Annual Report

To the Unemployment Compensation Modernization and Improvement Council
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OVERVIEW

In accordance with K.S.A. 2020 Supp. 44-703 Section 2, this report serves to update the Unemployment Compensation Modernization and Improvement Council (UCMIC) on the progress the Kansas Department of Labor (KDOL) has made on this project to modernize the Information Technology (IT) systems used to process and pay claims for Unemployment Insurance (UI) benefits. For the most recent information, visit www.dol.ks.gov/modernization-council.

MODERNIZATION PROGRAM GOALS

**Enhance customer experience**
Deliver improved services for employers and claimants, such as online self-service, automation, access to data and integration with partners.

**Transform business process**
Leverage modern system capabilities to provide improvements, efficiencies in business processes and new tools for KDOL employees and support more effective service delivery to Kansans.

**Improve data security**
Improve our ability to anticipate and respond to security threats and manage access.

**Modernize technology**
Replace the agency’s antiquated IT-legacy system that supports UI taxes, payment of UI benefits and delivery of employment services.

**Provide expandable technology**
Deliver a system capable of supporting new programs and functionality needs.

MODERNIZATION ACCOMPLISHMENTS IN 2021

House Bill 2196 was signed by Kansas Governor Laura Kelly on April 26, 2021, published in the Kansas Register and effective on May 13, 2021. The new bill created the UCMIC, which provides support to the development of a new UI IT system. Meetings between UCMIC and KDOL began on June 14, 2021.

KDOL and the UCMIC identified key objectives to prioritize, which KDOL completed in 2021. These include:

- Improved claimant communication to ensure information and claim status is understood
- Improved telephone systems to ensure calls are answered and returned in a timely manner, and callbacks are effectively scheduled
- Improved tracking of the flow of claims to more quickly identify and resolve claim bottlenecks
- Created fraud form specifically for employers
- Created a temporary Employer Help Desk to provide employers with a direct phone line
A two-year recession, persistent high unemployment (Kansas reached 4.9% in 1976), the oil crisis and an inflation crisis marked the decade’s economic landscape. In 1977 KDOL installed what was considered a state-of-the-art mainframe to support the increasing demands of its growing workforce and economy. Like other states, Kansas chose a mainframe written in COBOL, the most widely used programming language in the world at the time.

The decade of big money kicked off with a recession of its own and a national unemployment rate that reached 10.8%, and 7.1% in Kansas. KDOL invested in small upgrades to its mainframe to support the increased demand for unemployment benefits and access to new job listing databases.

Another recession at the start of the decade saw the unemployment rate rise to 7.4% nationally and 5% in Kansas. Even with the proportionally higher demand and the new need for connectivity, KDOL’s IT infrastructure kept running. Still, the system was beginning to show its age and required increasing maintenance to accommodate the new demands.

The Internet generated the decade’s first big bust and recession, followed by a second, deeper recession driven by the housing market. Unemployment rose as high as 9.9% nationwide and climbed to 7.3% in Kansas. KDOL and its aged mainframe struggled to implement federal relief programs during the recession of 2002-2003 and the unemployment crisis of 2009-2010. A modernization project started in 2005 under the Sebelius administration and was well underway by the end of the decade.

The benefits mainframe modernization project was cut short under the Brownback administration. Its cancellation in 2011 coincided with the nation starting to recover from the global financial crisis that saw national unemployment rise as high as 9.3% and Kansas’ unemployment rate reach 7.2%. The task of supporting Kansas’ ever-growing population with an outdated system was even more difficult because programmers who knew COBOL, the mainframe’s decades-old programming language, were retiring. The decision to end the modernization process in 2011 directly led to the system failures that occurred during the height of the pandemic. At the beginning of 2019, Governor Laura Kelly picked up the modernization process as soon as she took office and efforts were underway when the pandemic hit.

In April 2020, the COVID-19 pandemic shuttered businesses across the country almost overnight, and the unemployment rate rose to 14.7% nationally and 12.6% Kansas. The old mainframe was struggling under the pressure to protect against unprecedented identity theft while simultaneously supporting hundreds of thousands of Kansans, more than ever before, in receiving unemployment benefits under a half-dozen new state and federal programs.
USDOL ENGAGEMENT

In August 2021, the U.S. Department of Labor (USDOL) announced a series of actions to improve, modernize and reform the UI systems of individual states with $2 billion in funding from the American Rescue Plan Act (ARPA). To become more efficient and effective at handling UI claims, USDOL initiated a team of subject matter experts to create strike teams or Tiger Teams, to review, assess and make recommendations.

Kansas was one of the initial six states selected to participate in this program to identify opportunities to improve the UI process and prepare for system improvements through modernization.

Over an eight-week period in the fall of 2021, KDOL officials met with the USDOL Tiger Team to review various aspects of the Kansas UI system and claims process. In February 2022, USDOL met with KDOL staff to discuss their findings and recommendations. These recommendations are enabling KDOL to improve the existing system functionality to meet its promise of providing benefits to protect workers who lose their jobs through no fault of their own and to help better sustain the economy during future economic downturns, while also assisting the agency in preparing for a complete system modernization. KDOL has already made progress on some of these recommendations, including an automation in processing liens and a work around for the fraud data warehouse.

The pandemic revealed how critically important unemployment insurance is to workers, employers, their families and the broader economy. KDOL will continue to evaluate the recommendations outlined by USDOL to build a stronger unemployment system that will deliver the services and benefits Kansas claimants need.

TCS SELECTED FOR MODERNIZATION PROJECT

In April 2021, a competitive open-bid process was launched to select a vendor for the modernization effort. On April 5, 2022, KDOL announced that Tata Consultancy Services (TCS) had been selected to update the state’s antiquated IT-legacy system that is used to process UI claims. TCS is a leading global IT services and consulting organization that has partnered with several states to successfully modernize their UI systems, including Connecticut, Maine, Mississippi, Missouri, New York and Wyoming.

This partnership will launch a multi-year initiative focused on transforming the agency’s business processes and core technology systems. The new system will improve the experiences of unemployed Kansans and businesses who interact with the unemployment insurance system.

A designated team at KDOL will work with TCS and representatives from other agencies to ensure a smooth transition with the new UI system. They will approach the process carefully, learning and adapting as they go to help the agency better serve Kansans in the future.
FEDERAL PANDEMIC PROGRAMS

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a $2.2 trillion economic stimulus bill in response to the economic fallout of the COVID-19 pandemic. In addition to one-time cash payments to individual Americans and aid to small businesses, large corporations, and state and local governments, the CARES Act provided $260 billion in increased unemployment benefits. The CARES Act also spawned the extension, expansion, and creation of UI benefits – including an entirely new unemployment system designed to support self-employed, freelance, religious and contract workers.

With the expiration of the CARES Act on Dec. 26, 2020, Congress passed and the President signed the Continued Assistance for Unemployed Workers Act of 2020 (CAA) and the American Rescue Plan Act of 2021 (ARPA). These acts extended certain federal unemployment programs including Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), Federal Pandemic Unemployment Compensation (FPUC) and created Mixed Earners Unemployment Compensation (MEUC).

Unemployment Insurance
UI is a state-operated program designed to provide temporary and partial financial assistance to replace lost wages to Kansas workers when they are unemployed through no fault of their own and meet the requirements of state law. Under the provisions of HB 2196 and SB 27, Kansas implemented a state benefit extension for UI from 16 to 26 weeks through the benefit week ending Sept. 4, 2021.

Pandemic Emergency Unemployment Compensation
PEUC was a federal extension of benefits available for a maximum of 13 weeks for those who had exhausted UI. The CAA extended PEUC to a maximum of 24 weeks, and the ARPA provided 29 additional weeks, for a maximum of 53 weeks per claimant. The PEUC program was available through the benefit week ending Sept. 4, 2021.

Federal Pandemic Unemployment Compensation
FPUC was an emergency program designed to increase unemployment benefits for millions of Americans affected by the coronavirus pandemic. For KDOL, this required a disbursement of an additional $600 per claimant per week from April 4, 2020 – July 25, 2020, and then $300 per claimant per week from Jan. 2, 2021 – Sept. 4, 2021.

Mixed Earners Unemployment Compensation
MEUC was a new program only available to claimants who were monetarily entitled to regular UI entitlements AND earning $5,000 or more a year in net earnings from self-employment. It provided eligible claimants an additional federal benefit of $100 per week.

Extended Benefits
EB were additional weeks of unemployment compensation that were available to workers who had exhausted regular UI and PEUC benefits. EB was triggered on June 7, 2020 to provide an additional 13 weeks of benefits. In July of 2020 Kansas triggered onto High Extended Benefits, making the total number of weeks available 20. In October 2020, USDOL reduced the program from 20 weeks back to 13 weeks. Thirteen weeks of benefits were available through the benefit week ending Dec. 12, 2020, when Kansas triggered off the program.

Pandemic Unemployment Assistance
PUA was an emergency program available for a maximum of 39 weeks to individuals who were affected by COVID-19 and not eligible for UI or PEUC. The new program provided UI eligibility to independent contractors and self-employed, freelance, religious and part-time workers impacted by the coronavirus pandemic in 2020. The CAA extended PUA to a maximum of 50 weeks of benefits, and the ARPA provided 29 additional weeks of benefits, for a maximum of 79 weeks per claimant. Weeks were payable through the benefit week ending Sept. 4, 2021.

Lost Wage Assistance Program
The LWA program was created to replace FPUC. However, LWA was funded by money from Federal Emergency Management Agency (FEMA) disaster resources. In Kansas, the program was only offered for six weeks from Aug. 1, 2020, to Sept. 5, 2020, due to the limited funds available. Eligible Kansas claimants received $300 per week during that time span.
BENEFITS PAID
For payment dates between March 1, 2020 and Sept. 30, 2021

Total Claimants Paid
241,000

Total Benefits Paid
$2.80B

### Total Claimants Paid by Program

<table>
<thead>
<tr>
<th>Program</th>
<th>Total Claimants Paid</th>
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<tbody>
<tr>
<td>FPUC</td>
<td>218,854</td>
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<tr>
<td>Regular UI</td>
<td>218,640</td>
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<tr>
<td>PEUC</td>
<td>81,652</td>
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<td>PUA</td>
<td>40,238</td>
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<td>LWAP</td>
<td>23,522</td>
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<tr>
<td>EB</td>
<td>6,362</td>
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<tr>
<td>MEUC</td>
<td>38</td>
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### Total Benefits Paid by Program

<table>
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<th>Program</th>
<th>Total Benefits Paid</th>
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<tr>
<td>FPUC</td>
<td>$1,341,896,102</td>
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<tr>
<td>Regular UI</td>
<td>$942,479,694</td>
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<td>PEUC</td>
<td>$241,009,513</td>
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<td>PUA</td>
<td>$146,824,513</td>
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<td>LWAP</td>
<td>$117,185,344</td>
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<td>EB</td>
<td>$11,897,475</td>
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<tr>
<td>MEUC</td>
<td>$115,180</td>
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FRAUD OVERVIEW

Prior to the COVID-19 pandemic, UI fraud cases were low, both in Kansas and in other states across the country. However once the pandemic struck, there was an unprecedented increase in fraudulent claims nationwide using stolen personal identification data, such as from large data breaches listed below, and other high-level schemes in the regular UI system and PUA program. It is important to note that despite unprecedented attacks by sophisticated criminal networks, KDOL’s data systems were NOT breached.

<table>
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<th>Large Data Breaches in the Last Decade</th>
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<tbody>
<tr>
<td>Adobe (2013)</td>
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<tr>
<td>eBay (2014)</td>
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<tr>
<td>Equifax (2017)</td>
</tr>
<tr>
<td>Heartland Payment Systems (2008)</td>
</tr>
<tr>
<td>LinkedIn Corporation (2012 &amp; 2016)</td>
</tr>
<tr>
<td>US Office of Personnel Management (2015)</td>
</tr>
</tbody>
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TYPES OF FRAUD

Simple Claimant Fraud
- Involves intentional miscommunication, misrepresentation of ability and availability for work, and/or wage reporting issues

Simple Employer Fraud
- Involves employee dumping, non-existing companies, and/or wrongful employee misclassifications

Complex Fraud Schemes
- Claimant and employer collude to commit fraud
- Combination of simple claimant and employer fraud

Identity Theft
- Using stolen identity verification information to fraudulently file for benefits

Organized Crime Fraud Networks
- Massive, multi-state operations with hundreds or thousands of attempts nationwide
- Often operate from overseas and use proxies and proxy accounts where funds are drained before being transferred to offshore accounts
- Conceal user login locations by using proxy servers

Unemployment fraud rose to levels never before contemplated. In December 2021 the USDOL Office of Employment and Training Administration (ETA) reported an estimated improper payment of at least $163 billion in pandemic UI payments nationwide.¹ A leading private fraud-prevention company estimates that America has lost $400 billion to fraudulent claims and that as much as 50% of unemployment claims might have been stolen.²

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¹ www.oig.dol.gov/doloiguioversightwork.htm
**FRAUD PREVENTION MEASURES**

KDOL took multiple steps to prevent fraudsters from taking advantage of money meant for eligible unemployed Kansans, such as coordinating IT resources with other agencies and utilizing all USDOL recommended databases for cross-matching, which includes SSN verification, citizenship verification and more. Additionally we set up a Google fraud detection application and deployed specialized technologies to target and block abusive internet activity, such as multiple logins by different users from the same IP address. At the height of the pandemic, the KDOL fraud team was stopping an average of **2,300** fraudulent claims per day.

*Kansas, like states all across the country, faced the challenge of identifying and preventing fraudulent claims while at the same time distributing benefits to legitimately entitled claimants.*

In 2020 we launched the website www.ReportFraud ks.gov to make it easy for the public to report suspected fraud for KDOL to investigate. We more than tripled the size of the KDOL Fraud & Special Investigation Unit and are working with federal and state partners to prosecute fraudulent activity and recover UI funds. We continue to work each day to combat fraudsters taking advantage of our unemployment system.

**Identity Verification**

A significant step in preventing fraudulent claims was the implementation of additional identity verification measures. A new Multi-Factor Authentication (MFA) system was added, which requires all claimants to utilize secured login features to register for an account. This includes ID verification through credit reporting and two-factor authentication. Fraudsters particularly took advantage of the PUA program, and in response, we put in place a 72-hour-hold on all new PUA applications to allow for a validity check to be completed.

In May 2021, KDOL partnered with more than 70 law enforcement offices across the state to offer an additional option to assist claimants who were unable to verify their identity online due to system or user error. Claimants who visited a participating office could physically present their ID documentation, and after verifying, the law enforcement office would submit a form to KDOL. A total of 1,210 identity forms have been verified and submitted through this process. We have been fortunate to have great partnerships with law enforcement agencies and other stakeholders to assist with stopping fraudulent claims and clearing legitimate and eligible claimants.

**FRAUD REVIEW PROCESS**

When a claim is flagged for fraud, we determine if the claim requires a simple review or a more involved investigation. Our timeline for resolving fraud issues varies significantly based on the program and the complexity of the issue. KDOL estimates that about half of the claimants in fraud review had temporary holds added to their claim for minor issues such as user errors, system errors or missing documentation. These issues are typically cleared quickly, usually within 48-72 hours, and eligible claims are then sent to benefits for processing. The remaining claims require further investigation to determine if fraud has occurred; generally these cases have potential wage fraud or fraudulent documentation being utilized to claim benefits. Employers, claimants and/or third parties who fail to promptly provide requested information or return calls can also cause delays in the process.


**MOVING FORWARD TO SERVE KANSAS**

In this moment, it is easy to focus solely on the ways in which our unemployment system was overwhelmed by the challenges of the pandemic. At the same time, we must recognize the progress made by hundreds of dedicated KDOL employees. We enacted multiple new relief programs, despite an outdated system that was not designed to handle them. We met the rising need for communicating better with the public and launching an improved website to make information easier to find and understand, as well as adding more staff to the Unemployment Contact Center and expanding its hours. Additionally, multiple new tools for employers were implemented and we partnered with law enforcement in unprecedented new ways to help protect against fraud.

Despite the past challenges, we must focus on moving forward and continue the progress in our modernization effort. We are finally able to modernize the IT system at long last with legislation to fund the $37.5 million in improvements over the next 2-3 years.

“We are committed to ensuring that our state is poised to address the challenges of today, but also the needs of tomorrow.”

The road has been difficult, and the mainframe that got us here is beyond outdated. However, even with major limitations, we have been able to support millions of Kansans and pay out the largest dollar amount of unemployment benefits in Kansas history. KDOL will continue to fight to get Kansans the support they deserve today and in the future.

To follow the modernization process and view status reports, visit [www.dol.ks.gov/modernization-council](http://www.dol.ks.gov/modernization-council).

Amber Shultz

Secretary
Kansas Department of Labor