

BIENNIAL REPORT 2020-2022



NC DEPARTMENT
of COMMERCE
EMPLOYMENT SECURITY

November 20, 2022

MISSION STATEMENT

The mission of the North Carolina Division of Employment Security is to administer the unemployment insurance program for the State of North Carolina by delivering efficient, effective and quality service.

About the Division of Employment Security

The North Carolina Department of Commerce, Division of Employment Security (DES) is responsible for the administration of the unemployment insurance program in the state of North Carolina. State unemployment insurance benefits are paid to eligible workers who lost employment through no fault of their own; are able and available for work; and are actively seeking work.

The state unemployment insurance program is a federal-state partnership, and benefits are funded by state unemployment taxes employers pay on employee wages. DES's administrative costs are federally funded and based on the state's claims workload; the division receives no administrative funding from North Carolina's General Fund.

Among its duties, DES is required to:

- Collect quarterly state unemployment insurance taxes and wage records from employers.
- Take initial claims for unemployment benefits.
- Determine claimants' eligibility for benefits.
- Provide an appeal opportunity for claimants and employers.

LEADERSHIP



MACHELLES BAKER SANDERS

FEBRUARY 2021 - PRESENT

N.C. Secretary of Commerce



ANTHONY M. COPELAND

2017 - FEBRUARY 2021

N.C. Secretary of Commerce



PRYOR GIBSON

MAY 2020 - DECEMBER 2022

**Assistant Secretary for
Employment Security**

Message from the Assistant Secretary for Employment Security

In times of economic downturn, disaster or public emergency, North Carolina's unemployment insurance program provides critical financial assistance to people as they work to get back on their feet. The Division of Employment Security strives to administer the program efficiently and effectively to help people bridge the gap to reemployment and support the recovery of local economies.

During the COVID-19 pandemic, the nation's unemployment rate rose to levels second only to the Great Depression. As North Carolinians found themselves out of work due to no fault of their own, DES worked tirelessly to issue more than \$14 billion in unemployment assistance. I am incredibly proud of our DES employees, who showed unwavering commitment as 'financial first responders' in a time of unprecedented need.

Today, with the pandemic largely behind us, we are sharpening our focus on providing the best service possible to the workers, employers and taxpayers of North Carolina. In this report, you'll learn not only about our challenges and successes over the past two years, but also our ongoing efforts to support the needs of North Carolina now and into the future.

Sincerely,
Pryor Gibson

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INTRODUCTION

Division of Employment Security Biennial Report

This report primarily focuses on North Carolina Division of Employment Security (DES) operations during the 2020 through 2022 biennium, encompassing the two fiscal years from July 1, 2020 – June 30, 2022.

Throughout the past two fiscal years, the COVID-19 pandemic had a substantial impact on the administration of unemployment insurance benefits. As unemployment rose nationwide due to the pandemic, DES faced record numbers of claims and appeals, increased demand for customer service and emerging threats of fraud. The division was also required to implement multiple new state and federal pandemic assistance programs. In order to fully capture DES's COVID-19 response, this report includes some information from before and after the biennial period.

This report also provides a look ahead at the major projects and initiatives currently underway or in the beginning stages at DES. These efforts will help the division improve its operations over the next biennium and beyond.



OPERATIONS OVERVIEW



ADMINISTRATIVE FUNDING

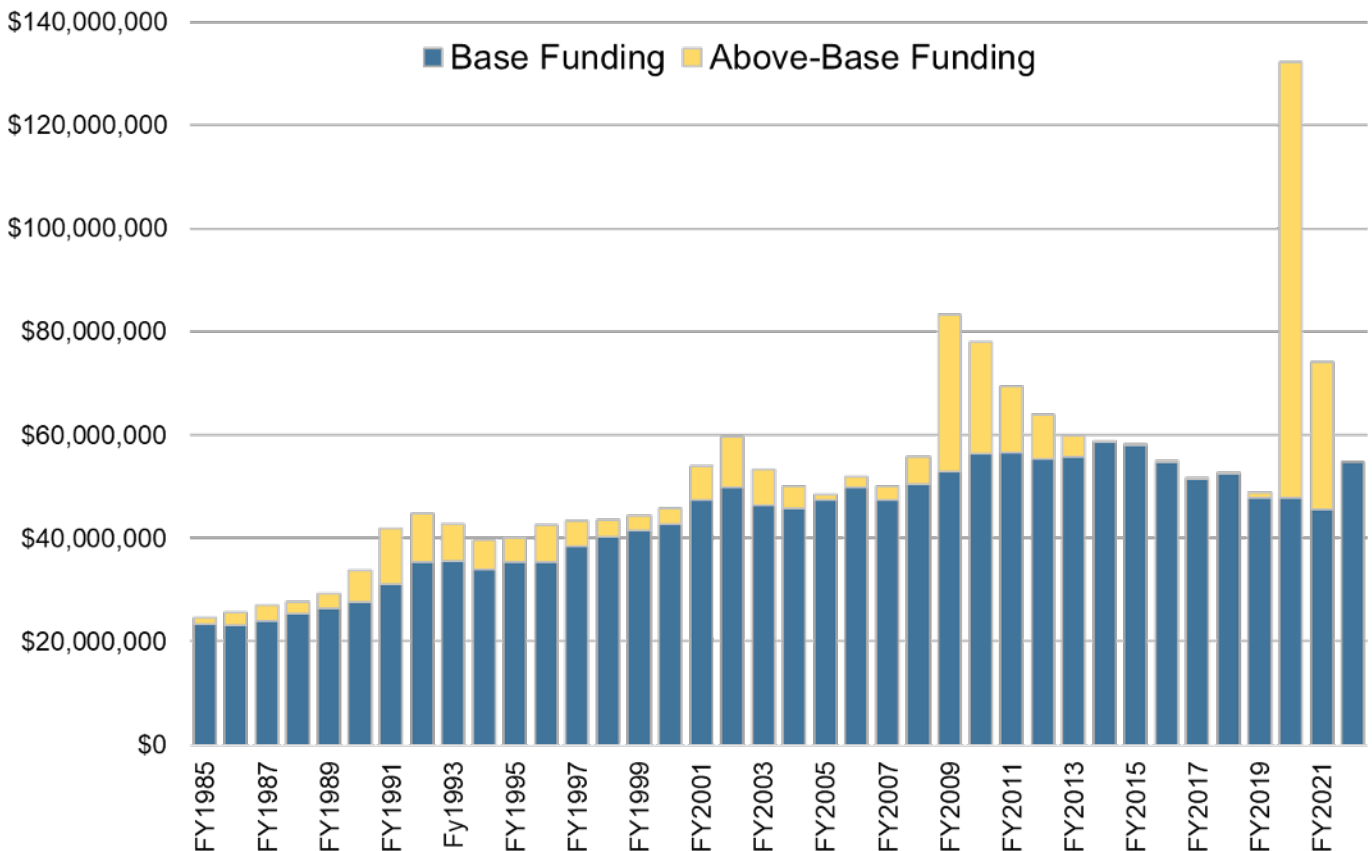
The state unemployment insurance program is a federal-state partnership administered by the N.C. Division of Employment Security. DES's administrative costs are fully federally funded; the agency receives no administrative funding from North Carolina's General Fund.

Federal administrative funding for state unemployment insurance programs is based on the state's unemployment insurance-related workloads. Generally, when the unemployment rate is low and fewer people are applying for unemployment benefits, a state receives less funding than when unemployment is high and more people are applying.

The federal government provides states with base administrative funding calculated for a projected amount of workload. If the actual workloads surpass the projection, a state may be eligible for additional above-base funding.

DES's administrative funding trended downward from Fiscal Year 2014 through 2020, until unemployment claims increased dramatically during the COVID-19 pandemic. DES received significant above-base funding in 2020 and 2021 due to increased workloads. In 2022, as the economy has improved, DES funding levels are returning to pre-pandemic levels.

History of Base and Above-Base Administrative Funding



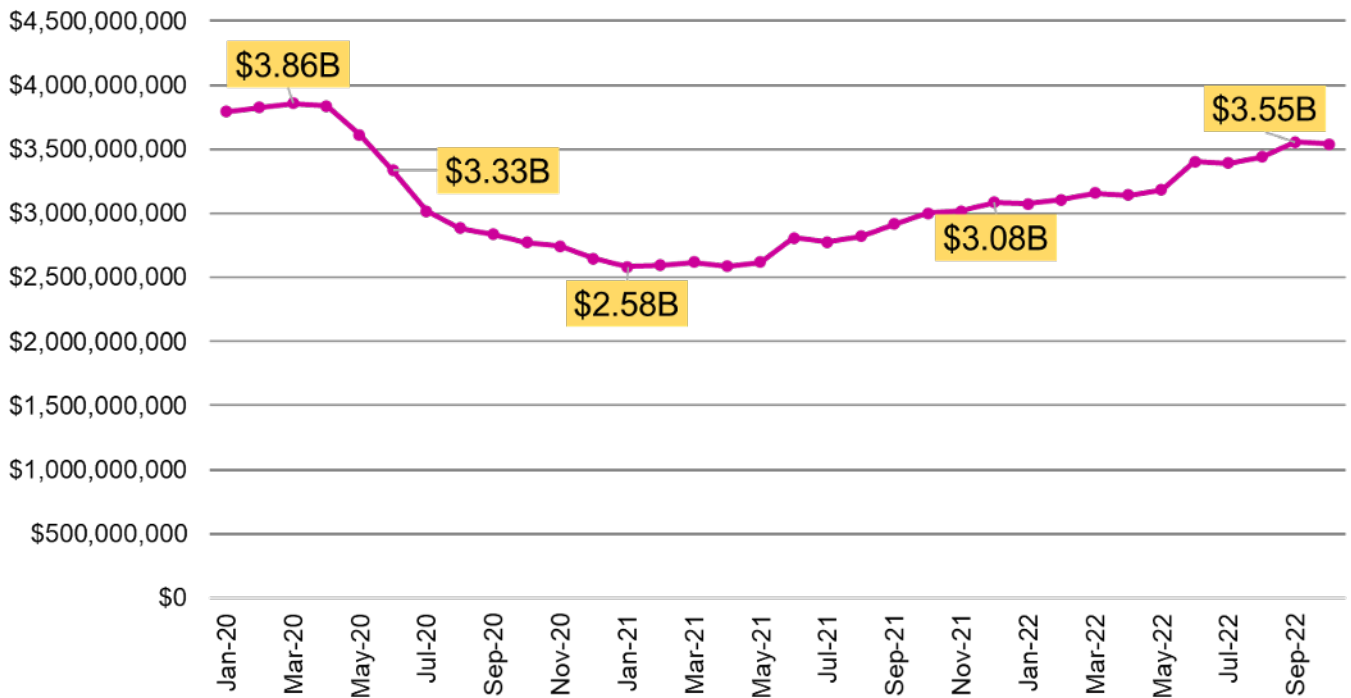
UNEMPLOYMENT INSURANCE TRUST FUND

State unemployment insurance benefits are paid out of the state's Unemployment Insurance (UI) Trust Fund. Each state has its own UI Trust Fund account held at the U.S. Treasury. The Trust Fund is funded through state unemployment insurance taxes paid by employers, and by law, may only be used to pay state unemployment benefits.

North Carolina's UI Trust Fund reached an all-time high of \$3.86 billion in February 2020. The balance began to decrease in March 2020 due to the high volume of state unemployment benefits being paid out during the COVID-19 pandemic.

However, North Carolina's taxable employer base continues to grow, and the fund continues to accrue interest. The balance as of October 2022 was approximately \$3.5 billion.

Monthly UI Trust Fund Balance





TAX RATES FOR EMPLOYERS

North Carolina uses an experience tax rating formula to assign tax rates to all employers subject to unemployment insurance (UI) tax after they no longer meet the criteria for being a new employer. The base tax rate is one of the factors used to calculate each employer’s tax contribution for the year.

Under NCGS § 96-9.2(c), the base tax rate is determined by the solvency of the Unemployment Insurance Trust Fund:

UI Trust Fund Balance as Percent of Total Insured Wages	Base Tax Rate
Less than or equal to 1%	2.9%
Greater than 1% but less than or equal to 1.25%	2.4%
Greater than 1.25%	1.9%

Since 2020, the state of North Carolina has made the following adjustments to employer tax contributions:

- Senate Bill 704 (Session Law 2020-3), a COVID-19 relief bill signed into law in May 2020, provided North Carolina employers a tax credit toward their contribution to the state’s UI Trust Fund. The credit was equal to the amount of the employer’s contribution due to the fund for the first quarter of 2020.
- Senate Bill 114 (Session Law 2021-5), DES COVID Modifications, reduced the base tax rate for calendar year 2021 from 2.4% to 1.9%.
- Senate Bill 311 (Session Law 2021-178) froze the rate at 1.9% for calendar year 2022.

Base Tax Rate History

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2.9%	2.9%	2.4%	2.4%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%



TAX OPERATIONS

The Division of Employment Security is responsible for collecting state unemployment insurance taxes and wage information from liable employers on a quarterly or annual basis.

DES’s Tax Unit has demonstrated that it implements the necessary controls to provide exemplary service to the employers of North Carolina. In 2018 and 2019, DES received the Performance Excellence in Tax Operations Award from the U.S. Department of Labor. DES passed all requirements for all 13 functions of the USDOL’s annual Tax Performance System program reviews in 2020 and passed 10 of 13 in 2021 (with one function exempt from review due to prior performance).

The taxes that DES collects from employers go into the state’s Unemployment Insurance Trust Fund to be used to pay state unemployment benefits.

UI Tax Contributions

Program Year	2019	2020	2021	2022
Tax Collected	\$502,728,542	\$516,775,834	\$361,714,204*	\$635,767,739
Calendar Year	2018	2019	2020	2021
Number of Employers	226,653	232,940	244,595	266,017

**The COVID-19 Recovery Act passed by the N.C. General Assembly (Session Law 2020-3) provided a tax credit to employers for 2020. The effect on taxes collected appears in Program Year 2021.*

DES also performs audits of employer records through random selection to ensure the accuracy of the tax and wage information that employers provide to the division. The audit process may reveal understated or overstated liabilities, resulting in the collection of additional funds from employers or the issuance of refunds to employers.

Audit Activity

Calendar Year	2018	2019	2020	2021
Audits Conducted	3,106	3,413	2,193	3,909
Wages Audited	\$5.3B	\$4.6B	\$3.9B	\$6.2B
Underreported Wages Added	\$109M	\$137M	\$61M	\$152M
Misclassified Workers Identified	9,028	10,917	5,288	11,545

DES is in the process of replacing its two existing tax systems with a new, modern system. Learn more about this effort in the Ongoing Initiatives section of this report.

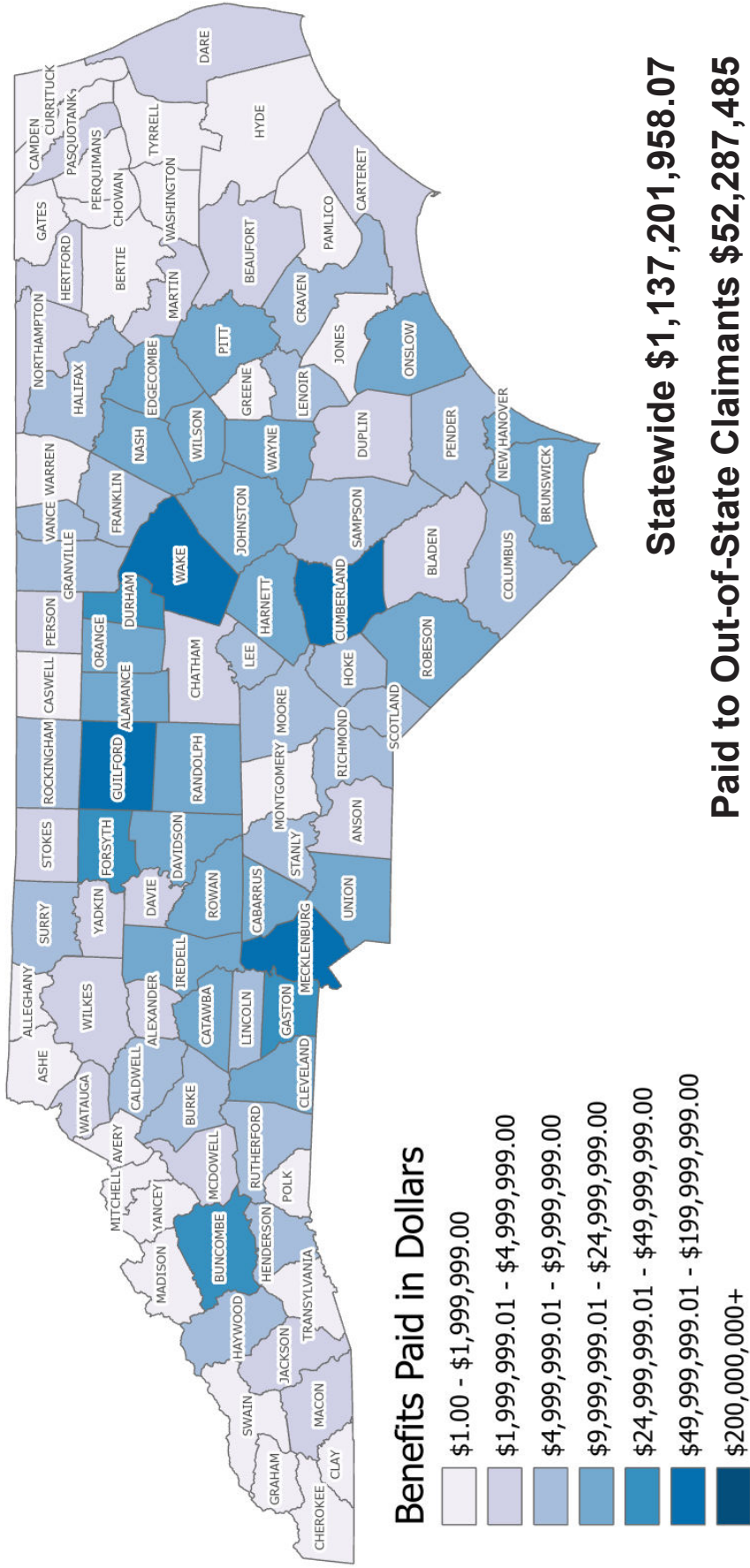
UNEMPLOYMENT BENEFITS ACTIVITY

The following is a summary of unemployment benefits paid during program years 2021 and 2022. Federal programs include all temporary, pandemic and disaster assistance programs in place during the program years.

Program Year 2021 (July 1, 2020 – June 30, 2021)	
All Unemployment Benefits (State and Federal)	
Total Paid	\$7,904,890,763
Number of Individuals Paid	767,249
State Unemployment Insurance Benefits Only	
Total Paid	\$624,552,300
Number of Individuals Paid	446,355
Number of Benefit Weeks Paid	3,332,645
Minimum/Maximum Weekly Benefit Amount	\$15/\$350
Average Weekly Benefit Amount	\$238

Program Year 2022 (July 1, 2021 – June 30, 2022)	
All Unemployment Benefits (State and Federal)	
Total Paid	\$1,189,206,068
Number of Individuals Paid	290,131
State Unemployment Insurance Benefits Only	
Total Paid	\$187,997,582
Number of Individuals Paid	102,879
Number of Benefit Weeks Paid	790,470
Minimum/Maximum Weekly Benefit Amount	\$15/\$350
Average Weekly Benefit Amount	\$251

Unemployment Benefits Paid by County (All Programs) July 2021 - June 2022



County data does not sum to statewide total.
Source: North Carolina Department of Commerce, Division of Employment Security
Prepared by North Carolina Department of Commerce, Labor and Economic Analysis Division November 2022



UNEMPLOYMENT BENEFITS OPERATIONS

The Division of Employment Security is responsible for taking applications for unemployment benefits, determining whether the claimant is eligible for benefits, and making benefit payments to eligible claimants under applicable state and federal law.

The U.S. Department of Labor measures states' performance in areas such as the quality of their eligibility determinations and timeliness of first payments for state unemployment benefits. States aim to meet federal standards while acting in accordance with the law and policies that govern the benefits program.

Quality of Eligibility Determinations

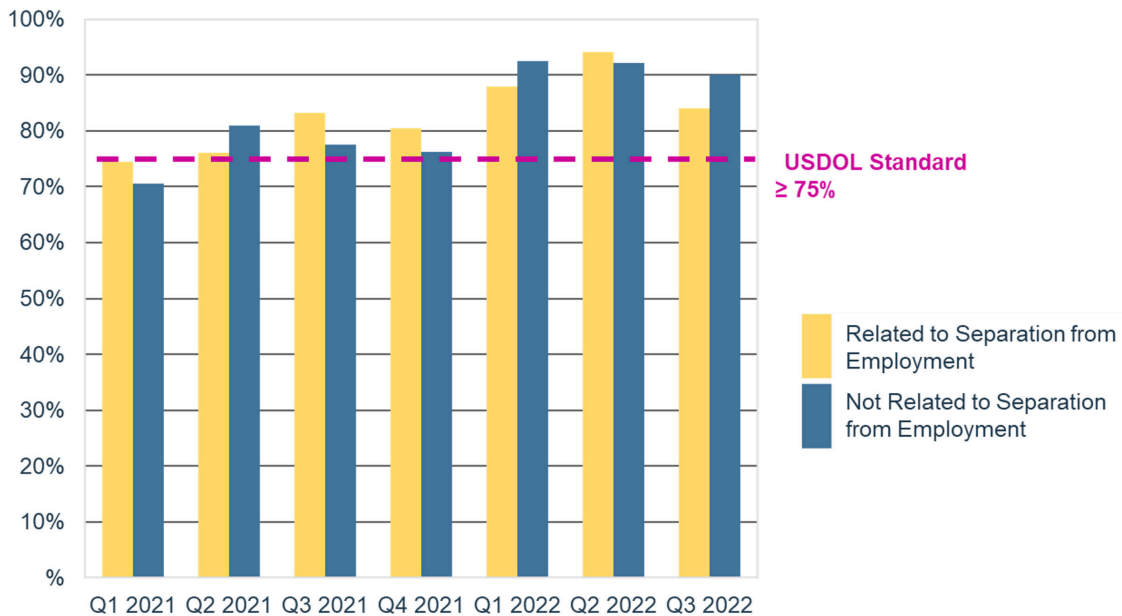
Separation determinations are eligibility decisions related to the reason the claimant became separated from employment (laid off, discharged, etc.). Nonseparation determinations are decisions related to other eligibility factors, such as whether the claimant was able and available for work and actively seeking work.

The quality of separation and nonseparation determinations of eligibility is evaluated quarterly by scoring a sample of claims. The USDOL standard is to have 75% or more of the sample claims receiving a quality score of least 95 points.

While quality scoring was temporarily suspended in 2020 due to the COVID-19 pandemic, DES has achieved high quality scores since the start of 2021. The division has surpassed the federal standard for both separation and nonseparation determinations for six consecutive quarters.

Quality of Separation and Nonseparation Determinations

Percent of Quality Scores equal to or greater than 95 points, based on the evaluation of quarterly samples



Timeliness of First Payments

USDOL also measures the time it takes for states to pay claimants for their first payable week of state unemployment benefits. For claims with a waiting week, the USDOL standard is to make at least 87% of first payments within 14 days. For claims without a waiting week, the standard is to make at least 87% of first payments within 21 days.

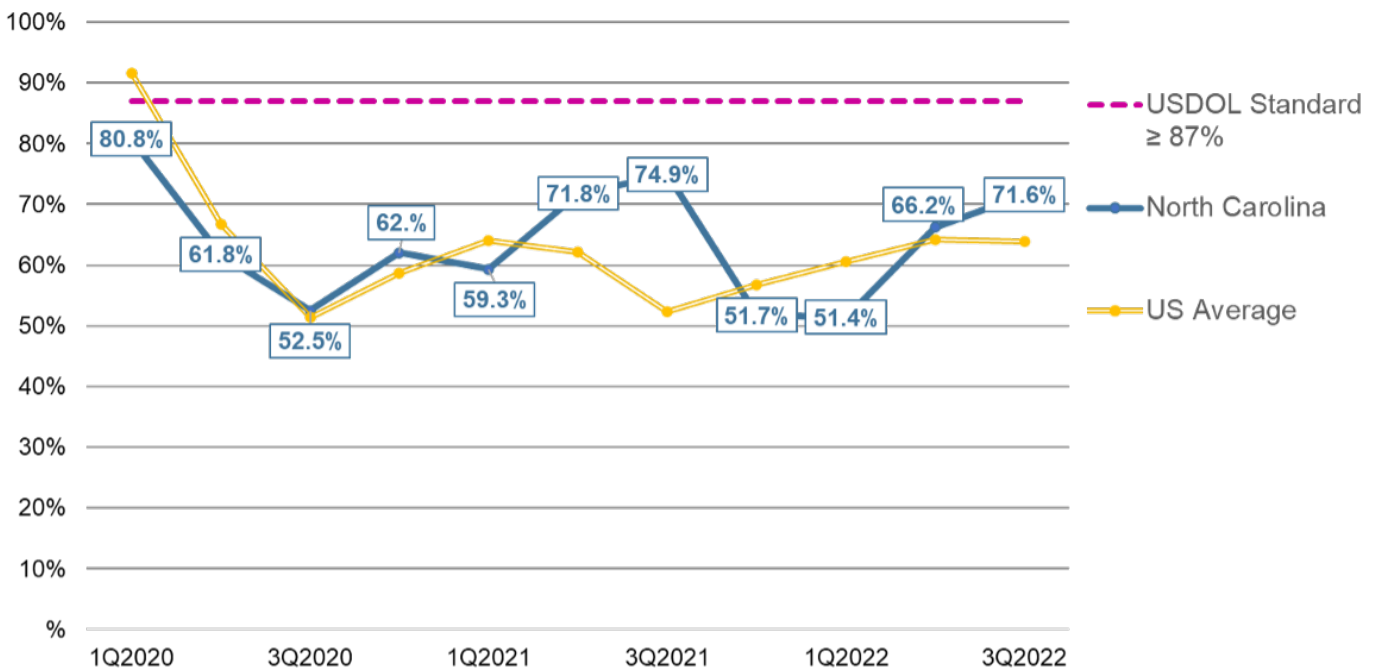
In the first quarter of 2020, the volume of incoming unemployment claims skyrocketed due to people temporarily losing employment during the COVID-19 pandemic. In March 2020, the claims load went from approximately 3,000 a week to more than 20,000 a day.

As DES worked to hire and train new staff and implement new federal pandemic programs, timeliness of first payments suffered. This occurred in North Carolina and around the country.

DES has since cleared the majority of the pandemic-related claims backlog and is renewing its focus on making timely benefits payments. The division has steadily improved in this area since the first quarter of 2022 and will continue to analyze its business processes, provide additional staff training and implement technology solutions to further improve timeliness.

Percent of First Benefit Payments Made within 14/21 Days

(14 days with a waiting week, 21 without a waiting week)





LOWER AND HIGHER AUTHORITY APPEALS

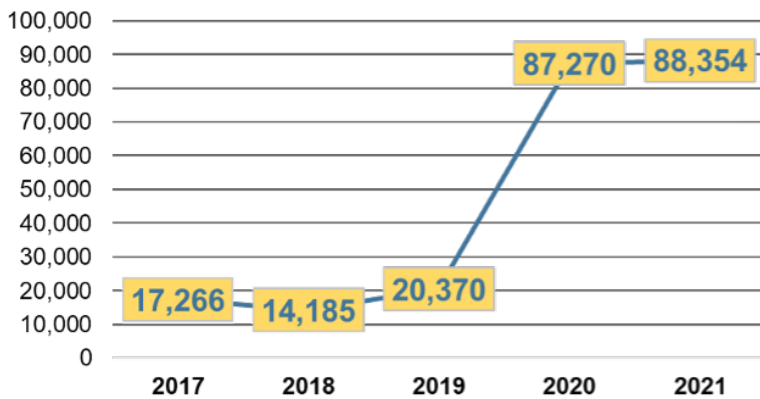
Claimants or employers who wish to contest a determination made by the Division of Employment Security may file a first-level, lower authority appeal. Lower authority appeals are heard by appeals referees, who are required by state law to be licensed attorneys. Appeals referees issue decisions that contain findings of fact and conclusions of law.

If a claimant or employer disagrees with the lower authority appeals decision, they may file a higher authority appeal with the North Carolina Board of Review. The Board of Review is an independent, quasi-judicial body made up of three members appointed by the North Carolina Governor and confirmed by the N.C. General Assembly.

The surge in claims filed at the start of the COVID-19 pandemic in March 2020 eventually contributed to very high volumes of appeals. With the use of time-limited and temporary positions, DES increased its lower authority appeals referees and administrative staff from 40 in 2020 to 183 in 2021, with 98 of those employees being attorneys. As lower authority appeals workloads decreased, 10 time-limited attorneys shifted to working on higher authority appeals. The majority of pandemic-related appeals were resolved by late summer of 2022.

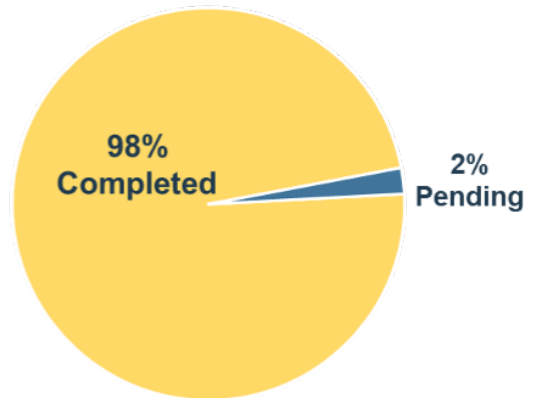
Lower Authority Appeals Filed

328% Increase from 2019 to 2020 due to COVID-19 Pandemic



Appeals Filed since the Pandemic

4/1/2020 - 9/30/2022



Despite the extraordinarily high workload, DES has maintained its long record of high performance in the quality of its appeals decisions. The USDOL standard is to have at least 80% of appeals cases receiving a quality score of least 85 points. The division has surpassed the federal standard for the past five consecutive quarters as shown below.

Quality of Lower Authority Appeals

USDOL Standard	2Q 2021	3Q 2021	4Q 2021	1Q 2022	2Q 2022
≥80% with scores of at least 85/100	100%	100%	100%	100%	98%



BENEFITS INTEGRITY

The Division of Employment Security is committed to reducing waste, fraud and abuse in the unemployment benefits system by preventing improper payments and recovering overpaid funds.

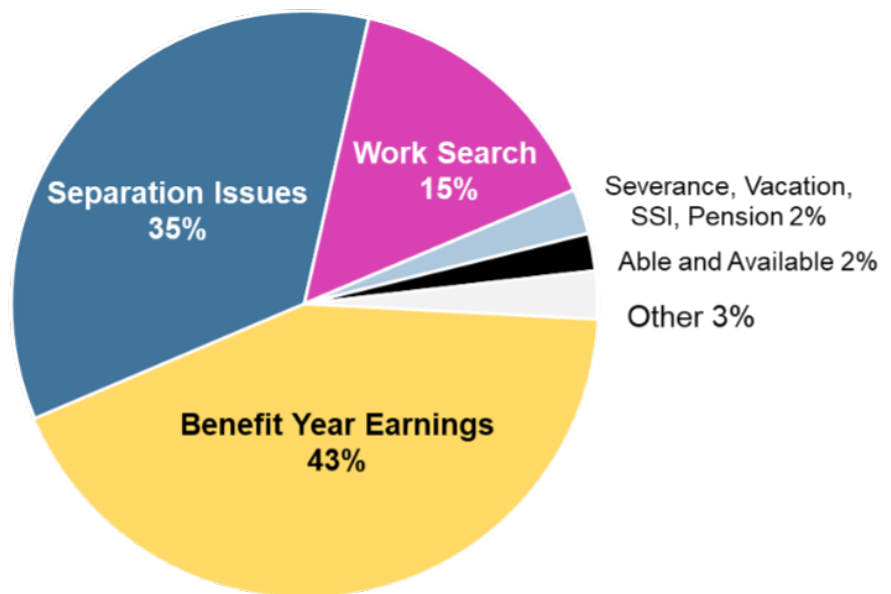
An overpayment occurs when a person is paid unemployment benefits they were not entitled to receive. Overpayments are established when DES receives information that changes the initial approval of a claimant’s eligibility, or when it is found that a claimant did not fulfill their requirements for receiving benefits.

The top three causes of improper payments during the last three years are issues relating to claimants’ earnings, their separation from employment and their fulfillment of work search requirements. To determine these root causes, samples of claims are reviewed under U.S. Department of Labor guidelines through the division’s Benefits Accuracy Measurement program.

Root Causes of Improper Payments

Three-Year Average
Based on Reviews of
a Sample of Claims

7/1/2018 – 6/30/2021



In September 2019, DES partnered with the National Association of State Workforce Agencies Integrity Center to develop strategies to reduce improper payments. DES has implemented many of those and other strategies to address root causes of improper payments.

- **Benefit Year Earnings** improper payments occur when claimants continue to file for benefits after they return to work and do not report their earnings to DES. In June 2021, DES began crossmatching claimant and wage information with the State Directory of New Hires (SDNH), in addition to crossmatches with the National Directory of New Hires and employer wage reports. The SDNH crossmatch allows DES to identify unemployment claimants who return to work more quickly.

To help claimants correctly report their earnings, DES developed and integrated a Wage and Earnings calculator into the claimant’s weekly certification process in June 2021. DES also developed a short video to educate claimants on reporting earnings. The video is available on the DES website.

- **Separation Issues** improper payments occur when a review finds that a claim includes inaccurate information about the claimant's separation from employment. This new information may result in a denial or overpayment of benefits. To help address this issue, DES is leveraging data from the State and National Directories of New Hires, as well as analyzing where process improvements can be made. DES has also begun sending automatic emails to employers to remind them to respond to requests for information about employee separations.
- **Work Search** improper payments occur when it is found that the claimant did not fulfill their requirement of actively seeking work while filing for benefits. Under North Carolina state law, claimants must make at least three job contacts with potential employers each week and keep a record of their work search activities. Claimants fail to adhere for a variety of reasons, including a lack of understanding of work search requirements or inadequate documentation of worksearch activities.

As part of the equitable access efforts described in the Ongoing Initiatives section of this report, DES will develop an online work search repository that will allow claimants to easily create and store electronic work search records to meet the state's weekly requirements. The repository will include automation to assess the completeness of work search records, which are assessed during Reemployment Services and Eligibility Assessment (RESEA) appointments and during the division's Benefits Accuracy Measurement review process.

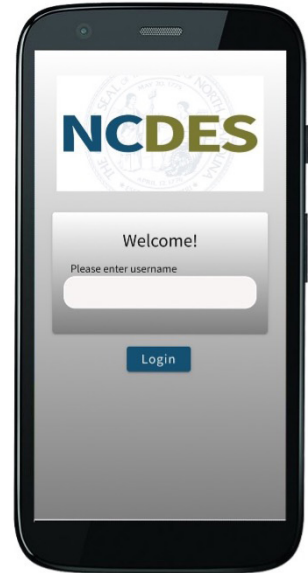
In the fall of 2020, DES began to expand its integrity efforts to further improve fraud detection and the recovery of improperly paid funds. Overpayments are recovered mostly through direct claimant payments, by offsetting benefits, and by intercepting state and federal tax refunds.



CUSTOMER EXPERIENCE ENHANCEMENTS

The Division of Employment Security is continually improving its customer service by providing claimants with easier access to information about their claims and more self-service options.

- **NCDES Mobile App:** In June 2021, DES launched its first-ever mobile app. Current claimants can use the NCDES app to conveniently file their weekly certifications for benefits, check their claim status, view payments, and see important documents and notifications from DES. The NCDES app is available in the Google Play Store and Apple App Store. Since its launch, the app has been downloaded more than 90,000 times.



- **Earnings Calculator:** Claimants who work while claiming unemployment benefits are required to report their earnings to DES. Failure to report income, or misreporting income, may result in an overpayment of benefits that the claimant must pay back. To help claimants report their income accurately and avoid overpayments, DES added a new earnings calculator to the weekly certification process. The calculator became available for use in mid-June 2021.

- **Benefits System Facelift:** In November 2021, DES launched newly redesigned customer self-service screens for claimants and employers in the SCUBI online benefits system. Beyond enhancing the appearance of the screens, the facelift helps improve navigation and simplify the claims filing process for claimants. All of the screens are designed to be less cluttered and easier to read, with clearer instructions for filing a claim. Users also have access to features like a dashboard that summarizes status, actions they need to take and other important information on one screen.

Friday, November 5, 2021 Welcome Claimant ID: [Logout](#)

[Dashboard](#) [Claims](#) [Confirmation History](#) [Appeals](#) [Documents](#) [My Profile](#)

DASHBOARD

Actions Required

External Links

[Debit Card Website](#)

Need Some Help?

- [Help System](#)
- [Help](#)
- [Resources](#)
- [Contact Us](#)
- [Email](#)

LAST PAYMENT DATE

CURRENT CLAIM ISSUE
1

NEXT WEEK FILE DATE
NOV 7
SUN 2021

Current Claim Status

✔ Claim Application
 ● Claim in Review
 ● Claim In Process
 ● Decision Made
 ● Benefits Exhausted

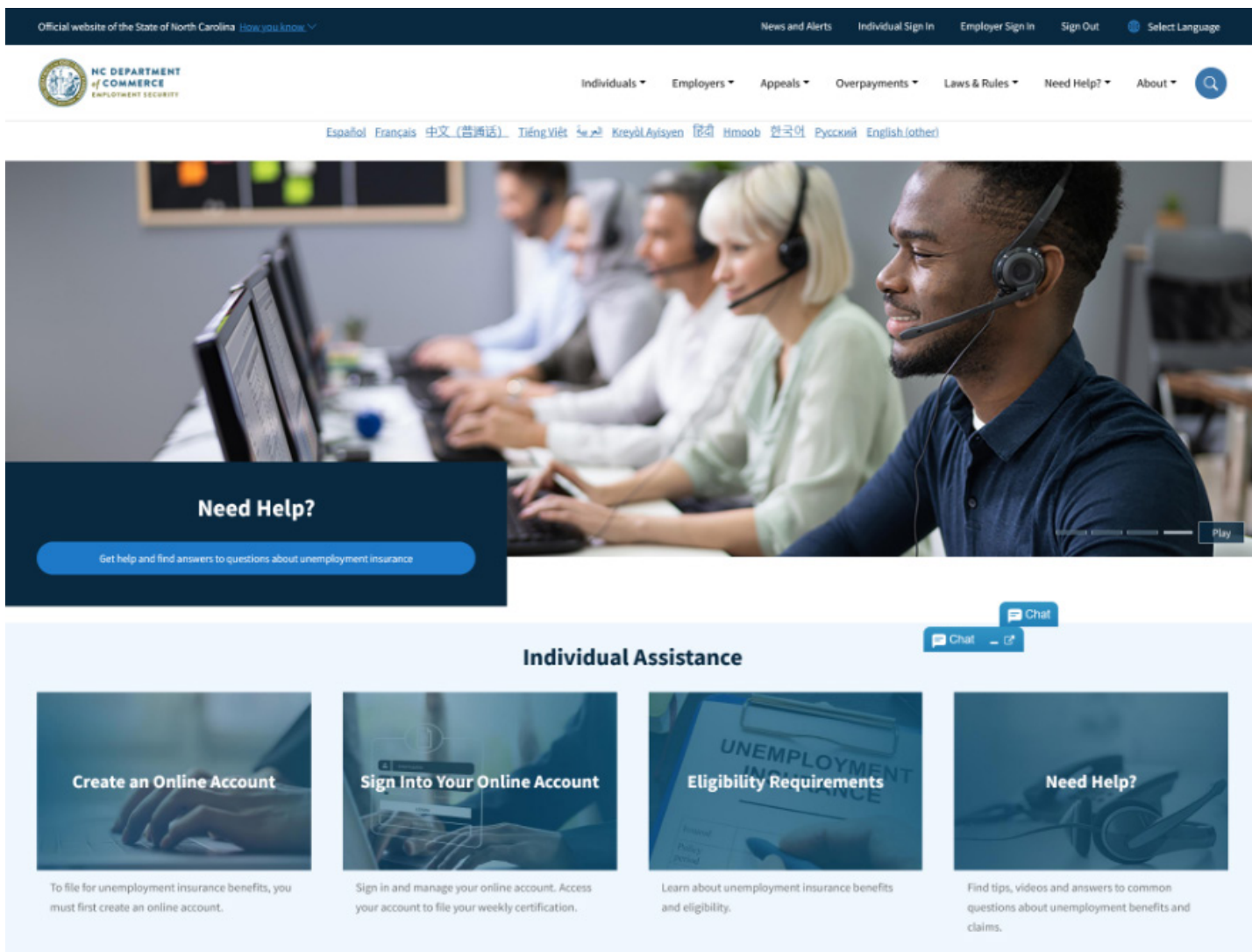
Your claim has been received, but may take up to 14 days before the status of your claim changes. Once we determine your monetary eligibility, a letter will be provided and we will continue processing your claim.

Current Claim

PROGRAM	EFFECTIVE DATE	MAXIMUM BENEFIT	WEEKLY BENEFIT	EARNINGS ALLOWANCE	AMOUNT PAID	STATUS	REMAINING BALANCE
UI	10/31/2021					Pending	\$ 0.00

- **Website Redesign:** In September 2022, DES went live with a new public-facing website at des.nc.gov, becoming one of the first North Carolina agencies to transition to an updated Digital Commons thematic platform. The website provides simpler functionality and a design that allows people to more quickly and easily find information.

In redesigning the site, DES focused on improving the user experience for individuals and employers. Using website analytics and a graphically focused theme, DES reorganized content to make it easier to find the most sought-after information. The new platform is secure and accessible, and its mobile-friendly interface simplifies the process of updating and adding content.





**EMERGENCY
RESPONSE**

COVID-19 PANDEMIC

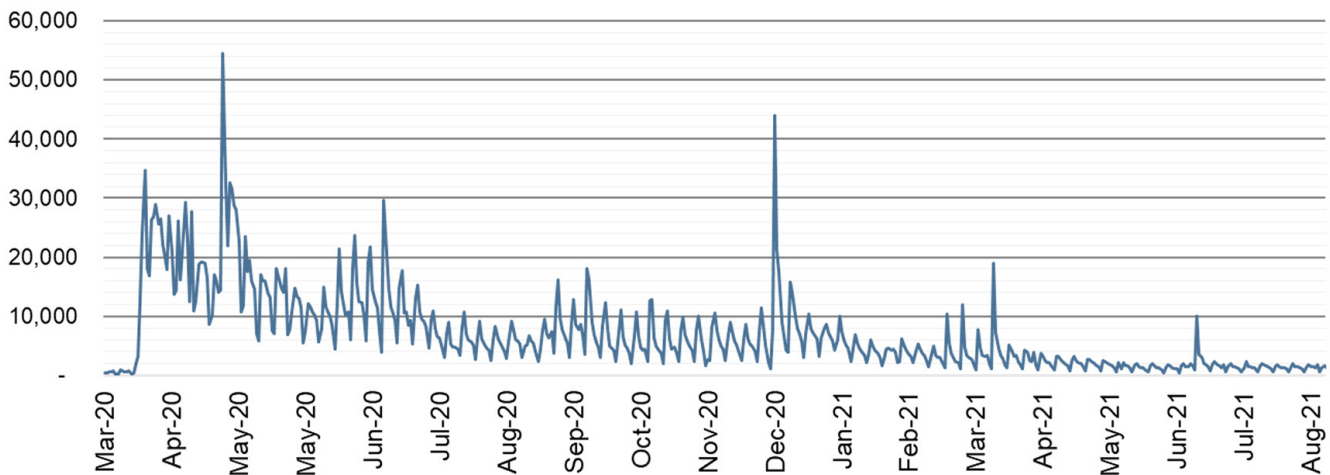
From March 2020 through September 2021, DES issued approximately \$14 billion in unemployment assistance to more than one million North Carolina workers across nine state and federal programs.

Since its creation in 1935 during the Great Depression, the nation’s unemployment benefits program has provided critical financial support to individuals and communities during times of economic hardship. However, no economic downturn, natural disaster or emergency has tested states’ abilities to administer the program like the COVID-19 pandemic.

Rapidly rising unemployment led to unprecedented claims volumes and vast new challenges for the North Carolina Division of Employment Security. In March 2020, claims for unemployment benefits skyrocketed from approximately 3,000 a week to more than 20,000 a day.

March 15, 2020 – Sept. 9, 2021

Claims Filed: 3,844,273 Number of Claimants: 1,542,768



On March 17, 2020, N.C. Governor Roy Cooper sought and received Council of State concurrence to exercise emergency authority to help the DES issue unemployment benefits in a timely manner. The N.C. General Assembly codified these changes in NCGS § 96-14.15. These temporary reforms included waiving the waiting week required before a first payment is made, suspending work search requirements, not charging employers’ accounts for benefits paid related to COVID-19, and lifting some of the requirements for employers to file attached claims on behalf of their employees. These provisions were reinstated in 2021.

In addition to running North Carolina’s permanent state unemployment benefits program, DES was responsible for implementing several new and temporary unemployment assistance programs established by the federal government. The state of North Carolina also established through statute the Increased Benefit Assistance program for unemployment beneficiaries.

DES received additional federal administrative funding to help address the demands. The division ramped up its staffing levels very quickly, going from approximately 500 employees before the pandemic to a peak staffing level of more than 2,500 permanent, temporary, contracted, intern, retired and redeployed state employees.

The division also acted immediately to improve its technology and customer service. System upgrades were made to handle large volumes of incoming unemployment claims and calls. The capacity of the SCUBI benefits system was expanded by 15-to-20 times to handle the exponential growth in claims being processed. Network bandwidth was increased by 50%, and nightly processing time was reduced from a period of six-to-eight hours to only 45 minutes, maximizing system availability for staff and claimant use. Customer self-service options, such as an automated claims status tracker, were implemented to provide people with easy access to updates about their claim.

All temporary unemployment assistance programs ended by Sept. 4, 2021, at which point, the state unemployment insurance program became the only benefit program available in North Carolina. However, DES continued to work to resolve outstanding claims and appeals related to the temporary, pandemic programs. As of late summer 2022, DES had resolved nearly all of its pandemic-related backlogs.

COVID-19 Pandemic Programs and Benefits Paid

In addition to state unemployment insurance benefits, DES administered eight other federal or state programs during the COVID-19 pandemic.

- **Pandemic Emergency Unemployment Compensation (PEUC):** Federal extension to state unemployment insurance benefits for people who exhausted state benefits.
- **Extended Benefits (EB):** Federal extension to state unemployment insurance benefits that only becomes available during periods of high unemployment in a state. Paid after a claimant exhausted state and/or PEUC benefits.
- **Pandemic Unemployment Assistance (PUA):** Federal benefits for people who were ineligible for or exhausted state unemployment insurance benefits and extensions; and who were unable to work as a direct result of COVID-19 during each week of benefits.

Claimants who were eligible for state unemployment benefits or the programs above may have also been eligible for the benefits below for applicable weeks:

- **Federal Pandemic Unemployment Compensation \$600 (FPUC):** Federal program that provided an additional \$600 weekly benefit. (March 29 – July 25, 2020)
- **Lost Wages Assistance (LWA):** Federal Emergency Management Agency-funded program that provided an additional \$300 weekly benefit. (July 26 – Sept. 5, 2020)
- **Increased Benefit Amount (IBA):** State program that increased the claimant's weekly benefit amount by \$50. (Sept. 6 – Dec. 26, 2020)
- **Federal Pandemic Unemployment Compensation \$300 (FPUC):** Federal program that provided an additional \$300 weekly benefit. (Dec. 27, 2020 – Sept. 4, 2021)
- **Mixed Earners Unemployment Compensation (MEUC):** Federal program that provided an additional \$300 weekly benefit. (Dec. 27, 2020 – Sept. 4, 2021)

SCUBI, the state's unemployment benefits system, had to be programmed to determine claimants' eligibility for the new programs and to issue accurate and timely benefit payments. As new benefits became available, careful programming and testing were necessary to prevent disruption of other benefits already being administered by DES.

Due to the diligence and expertise of its team and the capabilities of its modernized benefits system, DES was able to relatively quickly stand up the three most significant new programs— FPUC, PUA and PEUC—which were created by the federal CARES Act and extended by the Continued Appropriations Act and/or American Rescue Plan Act.

The U.S. Department of Labor provided preliminary guidance about the unemployment insurance provisions of the CARES Act on April 2, 2020, followed by program-specific guidance for FPUC, PUA and PEUC.

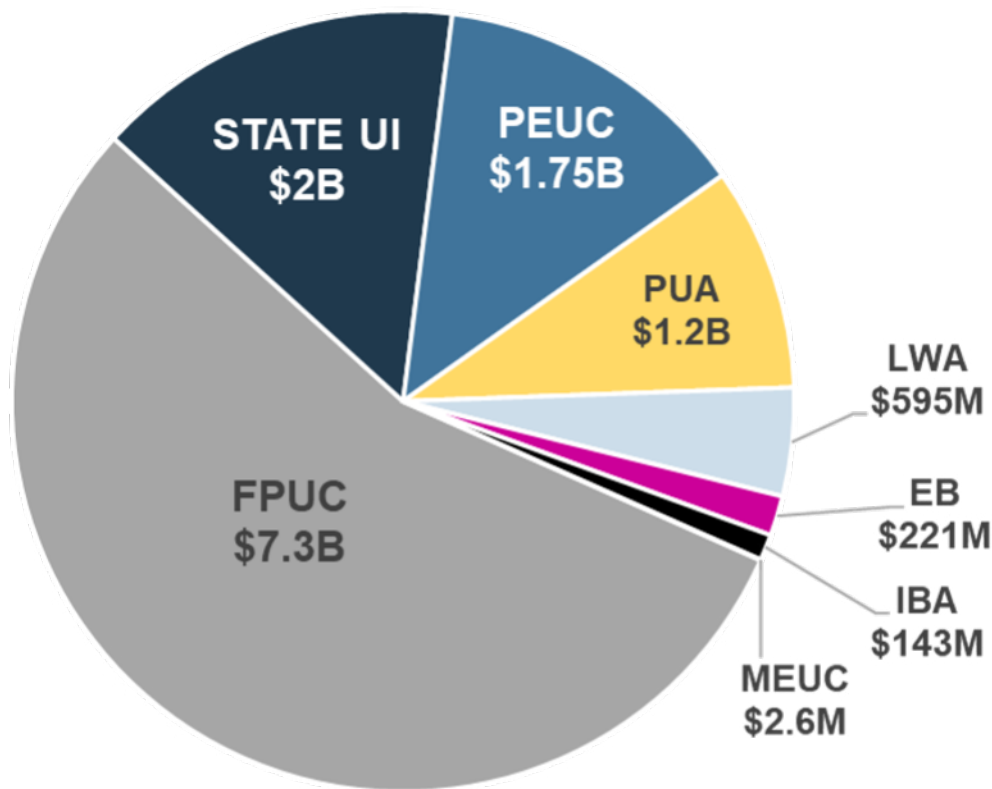
The programs of the CARES Act were then implemented as follows:

- FPUC: 12 days after receiving USDOL initial program guidance on April 4, 2020.
- PUA: 19 days after receiving USDOL initial program guidance on April 5, 2020.
- PEUC: 41 days after receiving USDOL initial program guidance on April 10, 2020.

DES was strategic in its implementation timeline to prioritize the programs that would have the most impact on claimants. Claimants were able to apply for programs the day after the program was implemented, and claims were processed automatically by the benefits system.

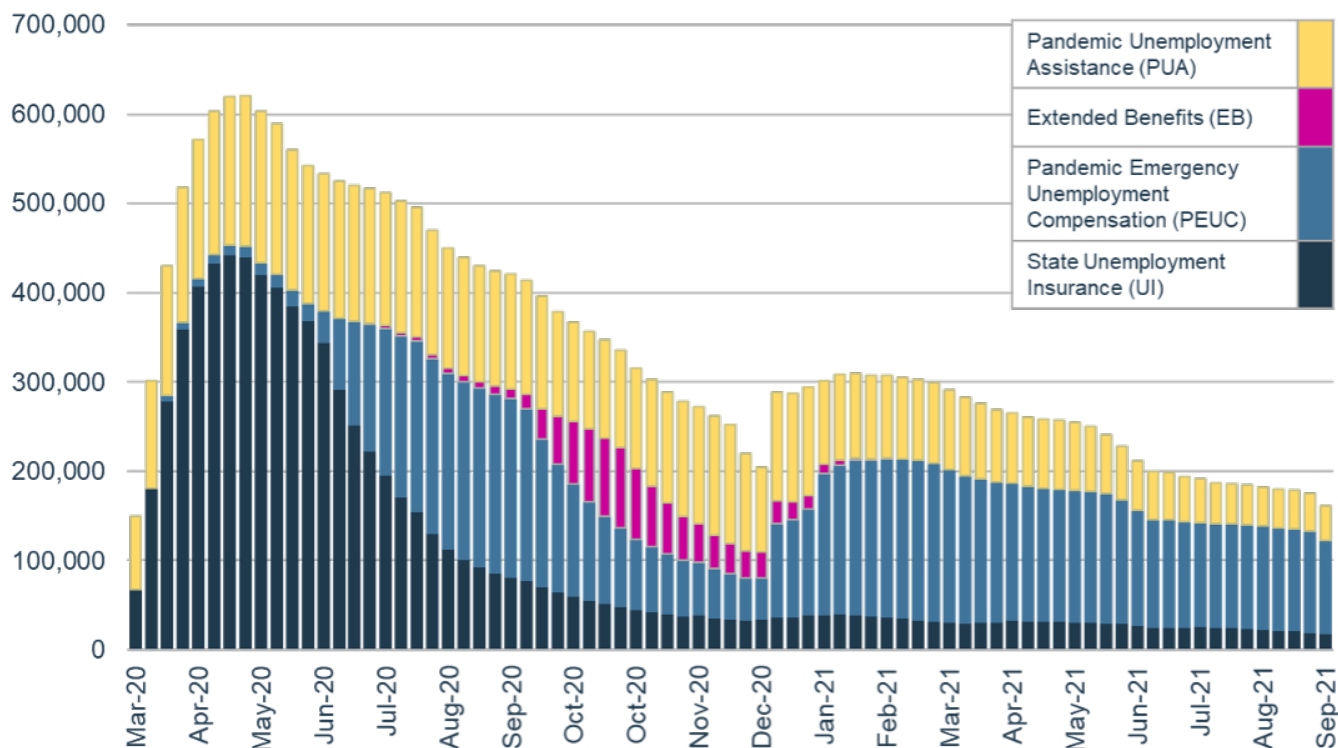
During the pandemic, DES paid out approximately \$14 billion to more than one million North Carolina workers.

Dollars Paid (All Programs) March 15, 2020 – Sept. 10, 2021



Number of Claimants Paid by Benefit Week (Four Primary Programs)

March 15, 2020 – September 10, 2021



COVID-19 Pandemic Fraud Prevention and Detection

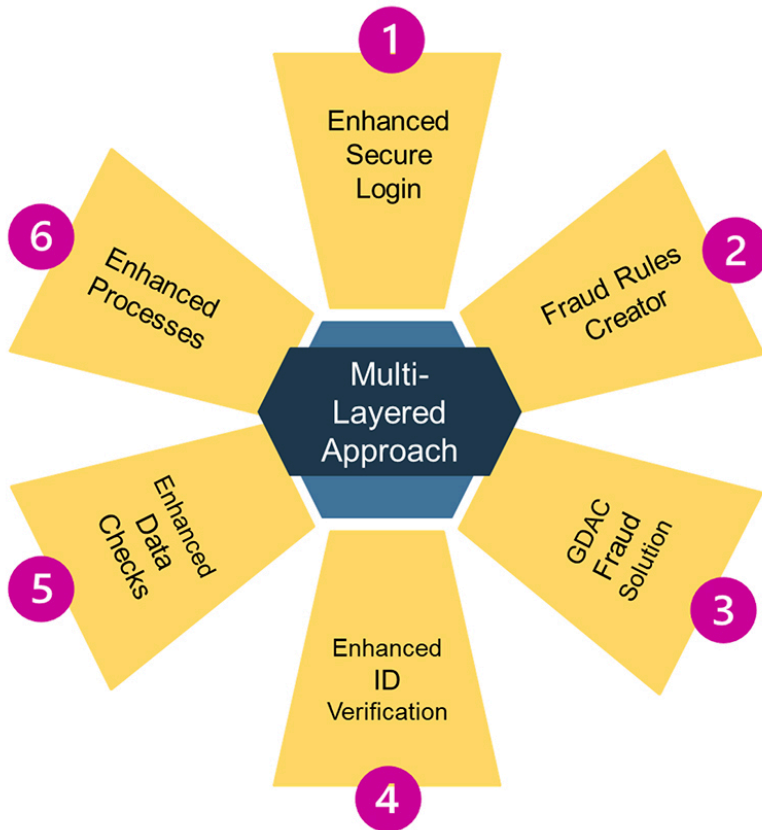
During the COVID-19 pandemic, unemployment benefits were administered on a larger scope and scale than in any other time in history. The federal government established new pandemic unemployment programs, expanded eligibility guidelines to include self-employed workers and those out of work due to COVID-19, and made large sums of federal funding available to states to distribute.

Unfortunately, these factors made state unemployment systems across the nation a target for fraudsters. In particular, schemes involving the use of stolen identifying information to claim unemployment benefits became widespread nationwide.

These fraud schemes victimize innocent people, negatively impact the employers who pay taxes into the unemployment system and put a strain on limited public resources.

Responding to the urgent need during the pandemic, DES successfully implemented a multi-layered technology solution that uses data analytics and visualizations to prevent and detect fraudulent activity. This has provided DES with the ability to stop fraudulent claims with a higher degree of accuracy early in the process, ideally before any benefits are paid.

Use of Data Analytics to Detect and Prevent Fraud



1	Fraud deterrence using Multi-Factor Authentication, reCAPTCHA, Geo Restriction, IP/Email Checks and Device Fingerprinting
2	Intelligent and adaptive approach to identifying and implementing fraud rules based on their efficacy using machine learning techniques
3	North Carolina Government Data Analytics Center reviews unemployment claims data for suspected fraudulent activity by leveraging data from other agencies using predictive analytics
4	Comprehensive identity verification using ID.me services and the National Association of State Workforce Agencies' Integrity Data Hub
5	Intelligent crossmatches with state and federal data sources, such as State and National Directories of New Hires, Social Security Administration, etc.
6	Frontline workers provided with training to effectively use fraud prevention tools

In 2021, DES's fraud solution yielded the following results:

- The implementation of more than 100 fraud rule checks in the benefits system.
- Predictive model rules with a True Detection Rate of 75%. This means three-quarters of claimants suspected of fraud did not complete or pass the additional verification checks required by DES.
- Approximately 281,665 potential claimant misrepresentation/fraud issues were identified. DES presumes 147,405 of those to be fraudulent due to confirmed fraud or a claimant's failure to report to DES.
- Information about 161,000 suspicious individuals was sent to the National Association of State Workforce Agencies' Suspicious Actors Repository to share with other states to prevent multi-state fraud schemes.
- The process helps DES focus on claims with a high probability of fraud, so the majority of legitimate claimants are not burdened with additional verification checks.

With these multi-layered solutions and lessons learned during the COVID-19 pandemic, North Carolina and states across the country are better prepared to fight unemployment fraud in future economic downturns, natural disasters or emergency events.



TROPICAL STORM FRED

Following a federal disaster declaration in September 2021 due to the effects of Tropical Storm Fred, three North Carolina counties were approved for Disaster Unemployment Assistance (DUA): Buncombe, Haywood and Transylvania counties.

DUA is a federal unemployment program that provides temporary payments for workers or business owners who, as a direct result of a federally declared disaster:

- No longer have the job that provided their primary source of income.
- Are unable to reach their place of unemployment.
- Cannot work because of an injury caused by the storm.
- Were unable to begin employment or self-employment due to the storm.
- Have become the major supplier of household income due to a storm-related death of the previous major supplier of household income.

Eligibility for DUA is determined weekly, and claimants must continue to be out of work as a direct result of the disaster each week to receive benefits.

The 30-day application period for Tropical Storm Fred DUA benefits ran from Sept. 10 – Oct. 10, 2021. Approximately 775 people applied for DUA. DES approved 15 applications, issuing \$7,800 in benefits. It was determined that most applicants were out of work due to the COVID-19 pandemic, and not due to the effects of Tropical Storm Fred.



**ONGOING
INITIATIVES**



TAX SYSTEM MODERNIZATION

In April 2022, the Division of Employment Security kicked off the process of modernizing the state's unemployment insurance tax system. This is the system used by employers, third-party administrators and DES staff to administer the collection of employer wage records and tax payments.

The project will replace DES's 30-year-old tax mainframe and remote tax filing systems with a single, modern system that will have significant benefits for DES staff and North Carolina employers.

The new system will:

- Feature a more robust self-service portal for employers, remitters and third-party administrators.
- Reduce manual processing, paper filings and check handling.
- Provide real-time updates.
- Ensure better integration with other interfaces, such as the SCUBI benefits system.
- Create more efficient and time-saving processes.
- Develop a cross-trained and highly knowledgeable staff.

DES has engaged the vendor Sagitec to analyze its needs and develop the new system. It is expected to launch in late 2023.

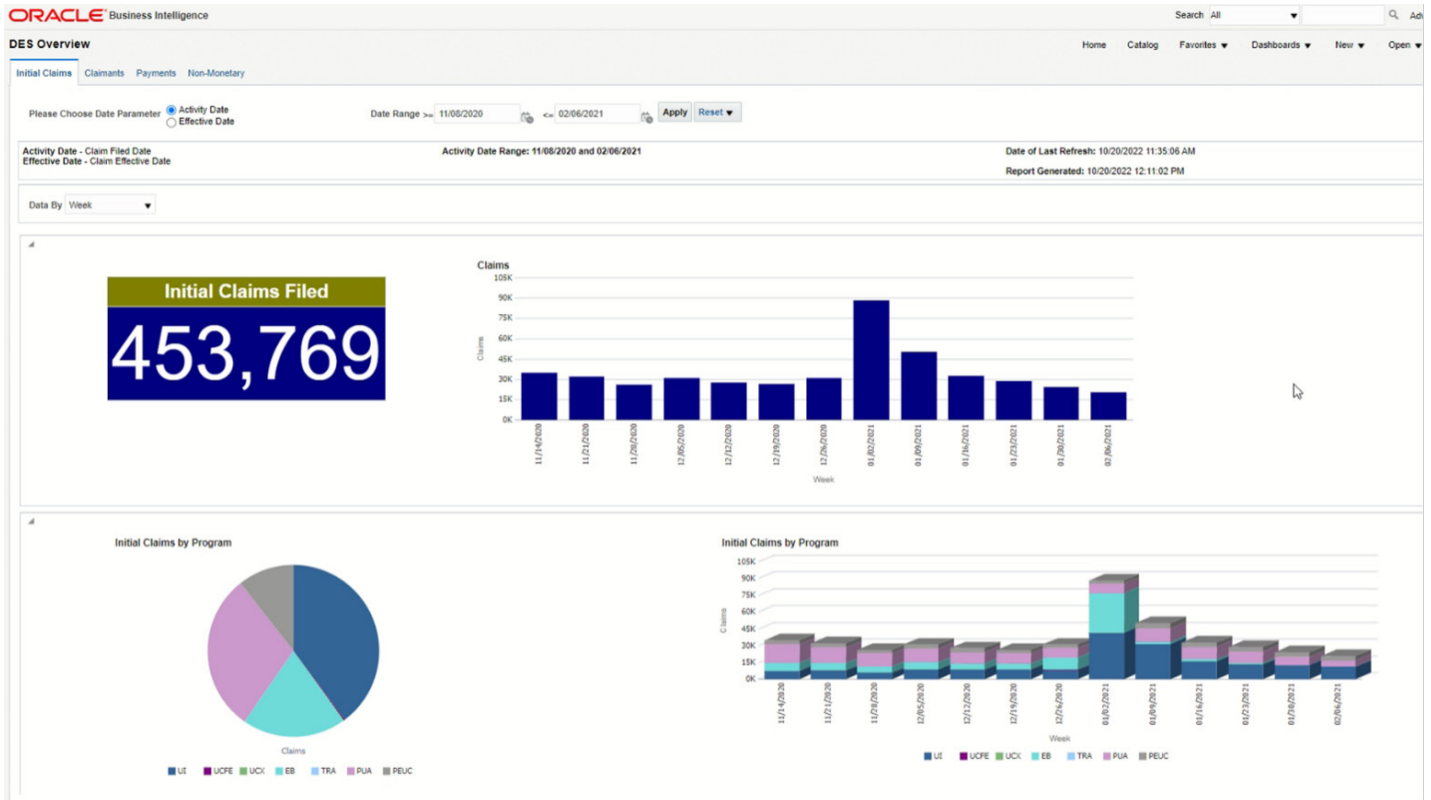


KEY METRICS AND PERFORMANCE IMPROVEMENT

The high workload created during the COVID-19 pandemic drastically impacted the performance of the unemployment insurance program in North Carolina; however, the Division of Employment Security has now cleared most of its pandemic-related backlogs. Over the next two years, DES will continue to focus its efforts to meet or exceed federal performance standards and improve its service to North Carolina employers and claimants.

The response to the COVID-19 pandemic highlighted the need for real-time, comprehensive and consistent reporting of claims volume, processing and resolution status across all DES units. As a result, DES is in the process developing more than 70 data dashboards and reports that will help the division more effectively manage workloads and resources. The project is scheduled to conclude in 2023.

Example of Dashboard Under Development





EQUITABLE ACCESS

In August 2022, the U.S. Department of Labor awarded DES with \$6.8 million in grant funding to promote equitable access to the unemployment program. DES will address disparities in the delivery of benefits across various demographic groups through five grant projects:

- The **Equity Analytics Dashboard** project will allow DES to analyze data to better understand unemployment benefit outcomes across different demographic groups. Demographics include race, gender, age, ethnicity, citizenship status, education, residential location, wage history, and self-attested status for disability and language needs.
- The **Behavioral Insights** project will use expert behavioral research to improve the claimant experience and communications. DES will partner with the National Association of State Workforce Agencies' Center for Employment Security Education and Research to analyze and address barriers to access that may exist for various claimant demographic groups, particularly those that are historically underserved.
- The **Multi-Language Support** project includes six components that will enable DES to provide online services, instructions and correspondence in Spanish, with the potential to add other commonly spoken languages in the future.
- The **Claimant Messaging** project includes two components that will deliver targeted messaging to claimants to ensure their claim and payments are processed timely. DES will establish the capability to send mobile alerts to claimants who need to take action (such as filing a weekly certification), and develop a content-driven, automated chatbot to provide people with real-time assistance while filing their initial claim.
- The **Ombudsman and Outreach** project will improve the effectiveness of messaging to individuals, address issues and gain insights from stakeholder groups, and conduct public outreach to advance equitable access to unemployment benefits.

All equity projects are expected to be completed by March 2024.



REEMPLOYMENT SERVICES AND ELIGIBILITY ASSESSMENT

The Division of Employment Security is working to strengthen the effectiveness of the North Carolina's Reemployment Services and Eligibility Assessment (RESEA) program. RESEA is a federally funded program DES operates in conjunction with the N.C. Division of Workforce Solutions (DWS) to help improve employment outcomes for unemployment claimants and reduce the length of time people receive unemployment benefits. During RESEA appointments, unemployment claimants meet with a workforce specialist to learn about financial and reemployment assistance, and review their work search activities.

RESEA became a permanent program under the federal Social Security Act in Fiscal Year 2018 with the goals of:

- Reducing claimants' durations of unemployment benefits through improved employment outcomes.
- Strengthening unemployment insurance program integrity.
- Promoting alignment with the vision of the Workforce Innovation and Opportunity Act.
- Establishing RESEA as an entry point to other workforce system partners.

Program funding is formula based, and for years after Fiscal Year 2020, states are required to use evidence-based reemployment interventions. DES and DWS are currently working with Actus Policy Research on a three to five-year study to evaluate the RESEA program and develop service delivery strategies that will have strong evidence to support their effectiveness.



CONCLUSION

Prior to the COVID-19 pandemic, DES was making incremental improvements to its overall program performance. The division was analyzing and refining business processes to ensure both quality and timeliness, as well as implementing improper payment reduction strategies.

The pandemic temporarily delayed some of these efforts, as DES turned to processing an unprecedented claims volume, increasing its staff and standing up new temporary programs.

As DES now completes its pandemic-related workload, the division is again working toward improving its service delivery and customer service experience. Additionally, DES has intensified its focus on fraud and overpayment prevention and will continue to employ new solutions to stay ahead of emerging threats to program integrity.

As described in this report, several major initiatives are underway that will help DES continue to improve its service to the taxpayers, employers and workers of North Carolina in the years to come.