

Statement of State Deputy Treasurer Charles Zogby
Hearing on Government Waste and Improper Payments
House of Representatives State Government Committee
July 22, 2021

Chairman Grove, Chairwoman Davidson, members of the House State Government Committee, on behalf of Treasurer Garrity, I am pleased to appear before you today to discuss the role of the Treasury Department both in our Commonwealth payments system and in preventing improper payments.

One of the most important aspects of the Treasury Department's authority is its pre-audit functions to ensure all monetary disbursements of the Commonwealth are authorized, accurate, and in compliance with applicable statutes, regulations, and management policies.

Under Section 1502 of the Fiscal Code, which establishes Treasury's pre-audit authority, payment requests -- formally called "requisitions" -- are to be audited in accordance with Generally Accepted Auditing Standards. The Treasurer is statutorily authorized to approve payment for -- formally called "issuing a warrant" -- only for those requests that appear to be lawful and correct. Otherwise, the payment request is rejected and the submitting agency is notified that revision, correction, or cancellation is required in order for the payment to be lawful and correct.

Treasury's Bureau of Fiscal Review is primarily responsible for carrying out these pre-audit functions. For Fiscal Year 2020-21, the Bureau processed over 11.3 million payments with a total value of \$109 billion.

FY 20-21 also saw the Bureau prevent over 14,000 erroneous payments with a total dollar value of \$1.1 billion. Of this amount, using a fairly conservative definition, Treasury identified nearly \$68 million in "savings" through the prevention of overpayments, including duplicate payments and payments to improper payees. By contrast, payments that may have had an incorrect address or were charged to the wrong appropriation or fiscal year are considered errors but result in no "savings."

The process within Treasury that leads to payment approvals -- or rejections as the case may be -- can best be described as dynamic and robust, with multiple layers of review and analysis to ensure only those payments that are lawful and correct result in the issuance of a warrant.

Each business day, Fiscal Review receives payment files from the more than 70 agencies serviced by Treasury, including the Governor's Budget Office's Office of Payable Services, the Legislature, the Judiciary, and a variety of independent agencies. The files are first validated to ensure all the data necessary to make the payments is present. Payments that lack the necessary data are sent back to the agency that generated the request for the correct information, while all others are loaded into Treasury's accounting system.

Once loaded into the system, Treasury utilizes data analytics software to identify higher-risk payments to be selected for audit. This analytics screening selects payments for audit based on a mix of factors. Payments above a certain dollar value are typically selected, as well first-time payments that result from new contracts or those identified by other certain risk factors. The analysis also looks to identify any duplicate payments that may have gotten through.

After being screened by the data analytics software, payments go in one of two directions. Payments not selected for audit go to Treasury's Comptroller Operations for processing, while those selected for audit are directed to our Fiscal Review team of auditors who then do a "deep dive" on each payment, conducting a thorough review of any and all supporting documentation to ensure the payment is legal and correct. After this review, payments are either approved for processing or, as noted above, rejected and directed back to the submitting agency for revision or correction in order for the payment to be lawful and correct, or cancellation if not.

In addition to Fiscal Review, another key unit within Treasury that has become a critical cog in our efforts to combat improper payments and prevent fraud is the Department's Bureau of Unemployment Compensation Disbursements (BUCD), which handles the issuance of all UC benefits in the state.

Prior to March 2020, most of BUCD's workload involved the issuance of a relatively modest number of regular UC payments each year. For Fiscal Year 2018-19, for example, the Bureau processed just over 2.7 million payments, an average of roughly 228,000 payments per month, with a total value of \$1.6 billion. Fraud in the regular UC program, while not unheard of, was largely seen as an isolated event given the employer-based verification process.

The pandemic dramatically changed BUCD's workload. For Fiscal Year 2019-20, which captures roughly three months of the pandemic, BUCD processed nearly 18 million payments with a total value just over \$15 billion, and, for Fiscal Year 2020-21, payments rose to over 57 million with a total value of nearly \$29 billion dollars. In contrast to FY 18-19, monthly payment volume for FY 19-20 was nearly 1.5 million payments per month, five times the prior year's average, and in FY 20-21 those numbers rose to nearly 4.8 million payments per month, over seventeen times the average monthly volume in FY 18-19.

While Treasury does not review, question or challenge UC benefit eligibility determinations made by the Department of Labor & Industry, we are active in ensuring payments only go to lawful recipients and in working to identify, prevent and stop fraudulent activity.

Once L&I determines an individual is eligible for benefits, a new account file is sent to Treasury. In turn, we submit a set-up file to our partners at U.S. Bank where they begin the process of a creating a debit card account. Account identity verification screening to detect financial fraud is also triggered at this new account “set-up” stage.

Utilizing two identification screening tools, U.S. Bank reviews requests to establish new accounts to identify possible fraud involving the purported account owner. The screening tools compare identifying information submitted by each claimant with information available in public databases (e.g., first name, last name, self-reported city, state, zip code, date of birth and tax identification number).

If a new debit account is verified as authentic, the account is activated and Treasury may begin issuing payments. If an account is identified as a fraud risk, it is returned to L&I for additional verification steps prior to its activation. The identification of an account as a fraud risk by U.S. Bank or Treasury is neither a benefit termination decision nor a final eligibility determination.

Newly created federal unemployment programs were found to be particularly susceptible to fraudulent activity. Stolen identities were used to fraudulently claim benefits. In April 2021, Treasury reported that along with L&I we together halted nearly \$740 million in improper payments issued to fraudsters. Much of that work was based on information from thousands of honest Pennsylvanians who returned payments they had not requested.

While Treasury is proud of its past efforts to stop fraudulent activity, we are also mindful this is an ongoing fight as even today we see new levels of fraudulent activity and identify theft at play in the regular unemployment compensation program.

In response, we have advocated to L&I to implement ID.me for Regular UC claims and, in collaboration with them, have identified certain financial institutions that appear to be associated with suspicious or fraudulent direct deposit applications submitted via L&I’s claims portal, terminated those applications, restored the correct bank account information, and where appropriate recalled or cancelled payments issued under fraudulent circumstances and reissued them to the legitimate claimant.

Treasury will continue to work with its partners inside and outside state government to identify, prevent and stop fraudulent activity and work to help Pennsylvanian citizens impacted by the fraud.

Thank you.