Unemployment Claims Process Audit

May 27, 2022

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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. Activity beyond this period was reviewed as deemed necessary.

Opportunities for Improvement
Enhanced coordination for the claims process
Policy or procedure guidance for the claims process
Implement monitoring of amounts due after successful appeals
Identification and consistent follow-up for all active status employee claims
Vendor contract terms management

Executive Summary
As a part of our FY2022 Annual Audit Plan, the Department of Internal Audit conducted an audit of the City’s unemployment claims management process. An interim report was issued by the previous City Auditor on December 30, 2021.

Based on audit test results, the City of Fort Worth (CFW) verified that:
- unemployment benefit claimants were valid former or current CFW employees; and,
- that base periods (used to calculate benefit amounts) were accurate.

The CFW’s claims management vendor, Corporate Cost Control, Inc. (hereinafter referred to as CCC) indicated that approximately 840 CFW claims resulted from identity theft during FY2020 and FY2021. Approximately 825 of the 840 claims (98%) were not paid. Based on information obtained from City departments and the Texas Workforce Commission (TWC), a total of $39,895.46 was paid for the remaining 15 claims.

Internal Audit found that the process for management of “base period only” claims (that resulted when former employees separate from a subsequent employer) was not as effective as the process for other types of claims, that result when employees leave the CFW. Based on data provided by the TWC, approximately one-half of the City’s claims resulted from base period only claims.

We identified benefit payments to active City employees who filed claims after losing their second job, but while continuously employed by the CFW. While City employees may file claims after losing their second job, we identified City employees whose earnings were too high to be eligible for unemployment benefits. According to TWC staff, the employees were paid benefits totaling $40,655.49.

The City and CCC appealed claims when warranted. However, ineligible claims may be paid for several weeks prior to a successful appeal determination. As a result, former employees owe unknown amounts with a low potential for collection, which is the responsibility of the State of Texas.

Neither the City’s Personnel Rules & Regulations (PRRs) nor the instructions provided to departmental Human Resources Coordinators contain sufficient guidance for managing claims, determining eligibility or the documentation required to appeal claims.
The interim report issued on December 30, 2021, reported that vendor CCC did not provide documents required by the contract. The documents (Left-to-Collect report and budget letter) were not provided until after the interim report was released. The interim report also identified an unsupported agreement wherein CCC credited amounts due from CFW to compensate for errors made by CCC. Emails supporting an agreement between HR and CCC, without management or legal advice and support, were provided after the interim report was released.

Our audit findings are discussed in further detail within the Detailed Audit Findings section of this report.
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Background

As noted on the Texas Workforce Commission’s (TWC) website, the TWC is the State agency charged with providing workforce development services and administering the unemployment benefits program in Texas. As an employer, and through the State of Texas, the City of Fort Worth (CFW) pays for unemployment assistance to former employees who become unemployed for qualifying reasons specified by the Texas Unemployment Compensation Act.

The CFW is a “reimbursing employer,” meaning the CFW pays no unemployment taxes but must reimburse the TWC for unemployment benefits paid by TWC to eligible former City employees.

Claim Origin
Claims originate from three scenarios: a) employees separating from their CFW jobs; b) recently separated CFW employees separated from their jobs with a subsequent employer (base period only); and, c) current CFW employees separating from another (secondary) employer while also working for the CFW. Claims may also result from identity theft or fraud.

Eligibility
The TWC evaluates unemployment benefits claims based on past earnings, job separation reasons and weekly reporting requirements. To qualify for benefits, claimants must be either unemployed or working reduced hours through no fault of their own. The most common reasons for separation for CFW claimants included:
• Voluntarily resignation – ineligible for unemployment benefits except in limited circumstances (e.g., medical reasons, military spouse reassigned, etc.);
• Misconduct – ineligible for benefits; and,
• Performance issues – usually eligible for benefits.

Earnings & Benefit Amount
The CFW is required to report employee earnings to the TWC quarterly. Employee earnings from the “base period” are used to calculate the weekly benefit amount. The base period is defined as the first four of the last five quarters; as illustrated in Exhibit II. However, an alternate base period may be used in specific circumstances. The weekly benefit is calculated as the base period quarter with the highest earnings divided by 25. The weekly benefit amount may be lower if the claimant has other earnings while receiving benefits or is receiving extended benefits.

Claim Processing
The CFW contracts with Corporate Cost Control, Inc. (hereinafter referred to as CCC) to manage the City’s unemployment claims management. The TWC submits claims, invoices and other verification documents to CCC, then CCC communicates the information to the CFW Human Resources (HR) Department. The HR Department communicates the information to departmental Human Resources Coordinators. Claims are reviewed by CCC, the HR Department and the former employees’ departments. For claims resulting from CFW terminations, a “protest” to challenge a claim must be filed within 14 days of notification. Departments must provide supporting documentation timely to the HR Department upon notification of claims. Invoiced charges are expensed to each former employee’s department.

A TWC examiner reviews the response from the CFW sent via CCC to determine whether the claimant is eligible based on the supporting documentation provided with the related reason that the employee separated from the CFW. The examiner’s determination may be appealed when warranted.

Base Period Only Claims
A claim notification is not received when a former employee with CFW earnings in their base period separates from a subsequent employer. The subsequent employer receives the time sensitive claim notification and may protest the claim. For these “base period only” claims, the City receives a Wage Verification Notice that lists the City’s maximum potential liability and the City must pay a percentage of the claim.

Base period only claims may be appealed to an Appeal Tribunal based on the reason for separating from the CFW. For example, if an employee leaves the City for a better paying job and is subsequently laid off from that job, the CFW may appeal, because based on the separation reason, the claimant would be ineligible. According to CCC, the claimant’s benefit is not reduced when the City prevails after a base period only claim appeal.

Duty to Report Earnings
Claimants may work while receiving unemployment benefits, but they must report wages earned weekly. Benefits are reduced to zero when earnings exceed 125% of the maximum benefit amount. Claimants who fail to accurately report earnings while they are receiving benefits must repay the difference between the amount received and the amount that should have been received. Repayments are credited on the City’s invoices from the TWC.

Claim Trend
The number of claims increased significantly during the COVID-19 pandemic, then declined. Since the quarter ending in September 2020, the number of claims decreased through September 2021.
Note: Claimants may be listed on more than one invoice. Revised invoices were provided for the quarters ending in June and December 2020.

Source: Texas Workforce Commission invoices

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

- debit claimant amounts – amounts the TWC paid to claimants (on behalf of the CFW); amounts that are reimbursable to the TWC, by the CFW ($1,356,333.39 for audit period);
- credit claimant amounts – amounts claimants paid back to the TWC; amounts the TWC concluded should be reimbursed to the CFW ($315,267.22 for audit period); and,
- summary credits for federal pandemic assistance – these are summarized amounts that are listed at the bottom of invoices. These may include debits resulting from claims ruled ineligible that must be repaid ($381,687.83 for the audit period).

As depicted in the following chart, the CFW made no payments to TWC in FY2021. TWC representatives indicated that payment due dates were extended because of known identity theft and 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 September 30, 2021, the CFW owed the TWC $466,356.27, an amount that includes claims for FY2020 and FY2021.

The City’s annual unemployment budget is based on estimates provided by departments. The following chart compares budget to actual unemployment expenses from FY2018 through FY2022. The chart also shows the annual budget amounts.
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 benefits, 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.

Overpayments Owed to TWC

Claimants may owe the TWC when they fail to report earnings while receiving benefits or they are found to be ineligible after initial payments have been made. When the TWC becomes aware of the overpayment, the employee is required to repay the excess benefit paid, which results in a credit on CFW invoices. The balance due may be deducted from future benefit payments. 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.
Internal Audit inquired with CCC, regarding the total amount owed to the CFW. In response to an open records request, the TWC provided a report showing that former employees owed $472,631.17, reportedly for the period from January 1, 2020 to January 1, 2021. The information provided by TWC could not be independently tested. The TWC did not provide requested detail about amounts owed by claimants or for other years.

**Corporate Cost Control (CCC)**
The CFW has contracted with CCC to provide unemployment claim management services to the City. TWC sends notifications of claims, wage verification requests and quarterly invoices to CCC. CCC notifies the City about claims and relays information received from the City to TWC. CCC reviews TWC billings to identify and protest fraudulent claims. CCC also appeals claims when warranted based on the termination reason. 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 claims management, as authorized by City Secretary Contract No. 53902.

As a part of the City’s contract, CCC is responsible for:

- processing all unemployment compensation claims, at all levels of protest or appeal;
- 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;

• 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.
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. Activity beyond this period was reviewed as deemed necessary. We did not audit the Coronavirus Aid, Relief, and Economic Security Act (CARES) or American Rescue Plan Act (ARPA) funding credited on invoices by the TWC.

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, and City departments to obtain an understanding of the City’s unemployment compensation process;
- tested to determine whether claimants were eligible for unemployment benefits;
- reviewed unemployment management services contracts between the CFW and CCC;
- reviewed TWC quarterly billing statements/invoices, Wage Verification Notices, open records request claim response timeliness and balance due data;
- tested active status employee claims to identify unreimbursed identity theft claims;
- verified base period earnings and recalculated/verified benefit amounts paid for non-base period only (multiple employer) claims;
- determined whether CCC and the City responded by the required deadline to initial claims;
- reviewed separation reasons to determine if the City contested ineligible claims;
- reviewed vendor reports for accuracy of the information presented; 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 audit results, claims charged on Texas Workforce Commission (TWC) invoices were calculated accurately; however, the TWC issued two revised quarterly invoices during the audit period and future revisions cannot be ruled out. Payments to the TWC were consistent with the invoiced amounts including the two revised invoices. Amounts paid for base period only claims could not be validated, because other employer (e.g., non-CFW) earnings are confidential. It should be noted that the COVID-19 pandemic significantly increased the volume of claims including claims resulting from identity theft.

**Benefit Payment Amounts**

Internal Audit performed calculations to verify individual claimant benefit amounts listed on TWC invoices using the methodology specified by the TWC. We were able to verify amounts for claimants who separated from the CFW as their last employer. For base period only claims where multiple employer earnings are involved, the TWC stated that Internal Audit could not be provided with access to the other employer’s confidential earnings information that was necessary to verify amounts billed. For example, all employers’ earnings information (CFW and employers other than the CFW) is required to calculate total base period wages as noted in the illustration below.

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.

The following example illustrates multiple employer wages used in a base period.

<table>
<thead>
<tr>
<th>Total Wages in Base Period</th>
<th>$10,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Period Wages Paid by the CFW</td>
<td>$ 6,000.00</td>
</tr>
<tr>
<td>Chargeback Applicable to the CFW</td>
<td>60%</td>
</tr>
<tr>
<td>Qualified, Weekly Amount Payable to Claimant</td>
<td>$250.00</td>
</tr>
<tr>
<td>Weekly Chargeback Applicable to the CFW</td>
<td>($250.00 x 60%)</td>
</tr>
</tbody>
</table>

*Source: Texas Workforce Commission*

The fact that the CFW was unable to verify unemployment billings was not considered a reportable finding, since the TWC deems it inappropriate to share employers’ wages with others.

**Claims Management**

Internal Audit’s review found that claims for employees, who separated from the CFW, were protested or appealed when warranted based on the reason for termination. We identified one exception where CCC did not appear at an appeal hearing according to the TWC. That case appears to have been an isolated incident, because we did not identify any other cases in the audit period with a failure to appear. We verified that base period only claims were appealed successfully. It should be noted that judgment is required in determining whether to appeal claims. The City may forego appeals for legal or other valid reasons.

Internal Audit identified 15 claims for active employees who the TWC or CFW departments confirmed were victims of identity theft. Net payments to the identity thieves posing as active City employees for the 15 cases totaled $39,895.46. Unlike most identity theft claims, payments were not prevented or repaid. These claims represent less than 2% of the approximately 840 cases of attempted identity theft reported by CCC. The City may be credited for these claims after submission of required documentation.
Using information provided by the TWC and departmental HR coordinators, Internal Audit identified seven (7) active status employees who received unemployment benefits based on losing their secondary employment job while working full time for the City. Employees may qualify for benefits after losing a second job if their earnings from CFW are lower than 125% of their benefit amount. For four (4) of the employees, their CFW earnings were too high for them to receive benefits. The other three (3) employees worked for the City part-time and would have been eligible for benefit payments due to relatively lower City earnings.

Departmental HR Coordinators are responsible for providing the documentary evidence for responding to claims reported to the HR Department. However, HR Coordinators reported not consistently being informed by the HR Department that a base period only claim had been received. The HR Coordinators interviewed stated that the first notification they received for base period only claims was a request for information about where to expense the claim within the accounting system.

Timely Responses
The City responded timely (within 14 days) to over 96.4% of 311 claim notifications in CY2020 according to data provided by the TWC. The City responded timely to 98.1% of 868 claims in CY2021 according to data provided by vendor CCC (TWC timeliness data was not available for CY2021). Only one of the untimely CY2021 claims resulted in a payment. These timely response rates do not apply to base period only claims.

TWC Invoices
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. The balances brought forward on the December 2020 and March 2021 quarterly invoices did not match the ending balance on previous invoices. We obtained re-issued, revised TWC invoices from FMS that had different claimants and amounts due than the original invoices for the quarters ended June 30, 2020 and December 31, 2020. The invoice totals matched the sum of the claims and credits listed for all invoices.

Balances Due
TWC invoices include credits that result from payments received by the TWC from claimants who were overpaid in prior periods. As noted previously, there is no statute of limitations for repayment of overpayments. During our audit period, we identified TWC invoice credits totaled $37,576.07 for 42 claimants who had claims dated prior to January 1, 2020. To determine how much the 42 claimants owed the CFW, Internal Audit reviewed TWC invoices dating from January 31, 2021 to September 30, 2021. Based on our review of the invoices:

- unemployment benefits, paid to the 42 claimants, totaled $57,044.28; and,
- the 42 claimants reimbursed the CFW a total of $37,576.07.

TWC’s quarterly billings list claimants who paid money back during that quarter. However, there is no documentation to show the remaining balance those claimants owe. Internal Audit, requested detail from TWC regarding amounts owed to the CFW by claimant. TWC instead provided a table listing amounts reportedly due as of January 1, 2021. The Texas State Auditor’s Office issued a report finding that balances from unemployment overpayments owed by individuals were not provided to the Comptroller of Public Accounts. The report noted that the Comptroller should be provided the balances due to avoid paying State benefits to individual who owed the State for unemployment overpayments.
Balances Due from Claimants per TWC
Reported by TWC for January 1, 2020 to January 1, 2021

<table>
<thead>
<tr>
<th>Row Labels</th>
<th>Sum of CB_T TOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTIVE</td>
<td>$14,855.58</td>
</tr>
<tr>
<td>APPEAL PENDING</td>
<td>$11,950.30</td>
</tr>
<tr>
<td>BANKRUPTCY</td>
<td>$2,296.38</td>
</tr>
<tr>
<td>CLOSED</td>
<td>$-</td>
</tr>
<tr>
<td>DECEASED</td>
<td>$166.90</td>
</tr>
<tr>
<td>SKIP TRACE</td>
<td>$311,528.69</td>
</tr>
<tr>
<td>UNCOLLECTABLE</td>
<td>$124,977.27</td>
</tr>
<tr>
<td>WAGE SEARCH</td>
<td>$6,856.05</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$472,631.17</td>
</tr>
</tbody>
</table>

Source: Texas Workforce Commission

Third Party Contracting
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.

<table>
<thead>
<tr>
<th>Contract #</th>
<th>Vendor Name</th>
<th>Contract Period</th>
<th>Contract Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>47466-A1R2</td>
<td>Corporate Cost Control, Inc.</td>
<td>11/1/2017 - 10/31/2018</td>
<td>$4,200.00</td>
</tr>
<tr>
<td>47466-A1R3</td>
<td>Corporate Cost Control, Inc.</td>
<td>11/1/2018 - 10/31/2019</td>
<td>$4,200.00</td>
</tr>
<tr>
<td>53902</td>
<td>Corporate Cost Control, Inc.</td>
<td>5/11/2020 - 5/10/2021</td>
<td>$4,200.00</td>
</tr>
<tr>
<td>53902-R1</td>
<td>Corporate Cost Control, Inc.</td>
<td>5/11/2021 - 5/10/2022</td>
<td>$4,200.00</td>
</tr>
</tbody>
</table>

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:

A. an annual budget letter, projecting the CFW’s expected annual unemployment costs for the upcoming year; and,
B. 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”.

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 expense budgets. Internal Audit was provided copies of the “Left to Collect” report and budget letter after the release of the interim audit report.
# Overall Risk Evaluation

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inconsistent claim communication and guidance to departments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Amounts due for overpayments or successfully appealed claims not tracked</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Claims resulting from lost second jobs for ineligible active employees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contractually required reports not provided by CCC initially</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contractor billings modified without an audit trail</strong></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Detailed Audit Findings

1. **Claim information was not effectively communicated to department personnel.**

Management of unemployment claims requires the HR Department and other departments to coordinate the City’s response. The documentation necessary to support the coordinated response must be prepared, sent to CCC and provided to TWC. Department personnel need an understanding of TWC rules and requirements for different types of claims.

**Department Communications**

Department staff from multiple departments reported not consistently being notified about base period only claims. Base period only claims may be appealed if the claimant is not eligible based on the reason for separation from the CFW. Claims resulting from base period only cases that were not appealed totaled $27,830.09 for March 2021. It should be noted that there may be factors that support not appealing all potentially eligible cases for which the City has a defense.

We identified a relatively small number of paid claims that appeared to be ineligible based on the reason for the employees’ separation. However, departmental HR Coordinators who are required to provide evidence to support claim responses reported not consistently receiving requests for information or documentation from the HR Department required for an appeal for base period only claims.

While most claims resulting from identity theft were not paid, we identified 15 claims that originated from identity theft that were paid according to department personnel and the TWC. The 15 claims totaled $39,895.46. The TWC indicated that the CFW had not provided information regarding all of the identity theft claims.

**Policies or Procedures**

The Government Finance Officers Association (GFOA) recommends that entity management document policies or procedures in order to provide guidance and improve accountability. Guidance provided to staff who are responsible for responding to claims does not address key factors.

- The Human Resource Coordinator (HRC) Handbook provided to department personnel does not address the responses needed from department staff for unemployment claims.
- The City’s Personnel Rules & Regulations and the Secondary Employment Request form do not include or reference requirements for employees to report CFW earnings to TWC when they seek unemployment payments due to losing their second job.

**Documents and Systems**

Information technology control objectives include accurate and complete data. Reports that include complete information provide a tool for monitoring claims data. Our tests results indicated that the spreadsheet used to track unemployment claims and department responses did not consistently include employee numbers, amounts paid or other useful information during the audit period. For example, beginning in February 2021, the employee identification number was sometimes included in the same field as the employee name. However, combining the employee name and number limited the usefulness of information for querying and comparison to other data sources including CFW PeopleSoft and TWC invoice data.
**Recommendation 1A:** The Human Resources Director should require that all information received about claims is forwarded to department Human Resources Coordinators. Human Resources coordinators should be requested to respond with information needed to determine whether a protest or appeal is warranted for all type of claims.

**Auditee’s Response:** Concur. This is an ongoing practice and ELRD will continue to communicate with the department HRC’s on all unemployment claims sent from TWC directly to CFW.

In 2020, due to the overwhelming number of regular and fraudulent claims, the Texas Workforce Commission was unable to notify CFW in a timely manner. The majority of the claims were fraudulent and are currently being disputed.

**Target Implementation Date:** Completed

**Responsibility:** Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

**Applicable Department Head:** Dianna Giordano, Human Resources Director

**Applicable Interim Assistant City Manager:** Reginal Zeno, Interim Assistant City Manager

**Recommendation 1B:** The Human Resources Director should require that instructions (e.g., policies and procedures) are provided to department HRC personnel, which should include instructions regarding responding to notification of base period only claims of former employees.

**Auditee’s Response:** Concur. Human Resources will develop documentation and conduct a CFW only unemployment training in the Fall of 2022.

**Target Implementation Date:** November 1, 2022

**Responsibility:** Employee and Labor Relations (Sandy Huerta – Human Resources Manager)

**Applicable Department Head:** Dianna Giordano, Human Resources Director

**Applicable Interim Assistant City Manager:** Reginal Zeno, Interim Assistant City Manager

**Recommendation 1C:** The Human Resources Director should require that method used to track claims include the information in a format that supports the reporting and verification of the status of claims with HRCs and others.

**Auditee’s Response:** Concur. This is an ongoing practice and ELRD will continue to file and track all unemployment claim responses from the department HRC’s. ELRD will update the tracking spreadsheet created during the pandemic to reflect date responses from the department and to TWC starting in the summer of 2022. Also, the Hamlet portal provided by CCC allows CFW to pull real time tracking and status updates for each claim filed under CFW.

**Target Implementation Date:** August 1, 2022

**Responsibility:** Employee and Labor Relations (Sandy Huerta – Human Resources Manager)
2. **There is no tracking of claimants who owe money for overpayments or appealed claims.**

The City receives credits for amounts due from claimants who were overpaid based on underreported earnings while receiving benefits or amounts paid before successful appeal rulings.

Internal Audit noted credits on invoices resulting from overpayments from claims filed for years as far back as the 1970s. TWC personnel stated that there is no statute of limitations or time limits for claims. The amounts due by individual claimants were not available from CCC or HR. Internal Audit therefore, filed an open records request with the TWC. In response, the TWC provided only a summary list of amounts that were reportedly due for claims during the period from January 1, 2020 through January 1, 2021. Listed amounts totaled $472,631.17. As noted previously, TWC reports identified unemployment claim overpayments dating to the 1970’s, so the amount for all prior years is likely to be significantly higher.

Government Finance Officers Association standards state that governments must carefully monitor expenditures.

**Recommendation 2:** *The Human Resources Director should require that staff, on a trial basis, maintain a record of claimants and amounts paid for successfully appealed claims including identifying information and the amount due. The list should be used to facilitate review of job applicants/employees to determine if amounts owed to TWC are recoverable from rehired employees with past claims on a case by case basis.*

**Auditee’s Response:** Do not concur. This would require a manual spreadsheet, and there is no way to systematically compare it to all employees hired in the future at the City. The money in this situation would still be owed to the TWC, and then given as a credit back to the City of Fort Worth. Changing that process by collecting the funds owed the City directly would cause confusion with the normal TWC process.

**Target Implementation Date:**

**Responsibility:** Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

**Applicable Department Head:** Dianna Giordano, Human Resources Director

**Applicable Interim Assistant City Manager:** Reginal Zeno, Interim Assistant City Manager

**Audit Comment:** The intent of the recommendation was for the HR Department to establish a process by which amounts due to the CFW could be quantified, and to minimize the possibility of the CFW paying employees who owe unemployment benefits overpayment refunds.

Based on the information provided to Internal Audit, there is currently no process or procedure in place that allows the CFW, CCC or the TWC to determine the total amount of unemployment benefit overpayment refunds due to the CFW. As noted in this finding, total unemployment benefit overpayments not refunded to the CFW can be significant. If the CFW deems it unfeasible to track amounts owed, the CFW may want to consider asking the City Attorney if the CFW can legally require
that newly-hired employees attest as to whether they owe the CFW (through the TWC) for any unemployment benefit overpayments. New hires could then be directed to consult with the TWC, to ensure that unemployment benefit overpayments are refunded to the TWC, on behalf of the CFW.

The CFW may also consider requesting that the CCC begin tracking CFW unemployment benefit overpayments and provide routine reports to the CFW.

3. **Current employees who lost second jobs resulted in unwarranted payments.**

The TWC requires that unemployment benefit recipients report all earnings from other sources, weekly, while receiving benefits. Benefits paid are reduced for weekly earnings above 25% of the weekly benefit amount. Earnings above 125% of the weekly benefit amount reduce benefits paid to zero.

Internal Audit identified seven (7) active status employees who worked at the CFW continuously while receiving unemployment benefits received based on claims resulting from the loss of secondary employment.

- Four (4) of the employees earned more than 125% of the maximum weekly benefit payment from the City and would not have received benefits if their CFW earnings were reported and recorded by TWC. The employees received $40,655.49 according to the TWC. The City is responsible for paying the claims but may be reimbursed if the employees repay the TWC based on their unreported or unrecorded earnings.
- The other three (3) employees worked for CFW part-time and would have qualified based on their earnings.

TWC provided an updated invoice for the quarter ending June 30, 2020 that included a portion of the amounts paid to the four employees. The total paid based on the revised invoice was $38,841.39; however, TWC confirmed in a subsequent email that the $40,655.49 initially reported was the correct amount. Employees contacted indicated that they did not understand that they were required to report all earnings and in one case did not remember whether earnings were reported.

**Recommendation 3A:** The Human Resources Director should verify that any amounts the City paid for the four (4) claims are refunded to the City after the amounts are repaid to the TWC.

**Auditee’s Response:** Do Not Concur (may Concur in the future). These claims are still pending and TWC has not confirmed if monies are owed to the CFW. Once confirmed from TWC, then Human Resources will initiate the process to recoup the funds.

**Target Implementation Date:**

**Responsibility:** Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

**Applicable Department Head:** Dianna Giordano, Human Resources Director

**Applicable Interim Assistant City Manager:** Reginal Zeno, Interim Assistant City Manager

**Audit Comment:** During our review, the TWC provided differing invoice claim amounts for the employees; however, the circumstances resulting in the erroneous payments were not questioned by the CFW or TWC. The goal was for the CFW to verify and track that the invoice credits were received after any repayments occurred.
Recommendation 3B: The Human Resources Director should require that claimants listed on TWC invoices are consistently compared to current active status employees to ensure that claimants receiving benefits based on losing another job (or as the result of identity theft) are identified and communicated to department HR Coordinators for follow up.

Auditee’s Response: Concur. This is now an ongoing practice and ELRD will continue to work with third party vendor CCC and TWC to identify.

Target Implementation Date: Completed

Responsibility: Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

Applicable Department Head: Dianna Giordano, Human Resources Director

Applicable Interim Assistant City Manager: Reginal Zeno, Interim Assistant City Manager

Recommendation 3C: The Human Resources Director should update the Personnel Rules & Regulations (PRRs), Secondary Employment Form and instructions to department Human Resources Coordinators to address the need to report CFW earnings when applying for unemployment benefits based on losing a non-CFW job.

Auditee’s Response: Concur. The HRC handbook is not a guide for all HRC responsibilities within HR. That handbook is owned and managed by HRIS for their system processes only in Peoplesoft. ELRD will create an HRC 101 handbook that includes information about unemployment and other ELR related processes.

Target Implementation Date: January 1, 2023

Responsibility: Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

Applicable Department Head: Dianna Giordano, Human Resources Director

Applicable Interim Assistant City Manager: Reginal Zeno, Interim Assistant City Manager

Findings and Recommendations from the Interim Report Released December 30, 2021

4. 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 were 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 4:** The Human Resources Director should require that Corporate Cost Control, Inc. comply with the contract or revise the contract requirements.

**Auditee’s Response:** Concur. ELRD will work with CCC and City Attorney’s Office to add amendments as necessary on the next contract renewal in May 2023.

In January 2022, ELRD obtained access to the Hamlet portal which allows the CFW to pull the reports mentioned in the contract.

**Target Implementation Date:** June 1, 2023

**Responsibility:** Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

**Applicable Department Head:** Dianna Giordano, Human Resources Director

**Applicable Interim Assistant City Manager:** Reginal Zeno, Interim Assistant City Manager

5. **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. The $4,200.00 was owed as of the interim report release date. Subsequent to the end of the report, Internal Audit was provided with an email that they would recouped for one-half of the amount.

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

Source: Auditor generated

On February 16, 2022, emails between the CFW HR Department and CCC were provided that contained information about the credit arrangement. The emails included statements that the arrangement was to provide credit for one half of the claim paid.

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 5A:** 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.

**Auditee’s Response:** Concur. ELRD has worked with CCC to ensure third-party billings provide detailed information to account for each charge.

**Target Implementation Date:** Completed

**Responsibility:** Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

**Applicable Department Head:** Dianna Giordano, Human Resources Director

**Applicable Interim Assistant City Manager:** Reginal Zeno, Interim Assistant City Manager

**Recommendation 5B:** 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.

**Auditee’s Response:** Do Not Concur. CCC has issued all credits to CFW that were agreed upon and there is no balanced owed.
Target Implementation Date:

Responsibility: Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

Applicable Department Head: Dianna Giordano, Human Resources Director

Applicable Interim Assistant City Manager: Reginal Zeno, Interim Assistant City Manager

Audit Comment: Subsequent to the December 2021 interim internal audit report, Internal Audit received an email between the Human Resources Department and the CCC, stating that the CFW agreed to accept a credit totaling half of the amount erroneously processed by the CCC. However, Internal Audit saw no evidence that executive management or the City Attorney’s Office had approved the arrangement.

Recommendation 5C: 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.

Auditee’s Response: Concur. ELRD will work with the City Attorney’s Office to add directives on the next contract, as necessary, when it expires in May 2025. We are currently on our second renewal out of four renewals.

Target Implementation Date: Completed

Responsibility: Employee & Labor Relations (Sandy Huerta-Human Resources Manager)

Applicable Department Head: Dianna Giordano, Human Resources Director

Applicable Interim Assistant City Manager: Reginal Zeno, Interim Assistant City Manager
Acknowledgments

The Department of Internal Audit would like to thank the Human Resources Department and other City departments, Corporate Cost Control, Inc. and the Texas Workforce Commission for their cooperation and assistance during this audit.
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.

Source: TWC website