DELAWARE DEPARTMENT OF LABOR
DELAWARE DEPARTMENT OF FINANCE

The Honorable David Sokola
The Honorable Bryan Townsend
The Honorable S. Elizabeth Lockman
The Honorable Gerald W. Hocker
The Honorable Brian Pettyjohn

The Honorable Valerie Longhurst
The Honorable Melissa Minor-Brown
The Honorable Kerri Evelyn Harris
The Honorable Michael Ramone
The Honorable Lyndon D. Yearick

July 30, 2024

Dear Legislative Leaders:

Per our letter dated June 4, 2024, the attached Report on certain financial irregularities at the Delaware Department of Labor's Division of Unemployment Insurance (UI) has been prepared for your review and disposition. The Report documents the challenges faced by UI prior to the pandemic, how the pandemic exacerbated those challenges, the events surrounding a 2023 theft of funds from the UI Trust Fund, and separate findings of the state's independent auditor that led to an unprecedented disclaimer of opinion with respect to the UI Trust Fund contained in the State's Fiscal Year 2023 Annual Comprehensive Financial Report (ACFR).

As has been widely reported, shortly after DOL discovered the theft from the UI Trust Fund, the UI Administrator died. It appears law enforcement does not intend to charge any party with a crime. To be sensitive to surviving family members and the privacy of others involved in the investigation and response, the report references persons by their position titles. As outlined in the report, our priorities are to put in place appropriate controls to prevent such events from reoccurring, maximize the prospect of recovery of amounts stolen, work toward an unmodified opinion of the ACFR as it relates to the UI Trust Fund, and address the issues impacting DOL financial systems and processes outlined in our original letter to you.

We are making progress on all these fronts. UI is working through appropriate channels to seek recovery of funds. With the assistance of the Division of Accounting, UI has retained a major accounting firm to assist the State and UI in developing appropriate control systems, policies, and procedures. Processes are underway to develop a clean trial balance for the UI Trust Fund for both fiscal year 2023 and 2024. The Governor and General Assembly have provided critical support to address these challenges – specifically, $60 million in ARPA funds to modernize UI's antiquated information system and enactment last month of House Bill 433 that will dramatically simplify the unemployment tax assessment system for Delaware employers.

That said, the work ahead is considerable and will continue for some time. The report also provides recommendations for your consideration. We thank you for the opportunity to provide this report and will keep you updated periodically on our progress in whatever format or forum you find to be most valuable in exercising your oversight responsibilities.

Sincerely,

Karryl D. Hubbard

Karryl Hubbard
Secretary of Labor

Richard J Geisenberger

Rick Geisenberger
Secretary of Finance

REPORT TO THE LEADERS OF THE 152nd GENERAL ASSEMBLY

Regarding Theft of Funds from the UI Trust Fund

and

FY23 ACFR Disclaimer of Opinion

July 2024

BACKGROUND

The Delaware Department of Labor (DOL) Division of Unemployment Insurance (UI) is responsible for implementing the state's unemployment insurance program, which is a national program funded in part and regulated by the United States Department of Labor (USDOL). Within UI, the Employer Contribution Office (ECO) is responsible for accounting for the UI Trust Fund, collecting taxes and other employer contributions, maintaining employer accounts and report management, and establishing each employer's tax liability and rate.

Traditional UI benefits are fully funded through employer assessments. However, UI operations in Delaware, and many other states, have historically been underfunded and understaffed. Approximately 70% of UI operating funding generally comes from USDOL with states determining how to fill the gaps. In Delaware, the gap has historically been filled through a combination of volatile and unreliable sources – including a fund containing penalties and interest from delinquent employers, special one-time federal allocations (e.g., ARPA funding), and reversions from other divisions within DOL. Knowing these challenges, in 2019, the then-Secretary of Labor commissioned a study of business processes and risks of operations. The report detailed the numerous challenges and critical need for systemic changes within UI including the need to address manual and paper-based business processes, develop an electronic document management system, overhaul and modernize UI's technology, update policies and procedures, provide for standardized and consistent training, and address staff retention and turnover.

Beginning in March 2020, the pandemic and related federally enhanced UI benefits and programs severely exacerbated these challenges as Congress laid the heavy responsibility of getting economic support out to millions of Americans through UI systems that were old, outdated, and under-supported. Claims and claims payments reached extraordinary levels that far exceeded any previous recession. Within months, the UI Trust Fund was exhausted. State officials wisely authorized the use of unrestricted Coronavirus Relief Funds to supplement the UI Trust Fund. This allowed the State to pay COVID-19 related claims without the need to pass along higher taxes or charges to employers.

The sheer volume of pandemic era UI transactions severely stressed DOL's under resourced staff and antiquated systems. Lack of funding prior to the pandemic meant that UI entered the pandemic at only 68% of its authorized workforce (84 of 124 positions) with fewer than 18 employees assigned to claims. Soon, federal resources poured in to support claims processing and adjudication and UI redeployed existing staff to handle a massive increase in claims requests. However, employer payment functions did not receive a similar level of supplemental support, or the investment needed to address what became a critical problem in the wake of the pandemic – the need to reconcile payments between states and so-called "reimbursable employers," employers that pay unemployment assessments based on actual costs of claims related to layoffs.

These issues and findings have been well documented through annual audits including the Annual Comprehensive Financial Report (ACFR) and the accompanying annual federal Single Audit that are transparently published online each year by the Auditor of Accounts (AOA) and the Department of Finance's Division of Accounting (DOA) (see: https://accounting.delaware.gov/reports-transparency/).

The Single Audit is an annual audit of major federal programs and the State's adherence to federal compliance requirements that could have a direct and material effect on a major federal program. The Single Audit is prepared by the State's independent auditor under contract with the AOA. Prior to the pandemic, challenges at UI were highlighted in a 2018 single audit finding that the State lacked adequate policies and procedures to ensure that its actuarial estimates of UI taxes receivable was reasonable.

Since the start of the pandemic, in each of the last four years (starting with the Fiscal Year 2020 report published in December 2020), the Single Audit has contained a qualified opinion with respect to the UI program. The Single Audit has included findings and recommendations associated with UI eligibility, reporting, benefit payment, and employer experience ratings. Specifically, the reports have highlighted 1) the lack of adequate systems and controls to prevent ineligible participants from being detected and/or overpayments and recovery; 2) relaxed verification procedures during COVID that increased the vulnerability to fraudulent claims; 3) the need to improve the accuracy and timeliness of year-end closing and account reconciliation processes; and 4) the need to ensure that its reconciliation and financial reporting are performed by personnel with proper experience and expertise.

This background information – as further supplemented by attached Appendix A – provides critical context about the environment in which a theft occurred. It also provides context as to the later disclaimer of opinion with respect to the UI Trust Fund in the State's 2023 ACFR.

THEFT OF FUNDS FROM THE DELAWARE UI TRUST FUND

On the afternoon of March 31, 2023, a staff member in ECO of UI notified DOL Human Resources of suspicious activity by the UI Administrator. Specifically, it was alleged that the UI Administrator had directed a temporary employee to issue a tax refund check to an employer account that shared a home address with the UI Administrator. The UI staff member also shared a court document with Human Resources indicating the UI Administrator had engaged in fraudulent activity subsequent to their original hire date as an officer of a local home-owners association.

Late that afternoon, the Director of UI met with the Secretary and Deputy Secretary of Labor and the HR Administrator to share the information related to the alleged theft and a plan to confront the UI Administrator was developed. In the hours that followed, the Director of UI reviewed system transactions and confirmed that checks totaling $181,184.68 had been issued in January and March 2023 to a business account at the UI Administrator's home address. As the allegations involved theft by a state employee, the Secretary of Labor, following standard protocols, reached out to the Secretaries of Human Resources (DHR) and Safety and Homeland Security (DSHS) to notify them of the allegations against the UI Administrator and plans to remove the employee from the workplace that following Monday. A second meeting among the same individuals was held Sunday, April 2, to finalize plan details.

Early the following day, the Director of UI and DOL's Human Resource Administrator met with the UI Administrator who denied all allegations. The UI Administrator was immediately suspended pending a full investigation; surrendered all security access, identification, and equipment; and was barred from entering DOL facilities or contacting staff. The temporary employee's assignment and access was also terminated on April 3.

Later that afternoon, DOL staff heard that Harrington Police found the UI Administrator deceased. The Secretary of Labor called the Secretary of Safety and Homeland Security to discuss who from the State Police would be leading the investigation into the theft; the lead investigator would be assigned a few days later. Within days, DOL notified the Department of Justice (DOJ), Office of the Governor (OGOV), DOA, AOA, and USDOL of the theft. On April 5, 2023, UI filed a report with the USDOL Office of the Inspector General (OIG), as federally required.

As with any other investigation involving state personnel and particularly alleged criminal conduct, it was important to maintain an appropriate level of confidentiality and follow appropriate protocols to ensure a full and fair investigation, to determine the extent others may have been involved in the theft, to provide time to put in place appropriate controls and training programs to try to prevent such actions from reoccurring, and to maximize the prospect of recovery of the amounts stolen. Many of these efforts remain underway.

Activities to date as outlined further in Appendix B have included, but are not limited to, e-Records requests and reviews, an investigation by law enforcement, engagement of forensic accounting resources, continued reporting and engagement with USDOL OIG, engagement of legal resources to assist in estate litigation, DOL's appointment as administrator of the former UI Administrator's estate, and training for DOL UI staff to strengthen the control environment.

Following the death of the UI Administrator and a subsequent investigation by law enforcement, no person was charged with a crime. It appears there will be no indictment or trial associated with this theft as the perpetrator of the crime is deceased and there was not credible evidence that any other party knowingly assisted the perpetrator. Appendix B provides a detailed timeline of events associated with the theft including UI's response and the current status of efforts to recoup stolen funds.

INDEPENDENT AUDITOR'S DISCLAIMER OF OPINION ON THE UI TRUST FUND

Each year, the State releases and publishes an Annual Comprehensive Financial Report (ACFR) – essentially the comprehensive financial statements of all State of Delaware entities. For published reports see https://accounting.delaware.gov/reports-transparency/. The financial statements are audited by an independent audit firm under an engagement overseen by AOA. For Fiscal Year 2023, the State's independent auditor, CliftonLarsonAllen LLP (CLA) issued "unmodified opinions" with respect to each of the opinion units of the State except for the unemployment insurance trust fund and the business-type activities, of which the UI Trust Fund is a component.

In short, this means that CLA found the state's financial statements to be accurate, in all material respects, with the financial positions of the State's reporting units, except for the UI Trust Fund. Specifically, the opinion letter stated that "we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statement of the business-type activities and unemployment fund".

The opinion letter further states, "The State's Department of Labor was unable to provide sufficient appropriate audit evidence for the balances and financial activity of the account balances of the unemployment fund. The State's records do not permit us, nor is it practical to extend or apply other auditing procedures, to obtain sufficient appropriate audit evidence to conclude that the account balances and related cash flows in the business-type activities and unemployment fund were free from material misstatement. As a result of these matters, we were unable to determine whether further audit adjustments may have been necessary in respect to the unemployment fund account balances, and the elements making up the statement of activities and cash flows."

In the letter of transmittal accompanying the FY2023 ACFR, the Secretary of Finance noted the disclaimer of opinion and highlighted the specific issues and challenges confronting UI. Each of these issues and challenges had been identified in prior Single Audits, including internal control deficiencies, failure to timely reconcile and detail reports, and antiquated financial management systems separate from the state's overall financial accounting systems. The letter of transmittal noted that DOA was assisting UI to overcome and address its internal control deficiencies and correct its flawed data for future years.

The transmittal letter offered assurance to State taxpayers and workers of the underlying strength of the UI Trust Fund which is held in escrow by the U.S. Treasury. UI Trust Fund balances stood at 140% of recommended reserve ratios immediately prior to the release of the ACFR. By way of comparison, from

2014 through 2019, Delaware's UI Trust Fund balances averaged just 43% of recommended reserve ratios. This substantial improvement has been due to the use of Coronavirus Relief Funds as outlined earlier in this report. To further illustrate this important point, on February 29, 2020, immediately prior to the pandemic, the UI Trust Fund held by the U.S. Treasury had a balance of $150.5 million. As of June 30, 2024, the UI Trust Fund holds a balance of $347.9 million.

On March 26, 2024, AOA issued a Special Report on the UI Trust Fund (See https://auditor.delaware.gov/wp-content/uploads/sites/209/2024/03/DOLUI-Final-Report.pdf). That report further highlighted financial management concerns at UI as well as AOA's observations. As noted by AOA, the Single Audit has been highlighting material weaknesses and significant deficiencies in UI internal controls since 2020. DOL, DOA and AOA have been aware of these issues as they were published, and corrective action plans were initiated at the time. However, as noted by the AOA, ultimately such plans did not rectify the root causes.

The Special Report highlighted a long chain of events throughout the past year leading up to the disclaimer of opinion. At its core, there are two principal issues. First, UI failed to make accounting journal entries to UI's financial systems throughout Fiscal Year 2023 and into Fiscal Year 2024. Second, despite efforts by UI with the assistance of forensic auditors to develop and present a trial balance for Fiscal Year 2023, the State's independent auditor ultimately determined that such trial balance was not auditable.

For purposes of this report, it is important for readers to understand that the theft, in and of itself, did not lead to the disclaimer of opinion. The amount of the theft is a known number, has been fully disclosed to the independent auditor, and thus can and will ultimately be recorded to UI's financial accounts, net of any recovery. That said, the former UI Administrator occupied the key position in the agency responsible for addressing and remediating the weaknesses and deficiencies that were identified between 2019 and 2023. With the benefit of hindsight, the former UI Administrator, as a leader within UI, was provided a high level of autonomy and trust as part of his job responsibilities, which included day-to-day operations, oversight, and continuous improvement of ECO. We cannot confidently assess the degree to which the former UI Administrator contributed to the lack of progress or inhibited efforts toward resolving known accounting and control deficiencies.

As further outlined in Appendix C, three different accounting firms have been retained over the course of the past several years to assist UI in addressing the deficiencies and weaknesses identified in audits. The previous two engagements failed to achieve their desired result due to a combination of a lack of resources, focused project management, and ECO unit leadership, as well as pandemic workloads.

At this time, the State has fully committed the necessary resources to address and rectify these challenges. In recognition of the unsuccessful past efforts to address weaknesses and deficiencies, it was clear a significant level of top resources was required. DOA has retained nationally recognized accounting firm, BDO USA (BDO). UI also increased investments in a national technology and staffing firm (CAI) to ensure proper accounting and project management resources are working with BDO. Considerable resources and expertise have been dedicated from BDO, UI, CAI, and DOA. The team includes highly skilled CPAs, proven project managers, business analysts, data analysts, and senior member accounting and auditing staff.

BDO is working with UI staff to fully understand current business processes and account details. This engagement is split into two separate initiatives – develop operational business process improvements to address operational deficiencies and audit findings,and produce an auditable trial balance for both fiscal years 2023 and 2024. These initiatives are being conducted simultaneously. Progress meetings occur daily and principals, including the Secretaries of Labor and Finance, join at least three meetings weekly with the Project Management Team from BDO, UI, and CAI to track progress.

For the business process improvement project, BDO is mapping existing processes to make recommendations and help implement improved financial controls and more efficient business processes. Business processes include contributory employer tax assessment and payments, reimbursable employer tax assessment and payments, paying claims, billing delinquent employers, registration for unemployment insurance, and processing employer account status. Key procedures will include running specific detail level reports daily, reconciling all accounts monthly, and posting adjusting entries timely. BDO currently expects the business process improvement project to be complete early in the 4th quarter of 2024. DOL is also working with USDOL to ensure business processes are properly documented and that those policies are followed by all staff.

Meanwhile, BDO is working with UI to develop an auditable trial balance. For that to occur, the trial balance does not need to be exact, but it must be materially accurate. The project consists of compiling fiscal year transactions and any adjusting entries for 12 specific accounts, most of which were significantly impacted by COVID-related claims and programs. These accounts include: cash and equivalents, taxes receivable, account receivable, taxes payable, amounts due to other states, net assets without restrictions, unemployment insurance taxes, amounts due from the federal government, interest income, federal benefits paid, state benefits paid, and bad debt expense. Each account contains several subaccounts that comprise the overall balances. All subaccounts must be thoroughly reviewed and vetted before the trial balance can be finalized.

BDO and UI must perform 5 extensive steps for each account – identifying requirements, extracting transactional detail from the UI mainframe and any other data repositories, answering discovery questions so all parties fully understand the information presented, a forensic review of transaction detail to evaluate the validity of transactions, and posting of adjusting entries to each account based on findings of the forensic review. Each step takes significant time to accomplish and the efforts to complete the FY 2023 trial balance may carry well into the 3rd quarter of 2024. Once the FY 2023 trial balance is complete, work on the FY 2024 trial balance will begin immediately. The timeliness of these efforts will impact the timing of completion of the 2024 ACFR.

Meanwhile, UI is working diligently to modernize its underlying systems and technology. It is a major undertaking designed to leverage best in class business processes and technology to deliver new capabilities to customers including employees, employers, and claimants. It will support a more efficient and better customer experience, increase security, and reduce fraud. The new system will support all major functions of UI including benefits, tax (ECO), appeals, and quality control.

The implementation of BDO's process improvement recommendations referenced above will assist in the efficiency and accuracy of the transactional data that flows through the new UI system. The work with BDO will also inform the development of the operational, system, and management controls to enhance the accuracy and reliability of the reporting produced by the new system. In addition, the initial data transmitted will be clean and accurate as a result of BDO's forensic accounting review and compilation of the trial balance for FY2023 and FY2024 for UI. More details on the goals and objectives of the modernization project are set forth in Appendix A.

Attached Appendix C provides a detailed timeline associated with the disclaimer of opinion.

MAJOR RESPONSE INITIATIVES AND RECOMMENDATIONS

In addition to the remediation efforts outlined above, below are several major related initiatives already underway and further recommendations that may require legislative or budgetary support.

1. ***Modernizing the State's UI Systems*** – State officials have set aside $60 million of ARPA funds to modernize UI's tax, reporting, and benefits systems. Funding was approved in January 2022 and following an extensive exercise to gather business requirements, a Request for Proposals was issued in December 2022. The contract award was finalized in December 2023 and the project kick-off occurred in February 2024. The project is slated to go-live no later than early 2027.

2. ***Reforming the State's Complex UI Experience Rating Methodology*** – The General Assembly enacted House Bill 433 in June 2024, replacing Delaware's unique "benefit wage ratio methodology" with a benefit ratio methodology used in 19 other States. Upon implementation, the new methodology will be more responsive to economic changes, better sustain the solvency of the UI Trust Fund, and help address issues identified in this report by dramatically simplifying tax administration, rate schedules, and reporting.

3. ***Enhancing Funding for UI Technology, Operations and Human Resources*** – The General Assembly enacted House Bill 236 in June 2023. Among other things, the bill restructured the supplemental assessment collected from all employers by directing it to a Special Administration Fund providing for an ongoing funding source for UI's operational and technology needs including maintenance of a modernized UI system. Since the pandemic, employee turnover has led to the loss of valuable technical and operational expertise. DHR's recent maintenance and classification reviews have resulted in increased pay, the creation of career ladders, and updated job requirements for state fiscal and accounting classifications that should help reduce turnover and attract talent.

4. ***Recouping Stolen Funds*** – It is important to know that DOL from the beginning has been dedicated to recouping the stolen funds. DOL, with the support of the Governor and Attorney General's Offices, retained counsel to represent DOL as the Personal Representative over the former UI Administrator's estate so that DOL would be in control of asset liquidation with the goal of recouping the maximum recovery possible. The probate process typically takes nine months to one year and involves multiple steps. Several are completed with the remaining steps anticipated to be complete by Fall 2024. It is anticipated that the estate will be closed by the end of the year. Once closed, funds from the estate get disbursed. At this time, it is unknown the amount DOL will be able to recoup, but it is known that the total assets documented in the estate are 56% of the stolen funds. Any amount recouped will be placed back into the UI Trust Fund and reduce any recorded loss.

5. ***Expand DOA's Capacity to Support Temporary, Emergency, and Ongoing Accounting Services for State Agencies*** – Numerous State agencies struggle to fully address their accounting staffing vacancies. The significant staff turnover and challenges facing UI are not entirely unique. DOA is not currently structured to provide state agencies with centralized support for temporary, emergency or ongoing accounting services. DOA is in the process of issuing a statewide RFP for qualified vendors to provide staff augmentation for forensic, emergency, and temporary accounting services.

6. ***Enact Legislation to Implement RAP-Back Checks for Key Employees***– The former UI Administrator passed a background check upon hire. Shortly after passing the background check, the individual was prosecuted for a theft unrelated to and outside of employment with DOL. Background checks are required for nearly half of UI employees and are conducted upon hire and updated every 5 years, consistent with IRS Publication 1075 requirements. Record of Arrest and Prosecution Back (Rap Back) services, as defined by § 8502 of Title 11 of the Delaware Code can provide DOL with

ongoing status notifications of any criminal history subsequently reported to the State Bureau of Identification (SBI) or the Federal Bureau of Investigation (FBI) in the criminal history system. This would ensure timely notice of known criminal activity and eliminate the need for repeated background checks. Rap Back services are currently available for Delaware criminal history and the state is working with the FBI to implement federal Rap Back notifications in the near future. Legislation (HB 304) authorizing Rap Back services for DTI employees and contractors was passed by the General Assembly in 2024. Similar legislation should be considered for DOL, DOF, and other key employees that handle financial and other confidential information.

7. ***Assess and Restructure UI Staff to Support the Division's Complex Accounting Needs and Comprehensive Control Environment*** – UI currently lacks the technical and accounting expertise to manage certain complex transactions associated with its operations, to drive and implement business process improvement, and to implement the robust internal control environment necessary to fully address anticipated recommendations from BDO. UI must work with DHR, OMB, DOA and the Government Efficiency and Accountability Review (GEAR) team to support any findings and leverage opportunities to enhance training, tuition reimbursement, and recruitment and retention bonuses to help attract and retain needed talent.

8. ***Ensure DOA's Ability to Monitor and Assist with External Accounting Functions*** **–** Several state agencies, including UI, process accounting entries through systems that operate outside the State's centralized First State Financials (FSF) system. In such instances, DOA must have the capability to remotely monitor, in real time, whether key accounting functions are being performed in accordance with State policies and the Budget and Accounting Manual. This includes an ability to monitor timely payments to vendors, deposits of revenues, routine reconciliations, monthly close procedures, and system controls. The UI modernization project offers an opportunity to pilot an implementation of a remote monitoring process. DOA should also consider creating a dedicated team that could provide onsite, direct assistance to agencies on an emergency or an ongoing basis.

9. ***Explore Opportunities to Expand the Availability of Ethics Training*** **–** Since 2021, DOL has assigned supervisors to take an Ethical Conduct in Government training program offered through the Delaware Learning Center and conducted by the Delaware Public Integrity Commission (DPIC). State officials should work collaboratively with DHR and DPIC to monitor participation in such training programs and ensure adequate resources to expand access. While such training will not stop theft by a bad actor, it can educate co-workers on their reporting responsibilities.

Appendix A

About Division of Unemployment Insurance (UI)

The Delaware Department of Labor (DOL) is comprised of five divisions that work together to connect people to jobs, resources, monetary benefits, workplace protections, and labor market information to promote financial independence, workplace justice, and a strong economy. In addition, DOL is home to the Office of Labor Market Information, a rich source of data and statistics about employment and workplace trends in Delaware.

One of the Department's Divisions, the Division of Unemployment Insurance (UI), is the focus of this report. UI is responsible for implementing the state's unemployment insurance program, which is a national program funded in part and regulated by the United States Department of Labor (USDOL). USDOL oversees the general administration of state unemployment insurance programs through law, regulations, guidance, policies, monitoring, and performance standards. In addition, each state, including Delaware, has its own set of unique laws and needs that affect operations and make UI vary from state to state. Even so, all states are tasked with 1) the taxation of employers within USDOL requirements to fund at least the claims paid to eligible workers and 2) the eligibility determination and payment to claimants. For the purposes of this report, UI's Benefits group is responsible for eligibility determination, claims adjudication, and authorizing weekly payments. The Employer Contribution Office (ECO) is responsible for the accounting of the UI Trust Fund, employer account and report management, establishing each employer's annual tax liability/rate, and collection efforts on delinquent accounts. Delaware's UI ECO is the focus of this report, but many state UI agencies face common challenges both pre- and post-pandemic. These include systemic underfunding from USDOL which has led to technology and processes that have not been updated due to the lack of funding availability.

The core services provided by UI are partial and temporary monetary benefits to eligible workers who are out of work through no fault of their own and are actively seeking new employment. This program is a crucial economic support to individuals and families following a job loss. It is also an important contributor to the general economy as it is used to sustain food, shelter, utilities, and other costs individuals and families continue to incur while temporarily unemployed. During COVID-19, UI became the primary program that the federal government relied on and expanded due to the catastrophic impact of worldwide shutdowns on employers and the workforce that resulted in massive layoffs and sudden loss of income for millions of Americans.

Pre-Pandemic

In 2019, UI recognized that its antiquated operating system and outdated policies and procedures were negatively impacting operational effectiveness and began taking steps to address deficiencies. The Division was critically underfunded and operating in a structural deficit relying on funds from penalties and interest collected from delinquent employers to fill the funding gap. The agency receives no support from the state General Fund for operations or personnel, and USDOL funding only supports approximately 70% of agency operations. Benefits to eligible claimants are funded through a tax on employers which is collected, accounted for, and deposited by ECO into a UI Trust Fund managed by the U.S. Treasury.

To manage costs in 2019, DOL eliminated its on-site counter services and centrally located its staff. The Secretary of Labor at the time commissioned a study of the UI business processes and risks of operations. This 2019 report documented and detailed several challenges requiring systemic change which included:

- A review and revision of existing manual processes.
- A heavy use of paper within current business processes, and limited automation.

- A need for electronic document management capability.
- A complete overhaul of technology through modernization.
- Critical need to update policies and procedures.
- The development of more standardized and consistent training.

In addition, the report recommended an improved customer service model, a need to address staff retention and turnover, and an extensive change management strategy to address existing operational challenges. The report went on to detail that "It is not that the division is not performing, on the contrary, they certainly are, but the environmental forces are changing so dramatically, that they will be in a difficult situation in the future if they do not make changes now." This statement proved to be prophetic a few months later when the pandemic hit.

In addition to the internal and federal reporting, the State also reports on agency operations through the Annual Comprehensive Financial Report (ACFR), and Single Audit, which report State finances and include findings of any material weaknesses or deficiencies. The ACFR prior to the pandemic did not indicate any material findings, meaning that the financial variances contained in the financial data did not rise to the level of materiality given the small fiscal footprint of the UI program. However, the Fiscal Year 2020 ACFR and Single Audit reports did identify significant findings.

What began as mounting concerns with accounting and internal problems in FY2020, became increasingly worrisome as the pandemic persisted and the organization was implementing changes to an automated system that was old, outdated, and under-supported.

Pandemic Relief

The initial effects of the pandemic occurred in April 2020, when UI was streamlining its staff to reduce the Division's operating expenses to match the federal funding provided to run the unemployment program in the State. Given that operating expenses exceeded funding received from USDOL, UI was unable to fill vacancies for several years. In April 2020, UI had 84 full-time employees (out of 124 budgeted positions), fewer than 10 claims processors and 8 claims deputies that were responsible for reviewing and adjudicating individual claims. At the start of the pandemic there was an outpouring of federal financial resources into claims processing and adjudication, and a large redeployment of DOL staff to help UI get federal and state payments out to individuals and families as the nation and country's economy were relying on this partial and temporary income support. Because much of the funding was for benefits processed, the employer payment functions did not receive a similar level of supplemental support or the investment needed to address what became a critical need in the aftermath of the pandemic to reconcile payments, both between states, and reimbursable employers – those government and non-profit employers who only pay unemployment taxes when layoffs occur.

As indicated, the pandemic put enormous stress on state unemployment insurance systems starting first with the benefit claims side. Nationally, a one-month increase in the unemployment rate from 4.4 percent to 14.8 percent, combined with legislation that created new federal benefits and expanded the reach of UI systems, sent caseloads to levels never seen before. Nationally tens of millions of workers were submitting claims and policymakers directed UI agencies to fundamentally alter the way the system worked, requiring the development of new programs and making monumental changes to typical operations. According to a September 2023 United States Government Accountability Office (GAO) report on Unemployment Insurance, "from April 1, 2020, through May 31, 2023, expenditures across the UI system totaled approximately $900 billion, according to USDOL data."

In 2020, Delaware UI received 175,000 initial claims, more than five times the 32,000 claims received in 2019. 62,022 initial claims were received in the first four weeks (March 14 – April 11, 2020) of the pandemic. As context, at no point during the 2001 and 2009 recessions did the weekly initial claim volume exceed 4,000 claims. In 2020, Delaware had ten consecutive weeks of more than 4,000 claims, with the two largest weeks approaching 19,000 initial claims.

Continuous claims are the number of claims UI pays on a weekly basis. Prior to the pandemic UI was paying an average of 5,500 individuals each week. In 2020, at its peak, UI paid 55,172 individuals in a single week. In total UI paid benefits of just over $1 billion dollars in 2020; $314 million were benefits funded by the UI Trust Fund with the balance of benefit payments from the 100% federally funded CARES Act programs. By comparison in 2019, Delaware paid just $63 million in benefits in 2019.

Traditionally, the Delaware UI program is responsible for two programs - unemployment insurance and a training tax supplement. The pandemic introduced several new programs which required a combination of operational and system changes. These pandemic era programs also had operational and legal requirements that changed multiple times during the period they were in operation. The number and complexity of the programs surpassed the Division's capacity to implement and manage the programs.

In 2020 and 2021 in response to the COVID-19 pandemic, the Federal Government launched the following Unemployment Insurance programs as authorized by Congress and as further described in so-called Unemployment Insurance Program Letters (UIPL):

- **Federal Pandemic Unemployment Compensation (FPUC) (UIPL 15-20)**
    - On March 27, 2020, the President signed into law the CARES Act, which included the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. Section 2104 of the CARES Act providing for a temporary emergency increase in unemployment compensation (UC) benefits, referred to as FPUC, and included funding to states for the administration of the program.
    - This program provided eligible individuals with $600 per week in addition to the weekly benefit amount they received from certain other UC programs.

- **Mixed Earners Unemployment Compensation (MEUC) (UIPL 15-20)**
    - The continued Assistance Act of 2020 created a new program called Mixed Earner Unemployment Compensation (MEUC)
    - The MEUC program provided an additional $100 per week in supplemental compensation to individuals receiving certain unemployment benefits who earned at least $5,000 of net self-employment income in the tax year prior to the individual's initial unemployment claim. This benefit was payable for weeks of unemployment beginning December 27, 2020, through the week ending March 13, 2021, for eligible individuals.
    - On March 11, 2021, the President signed the American Rescue Plan Act (ARPA) into law which extended the weekly supplement of $100 for weeks of unemployment ending on or before September 6, 2021.

- **Pandemic Unemployment Compensation (PUA) (UIPL 16-20)**
    - PUA provided benefits to individuals who were not eligible for regular unemployment compensation or extended benefits under state or Federal law or pandemic emergency unemployment compensation (PEUC), including those who had exhausted all rights to such benefits. Coverage individuals include self-employed, those seeing part-time employment, individuals lacking sufficient work history, and those who otherwise did not qualify for regular unemployment compensation or extended benefits under state or Federal law or PEUC.

- **Pandemic Emergency Unemployment Compensation (PEUC) (UIPL 17-20)**
    - When initially launched, this program provided up to 13 additional weeks of benefits to individuals who exhausted their regular unemployment compensation entitlement.
    - On December 27, 2020, the President signed into law the Continued Assistance Act. Among other things, the Continued Assistance Act amended section 2107 of the CARES Act of 2020. This Change 2 to UIPL No. 17-20 provided guidance about the following provisions in section 206 of the Continued Assistance Act: (i)extension of the PEUC program through weeks of unemployment ending on or before March 14, 2021; (ii) a new transition rule providing for the payment of PEUC phase-out benefits through April 5, 2021, for individuals receiving PEUC as of the week ending on or before March 14, 2021, only for those individuals who remain otherwise eligible for PEUC; (iii) an increase in the total amount of PEUC benefits available to 24 times the individual's average weekly benefit amount (WBA) payable for weeks of unemployment beginning on or after enactment of the Continued Assistance Act; (iv) a new rule for coordination of the PEUC program with the regular UC program that provided states with four options for implementation and allowed individuals, under certain conditions, to continue to receive PEUC instead of regular UC in a new benefit year; and (v) a new rule for coordination of the PEUC program with the Extended Benefits (EB) program that required individuals currently receiving EB to exhaust EB before resumption of PEUC eligibility. This UIPL also provided guidance about establishing entitlement to PEUC with respect to a second benefit year of regular UC.
    - On March 11, 2021, the President signed ARPA into law. Among other things, Section 9016 of ARPA amended Section 2107 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 (Pub. L. 116-136), as previously amended by the Continued Assistance for Unemployed Workers Act of 2020 (Continued Assistance Act) (Pub. L. 116-260). This Change 3 to UIPL No. 17-20 provided guidance about the following provisions in Section 9016 of ARPA: (i) extension of the PEUC program through weeks of unemployment ending on or before September 6, 2021; (ii) elimination of a transition rule that provided for the payment of PEUC phase-out benefits after the program expires; (iii) an increase in the total amount of PEUC benefits available to 53 times the individual's average weekly benefit amount (WBA) with the additional weeks of benefits payable for weeks of unemployment ending after March 14, 2021; and (iv) extension of a rule for coordination of the PEUC program with the Extended Benefits (EB) program that required individuals receiving EB as of the date of enactment of ARPA to exhaust EB before resumption of PEUC eligibility.

- **Relief for State and Local Governments, Certain Non-profit Organizations, and Federally Recognized Indian Tribes. (UIPL 18-20)**
    - The purpose of this program was to provide states with instructions for implementing the emergency unemployment relief for state and local governmental entities, certain nonprofit organizations, and Federally-recognized Indian Tribes in Section 2103 of the CARES Act of 2020, Public Law (Pub. L.) 116-136.
    - As originally authorized, the Act authorized States upon payment from the reimbursing employer of the amount owed in lieu of contributions, the state could reimburse the employer for up to one-half of the amount of compensation paid by the state attributable to service with the employer.
    - UIPL 18-20 Change 1 - Under the amendments made by the Protecting Nonprofits Act, states were required to use the transfer of federal funds provided under Section 903(i), SSA, exclusively to reduce the amount required to be paid by reimbursing employers in lieu of contributions. Thus, the state could reduce the amount required to be paid in lieu

of contributions by up to 50 percent of the amount of compensation paid before providing the employer with a bill for any remaining amount owed.
  - The Continued Assistance Act, enacted on December 27, 2020, extended the applicable period for emergency unemployment relief through weeks of unemployment ending on or before March 14, 2021.
  - The enactment of ARPA on March 11, 2021, further extended the applicable period for emergency unemployment relief through weeks of unemployment ending on or before September 6, 2021. Additionally, the amendments made by ARPA increased the amount of emergency relief for weeks of unemployment beginning after March 31, 2021, from 50 percent of UC paid to 75 percent of UC paid.

- **Temporary Full Federal Funding of the First Week of Compensable Regular Unemployment for States with No Waiting Week (UIPL 20-20)**
  - On March 27, 2020, the President signed into law the CARES Act, which included the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. Section 2105 of the CARES Act provided for full federal funding of the first week of regular UC for states with no waiting week. States like Delaware that did not have a waiting week provision in their existing state UC law were eligible to participate.

- **Extended Benefits (UIPL 24-20)**
  - The President signed the Families First Coronavirus Response Act into law on March 18, 2020. This legislation, which included the Emergency Unemployment Insurance Stabilization and Access Act (EUISAA) in Division D, made emergency supplemental appropriations in response to the economic impacts of COVID-19. The CARES Act, which was signed into law on March 27, 2020, included additional assistance to unemployed individuals, including EB program recipients.
  - The enactments of EUISAA and the CARES Act temporarily changed certain aspects of the EB program. The UIPL described: (i) basic qualification requirements for an individual to collect EB; (ii) temporary Federal Pandemic Unemployment Compensation (FPUC) payments payable for weeks of EB; (iii) temporary emergency flexibility in modifying or suspending EB work search requirements in response to the spread of COVID-19; (iv) temporary full Federal funding to states for EB; and (v) temporary Federal matching for the first week of EB for states with no waiting week.
  - On December 27, 2020, the President signed into law the Continued Assistance Act, which modified and extended certain EB-related provisions in both EUISAA and the CARES Act. The Continued Assistance Act also established an optional, time-limited, and temporary waiver related to the 13-week "off" period in the Extended Unemployment Compensation Act (EUCA).
  - On March 11, 2021, the President signed ARPA into law. The law modified and extended certain EB-related provisions in EUISAA, the CARES Act and the Continued Assistance Act. This included full funding of EB and continuation of the coordination rule for the (PEUC program and EB.

- **FEMA Lost Wage Assistance (LWA) (UIPL 27-20)**
  - On August 8, 2020, the President issued a memorandum, Authorizing the Other Needs Assistance Program for Major Disaster Declarations Related to Coronavirus Disease 2019 (Presidential Memo), instructing the Secretary of Homeland Security, acting through the Federal Emergency Management Agency (FEMA), to make available other needs assistance (ONA) for lost wages in accordance with Section 408(e)(2) of the Stafford Act (42 U.S.C. 5174(e)(2)). LWA was administered by states and territories through a grant agreement with FEMA. FEMA did not administer such benefits directly

to individuals. The states and territories distributed the funds through their UI system, as a supplemental payment. The Presidential Memo also directed the Department to provide FEMA and the states with technical assistance in the implementation of the program through their existing UI systems.

The scope and reach of these new pandemic era programs were extraordinary. As noted, many functions in UI are paper-based and require manual processing versus system automation. The pandemic era UI programs dramatically increased the complexity and time needed to perform the work, making it difficult for new employees to gain proficiency with the existing systems, and to deploy the new system to support the additional federal programs. In addition, these programs were not able to be supported by UI's existing system resulting in DOL working with multiple vendors and new systems in a short period of time, increasing the workload of an already over-worked team.

An employer's annual tax rate is based on the employers' experience with unemployment, meaning the number of individuals an employer separates from employment. This factor is a unique feature of UI taxes and creates individual tax rates and individual employer rate setting. There are two types of employers – contributory and reimbursable. The contributory employers have an annual tax rate and pay their tax liability quarterly. Reimbursable employers do not pay the tax and instead reimburse the UI Trust Fund dollar for dollar for all of their employees who received UI benefits. As with the Benefits side of the organization, ECO saw a sharp increase in the volume of transactions and unprecedented claims related activity. This required new accounting tasks related to pandemic relief to employers as well as addressing an unanticipated uptick in fraud.

As stated previously, ECO is responsible for ensuring the collection and accounting of employer taxes collected for UI benefits. As a result of the unprecedented claims volume, by September 2020, Delaware's UI Trust Fund balance was negative $13,184,411 meaning that Delaware, similar to many other states, began borrowing from the Federal government to pay claims. In 2020, the General Assembly passed HB 353 to ensure that employers would not be charged for the benefit wages of employees who they had to terminate, furlough, or lay off due to the economic shutdown needed to respond to the COVID-19 public health crisis. The objective was to use federal funds to repay the UI Trust Fund for COVID-19 related benefits paid to these claimants, instead of charging employers though increased taxes. Additionally, federal funds were also provided to states to credit reimbursable employers to reduce their liability for claims. Ultimately, the state contributed $240.8 million of Coronavirus Relief Funds in the UI Trust Fund.

By January 1, 2022, Delaware's UI Trust Fund was solvent with a balance of $271.5 million without an increased employer tax, and reimbursable employers (government and non-profits) were provided federal credits waiving some or all of their UI liability. As a result of these actions, ECO faced an explosion of accounting transactions during a time when UI faced a large number of vacancies and turnover, while working in a computer system that was antiquated. The human toll of COVID was extensive. With the retirements and attrition of several key staff, ECO had difficulty keeping up with needed processing. UI was also unable to recruit and retain sufficient accounting resources to keep up with the increased and more complex work related to pandemic claims and the new UI programs launched in response to the pandemic. In addition, as result of chronic federal underfunding of UI, the agency hired most new employees at only 80% of midpoint and frequently lost talent to other state agencies paying higher starting salaries. By way of example, currently, UI ECO has only one senior accountant and one supervisor who were with UI in March 2020. The entire ECO management team turned over more than once in the past three years and there have been three different senior managers in the position that oversees the ECO unit of about 40 employees since the start of the pandemic.

While federal funds were able to make the UI Trust Fund solvent, previous reports from Delaware's State Auditor found that "material weaknesses" and "significant deficiencies" existed regarding internal controls related to accounting and financial reporting of the UI Trust Fund since 2020.

The vast majority of claims were processed and paid to claimants during this difficult time, and that is a testament to the hard work and determination of a very small and dedicated team. But it is clear that the pandemic exacerbated existing weaknesses and created new challenges, such as fraud and insufficient internal controls.

As mentioned throughout this document, the systems supporting UI are antiquated and proved to be difficult to adapt when changes were most needed – such as during the COVID-19 pandemic. Many states, including Delaware, did not have the funding from their state resources or USDOL to modernize their system. To address concerns brought to light during the COVID19 pandemic, the Division received $60 million in federal ARPA funds in January 2022 to transform its business processes and modernize the technology platforms supporting the UI systems.

UI currently uses a mainframe system originally deployed in the mid-1980s. The web-based claims systems were deployed in the early 2000s. Due to system limitations, the automation is integrated via flat-file methods which limit the ability to provide real-time feedback to claimants and employers. The new system will provide claimants and employers the ability to self-serve, support electronic file sharing, and enhance every major function managed by UI including benefits, tax (ECO), appeals, and quality control functions. The ARPA funds provided an opportunity to take on this multiyear project. Even before full funding for systems modernization was obtained, UI onboarded CAI to help UI develop and implement the project plan in 2021. A modernization project of this nature requires building a team comprised of business analysts, systems architects, project managers, and organizational change managers. UI and CAI have spent two years documenting all existing business requirements and consolidating and cleansing over 35 years of data to prepare for conversion to a new system. The solution will be deployed in two major releases and is expected to be fully implemented in 2027.

BDO's business process improvement recommendations will assist in creating an efficient control environment providing better accuracy of transactional data in the new UI system. This will allow staff to more efficiently process transactions while producing reports that can be relied upon for audit procedures. Additionally, BDO's forensic accounting review will ensure existing data, slated to be transferred to the new system, is accurate and auditable.

The goals of the UI modernization project are:

- **Improve System Security and Reduce Fraud** – Enhance the ability to anticipate and respond to data security threats and manage access.
- **Deliver a Better Customer Experience** – Transform the business and leverage technology to deliver industry leading performance.
- **Improve Employee Experience and Transform Business Processes** – Leverage best in class business processes and technology to implement improved and more efficient business processes, deliver new capabilities to our employees, and support a more efficient customer experience.
- **Leverage Real-Time Insights –** Provide capability to improve responsiveness, quality and accuracy resulting in consistent and timely payments, and identify and prevent fraud before payments are released.
- **Enable Capability to Adapt to Changing Economic Conditions** – Deliver a system capable of supporting new programs and functionality needs.

The project goals, as stated above, are consistent with the objectives of providing a robust, automated support system which is technically aligned with Delaware's standards and regulations, conform to federal regulations, and adhere to standard accounting principles. Implementing this user-friendly system will enable support of daily operations with online real-time data updates, improve management, include operational analysis capabilities, and enhance interfaces with external systems. The new solution will make it easier to respond to changing program requirements, a critical need during the pandemic that did not exist. The solution will expeditiously respond to edits and validations to promote data quality, accuracy, and reliability; and improve the technical support utilities to enhance the ongoing maintenance of the infrastructure and application.

Appendix B

Timeline of the Discovery of Theft

The following is a timeline of events that took place related to the theft:

Individual are referenced by job titles.

Date	Event/Activity
2/4/2019	Initial hire date of deceased employee (UI Administrator) who would later steal funds. *This employee had various titles and promotions and is referred to by the last title held-UI Administrator -- for simplicity and clarity.*
2/12/2019	DOL received background check with no criminal history reported for UI Administrator. *It is important to note that some positions within UI require an extensive background check which is compliant with IRS regulations. The IRS requires background checks for those specific positions every 5 years, which DOL would have done if employee was still employed in 2024. In the event an employee is convicted of a crime in between background check and re-check time, the employee is required to report this to DOL to determine potential impact on their employment. UI Administrator was provided notice of the requirement to report. In this case, the UI Administrator failed to report a conviction that occurred in September of 2019; therefore, the Department was not aware.*
9/2019	UI Administrator plead guilty to theft from a homeowner's association (HOA).
7/19/2020	UI Administrator received temporary promotion to UI Tax Operations Supervisor (a position within ECO). *Any Employee who has a background check on file and within the 5 years is not re-checked upon promotion.*
9/27/2020	UI Administrator temporarily promoted to UI Tax Operations Supervisor becomes permanent.
7/4/2021	UI Administrator received temporary promotion to Tax Collection Manager (a position within ECO).
8/1/2021	UI Administrator received promotion to UI Administrator with supervisory authority over all of ECO.
3/31/2023	Friday afternoon, a Supervisor within ECO (ECO Supervisor) reported to DOL Human Resources (HR) that their supervisor, UI Administrator, directed a temporary employee (Temporary Employee), to issue a refund check to an employer account that shared UI Administrator's home address. This ECO Supervisor also shared a court document with HR detailing alleged theft by the UI Administrator while acting as treasurer of a HOA. HR independently verified that the address of an employer refund check issued by UI was also the address of the UI Administrator in question. In addition, signatures were compared to the cashed check, which revealed similarities with the UI Administrator's signature. HR immediately notified the Secretary and Deputy Secretary of Labor about the information provided and then notified the Director of UI. The Director of UI immediately began reviewing systems transactions and internal files with the ECO Supervisor to discover that two checks totaling $181,184.68 had been issued to an employer account with UI Administrator's home address. The first check was issued on 1/16/2023, in the amount of $86,827.31 and deposited on 1/17/2023. A second check was issued on 3/16/2023 in the amount of $94,357.37 and deposited on 3/20/2023.

	Secretary, Deputy Secretary, DOL HR Administrator and the Director of UI met Friday evening to plan for next steps. DOL Secretary reported the potential theft to Secretaries of DHR and Safety and Homeland Security.
4/2/2023	Secretary, Deputy Secretary, DOL HR Administrator and UI Director finalized plan and documentation for putting UI Administrator on paid administrative leave so a proper investigation by law enforcement could proceed.
4/3/2023	UI Director and DOL HR Administrator met with UI Administrator in the DOL Dover office. UI Administrator denied all allegations of fraudulent activity. UI Administrator was advised he would be suspended immediately pending a full investigation and then UI Administrator was provided a letter stating the same. UI Administrator turned over laptop, work issued cell phone, identification and building access badge and was told they were prohibited from entering any DOL facilities, contacting any staff members, or responding to any staff members questions about their absence. UI Administrator's building access, all IT system credentials, state credit card, and work cell phone were deactivated. Security was notified that UI Administrator was prohibited from entering DOL buildings. UI Administrator died later that day. DOL ended the assignment of the Temporary Employee who issued the checks in question and deactivated all their system and building access.
4/3/2023- 4/4/2023	Secretary of Labor reported the incident to: • Delaware State Police (DSP) • Department of Human Resources (DHR) • Department of Finance (DOF) • Department of Justice (DOJ) • Office of the Governor (OGOV) • USDOL
4/5/2023	DOL submitted an incident report to the U.S. DOL-Office of Inspector General (USDOL-OIG). *DOL has a regulatory requirement to report theft to USDOL-OIG. There are no state UI specific statutes or regulations governing reporting to state authorities.*
4/6/2023	DOL reported incident to the Office of the Auditor of Accounts (AOA).
4/11/2023	Completed an e-records request with DTI for both UI Administrator and Temporary Employee.
4/12/2023	Met with State Auditor, AOA Chief of Staff and had an initial call with an accounting firm Belfint Lyons Shuman, Certified Public Accountants (BLS) to discuss an engagement for forensic accounting resources.
4/14/2023	Delaware State Police (DSP) Sergeant assigned to lead the investigation held meeting with internal DOL staff, State Auditor, AOA Chief of Staff, and Deputy State Auditor to discuss how DOL could support the investigation.
4/17/2023	DOL had a call with a Special Agent from USDOL-OIG, Office of Investigations, Labor Racketeering, to discuss the report and any additional actions that might be necessary.
5/10/2023	DSP informed DOL that they had confirmed the two checks were deposited into an account owned by UI Administrator and that they had frozen the business account. They also confirmed that the stolen money was used to purchase a vehicle and place a significant down payment on another vehicle. Money was also transferred into UI Administrator's personal bank account. DSP informed the agency that they had frozen the stolen funds and would proceed to seize assets to assist DOL to recover as much as possible of the stolen funds.
5/12/2023	Sent updated report to USDOL-OIG.
6/28/2023	DOL engaged Belfint Lyons Shuman, Certified Public Accountants (BLS) to perform forensic accounting procedures such as analysis of financial records, transactions, and related

	documentation to attempt to determine if the UI Administrator had conducted any other fraudulent transactions and to determine if any other internal employees participated in the identified thefts. In addition, the contract required BLS and AOA to coordinate planning, fieldwork, and reporting to identify deficiencies in internal controls and make recommendations.
8/14/2023	With the approval of the Governor's office and Attorney General, DOL entered into a legal services agreement with Connolly Gallagher LLP to provide legal consultation in the area of estate litigation.
8/23/2023	Submitted a supplemental report to USDOL-OIG. The criminal investigation was officially transitioned to Delaware DOJ and became a civil investigation. Due to the death of the UI Administrator and the conclusion that no other individuals were criminally involved in the theft, the case was no longer a criminal case (with no one to charge) and now a civil case. DOL sought to recoup any funds through the estate process. DSP was required to release its freeze on UI Administrator's shared bank account with spouse. DSP was able to maintain a freeze on the UI Administrator's individual account.
11/14/2023	Secretary of Labor signed affidavit of will search and petition to act as Personal Representative to the estate of UI Administrator.
11/15/2023	DOL was appointed administrator of the estate on this date and the appointment was published in the Delaware State News on 11/29/23, 12/06/23 and 12/13/23. A statement of claim with exhibit was also filed on this date that lists assets of the estate that belong to DOL.
1/2024	AOA asked BLS to suspend its forensic accounting work to allow UI to focus on the FY23 ACFR audit.
4/25/2024	DOL reengaged with BLS to resume and complete forensic accounting work originally assigned. This forensic accounting work continues today.
4/29/2024	Kent County Register of Wills accepted the Inventory of estate of UI Administrator filed by DOJ on behalf of DOL. The Inventory documents total probate assets of $101,704.34, 56% of the stolen funds. Furthermore, these assets are unliquidated values and do not account for expenses that will come out of the estate. The exact amount that DOL will recover from total probate assets is unknown.
7/2024	DOL updated and implemented training for its UI staff. Similar training will be rolled out to all DOL employees and incorporated into the training required for new employees, particularly in certain classifications. This training included: - Who to report concerns of fraud or theft or misuse of information or funds - Legal framework of laws governing Confidential Unemployment Compensation Information (UCI), Personal Identifiable Information (PII) and Federal Tax Information (FTI) - How to keep information safe when accessing or sharing information - Security measures in place to protect data - What to do in the case of an inadvertent disclosure or data breach - Permissible data sharing - Claimants' and Employers' rights - Penalties for breach
7/18/2024	With the approval of the Office of the Governor and Attorney General, DOL contracted Connolly Gallagher to finalize the handling of the UI Administrator's estate. DOL has also

	hired an accounting firm to carry out the duties of Personal Representative of the UI Administrator's estate. DOL has been committed to recovering the stolen funds. The DOL has taken the extraordinary step of becoming the administrator of the estate of the UI Administrator. Under normal estate administration, the process takes about a year. Given these circumstances, the process has taken longer. It is anticipated the estate will close in 2024.

Appendix C

Timeline for Accounting Deficiencies

The following is a historical timeline of events related to the accounting deficiencies within UI.

Date	Event/Activity
03/2021	DOL UI receives findings in FY20 ACFR & Single Audit reports. See: https://accountingfiles.delaware.gov/docs/fy_2020_single_audit_report.pdf
8/2021	DOL contracts with Belfint Lyons Shuman, Certified Public Accountants (BLS) to address above findings. The engagement ended due to a lack of resources, failed unit leadership, and pandemic-related workloads.
03/2022	DOL UI receives findings in FY21 ACFR & Single Audit reports. See: https://accountingfiles.delaware.gov/docs/fy_2021_single_audit_report.pdf
03/2023	DOL UI receives findings in FY22 ACFR & Single Audit report. See: https://accountingfiles.delaware.gov/docs/fy_2022_single_audit_report.pdf
04/2023	Santora CPA Group contracted by DOL at the recommendation of DOA.
08/31/2023	FY23 Trial Balance provided to DOA.
09/2023	DOA reviews the provided trial balance realizing several balances were identical to FY22. DOA asked if Santora CPA Group was still contracted and able to assist with the discrepancies. Santora CPA Group begins review of trial balance details.
11/2023	Santora CPA Group met with DOA, AOA, and CLA to discuss UI Trial Balance progress and associated risks.
12/28/2023	Santora CPA Group informs DOL they will not be able to proceed with the engagement and cannot provide an auditable trial balance. This was due to enhanced scope of work exceeding available resources.
01/2/2024	DOL informs DOA, DOF, and AOA that Santora CPA Group has withdrawn from the engagement but will remain to assist with a transition to a new firm.
02/2024	DOA contracts BDO to assist with DOL UI accounting deficiencies and review business processes.
03/2024	BDO produced an updated trial balance with limited information available to improve the accuracy of the balances. After review and discussions between DOL, DOA, AOA, and CLA, this trial balance was deemed unauditable by CLA, thus resulting in the disclaimer of opinion. The engagement with BDO paused until the completion of the single audit.
04/2024	DOL UI receives findings in FY23 ACFR & Single Audit reports. See: https://accountingfiles.delaware.gov/docs/fy_2023_single_audit_report.pdf BDO is re-engaged to provide auditable FY23 trial balance. The UI Trust Fund for FY23 still must be audited before the FY24 ACFR can fully proceed.
05/2024	BDO begins review of DOL UI business processes including: - Contributory Employer Tax Assessment & Payment - Paying Claims - Reimbursable Employer Tax Assessment & Payment - Bill Delinquent Employers - Register for UI - Process Employer Account Status
06/2024	BDO receives raw data to begin deeper forensic accounting review of DOL UI.
07/2024	BDO continues to build out FY23 trial balance as well as the business process review.