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Unemployment Claims Process Audit (Interim Report)

December 30, 2021



**City of Fort Worth
Department of Internal Audit**

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The Unemployment Claims Process Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2022 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- evaluate the process by which unemployment claims are verified by the City; and,
- determine whether City payments, made to the State of Texas, for unemployment claims, were accurate.

Audit Scope

Our audit included a review for the period October 1, 2018 through September 30, 2021.

Opportunities for Improvement

Vendor compliance with the contract

Documented billing modifications

Executive Summary

As a part of our FY2022 Annual Audit Plan, the Department of Internal Audit is conducting an audit of the City's unemployment claims process. This report is limited to audit results and opportunities for improvement identified as of this report date.

Based on our interim test results, the City of Fort Worth (CFW) verified that unemployment compensation claimants were valid, and that base periods (used to calculate unemployment compensation amounts) were accurate. The CFW did not verify that amounts billed to the City, by the Texas Workforce Commission (TWC), were accurate. While amounts billed could have been verified for claimants whose base period wages only consisted of CFW wages, the process did not allow for such verification when base period wages included wages paid by employers other than the CFW. The TWC does not provide the CFW with other employers' base period wages, although other employers' wages are sometimes used to determine unemployment compensation amounts that become allocable to the City, based on the City's percentage of wages included in claimants' total base period wages.

We concluded that while TWC billings sometime include credit amounts (i.e., claimant reimbursements for payments the TWC subsequently deemed ineligible), the CFW does not know how much claimants owe the CFW. Total amounts, owed to the CFW, are not required to be reported to the CFW by either the TWC or the City's third party contractor (Corporate Cost Control, Inc.), hired to manage the City's unemployment compensation program. Furthermore, the TWC indicated they have no report that summarizes amounts claimants owe to the CFW.

We also concluded that Corporate Cost Control, Inc. did not provide reports required by the contract. Monthly and/or quarterly "Left to Collect" reports (detailing claimants collecting benefits, the amount collected to date, and the amount potentially left to collect) nor budget letters were submitted as required.

We were informed that a verbal agreement was made (between the CFW and Corporate Cost Control, Inc.) for Corporate Cost Control, Inc. to "no-bill" the CFW as compensation for a prior claim processing error made by the vendor. However, there was no audit trail or documentation to support the no-billings. Based on our test results, the CFW has paid contractual costs to Corporate Cost Control, Inc., although Corporate Cost Control, Inc. still owes the CFW \$4,200.00 for the balance of a FY2018 claims processing error, for which \$4,198.00 has previously been offset by "no-bills".

Our interim audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report. The Unemployment Claims Process Audit remains in progress, and a final report will be issued upon completion of the audit. While management was not required to provide written responses to these interim audit recommendations, management will be required to respond to each audit recommendation, in writing, upon release of the final audit report.

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Background

As noted on the Texas Workforce Commission's (TWC) website, the TWC is the Texas agency charged with overseeing and providing workforce development services to Texas employers and Texas job seekers. The website indicates that the TWC is tasked with operating an integrated workforce development system, and administering the unemployment benefits program in Texas.

As an employer, and through the state of Texas, the City of Fort Worth (CFW) provides temporary financial assistance to former employees who became unemployed for qualifying reasons determined by the TWC. The CFW is considered a reimbursing employer, meaning the CFW pays no taxes, but must repay the TWC for unemployment benefits paid to eligible former employees. As a reimbursing employer, the CFW is required to report employee wages. If the TWC pays unemployment benefits to former CFW employees, the TWC (in turn) bills the CFW on a quarterly basis. Unemployment compensation information received by the CFW's Human Resources Department, during our audit period, was limited to the TWC's quarterly billings.

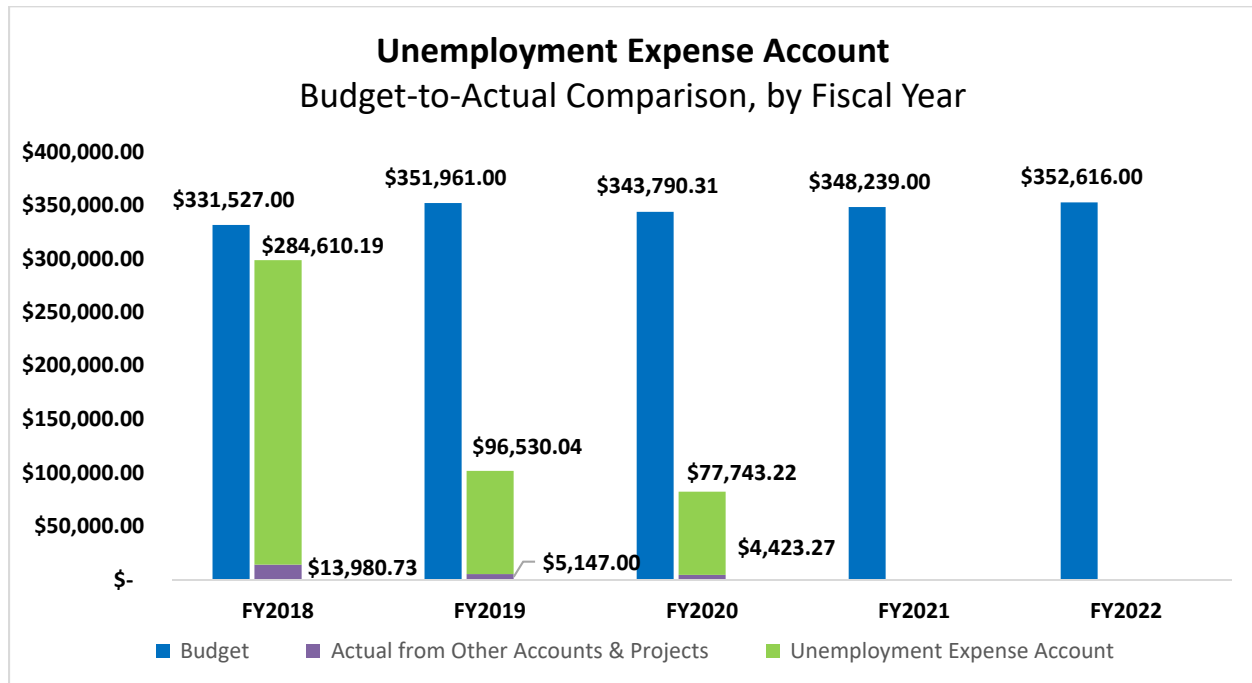
The TWC submits CFW billings directly to the City's third party contractor. The CFW contracts with Corporate Cost Control, Inc. (CCC) to manage the City's unemployment services. The City's Human Resources Department is responsible for managing the CCC contract. As a part of the City's contract, CCC is responsible for:

- processing all unemployment compensation claims, at all levels of protest or appeal;
- dealing directly with state agencies on behalf of the CFW;
- providing hearing guidance to the CFW, in determining the proper individual, necessary documentation, and other pertinent guidelines to best assist the CFW in all appeal hearings before all state agencies;
- conducting educational seminars for the CFW, to educate management and supervisory personnel about rules and regulations pertaining to a claimant's unemployment compensation eligibility, progressive discipline, documentation, potential liability, and other valuable guidelines to help protect the CFW against unwarranted unemployment claims and benefit charges;
- consulting with the CFW, whenever necessary or requested to do so, to advise on procedures pertaining to the control and reduction of unemployment liability;
- informing the CFW of significant changes to unemployment compensation laws, regulations, and interpretations;
- presenting written management reports (to the CFW) on a monthly, quarterly and annual basis, describing the CFW's unemployment activity and results of CCC's services;
- initiating and maintaining an audit of the CFW's unemployment benefit charges, which consists of validating all benefit charges to the CFW and the corresponding unemployment claims; checking for erroneous, incorrect and unwarranted charges;
- filing all necessary requests, protests and appeals for credit to the CFW's unemployment account(s) with the appropriate state agency departments for all erroneous, incorrect and unwarranted charges uncovered in the audit;
- providing an annual budget letter, projecting the CFW's expected annual unemployment costs for the upcoming year; and,



- providing a monthly or quarterly, "Left to Collect" report that details all claimants collecting benefits, the amount collected to date and the amount potentially left to collect.

The City's annual unemployment compensation budget is based on estimates provided by each user department. The following chart compares budget to actual unemployment compensation expenses from FY2018 through FY2021. The chart also shows the FY2022 budget.



As depicted in the preceding chart, the CFW made no payments in FY2021. TWC representatives indicated that payment due dates were extended because of known fraud during the COVID-19 pandemic, and because of computer programming issues at the TWC. Although the CFW made no payments in FY2021, and the TWC extended due dates, Internal Audit was informed that as of November 8, 2021, the CFW owed the TWC in excess of \$330,000.00.



Objectives

The objectives of this audit were to:

- evaluate the process by which unemployment claims are verified by the City; and,
- determine whether City payments, made to the State of Texas, for unemployment claims, were accurate.

Scope

Our audit included a review for the period October 1, 2018 through September 30, 2021.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed staff within the City's Human Resources Department, the TWC, and CCC, to obtain an understanding of the City's unemployment compensation process;
- verified that claimants were eligible (e.g., full-time employees, regular employees, etc.) for unemployment compensation;
- reviewed unemployment management services contracts between the City of Fort Worth and CCC;
- reviewed TWC quarterly billing statements/invoices; and,
- evaluated internal controls related to unemployment compensation claims.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Audit Results

Based on our review of TWC's billing statements from October 1, 2018 through March 31, 2020, the CFW reimbursed the TWC \$191,342.38 for a total of 91 claimants. Due to TWC computer programming errors and COVID-19 pandemic issues (e.g., an increase in the number of fraudulent claims, and the need to adjust for Coronavirus Aid, Relief, and Economic Security (CARES) funding allocations), the TWC extended payment due dates.

In the meantime, the City's third-party vendor (CCC) is reviewing TWC billings to identify and protest fraudulent claims. As of December 28, 2021, the City paid CCC a total of \$6,302.00 (for contract periods beginning November 1, 2018 and ending May 10, 2022) for unemployment compensation management, as authorized by contract. The \$6,302.00 does not take into account the "no-bills".

Third Party Contracting

For several years, the City of Fort Worth has contracted with CCC to provide unemployment management services to the City. However, as noted in the following table, there was a period where there was no effective contract between the CFW and CCC. Internal Audit was unable to determine why there was no effective contract from November 1, 2019 through May 10, 2020. Based on CFW accounts payable records, the CFW made no payments to the CCC when there was no effective contract.

Contract #	Vendor Name	Contract Period		Contract Amount
		Beginning	Ending	
47466-A1R2	Corporate Cost Control, Inc.	11/1/2017	10/31/2018	\$ 4,200.00
47466-A1R3	Corporate Cost Control, Inc.	11/1/2018	10/31/2019	\$ 4,200.00
53902	Corporate Cost Control, Inc.	5/11/2020	5/10/2021	\$ 4,200.00
53902-R1	Corporate Cost Control, Inc.	5/11/2021	5/10/2022	\$ 4,200.00

Source: City Secretary's Office website

Third Party Contractor Reporting

Exhibit A, Part III, of the City's contract (City Secretary Contract No. 53902) with CCC requires that CCC provide the CFW with:

- 1) an annual budget letter, projecting the CFW's expected annual unemployment costs for the upcoming year; and,
- 2) a monthly or quarterly "Left to Collect" report, that details all claimants collecting benefits, the amount collected to date, and the amount potentially left to collect.

Internal Audit requested "Left to Collect" reports from the City's Human Resources Department and CCC. CCC informed Internal Audit that the "Left to Collect" reports were inaccurate, due to "the CARES Act period (March 16, 2020 through December 26, 2020)...", and because "...the state wiped most of your liability off your records". There was no evidence that "Left to Collect" reports have been provided as required by City contract.

Additionally, the Human Resources Department indicated that CCC was not required to provide budget letters since the City does not use those letters to develop departmental unemployment compensation budgets.



TWC Billings

The TWC refers to their billings/invoices as Reimbursement Employment Benefits Statements. TWC billings include:

- debit amounts - amounts the TWC paid to claimants (on behalf of the CFW); amounts that are reimbursable to the TWC, by the CFW; and,
- credit amounts - amounts claimants paid back to the TWC; amounts the TWC concluded should be reimbursed to the CFW.

TWC Delayed Payment Requirements: The TWC indicated that they had not billed the CFW since the 2nd quarter of CY2020. Based on our review of CFW accounts payable records, the last payment to the TWC covered claims for the quarter ended March 31, 2020. Because of TWC programming issues, TWC staff stated that due dates for 2020 and 2021 reimbursable payments were extended to April 15, 2022.

TWC Invoice Credits: During our audit period, TWC invoice credits totaled \$35,068.40 for 33 claimants. In an attempt to determine how much the 33 claimants still owed the CFW, Internal Audit reviewed CFW accounts payable records dated from January 12, 2016 to September 30, 2021. Based on our review of those accounts payable records:

- unemployment compensation, paid to the 33 claimants, totaled \$40,852.00 during the referenced period;
- the claimants reimbursed the CFW a total of \$35,226.91 during the same period; and,
- of the \$35,226.91 that was reimbursed to the CFW, \$8,181.42 (23%) was paid to the claimants prior to January 12, 2016.

TWC's quarterly billings list claimants who paid money back, during that TWC billing quarter. However, there is nothing to show the remaining balance those claimants still owe to the CFW. Internal Audit, therefore, could not determine how much was still owed to the CFW, nor whether there were additional claimants who never provided reimbursements to the CFW. There is also a possibility that claimants owing money to the CFW could have returned as City employees.

The process for determining how much claimants owe the CFW is complicated by the fact that the TWC has no statute of limitations. For example, and as noted in the following illustration, a TWC invoice (for the quarter ended June 30, 2021) included an offset for repayment, related to an initial claim dated 1979.



TEXAS WORKFORCE COMMISSION
REGULATORY INTEGRITY DIVISION
101 E. 15TH STREET
AUSTIN, TEXAS 78778-0091

TEXAS WORKFORCE COMMISSION
REIMBURSABLE UNEMPLOYMENT
BENEFITS STATEMENT

FORT WORTH-CITY OF
% CORPORATE COST CONTROL
PO BOX 16560
CLEARWATER FL 33766-6560

TWC ACCT NO
99-991777-1

58-021

BILLING DATE
DEC 06, 2021

FOR QUARTER ENDED
JUN 30, 2021

PAGE 1

INITIAL CLAIM DATE	SOCIAL SECURITY ACCOUNT NUMBER	CLAIMANT'S NAME	BASE PERIOD WAGES USED TO CALCULATE CLAIMANT'S BENEFITS								BENEFITS PAID		
			QTR	AMOUNT	QTR	AMOUNT	QTR	AMOUNT	QTR	AMOUNT	QTR	AMOUNT	NET
011021			419	1643.32	120	8990.97	220	3952.98			221	2108.10	
010321			419	1366.80							221	154.08	
072212			411	3130.78	112	5140.18					312	521.20	
050221			120	10989.43	220	10104.75					221	1476.62	
061420			118	6205.46	219	7135.36					221	2087.30	
062820			119	18486.60	219	22809.36	319	24185.13			320	4200.79	
062820			119	18486.60	219	22809.36	319	24185.13			420	4582.68	
041220			219	1674.25	319	1678.20					320	24.80	
021421			419	27926.41	120	9047.76					221	1350.02	
011018			315	5787.44							216	73.32	
111478			378	78.40	478	411.08	179	378.45	279	426.30	180	123.95	
111478			378	78.40	478	411.08	179	378.45	279	426.30	280	2.88	
012107			405	8053.21	106	3277.71					107	1025.34	

Source: CFW Human Resources Department

Internal Audit inquired with CCC, regarding the total amount owed to the CFW. As of this interim report, the total amount owed to the CFW had not been provided. TWC representatives indicated they do not have a report that summarizes amounts owed to the CFW.

TWC Invoice Accuracy: Internal Audit identified the quarters in which initial claims were made, and the previous quarters to verify that the base periods determined by the TWC were accurate. No exceptions were noted.

Internal Audit then attempted to verify amounts billed to the CFW. We performed calculations by populating the TWC's unemployment benefits estimator (published on the TWC's website). We also performed independent calculations based on the methodology described by the TWC. The TWC stated that Internal Audit did not have information that was necessary to verify amounts billed. For example, all employer information (CFW and employers other than the CFW) is required to calculate total base period wages. However, the CFW only has access to CFW employer data.

The following example illustrates multiple employer wages used in a base period. The TWC calculates maximum and weekly benefit amounts, using base period wages from all employers in the base period, based on each employer's percentage of wages included in the total base period wages.



Total Wages in Base Period	\$10,000.00
Base Period Wages Paid by the CFW	\$ 6,000.00
Chargeback Applicable to the CFW	60%
Qualified, Weekly Amount Payable to Claimant	\$250.00
Weekly Chargeback Applicable to the CFW	\$150.00 (\$250.00 x 60%)

Information detailed within TWC billings, therefore, do not allow for verification of amounts billed to the CFW. Instead, TWC billings only allow for verification of claimants, and salaries paid when claimants were CFW employees. The amount billed cannot be verified because the CFW is not always the only employer whose salaries are included in the claimants' base period wages. The City, therefore, pays what is invoiced, without verifying the accuracy of the billed amount. It should be noted that efforts are also made to ensure that successfully appealed claims are not included in the TWC billings.

The fact that the CFW was unable to verify unemployment compensation billings was not considered a reportable finding, since the TWC deems it inappropriate to share employers' wages with others. However, it may be beneficial for the CFW to follow up with the State of Texas, to determine a way in which unemployment compensation billings can be verified, to some extent, by reimbursing agencies such as the CFW.

Fraudulent Unemployment Claims

Fraudulent claims are categorized as either fraudulent or identity theft.

- **Fraudulent** - Claims that are filed by the employee, but with falsified information such as underreporting of wages, providing false employment information, etc. The CFW would be reimbursed after the TWC sets up the overpayment, and when the claimant repays the TWC.
- **Identity Theft** - Claims where an individual files for unemployment compensation, using another person's identifying information, such as social security number. The TWC reimburses the CFW for identity theft claims once the fraud has been identified, and on the next quarterly statement.

Verified: The CCC informed Internal Audit that five identify theft claims (processed under the names of five current CFW employees, and totaling \$11,299.44) had been verified by both the TWC and CCC. Internal Audit was not provided with TWC billings to support the \$11,299.44, with initial claim dates ranging from July 2020 through September 2020. However, we successfully traced corresponding invoice credits to TWC statements for the 2nd and 3rd quarters of FY2021. Based on those quarterly statements, the CFW received credits totaling \$13,985.72, on behalf of the five identify theft claims. Internal Audit was unable to determine the reason for the \$2,686.28 difference.

Currently Being Protested: In addition to the five identify theft claims previously mentioned, CCC indicated that during the first three quarters of CY2021, 842 additional identify thefts were filed against the CFW's account. The CCC stated that the 842 identify theft claims were protested when initially received, and were protested again as the CCC received quarterly statements from the TWC. Internal Audit was not provided the financial impact of the 842 identify theft claims.

Next Steps: The Department of Internal Audit will continue with this audit, and upon completion, will release an audit report that includes these interim audit results, any additional test results, and management's responses to all audit recommendations. It should be noted that subsequent audit testing for billing accuracy will be limited, since multiple employers' salaries may be included in claimants' base period wages.



Claimant wages for employers other than the CFW are unknown, and the TWC indicated they could not provide that information to the CFW.



Detailed Audit Findings

1. The City's third party vendor, Corporate Cost Control, Inc. (CCC), did not submit reports, as was required per the contract.

Exhibit A, of the City's contract with CCC (Contract No. 53902), requires that CCC provide specific documents to the CFW. However, CCC did not comply with contract requirements.

- Part III.B. of the Exhibit requires that CCC provide the CFW with a monthly or quarterly "Left to Collect" report. The "Left to Collect" report was to detail all claimants collecting benefits, the amount collected to date, and the amount potentially left to collect.
 - CCC staff indicated that "Left to Collect" reports were not submitted because the reports were inaccurate during the CARES period of March 16, 2020 through December 26, 2020.
 - Internal Audit requested "Left to Collect" reports from the City's Human Resources Department for the audit period. Human Resources staff indicated that CCC had not been asked to provide the required reports.
- Part III.A. of the Exhibit requires that CCC provide the CFW with an annual budget letter, projecting the City's expected annual unemployment costs for the upcoming year.
 - Internal Audit was informed that the CFW had not requested the budget letter from CCC, since the CFW's budget is based on a calculated average of unemployment claims. City departments then, reportedly, take that average into consideration when determining annual departmental budgets.

With no "Left to Collect" reports (past or current), neither Internal Audit or City management are in a position to determine whether those reports would have provided pertinent information that could be used to further analyze unemployment compensation claims data. It is unknown as to whether the "Left to Collect" reports would have provided information regarding the number of claimants who owe money to the CFW and/or the amount owed.

If the content of budgetary letters is known to be irrelevant to CFW staff and the contractor, the contractor may be of the opinion that other contract requirements are also irrelevant and unnecessary, resulting in a culture of contract noncompliance.

Recommendation 1: *The Human Resource Director should require that Corporate Cost Control comply with the contract or revise the contract requirements.*

Audit Comment: For this report, management was not required to provide written responses to the interim audit recommendations. Instead, this recommendation and management's response will be incorporated into the final report, upon completion by the Department of Internal Audit.

2. Third party vendor billings were modified with no clear audit trail.

During Internal Audit's review of CFW payments to CCC, we questioned a \$2.00 payment. Internal Audit was informed that the \$2.00 payment was the result of a partial CCC billing, intended to help



reimburse the CFW for an unemployment claim paid to a former CFW employee, after CCC failed to challenge the claim as directed by the CFW. Rather than reimbursing the CFW in full, the CFW and CCC, reportedly, agreed that the CCC would occasionally not bill the CFW in amounts that would total the claim amount. Internal Audit did not observe contractual provisions to address CCC errors.

Based on our review of TWC billing statements, the claim totaled \$8,398.00. A total of \$3,458.00 was paid to the claimant during the quarter ended June 30, 2018, and \$4,940.00 was paid during the quarter ended September 30, 2018. However, CCC reimbursements to the CFW, to-date, only totaled \$4,198.00. As noted in the following table, \$4,200.00 is still owed to the CFW as of December 15, 2021.

Contract Period	Contract Amount	Amount Paid by CFW	Variance
11/1/2017 - 10/31/2018	\$4,200.00	\$4,200.00	\$0.00
11/1/2018 - 10/31/2019	4,200.00	2,100.00	(2,100.00)
05/11/2020 - 5/10/2021	4,200.00	2,102.00	(2,098.00)
05/11/2021 - 5/10/2022	4,200.00	2,100.00	Current Contract
Total Credits/No-Bills As of 12/15/2021:			(4,198.00)
Unchallenged Claim (Q2 & Q3 of 2018)			\$8,398.00
Less: Total Credits/No-Bills As of 12/15/2021			(4,198.00)
Total Outstanding Credit Due to the CFW			\$4,200.00

Best practice would dictate that documentation is maintained to adequately support financial transactions, thus providing an audit trail to help ensure transaction accuracy and appropriateness.

Recommendation 2A: *The Human Resources Director should require that all third party billings, to the City of Fort Worth, be evidenced with a physical invoice that details the purpose for the charges and credits, if applicable.*

Audit Comment: For this report, management was not required to provide written responses to the interim audit recommendations. Instead, this recommendation and management's response will be incorporated into the final report, upon completion by the Department of Internal Audit.

Recommendation 2B: *The Human Resources Director should require that Corporate Cost Control, Inc. reimburse the City of Fort Worth \$4,200.00, or reimburse the City of Fort Worth \$2,100.00 and issue a \$2,100.00 invoice credit for the \$2,100.00 that is outstanding under the current contract.*

Audit Comment: For this report, management was not required to provide written responses to the interim audit recommendations. Instead, this recommendation and management's response will be incorporated into the final report, upon completion by the Department of Internal Audit.



Recommendation 2C: *The Human Resources Director, in conjunction with the City Attorney's Office, should consider adding contractual provisions, in future contracts, to specifically address instances where the third party vendor (who is contracted to manage the City's unemployment compensation program) does not comply with CFW directives regarding claims.*

Audit Comment: For this report, management was not required to provide written responses to the interim audit recommendations. Instead, this recommendation and management's response will be incorporated into the final report, upon completion by the Department of Internal Audit.



Acknowledgments

The Department of Internal Audit would like to thank the City's Human Resources and Planning and Data Analytics Departments, Corporate Cost Control, Inc. and the Texas Workforce Commission for their cooperation and assistance during this audit.

Exhibit I – Flowcharted Process

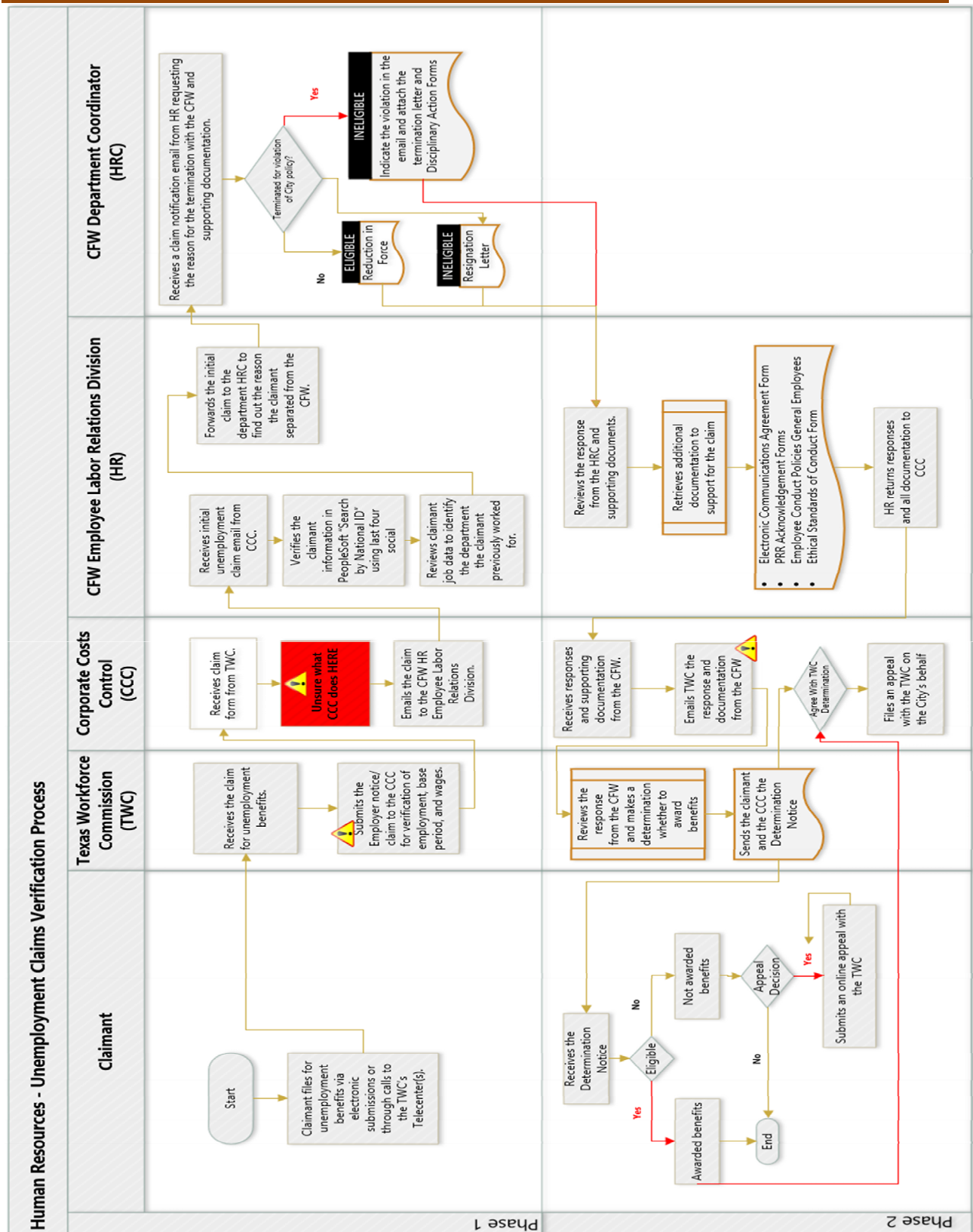


Exhibit II – Base Period Illustration

How to Figure Your Base Period

Find the month you filed your claim in the **white** boxes. The calendar quarters in the **blue** boxes on the same line make up your base period.

