, CGMA
Director, Financial and Compliance Audit Division

Enclosures

SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the State's major federal programs administered by the Mississippi Department of Employment Security for the year ended June 30, 2020. The Office of the State Auditor's staff members participating in this engagement included JT Newell, CPA, Alan Jarrett, Lasabre Charleston, CPA, Kari Horn, and Michael Walker, CPA.

Our procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with *Section 7-7-211, Mississippi Code Annotated (1972)*, the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Report on Compliance for Each Major Federal Program

We have audited the Mississippi Department of Employment Security's compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Uniform Guidance Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Department of Employment Security for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Uniform Administrative Requirement, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and *OMB Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi Department of Employment Security's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi Department of Employment Security's compliance.

Results of Compliance Audit Procedures

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Uniform Guidance* and which are identified in this letter as item **2020-036**.

Internal Control over Compliance

Management of the Mississippi Department of Employment Security is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi Department of Employment Security's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with *OMB*

Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mississippi Department of Employment Security’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses and therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance identified in this letter as item **2020-036** to be a material weakness. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Findings and Recommendations

ELIGIBILITY

Material Weakness

Material Noncompliance

2020-036 Strengthen Controls to Ensure Compliance with Eligibility Requirements.

CFDA Number(s) 17.225 – Unemployment Insurance

Federal Award No. N/A

Federal Agency U.S. Department of Labor

Pass-Through Entity N/A

Questioned Costs N/A

Criteria *The Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when control activities, such as authorization, approval, verification, and adherence to policy and procedures are implemented and followed. These activities are essential to minimizing the risk of fictitious claims and misstated financial position.*

The Mississippi State Code Annotated (1972) §71-5-511 states that one is eligible to receive benefits that “has been unemployed for a waiting period of one (1) week”; “participates in reemployment services, such as job search assistance services, if, in accordance with a profiling system established by the department, it has been determined that he is likely to exhaust regular benefits and needs

reemployment services”; “is able to work, available for work and actively seeking work”.

The *Mississippi State Code Annotated §71-5-505(1)* states “For weeks beginning on or after July 1, 1991, each eligible individual who is totally unemployed or part totally unemployed in any week shall be paid with respect to such week a benefit in an amount equal to his weekly benefit amount less that part of his wages, if any, payable to him with respect to such week which is in excess of Forty Dollars (\$40.00).”

The *Mississippi State Code Annotated §71-5-513* describes reason for separation that disqualifies the individual as “(a) For the week, or fraction thereof, which immediately follows the day on which he left work voluntarily without good cause, if so found by the department, and for each week thereafter until he has earned remuneration for personal services performed for an employer, as in this chapter defined, equal to not less than eight (8) times his weekly benefit amount, as determined in each case; however, marital, filial and domestic circumstances and obligations shall not be deemed good cause within the meaning of this subsection. Pregnancy shall not be deemed to be a marital, filial or domestic circumstance for the purpose of this subsection. (b) For the week, or fraction thereof, which immediately follows the day on which he was discharged for misconduct connected with his work, if so found by the department, and for each week thereafter until he has earned remuneration for personal services performed for an employer, as in this chapter defined, equal to not less than eight (8) times his weekly benefit amount, as determined in each case. (c) The burden of proof of good cause for leaving work shall be on the claimant, and the burden of proof of misconduct shall be on the employer.”

Unemployment Insurance Program Letter Number 13-20, Change 1, Attachment 1, Question 2 states that a state *must demonstrate* steps it has taken or will take to implement three elements, including (i) suspending the waiting week, (ii) modifying or suspending the work search requirements, and (iii) non-charging employers. For each of the three elements, the minimum requirement is to modify, suspend, or waive **for individuals or employers directly impacted by COVID-19 due to an illness in the workplace or direction from a public health official to isolate or quarantine workers** (emphasis added by auditor).

Unemployment Insurance Program Letter Number 28-20 states that the Department of Labor (DOL) included program integrity language in all of the major pieces of guidance associated with the state implementation of the CARES Act programs and provisions. *Unemployment Insurance Program Letter 13-20* states that program Integrity requirements for the regular unemployment program and unemployment programs authorized by the CARES Act were to operate in tandem, and CARES Act program requires that states must ensure that only eligible individuals receive benefits. Both UIPL letters *13-20* and *28-20* specify that the states must make efforts to rapidly and proactively prevent, detect, and investigate fraudulent activity; establish and recover fraud overpayments; and pursue criminal and civil prosecution to deter fraud. Specifically, states were strongly encouraged to implement the following measures to minimize fraud in the unemployment system:

- 1) Social Security Administration Cross Match

- 2) Systematic Alien Verification for Entitlement
- 3) Incarceration cross matches
- 4) Internet Protocol Address checks
- 5) Data Analytics to cross reference claims for indicators of fraud.

Unemployment Insurance Program Letter Number 10-20 states that DOL has a longstanding legal interpretation of federal unemployment law that “unemployment” includes a reduction of both work hours and earnings; therefore, an individual who is not working, but has not experienced a reduction in income (including earnings, paid sick leave, and paid family leave), is not eligible to receive unemployment benefits.

Condition

The Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted by the federal government in response to the COVID-19 pandemic required state unemployment agencies to increase the amount of benefits paid to claimants. Additionally, claimants were able to collect unemployment payments for an expanded time frame, and claimants who would otherwise not qualify for benefits (such as independent contractors and self-employment persons) were able to qualify for benefits. In order to process the multitude of claims in an expeditious manner, MDES opted to override the existing controls designed in the internal control system. Proven and tested controls over Unemployment Insurance claims were altered or disregarded for the periods of March 2020 through December 2020. MDES did not implement any compensating controls or additional verifications to ensure that the override of controls would not adversely affect claims paid. By overriding and disregarding controls, MDES did not adequately safeguard the federal program against fraud, waste, and abuse. Controls altered for the claims submitted in the noted timeframes were:

- Waived; One week waiting period; March 8, 2020 – December 26, 2020;
- Waived; Work Search Requirements; March 8, 2020 – August 8, 2020;
- Waived; Able to work, Available to work, and Actively Seeking Work (A&A); March 8, 2020 – September 26, 2020;
- Altered; Weekly Earning Allowance increased from \$40 to \$200; May 3, 2020 – September 26, 2020; and
- Altered; Reason for separation from *ALL* employers in base period changed to separation from *MOST RECENT* employer; March 8, 2020 - September 26, 2020.

Additionally, claims were approved without social security number verification during the period March 2020 – May 2020.

Due to these controls being ignored or overridden, MDES was unable to properly monitor the immense influx of claims and to properly vet those claims for fraud. During fiscal year 2020, total unemployment benefit claims increased from \$59,639,208 (fiscal year 2019) to \$2,146,060,996, a 3,498% increase. Included in that total was \$117,948,403 identified as overpayments. These payments include:

- Payments made to individuals who never lost or had a reduction in wages;
- Fraudulent payments due to stolen identity;

- Payments made to incarcerated individuals;
- Payments to individuals out of state; and
- Payments made to international unemployment fraud.

In particular, MDES inadvertently allowed incarcerated individuals to receive payment when the control that required claimants to verify that they were “actively seeking work” was waived. Incarcerated individuals were then able to apply for benefits and receive approval without any additional verification from MDES.

Additionally, MDES stated that there were some individuals who never lost or had a reduction in wages and still received unemployment benefits due to the definition on unemployed in Mississippi State Law – a definition that has since been changed. In order to best explain this circumstance, it would result from an employer “voluntarily” paying his workers their normal pay even though the business was closed due to the pandemic. While an individual might have been able to receive these payments and not have the payments classified as an “overpayment” under Mississippi law, federal law would have precluded these individuals from receiving unemployment payments under Pandemic Unemployment Assistance.

MDES personnel were initially overwhelmed by the influx of claims and were unable to accurately report the amount of increased loss the State was subject too, and were unable to adequately monitor the fraud that was reported by individuals when they received notification of benefits received.

Federal guidance that required the easing of pre-pandemic conditions for receiving unemployment state that the State is required to implement the minimum requirements to modify, suspend, or waive for individuals or employers directly impacted by COVID-19 due to an illness in the workplace or direction from a public health official to isolate or quarantine workers; however, MDES chose to waive or suspend requirements for the waiting week, work search requirements, and non-charging employees as additional measures. During testing of UI benefits paid during fiscal year 2020, the auditor tested 60 recipients and noted that individuals applying for unemployment during the pandemic were indeed not subject to work search requirements, or the waiting week for benefits. Additionally, auditor noted that the following:

- Nineteen instances where the claimant’s social security verification could not be determined by the auditor. Six instances were during the waived period March 2020 – May 2020;
- Five instances where benefits were not properly authorized or reviewed by MDES personnel; and
- Two instances where claimant voluntarily quit their job and was unemployed at their own fault. Both instances were during waived period March 8, 2020 – September 26, 2020.

Regardless of the federal requirements or Executive Orders issued, MDES is still responsible for ensuring the accuracy of unemployment claims. In order to assure the accuracy of those claims, MDES should have implemented compensating controls to safeguard the unemployment trust fund when other

controls were waived or overrode. The ultimate responsibility to ensure that unemployment payments were accurately paid out and that overpayments were kept to a minimum is the responsibility of MDES personnel.

Cause

Policies and procedures for Eligibility determinations were not followed.

MDES did not have proper internal controls in place due to overriding or waiving existing controls. This caused MDES the inability to verify that unemployment claims were paid to proper claimants.

The Social Security Administration (SSA) application for verifying Social Security numbers was down for period of time between March 2020 and May 2020. The Unemployment Insurance system would “verify” the numbers automatically and approve the claim when unable to connect to the SSA’s application. Claimants were not recertified until several months after receiving payments due to the increase in volume of claims, which allowed errors to go undetected.

Effect

Failure to properly enable controls and follow policies and procedures increases the risk of fraud and misappropriation of liabilities which can result in material misstatements of financial statements. Failure to maintain supporting documentation for eligibility determination could result in questioned costs and recoupment of costs by the federal granting agency. The waiver of strict controls on Unemployment Insurance benefits resulted in an increase of known overpayments of 79.10% from FY 2019 to FY 2020.

Recommendation

We recommend the Mississippi Department of Employment Security strengthen controls over policies and procedures to ensure internal controls are never disabled or circumvented. Additionally, we recommend further analysis of the overpayments of unemployment claims is performed in order to maximize the potential for recovery of fraudulent payments.

Repeat Finding

No.

Statistically Valid

Yes.

End of Report



Mississippi Department of Employment Security

Tate Reeves
Governor

Jacqueline A. Turner
Executive Director

June 20, 2021

SINGLE AUDIT FINDINGS

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
Post Office Box 956
Jackson, MS 39205-0956

Dear Mr. White:

Enclosed for your review are the Mississippi Department of Employment Security's responses to the single audit findings for Fiscal Year 2020.

AUDIT FINDINGS:

CFDA Number 17.225 – Unemployment Insurance

Material Weakness

Material Noncompliance

2020-036 - Strengthen Controls to Ensure Compliance with Eligibility Requirements

Response:

In order to explain the actions of MDES during one of the worst pandemics in the history of the United States, and certainly the worst pandemic since the advent of the Unemployment Insurance program in our country, it is necessary to place the actions described in the audit finding in context, so that proper perspective, understanding, and appreciation can be ascertained. An explanation of what happened in 2020 will better explain the measures taken by MDES to combat the disaster, and will also clearly distinguish 2020 from an ordinary, non-pandemic year.

On March 13, 2020, President Trump declared the COVID-19 pandemic a national emergency. On March 14, 2020, Governor Tate Reeves issued a Proclamation declaring a State of Emergency in the State of Mississippi. Because the COVID-19 pandemic was declared a national emergency both at the federal and state level, any resulting State or Federal Executive Order, or federal or state legislation,

Helping Mississippians Get Jobs

Henry J. Kirksey Building ● 1235 Echelon Parkway ● Jackson, Mississippi 39213
Post Office Box 1699 ● Jackson, Mississippi 39215-1699 ● (601) 321-6073 ● FAX (601) 321-6076

MDES is an Equal Employment Opportunity Employer

became law, and thus controlled the procedures of MDES. This new “emergency law” supplanted existing current state and federal law in many areas including certain state unemployment insurance statutes. This included normal agency measures, controls, practices, and other criteria, if those measures and practices conflicted with duly enacted Executive Orders or legislation. This clearly distinguishes 2020 from any other year in recent memory, and explains and justifies why MDES followed all emergency law measures, which included the waiver of certain eligibility requirements to expeditiously deliver much-needed relief to hundreds of thousands of Mississippians.

SUSPENSION OF ELIGIBILITY MEASURES

In order to adequately explain MDES’s decision to temporarily suspend certain unemployment insurance eligibility measures, and to modify other unemployment insurance statutes such as the weekly earnings allowance, it is necessary to review pertinent federal pandemic relief legislation enacted during the early stages of the pandemic.

On March 18, 2020, President Trump signed the Families First Coronavirus Response Act (FFCRA), specifically Division D, the Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA). Per the United States Department of Labor’s (DOL) guidance, “the EUISAA sets out requirements for emergency administrative grants to states, and authorizes emergency flexibility allowing states to temporarily modify certain aspects of their unemployment compensation (UC) laws.” In order to receive the emergency administrative grants under Section 903(h)(3)(B), SSA, (42 U.S.C. §1103(h)(3)(B)) pursuant to EUISAA, each state must show the “steps it has taken, ..., to ease eligibility requirements and access to UC, including: modifying or suspending work search requirements and the waiting week.”

In compliance with this statutory requirement, Mississippi then executed a series of Executive Orders which specifically addressed the directive to temporarily suspend the work search requirement and the one-week waiting period as well as provide flexibility in the interpretation of the able and available requirement.

These Executive Orders also included a provision that temporarily increased the weekly earnings allowance. This directly encouraged individuals to retain employment in the face of the most generous temporary unemployment benefits in history. This modification proved highly successful, especially in the food industry. Mississippi was possibly the only state that utilized this innovative measure. Another provision was authorized by the Governor’s Executive Orders and allowed MDES to determine UI eligibility based on the separation from the most recent employer, rather than from all previous employers in the employee’s base period, as is the normal procedure. This measure expedited unemployment insurance services to thousands of claimants filing for benefits en masse and at a most critical time. In compliance with EUISAA, **all these modifications to Mississippi law were temporary. Once these Executive Orders expired, MDES returned to its normal procedures.**

The measures taken by MDES during the most severe part of the pandemic were necessary, proper under the circumstances, narrowly targeted in scope and time, and authorized by federal and state law. However, the Single Audit Finding states that “[b]y overriding and disregarding controls, MDES did not adequately safeguard the federal program against fraud, waste, and abuse.” (*Single Audit Findings*, Page 5). The use of such language communicates an improper action on the part of MDES without support in

state or federal law. Further, the report implies that the actions of MDES were the sole cause of the significant increase in claims and subsequent overpayments as well.

As explained herein, the requirements of the new federal unemployment statutes coupled with the unprecedented mass unemployment crisis dictated the actions taken by MDES during the audit period in 2020. With all due respect, claims increased because the entire state of Mississippi (except essential services) was locked down overnight by Executive Order because of the pandemic. It stands to reason that this would serve as a major contributor to the increase in the number of claims filed and, subsequently, the number of overpayments.

MDES feels it is more accurate to suggest that 94.5% of unemployment insurance benefit payments went to eligible claimants, and resulted in identified overpayments of only 5.5%. Moreover, MDES would contend that the one-week waiting period, the work search requirements, and more flexibility in the able and available criteria are not, in fact, controls, but rather best practice measures.

VERIFICATION AND OVERPAYMENTS DISCUSSION

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES) which created new unemployment compensation programs. Because of the economic devastation created by the pandemic, the CARES Act specifically required MDES to pay claims for all applicants to these new federal pandemic unemployment insurance programs before fully verifying their identities and then establishing an overpayment in the event of an improper payment. The normal procedure under other unemployment insurance programs mandates claimant identity verification first, before the payment of benefits.

The audit finding states that claims were approved without social security verification during the period March 2020 to May 2020, and that this procedure led to an increase in claims and prevented MDES from vetting those claims for fraud. This finding further remarks that the resulting overpayment total was comprised of different categories, specifically: fraudulent payments, payments to incarcerated and deceased individuals, and verification issues. However, overpayments and verification issues in these categories were a direct result of the pandemic. Specifically:

1. System and technical difficulties (including the Social Security verification issue) caused by the unprecedented number of UI claims being filed at the onset of the pandemic.
2. Suspension of eligibility measures mandated by federal and/or state law, which caused payment to incarcerated and deceased individuals.
3. Creation of new unemployment insurance programs, such as Pandemic Unemployment Assistance, which allowed the disbursement of unemployment benefits to categories of claimants that would otherwise be ineligible to receive benefits. This includes independent contractors and other individuals who would not normally be eligible to receive benefits under the UI system and resulted in an increase in fraudulent payments.

Another category mentioned in the finding was payments made to individuals who never lost or had a reduction in wages. It is important to clarify that under the then-current Mississippi Employment Security Law, this type of payment was not defined as an overpayment. State law did not prohibit claimants from receiving voluntary payments from their employers in addition to the receipt of Unemployment Insurance benefits because the individual was not considered “unemployed.”

Mississippi, however, has recently passed legislation that directly addresses this issue. The revised statute denies payment of unemployment insurance benefits to claimants who receive voluntary payments up to the full amount of their wages from their employers for the same period covered by their unemployment insurance benefits. This prevents such an occurrence from ever happening again.

It is worth repeating that the total of identified overpayments percentage for 2020 was 5.5%. This overpayment total includes all of the categories listed in Finding 007. This means that 94.5% of all payments were valid, eligible claims that helped hundreds of thousands of Mississippians at a time of crisis. This is an incredible percentage considering the circumstances.

ADDITIONAL NOTES

During the testing of UI benefits paid during FY2020, the auditor tested sixty (60) recipients and noted the following:

- *That there were nineteen (19) instances where the claimant's social security verification could not be determined by the auditor, and that six (6) instances were during the waived period March 2020-May 2020.*

MDES has multiple security functions within the ReEmployMS program to prevent fraudulent activities. MDES collaborates with the Social Security Administration data base and the Department of Public Safety to cross-match data to verify customer's identity. In the matter of the 19 instances found, all were validated either in a previous Initial or New Benefit Year (NBY) Claim, which is the normal process during a claims filing series. The social security number validation is not listed on an additional initial claim such as those mentioned in this case, as they were previously validated. The social security number validation flag is not displayed due to security and Social Security Administration compliance.

The State ID verification is the DPS/ Driver's license verification. It is not a verification or validation of the customer's Social Security Number. The 19 instances referenced are not displaying the latest information. The information reviewed in the display is mapped from the Initial Claim or NBY Claim that is active. On NBY claims, it is a continuation of the claim and it is created by the system and will not contain any SSN validation nor DPS validation.

On all Driver's licenses, whenever there is a "No Response", "Invalid credentials", "Out of State", the system generates a report for the Integrity Department staff to verify manually. Of the 19 cases referenced above, none were generated on the report for a manual verification because the social security number had been validated during the Social Security Administration data base. In July 2020, MDES began to automatically add "stops" on all adverse DPS responses, and our Integrity Department began working on these cases. Prior to July 2020, the report was generated for the Integrity Department staff to process manually.

- *That there were five (5) instances where benefits were not properly authorized or reviewed by MDES personnel.*

MDES properly investigated these claims, determined that they were due to a lack of work, and found that they were properly paid in accordance with MDES law and CARES ACT Guidance.

- *That there were two (2) instances where a claimant voluntarily quit their job and was unemployed at their own fault.*

MDES properly determined, after thorough investigations based on finding of facts from the claimant and the separating employer, that these two individuals were separated due to voluntarily quitting for medical reasons not attributable to the employer. In both cases the claimants indicated that their illness was due to COVID-19. Under MDES Law, quitting work for medical reasons is considered good cause and is not attributable to the employer.

CONCLUSION

During a pandemic, difficult issues arise that require prompt and decisive action. In normal non-pandemic times, if MDES had received a recommendation that it strengthen our controls over policies and procedures to ensure internal controls are never disabled or circumvented, it would have simply taken note and made the recommended changes. In this instance, however, MDES respectfully disagrees with this finding because it does not acknowledge or allow for the existence of this pandemic or the radically new and different federal programs. 2020 was not just a regular year, and MDES respectfully disagrees with the conclusion of the Single Audit Finding that MDES failed to follow policies and procedures because the normal rules and procedures were changed by state and federal law. MDES went to great lengths to follow the new, authorized rules and procedures that were put in place by Federal and State emergency declarations.

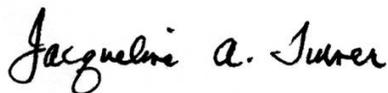
Corrective Action Plan:

MDES will pursue all measures available to recoup all overpayments and improper payments incurred during the pandemic.

The audit report also recommended that MDES never disable or circumvent internal controls again in the future; however, should the same circumstances as those that occurred during the pandemic arise again, MDES would again follow state and federal law.

Sincerely,

MISSISSIPPI DEPARTMENT OF EMPLOYMENT SECURITY



Jacqueline A. Turner
Executive Director