EXECUTIVE OFFICE OF LABOR AND WORKFORCE DEVELOPMENT

Unemployment Insurance Trust Fund Reconciliation Project Summary Report

April 1, 2020 to November 30, 2021

1 Executive Summary

The Massachusetts Executive Office of Labor and Workforce Development (EOLWD) oversees the Department of Unemployment Assistance or DUA, which is responsible for the administration of the Unemployment Insurance (UI) program in cooperation with the United States Department of Labor (USDOL). Due to effects of the COVID-19 pandemic, during the period beginning March 2020 and continuing through May 2021, Massachusetts experienced an unprecedented increase in the number of UI claimants each month. The volume of total benefits paid in 2020 was nearly 7 times more than all benefits paid in 2018 and 2019 combined. [See Figures iv and v]

In response to the impact of the COVID-19 pandemic on employers and workers, Congress enacted a series of new UI-related programs to be administered by the states along with traditional UI. USDOL provided guidance to aid states in the administration of these new UI programs, which was often iterative and at times retroactive.

As the guidance around these programs rapidly evolved, DUA experienced challenges implementing these new programs as quickly as possible to pay an unparalleled number of claimants. To do so, DUA had to create a new claims processing system and introduce ad-hoc internal reporting processes, while attempting to track federal and state funding simultaneously. [See Section 2 for additional details and graphs demonstrating these changes. For definitions of each program please refer to section A.2 Glossary]

The combination of these changes ultimately fractured the connection between operational and financial functions, which became most apparent when the balances of the UI Trust Fund and the associated Benefit Payments Account rose above historical averages in 2021, despite the payment of a historically high number of claims.

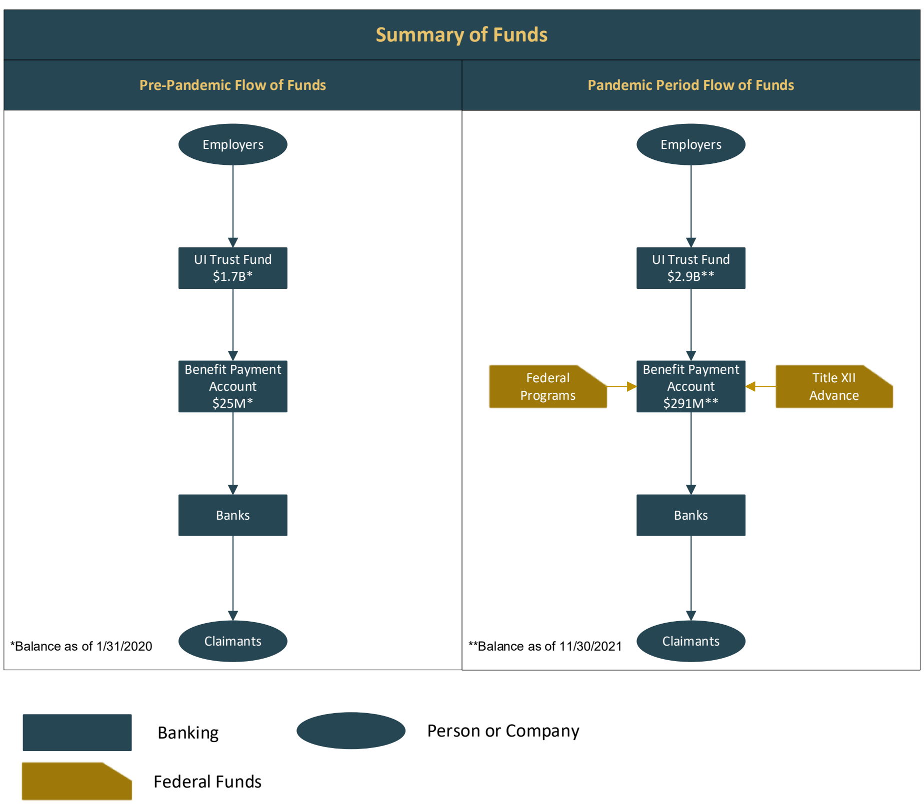


Figure i – Summary of Funds

EOLWD engaged KPMG to complete an independent assessment, which is detailed in this report, to fully reconcile the account balances in the UI Trust Fund, its Benefit Payment Account and subaccounts, revenue accounts, and other related UI banking accounts, to trace and explain fund inflows (including employer assessments and federal funds) and outflows (including benefits payments for all programs), and to provide recommendations for the resolution of any issues resulting from the assessment.

From September to December 2021, KPMG reconciled the accounts referenced above for the period beginning April 1, 2020 and ending November 30, 2021, and found the following expected adjustments and employer credits:

- **An estimated adjustment of $300 million to reconcile bank returns:** KPMG has determined that during the period of March 2020 to November 2021, there were $318 million in benefit payments returned by banks that was retained in subaccounts within the Benefit Payment Account and later repurposed to pay new claims for benefits. These funds should have been returned to the funding source from which they were originally charged—either federal program sources or the UI Trust Fund. KPMG estimates that the federal portion to be returned is approximately no more than $300 million on the basis that the returns relate to benefit payments that were made at a time when the majority (90%) of benefits paid out came from federal sources. EOLWD has requested guidance from USDOL for the administration of these funds and has yet to receive guidance as of December 2021. [See Section 3.6 for additional detail]

- **$415 million of Employer Credits:** The UI Trust Fund balance includes $415 million of credits against future assessments to be collected from employers because of mid-year rate adjustments implemented in calendar year 2021 after employer assessments had been paid. These credits will be applied to future employer assessments to eliminate the credit that was over-collected because of the timing of legislative changes in 2021, with the effect that future employer assessments will be correspondingly reduced. [See Section 3.3 for additional detail]

Aside from the $300 million bank return adjustment and the anticipated application of $415 million in employer credits, KPMG did not identify any other items associated with the period reviewed that would impact the UI Trust Fund balance. When also accounting for an outstanding loan balance of $2.3 billion, the UI Trust Fund has a structural deficit of $115 million after repayments, credits, and reconciliations[1].

The following is a summary of the adjustments identified by the KPMG review and the estimated effect on the UI Trust Fund.

[1] Due to the period of KPMG's assessment, which covered April 2020 through November 2021, this analysis does not include a $500 million reserve for the UI Trust Fund as included in Chapter 102 of the Acts of 2021 approved on December 13, 2021.

Current Trust Fund Balance (11/30/21)	See Section 2.3 for more details	$2.9 billion*
Less:		
Outstanding Title XII Federal Loan	Sec 3.2	($2.3 billion)
Outstanding Employer Credits	Sec 3.3	($415 million)
Estimated resolution of federal share of Bank Returns	Sec 3.6	*($300 million)***
UI Trust Fund Balance Remaining		*($115 million)****

**This balance includes the following one-time adjustments:*

- *On 5/25/21: An adjustment of $316 million as detailed in section 3.4*
- *On 7/8/21: An adjustment of $362 million as detailed in section 3.5*

***This figure assumes that approximately 90% of bank returns represent funds drawn from federal sources.*

****Due to the period of KPMG's assessment, which covered April 2020 through November 2021, this analysis does not include a $500 million reserve for the UI Trust Fund as included in Chapter 102 of the Acts of 2021 approved on December 13, 2021.*

Table i. Current Trust Fund Balance

KPMG's analysis yields the following recommendations:

- EOLWD should resolve the $318 million in bank payments returned to the Benefit Payment Account and re-issued for subsequent payments. As described above, this process may require additional information from the returning banks to match these funds to individual transactions to determine the original source of funds to repay. Resolution may require repaying any bank returned funds drawn from federal sources and reducing these balances to zero. EOLWD has requested guidance from USDOL for the administration of these funds and should pursue this guidance and follow its instructions when it is available.
- EOLWD should continue to apply the remaining $415 million in employer credits towards future employer assessments.
- EOLWD should implement processes to prevent any future accumulation of unresolved bank returns in the Benefit Payment Account and subaccounts. EOLWD should reconcile subaccount activity regularly.
- EOLWD should consider training and documentation enhancements, automation of reporting, and address potential gaps in integration points between operational and financial business processes to improve future performance.

Section A.1 within the Appendix describes the work performed to support the recommendations made by KPMG. In addition, KPMG has various accounting process and reporting recommendations. There are some tests that were performed for data from April 1, 2020 through June 30, 2021 on reports that do not impact the balance of the UI Trust Fund. To complete the reconciliation of relevant records and to inform the corrective actions related to process and reporting, testing performed through June 30, 2021 will continue beyond the issuance of this report.

2. Unemployment Assistance Overview

2.1 UI Overview

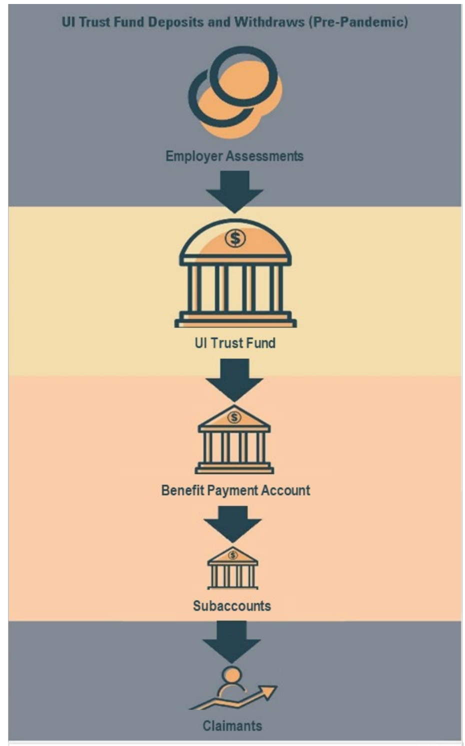


Figure ii

Unemployment Insurance (UI) is a program jointly provided by federal and state governments for the temporary assistance of workers who become involuntarily unemployed. USDOL oversees the UI system, but each state administers its own program. Federal law and regulations establish the basic requirements for every state UI system, while states generally have discretion to set policies and limits for coverage, eligibility, funding, and duration of benefits. States assess and collect funds from employers to pay for UI benefits. Assessment revenues collected by each state are held in trust by the U.S. Department of the Treasury (U.S. Treasury) until needed to pay benefits.

Typically, when unemployment rates are low and assessments are steady, states can continue to pay benefits to eligible unemployed people, while also building a positive balance in their UI Trust Fund. The UI Trust Fund then serves as a reserve for paying benefits during future economic downturns. In periods of relatively higher unemployment, UI benefit payments often exceed the amount of assessment revenue collected by the state. These shortfalls are funded in the first instance by drawing on reserves in the state's UI Trust Fund.

If reserves become insufficient to meet the continuing demand for UI benefits from claimants, states can borrow from the federal government or use other revenues to pay benefits. The federal borrowing program, known as the Title XII Advance program, allows a state to request repayable advances from the federal government during periods in which reserves in the state's UI Trust Fund are insufficient to pay benefits.

2.2 Massachusetts UI Program – Pre-Pandemic

The Massachusetts Executive Office of Labor and Workforce Development (EOLWD) oversees DUA, which is responsible for the administration of the program in cooperation with the USDOL. Generally, every employer is required to contribute to the UI system if it meets certain threshold requirements. Employer UI contribution rates are assessed based on Massachusetts law, which considers factors including the wages paid by the employer, the solvency of the UI Trust Fund, and the employer's historical experience in generating UI Program benefit claims.

As depicted in Figure ii, employer contributions are deposited into the UI Trust Fund. When state funded claims are due to be paid, funds are then transferred to the Benefit Payments Account and its subaccounts and paid out to eligible claimants via DUA's banking partners.

In the years preceding the economic disruption of the COVID-19 pandemic, the UI Trust Fund balance was stable with a gradually increasing balance. As of January 1, 2020, the balance in the UI Trust Fund was $1.7 billion, with no Title XII Advances outstanding[2]. [See Figure iii].

[2] Since January 1, 2008, EOLWD borrowed and repaid loans under the Title XII Advance program to meet benefit needs resulting from the 2007-2009 Recession. The final repayment of these Title XII Advances was made before any interest accrued.

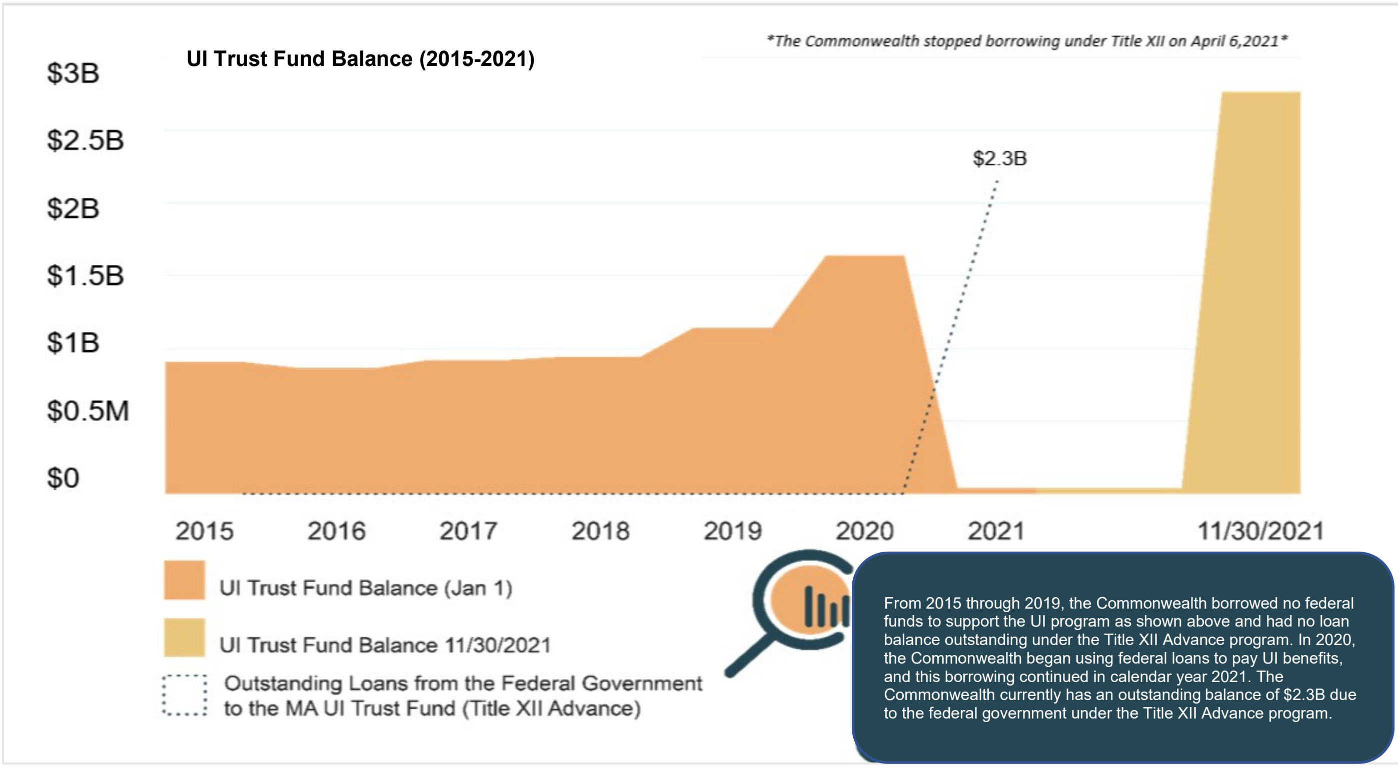


Figure iii. UI Trust Fund Balances

2.3 Massachusetts UI Program – COVID-19 Pandemic

As a result of wide-spread job losses during the COVID-19 Pandemic, the UI system processed an unprecedented number of claims – in March 2020 alone, there were over 160,000 claimants, which was an 8x increase from the month prior. The rising number of claimants and paid benefits severely impacted the UI Trust Fund balance.

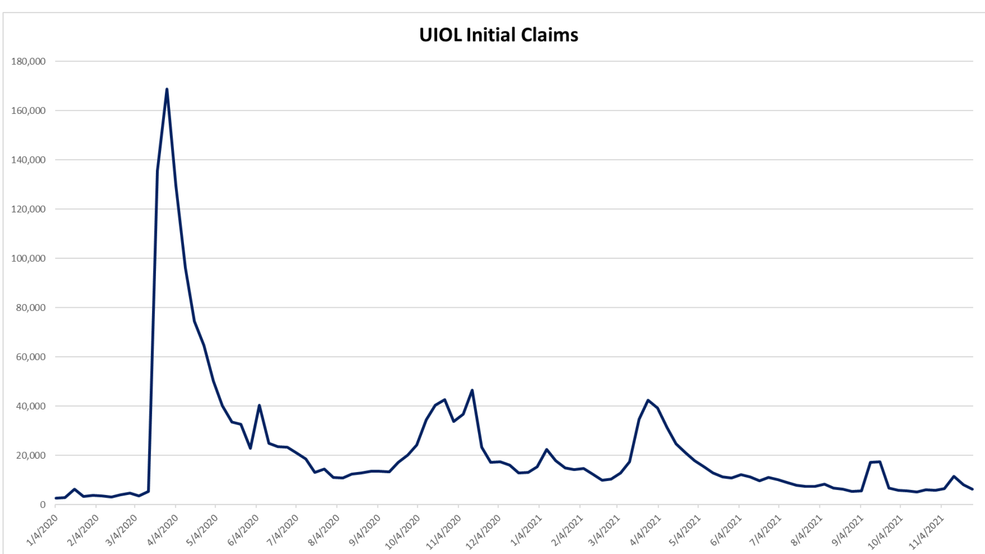


Figure iv. UIOL Initial Claims

The balance of the UI Trust Fund dropped to a low of $25 million in June 2020, remained low throughout FY2021, and then climbed over 6 months, resulting in the reflected balance of $2.9 billion as of November 30, 2021. However, based on the analysis detailed in this report, the balance includes federal loans, bank returns that must be resolved, and employer credits that, taken together, result in a structural deficit of approximately $115 million as of November 2021[3]. [See Table i and Section 3]

2.3.1 Introduction of New Federal Unemployment-Related Programs

Beginning in early 2020, in response to the COVID-19 pandemic, the federal government changed unemployment procedures and implemented new and greatly expanded UI-related programs as detailed in Table ii below. These programs were federally funded and administered by DUA in parallel with existing state UI benefits.

EB	Extended Benefits
FPUC	Federal Pandemic Unemployment Compensation
LWA	Lost Wages Assistance
MEUC	Mixed Earners Unemployment Compensation
PEUC	Pandemic Emergency Unemployment Compensation
PUA	Pandemic Unemployment Assistance

Table ii – Pandemic Period Federal Programs (See Glossary for additional terms)

As seen below, the total volume of unemployment benefits (regular UI and all federal benefit programs combined) paid from 2020 through 2021 exceeded $33 billion. [See Figure v]

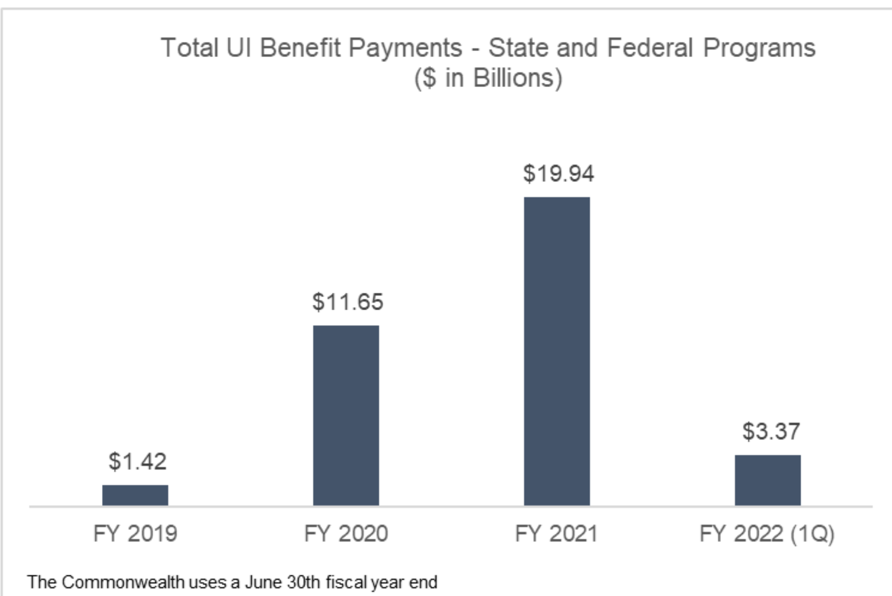
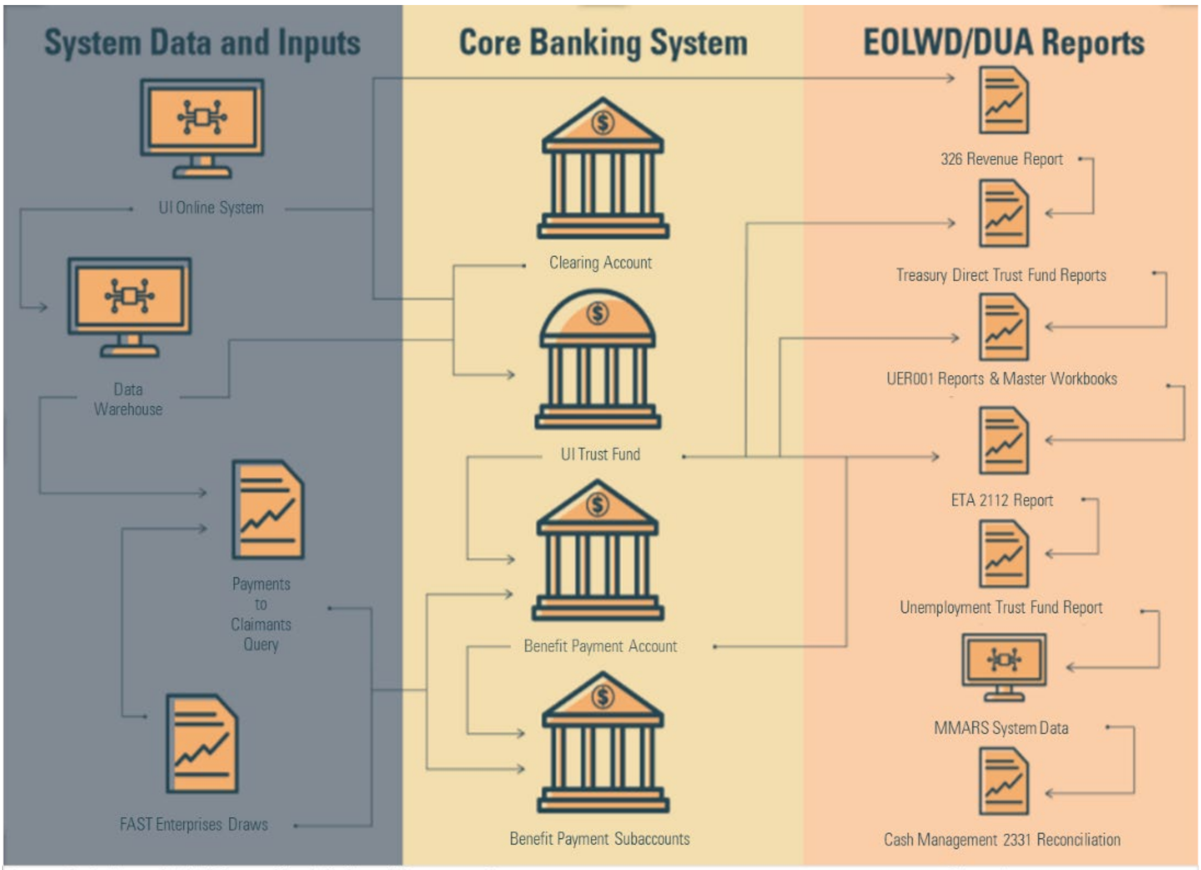


Figure v. Total UI Benefit Payments
(including all Federal programs in 2020 and 2021)

[3] Due to the period of KPMG's assessment, which covered April 2020 through November 2021, this analysis does not include a $500 million reserve for the UI Trust Fund as included in Chapter 102 of the Acts of 2021 approved on December 13, 2021.

2.3.2 Implementation of New Federal Unemployment-Related Programs in Massachusetts

The number and complexity of new UI-related programs created challenges for reporting, financial processing, and account reconciliation. The flow of data, banking records, funding, and reporting outputs (see Figure vi below) required rapid and repeated changes to established business processes to accommodate the new programs. Federal rules, form updates, and reconfiguration of systems remained dynamic during the period. Despite these challenges, DUA remained committed to determining eligibility and paying benefits for eligible claimants for Massachusetts as part of the response to stabilize the economy and support people and families through the COVID-19 pandemic.



Please refer to Appendix A1. (Glossary) for definition of these accounts

Figure vi

3. KPMG Summary Approach and Findings

In 2021, while continuing to process an historically high number of claims paid as a result of continuing effects of the COVID-19 pandemic, EOLWD observed that the Benefit Payment Account balance was consistently higher than historical averages and, despite continuing high levels of outflows, began to serve as a sufficient source of funds to make weekly state program UI benefit payments without requiring withdrawals from the UI Trust Fund. In response to this high account balance, EOLWD paused UI Trust Fund withdrawals in mid-April 2021 through November 2021. During this same period, the balance of the UI Trust Fund began to increase in value between May – November 2021 to a high of $2.9 billion as of November 30, 2021.

DUA engaged KPMG to assist in explaining these developments and in determining whether they indicated a need to adjust the reported UI Trust Fund balance of $2.9 billion. KPMG's analysis focused on six key areas:

- Benefit Payment Account Transactions
- Title XII Advances (Federal Loans)
- Employer Contribution Rates and Credits in 2021
- Accounting Adjustments
- Bank Returns
- Federal Adjustments

Based on this analysis, KPMG found the following expected adjustments and employer credits:

- **An estimated adjustment of $300 million to reconcile bank returns:** KPMG has determined that during the period of March 2020 to November 2021, there were $318 million in benefit payments returned by banks that was retained in subaccounts within the Benefit Payment Account and later repurposed to pay new claims for benefits. These funds should have been returned to the funding source from which they were originally charged—either federal program sources or the UI Trust Fund. KPMG estimates that the federal portion to be returned is approximately no more than $300 million on the basis that the returns relate to benefit payments that were made at a time when the majority (90%) of benefits paid out came from federal sources. EOLWD has requested guidance from USDOL for the administration of these funds and has yet to receive guidance as of December 2021. [See Section 3.6 for additional detail]

- **$415 million of Employer Credits:** The UI Trust Fund balance includes $415 million of credits against future assessments to be collected from employers because of mid-year rate adjustments implemented in calendar year 2021 after employer assessments had been paid. These credits will be applied to future employer assessments to eliminate the credit that was over-collected because of the timing of legislative changes in 2021, with the effect that future employer assessments will be correspondingly reduced. [See Section 3.3 for additional detail]

Additional information about this reconciliation and other tests performed by KPMG can be found in Section A.1 of the Appendix.

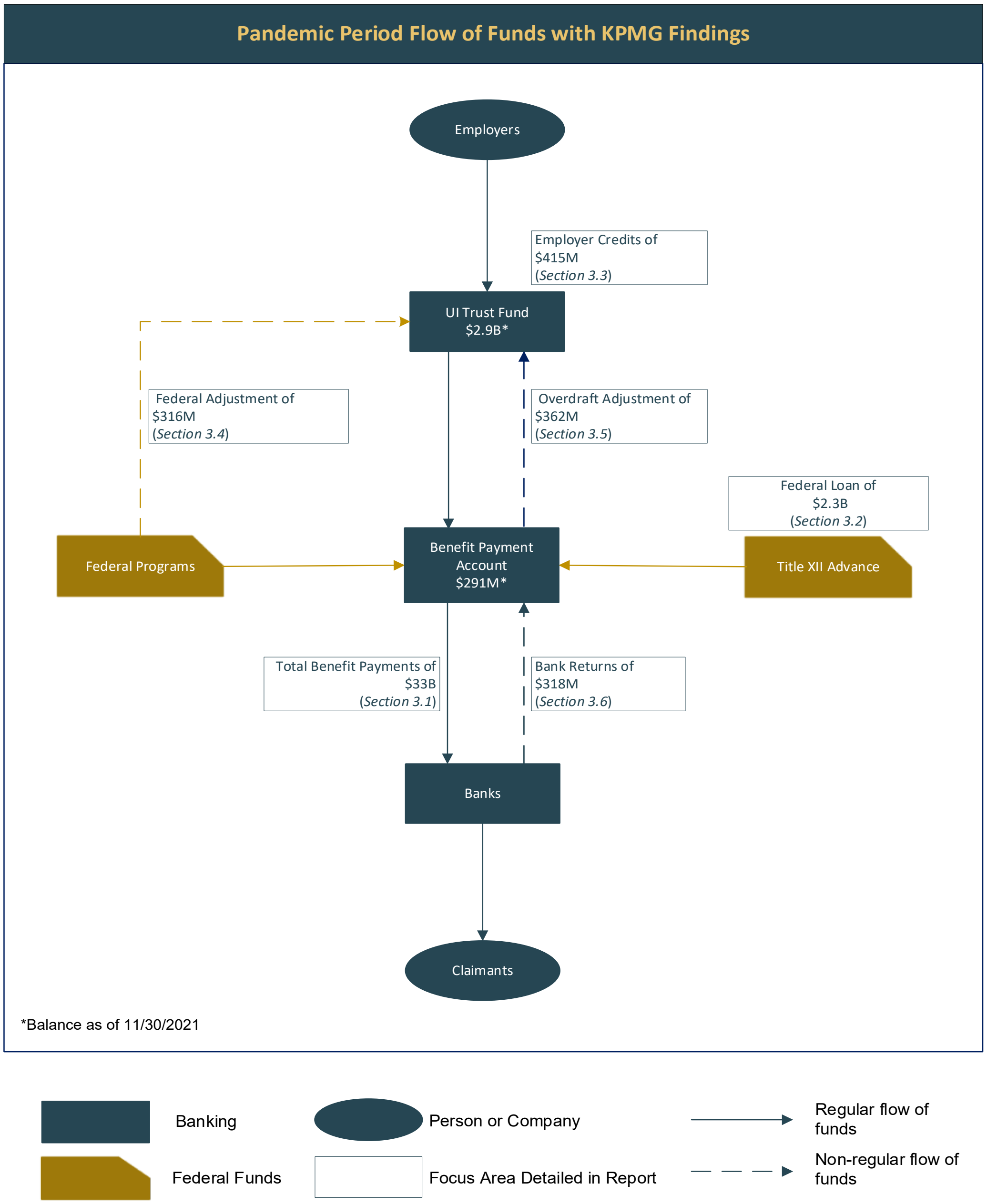


Figure vii – Pandemic Period Flow of Funds with KPMG Findings

3.1 Benefit Payment Account Transactions

Before the COVID-19 pandemic, the Benefit Payment Account and its subaccounts operated as a clearing account for regular UI payments drawn daily from the UI Trust Fund. The typical balance ranged from approximately $15 million to $25 million.

During the COVID-19 pandemic, the Benefit Payment Account retained its role as a clearing account for the UI Trust Fund, but also served as a clearing account for new federal sources of funds. New federally funded programs introduced beginning in May 2020 routed significant new federal funding directly through the Benefit Payment Account and its subaccounts. Title XII Advances from the federal government were also deposited directly into the Benefit Payment Account to fund state UI program benefit payments when the UI Trust Fund balance was effectively exhausted. To accommodate increased payment activity due to the introduction of new federal benefit programs and funding sources, EOLWD added five new subaccounts to the Benefit Payment Account to the existing seven for a total of 12.

The Benefit Payment Subaccounts are all zero-balance accounts created to distribute payments daily to claimants based on program and/or payment method (i.e., via debit card or direct deposit). To process the greatly expanded range of federal benefit programs introduced to respond to the COVID-19 pandemic, three new subaccounts (i.e., 2002, 2003, 2005) were created in April 2020. A fourth subaccount was created in August 2020 (2570). A fifth subaccount (2006) was created in April 2021.

The balance in the Benefit Payment Account increased substantially from pre-pandemic levels to $291 million as of November 30, 2021. This increase was caused by bank returns occurring during the pandemic. When employment rebounded and claim totals decreased, the rise in the Benefit Payment Account balance accelerated despite the fact that EOLWD ceased making daily draws from the UI Trust Fund from April to November of 2021. The bank returns received into the Benefit Payment Account during the relevant period will need to be refunded to their original source, which include either federal program sources or the UI Trust Fund. [See section 3.6 below for further information on the total bank return activity]

3.2 Title XII Advances (Federal Loans), $2.3 billion

In response to dramatic increases in state program benefit obligations and, as a result, a rapidly diminishing UI Trust Fund balance during the early months of the pandemic, EOLWD drew Title XII Advances from the federal government beginning on June 29, 2020 to enable continued payment of state UI program benefits. Massachusetts currently has approximately $2.3 billion in outstanding loan obligations to the federal government under the Title XII Advance program.

While Title XII Advances are authorized in lump sum amounts, they are drawn daily and deposited into the Benefit Payment Account to facilitate payments to claimants.

3.3 Employer Contribution Rates and Credits, credits currently valued at $415 million

Employer contributions are assessed based on state law, which considers factors including the wages paid by the employer, the solvency of the UI Trust Fund, and the employer's experience in the UI Program. With the high number of UI claims paid out of the system throughout 2020, employer contribution rates initially rose steeply in 2021. This resulted in $1.5 billion in employer assessment revenue collected in April and deposited in the UI Trust Fund. [See Section 2.2 for further details on the calculation of employer contribution rates]

In response to the substantial increase in 2021 contribution rates, DUA sought and received legislative authorization to retroactively reduce 2021 rates in May of 2021 by removing COVID-related charges from the statutory solvency calculation.

When the legislation was enacted in May 2021, most employers had already paid their Q1 contributions to DUA. First quarter assessments constitute the largest portion of employer annual assessments. To account for the reduction in 2021 rates, employers received credits for any overpayments made in April 2021. As of November 30, 2021, $415 million in credits remain in employer accounts. It is anticipated that employers will make immediate use of these credits by offsetting future assessments beginning in Q1 2022.

3.4 Federal Adjustments, $316 million

Throughout the pandemic, USDOL provided guidance to aid states in the administration of their UI programs, but due to the unprecedented nature of the COVID-19 pandemic and the existence of brandnew federal programs with different eligibility rules and time frames, guidance was often iterative and at times retroactive.

In response to federal guidance, EOLWD retroactively identified claims totaling $316 million that had been paid with state funds from the UI Trust Fund that, according to later issued federal guidance, should instead have been charged to the new federal programs. In coordination with USDOL, on May 25, 2021, EOLWD was able to transfer $316 million to the UI Trust Fund from U.S. Treasury to replace payments made to claimants with state funds.

This extraordinary one-time adjustment is properly reflected in the $2.9 billion UI Trust Fund balance as of November 30, 2021.

3.5 Overdraft Accounting Adjustments, $362 million

When filing for UI, claimants have the option to elect to withhold state and federal taxes from their benefit payments. As part of continuous efforts to monitor the UI program, EOLWD identified $362 million in erroneous overdrawn taxes, which were funds that were drawn from the UI Trust Fund above and beyond what was required to pay state and federal taxes. This overdraw resulted in the Benefit Payment Account being overfunded by the amount of the overstated tax payments.

On July 8, 2021, EOLWD coordinated with the U.S. Treasury to make a direct wire transfer from the Benefit Payment Account to the UI Trust Fund in the amount of the $362 million overstatement. The U.S. Treasury worked with EOLWD to make sure the deposit was properly reported as a replenishment to the UI Trust Fund.

This extraordinary, one-time adjustment is properly reflected in the $2.9 billion UI Trust Fund balance as of November 30, 2021.

3.6 Bank Returns, $318 million

In the normal course of UI program administration, some small percentage of approved payments made to claimants are returned by third party banks directly into the Benefit Payment Account subaccounts from which they originated. These returns occur for a variety of reasons, including closed accounts, invalid account numbers, or suspicions of fraudulent activity. Before the pandemic, with a smaller number of claimants and when effectively all UI benefits were paid with state sources except a few small federally reimbursable programs, accounting for these low-volume returns was relatively simple.

However, from April 2020 to November 2021, bank returns totaling $318 million were deposited into the subaccounts to the Benefit Payment Account, with $127 million returned in May 2020 alone. Banks made some of the returns without providing information that would have allowed for easy matching to individual transactions. Bank returned funds for UI-related programs during this period (both federally and state funded) were not reconciled, not reported on existing forms, had no formal resolution process and, as a result, remained in the Benefit Payment Account. EOLWD has requested guidance from USDOL for the administration of these funds and has yet to receive guidance as of December 2021.

These returned amounts were available and were used as cash to pay subsequent benefit payments drawn from the same subaccounts. The consequence of making this use of these unreconciled cash balances is that those subsequently issued benefit payments were not matched to or drawn from the specific funding sources dedicated to the individual benefit programs under which the benefit payments were authorized.

KPMG estimates that the federal portion to be returned is approximately no more than $300 million on the basis that the returns relate to benefit payments that were made at a time when the majority (90%) of benefits paid came from fully federally funded programs such as PUA, Pandemic Emergency Unemployment Compensation and others. [See Section 2.3.1 for additional detail]

A. Appendix

A.1 Completed Reconciliations

KPMG performed ten different reconciliations to review the accuracy of activities over the 20-month period from April 2020 through November 2021 including federal advances, federal UI program draws, and expenditures for the new federal programs. There are some tests that were performed for data from April 1, 2020 through June 30, 2021 on reports that relate exclusively to reporting and accounting practices and that do not impact the balance of the UI Trust Fund. To complete the reconciliation of relevant records and to inform the corrective actions related to process and reporting, testing performed through June 30, 2021 will continue beyond the issuance of this report.

The only reconciliation that affects the Trust Fund balance is itemized as number nine in the following list and described in section A.1.9 below. The ten reconciliations and their purposes are summarized below:

The following two reconciliation activities validated UI Trust Fund inflows, including employer assessments:

1. **Revenue Reconciliation**: KPMG reviewed and reconciled revenues as reported in the 326 Revenue Report and the Treasury Direct Transaction Statement to validate the inflow of funds to EOLWD. The 326 Revenue Report is a report generated from UI Online that records employer assessment revenues. The Treasury Direct Transaction Statement is an official statement of the U.S. Treasury with respect to the UI Trust Fund.

2. **Employer Assessment Validation:** KPMG reviewed methodology and private contributory employer contribution rate calculations for rate notices issued on April 6, 2021 and on July 23, 2021. KPMG also reviewed and confirmed the recalculation of private contributory employer contributions due to legislation passed on May 28, 2021, that resulted in the employer credits discussed in section 3 above.

The following reconciliations reviewed and validated benefit payment activities, reviewed claim to payment processes, and reconciled benefit payment data from various sources by program:

3. **Benefits Reconciliation**: KPMG reviewed and reconciled benefit payments made by EOLWD through the analysis of federal trust fund reports, external bank statements, and internal spreadsheets maintained by the EOLWD Finance team. These source documents detailed monthly transactions and served as the basis of KPMG's reconciliation exercise.

4. **Payment to Claimant Analysis**: KPMG compared reports of actual benefits paid by program to reports detailing authorized payments by program. This analysis was performed to confirm whether an ad-hoc report used by the EOLWD Finance team to address pandemic complexities properly supported UI Trust Fund draws.

The USDOL Employment and Training Administration (ETA) 2112 report is a federally mandated monthly report that organizes and displays financial transaction data occurring within the Commonwealth's unemployment insurance banking system. The report uses federal guidelines to illustrate financial activity in the Commonwealth's UI Trust Fund and its related accounts. By conducting the following three reconciliations, KPMG reviewed the Commonwealth's monthly ETA 2112 reports for the period of April 2020 to November 2021 and validated the inflows, outflows, and totals.

5. **ETA 2112 Report Deposits and Disbursements Reviewed**: KPMG reviewed the deposits and disbursements across programs for the period of April 2020 to November 2021 by utilizing the ETA 2112 report.

6. **ETA 2112 Report Inputs and Mapping Reconciliation**: KPMG reviewed the mapping of the Benefit Payment Account Column in the ETA 2112 report to the source cells in the UER001 reports, ETA 5159 reports, and Cash Management workbooks.

7. **ETA 2112 Report and UER001 Report Reconciliation**: KPMG compared the ETA 2112 reports with the UER001 reports for each program, including supplemental Cash Management Master Workbook values.

The following two reconciliations validated the Benefit Payment Account balance, reviewed and analyzed account activities, including subaccounts, and compared statements to finance reports and records.

8. **Benefit Payment Account Analysis**: KPMG reviewed the accuracy of internal reports and bank records through an analysis of the Commonwealth's Benefit Payment Account.

9. **Benefit Payment Account Subaccount Recovering/Netting Reconciliation**: KPMG reviewed all subaccounts that roll up into the Benefit Payment Account. KPMG identified subaccounts with an aggregate balance of $318 million that resulted from bank return activity of federal and state funds. These returns require further resolution and an estimated repayment of approximately $300 million in federal funds.

The following analysis reviewed the Commonwealth's state statutory reporting and economic modeling to validate monthly and quarterly UI Trust Fund Reports, including methodology, source documents, and calculations.

10. **Department of Economic Research Unemployment Trust Fund Report Validation**: KPMG determined the inputs to the Department of Economic Research June 2021 Unemployment Trust Fund Report, including partial source validation.

The following subsections provide greater detail on each of the reconciliations performed to validate EOLWD's processes and the flow of UI funds through the unemployment system.

A.1.1 Revenue Reconciliation

Overview

EOLWD requested assistance in reconciling two standard reports that denote the flow of deposits into the UI Trust Fund. In this exercise, KPMG analyzed the monthly inflows as described by the 326 Revenue Report and the Treasury Direct Transaction Statement. The 326 Revenue Report is sourced out of the UI Online data warehouse and used to document employer revenue received by the Commonwealth. Treasury Direct, a federal reporting system, generates the Treasury Direct Transaction Statement. The variances identified below do not impact the UI Trust Fund Balance and, instead, are accounting adjustments based on routine timing differences.

Analysis

For each month, the net activity in the Regular UI program stated on the 326 Revenue Report was compared with the total state deposits listed on the Treasury Direct Transaction Statement for the period starting April 1, 2020 and ending June 30, 2021.

Variances were identified between monthly revenue reported in 326 Revenue Reports and monthly deposits shown in Treasury Direct account statements. The review confirmed that most of the observed variances were the result of routine timing differences in the transfer of funds. For example, a $728 million variance in April 2020 is offset by the following month's negative $727 million variance. Transactions that affected balances in April were eventually settled in May.

Revenue by source			
Month	Treasury Direct – State Deposits (in $ millions)	326 report – UI Net Activity (in $ millions)	Variance (in $ millions)
4/20	$140	$868	$728
5/20	799	71	(727)
6/20	38	14	(24)
7/20	64	214	151
8/20	187	32	(155)
9/20	26	25	(1)
10/20	59	93	34
11/20	164	130	(34)
12/20	467	61	(405)
1/21	47	76	29
2/21	129	96	(34)
3/21	12	13	1
4/21	177	1,318	1,141
5/21	1,236	91	(1,144)
6/21	118	61	(58)
Total	**$3,662**	**$3,162**	**($500)**

Table iii. Revenue reconciliation summary

The results of this analysis do not affect the UI Trust Fund balance. Additional work to improve processes and reporting will continue beyond the issuance of this report.

Observations

In December 2020, EOLWD made two deposits of federally provided funds of approximately $165 million and $242 million into the UI Trust Fund, which were reimbursements provided to the Commonwealth pursuant to federal funding. These deposits were for additional reimbursements claimed by the Commonwealth pursuant to the following two programs: (1) the Emergency US Relief 50% Reimbursement and (2) the Temporary Compensation-Wait Week. The Commonwealth recovered federal reimbursements for these two programs, which had previously been paid from the UI Trust Fund. The total deposits in December 2020 reflecting these extraordinary federal reimbursements amounted to approximately $407 million. Due to its extraordinary nature, the $407 million was not reflected in the December 2020 326 Report. KPMG observed a variance between the 326 Report and Treasury Direct relating to this $407 million transfer.

Recommendation

KPMG recommends EOLWD document a one-time deposit of approximately $407 million into the UI Trust Fund, which was not reflected in the December 2020 326 Revenue Report because it was not revenue.

A.1.2 Employer Assessment Validation

Overview

On April 6, 2021, DUA announced 2021 employer UI rates, which were calculated in accordance with March 2021 legislation that froze employer rates at a lower schedule “E,” as schedule “G” was set to trigger statutorily given the low balance of the UI Trust Fund. However, due to March 2020 legislation that assigned all COVID-related claims to solvency, rather than to each individual employer, the solvency assessment increased dramatically, resulting in every employer paying a higher rate within schedule “E.” There was a subsequent rate recalculation performed to adjust employer contributions as enacted by Chapter 16 of the Acts of 2021 (Chapter 16) to address COVID-related charges in the rate calculation, effective for calendar years 2021 and 2022. Chapter 16 was signed into law on May 28, 2021.

EOLWD requested KPMG to review both rate calculations for employer rates for calendar year 2021: one based on the rates in effect for rate notices posted on April 6, 2021 (original rates) and rates calculated pursuant to the provisions of Chapter 16 (adjusted rates).

Analysis

KPMG reviewed the 2021 UI rate calculations to understand the original rates and adjusted rates calculations. KPMG reperformed calculations and verified the Commonwealth’s calculation for both original rates and adjusted rates. Furthermore, KPMG programmatically re-applied the rates on a sample employer and verified that both the original rate as well as the adjusted rate were calculated accurately. Most employers paid assessments to DUA at the original rates, prior to the issuance of adjusted rates. For those employers, the adjusted rates resulted in a credit in their UI Online payment accounts. Credits can be applied by affected employers towards future contributions.

Observations

KPMG verified that the original calculation, as well as the recalculation, were calculated accurately at the times the rates were in effect. As such, KPMG confirmed that there is a remaining credit of $415 million as of November 30, 2021, which is currently deposited in the UI Trust Fund.

Recommendations

KPMG does not have any recommendations for this review as there were no variances in the rate calculations as performed under applicable state law at the time each was performed.

A.1.3 Benefits Reconciliation

Overview

KPMG performed a reconciliation of benefit payments for the 20-month period beginning April 1, 2020 and ending November 30, 2021. KPMG found minor accounting issues and no material variances that impact the UI Trust Fund.

KPMG compared data from federal and internal reports found in the Benefits Reconciliation Spreadsheet to data from the Benefit Payment Account statements. The spreadsheet review determined that accounting information was pulled correctly from its respective data source and was calculated correctly by the EOLWD Finance team.

The goal of this exercise was to identify any inflow and outflow variances between information pulled from the two data sources. The reconciliation identified variances between transaction amounts pulled from the Massachusetts Management Accounting and Reporting System (MMARS) and the Benefit Payment Account statements.

Analysis

KPMG reviewed information from the Benefit Payment Account and internal reports and confirmed the soundness of references and calculations. To validate bank account information, the monthly spreadsheet totals were cross-checked for inflows and outflows against the total credit and debit balances shown on monthly bank statements. To validate internal and federal data uploaded to MMARS, the MMARS related amounts on the spreadsheet were cross-checked against various internal reports. These MMARS related entries represented funds drawn from the UI Trust Fund into the Benefit Payment Account. KPMG also reviewed the total amounts drawn by program. KPMG used Federal Treasury Direct statements to confirm amounts for Regular UI withdrawals and UI Loan Amounts. To verify amounts for the new federal programs, the KPMG team cross-checked amounts shown in the spreadsheet with amounts posted on budget inquiry reports generated by MMARS.

Once the inputs in the spreadsheet were validated, references and calculations were reviewed for accuracy and that they fully illustrated the total inflow and outflow amounts.

Observations

KPMG has reviewed and validated the numbers and calculations in the reconciliation spreadsheets for the period of April 1, 2020 to June 30, 2021. KPMG found and corrected one minor spreadsheet reference error. Variances between data pulled from the two different accounting sources were identified as shown below in Table iv.

Fiscal year	Benefit Payment Account	MMARS / TD accounting	Total variance
FY 2020 – Inflows	$12,046,476,398	$12,048,636,339	($2,159,940)
FY 2020 – Outflows	11,696,279,702	11,651,401,743	44,877,959
FY 2021 – Inflows	20,301,403,192	20,327,371,481	(25,968,289)
FY 2021 – Outflows	$19,967,951,389	$19,941,000,232	$26,951,156
FY 2020: July 2019 to June 2020 (KPMG only validated entries for April – June 2020)			
FY 2021: July 2020 to June 2021(KPMG validated entries for all months in FY 2021)			

Table iv. Benefits reconciliation

The results of this analysis do not affect the UI Trust Fund balance. Additional work to improve processes and reporting will continue beyond the issuance of this report.

Recommendations

KPMG recommends appropriately reflecting in MMARS certain outflows and placing a particular emphasis on including all manual adjustments that were made throughout the period. These manual adjustments may bypass certain internal sources that are used to calculate program totals, and thus create variances between the bank statement and internal records.

A.1.4 Payment to Claimant Analysis

Overview

In order to validate that DUA reports provided to the EOLWD Finance team to implement payment of unemployment programs aligned with program level activity in UI Online, KPMG collected UI Online Payments by Program queries at a gross amount to be compared to gross amounts from the Authorized Payment to Claimants by Program queries. The Authorized Payment to Claimants by Program queries were implemented on April 13, 2020 once EOLWD discovered the UER001 reports no longer adequately captured amounts to be drawn for specific federal programs. Several tests were conducted to determine what date should be used for the UI Online queries. The final test used the warrant date, which created a few days lag between the queries and Authorized Payment to Claimants by Program queries. The timing difference was influenced by weekends during the start and end dates of the queries. KPMG was not able to fully reconcile the two reports through this approach. However, KPMG is confident that the existence of undiscovered material payment amounts is unlikely. The prior tests conducted by KPMG to identify cash flow discrepancies between accounts would have likely detected any material variances between amounts authorized and paid. KPMG will continue this reconciliation effort in the next project phase.

Analysis

Queries were pulled for one month at a time for March and April 2021, specifically March 1, 2021 through March 31, 2021 and April 1, 2021 through April 30, 2021. Daily Authorized Payment to Claimants by Program queries were then compiled to create a monthly summary, taking the lag into consideration. KPMG traced the Authorized Payment to Claimants by Program queries to the Benefit Payment Account and subaccounts. With multiple timing differences operating simultaneously in EOLWD and bank processes, KPMG was unable to observe a consistent, material variance on a month-to-month, period of month, or day-to-day basis.

Observations

In the comparison of the data from the Authorized Payment to Claimants by Program query and the UI Online data from the period above, KPMG was not able to reconcile the two sources. Based on the reconciling of the inflows and outflows of the UI Trust Fund and the Benefit Payment Account, KPMG did not find significant variances that would result in any material adjustments.

Recommendations

KPMG recommends implementing systematic reporting for benefit payments by programs, retiring daily use of the ad-hoc Authorized Payment to Claimants by Program query to inform cash draw activity, and instituting a regular reconciliation of these data sources to help ensure no large variances occur.

A.1.5 ETA 2112 Report Deposits and Disbursements Reviewed

Overview

KPMG analyzed the ETA 2112 reports to review deposit and disbursement activity for new federal programs. The KPMG team studied the ETA 2112 reports for the months of April 2020 through November 2021. The team compared the dollar amount of deposits into the Benefit Payment Account and the dollar amount of disbursements out of the UI system. The exercise allowed KPMG to analyze the flow of funds from the UI Trust Fund to the Benefit Payment Account, and then ultimately to individual claimants. Through the exercise, KPMG gained further insights into how the Commonwealth utilized funds for new federal programs.

Analysis

KPMG used the ETA 2112 reports to calculate amounts deposited and disbursed under the following new federal programs:

1. Extended Benefits 2020
2. Pandemic Emergency Unemployment Compensation (PEUC)
3. Federal Pandemic Unemployment Compensation (FPUC)
4. Pandemic Unemployment Assistance (PUA)
5. Temporary Compensation-Wait Week

To calculate total deposits, the KPMG team summed the total amount of funds per month that were deposited into the Benefit Payment Account for each specific new federal program. From this total deposit amount, the total monthly disbursements were subtracted out of the Benefit Payment Account for each program. The total disbursement amounts were also pulled from the ETA 2112 reports and represent the amounts disbursed from the Benefit Payment Account.

Observations

The KPMG analysis reviewed the deposits into and disbursements out of the UI system for the five programs mentioned above. The goal of the analysis was to compare the amount of money entering and leaving the Benefit Payment Account. Analysis identified differences between monthly deposits and monthly disbursements for each new federal program. These monthly differences were both positive (more funds were deposited than disbursed) and negative (more funds were disbursed than deposited). KPMG identified timing differences as the reason for these variances. Many negative monthly differences were often partially offset by positive balances in the months following (and vice versa). These partially offsetting differences highlight the effects of cash lags at the end of the month. Cash received at the end of one month is usually paid at the beginning of the next month, creating a difference in both months between deposits and disbursements.

KPMG determined that timing significantly contributed to monthly differences between cash received and cash paid out for the new federal programs. EOLWD paid funds to claimants for the new federal programs in the days following cash draws. These timing dynamics consistently create monthly differences between total cash draws and total cash disbursements to and from the UI Trust Fund and Benefit Payment Accounts. Differences between deposits and disbursements are often exacerbated when months end on weekends or holidays, as the amount of time between cash draw and cash payment is extended.

Three of these programs are federally reimbursed: Temporary Compensation-Wait Week, Emergency US Relief Reimbursement; and Short-term Compensation (Workshare). For Temporary Compensation-Wait Week, KPMG confirmed that the Commonwealth drew approximately $242 million from the U.S. Treasury in December 2020 and transferred those funds into the UI Trust Fund as a catch-up of payments that were eligible for federal reimbursement and had originally been paid with state funds from the UI Trust Fund during the period beginning April 2020 through December 2020. The Commonwealth expects up to $50 million in additional reimbursements through November 2021 for Temporary Compensation-Wait Week.

An illustration of Benefit Payment Account outflows can be viewed in the figure below:

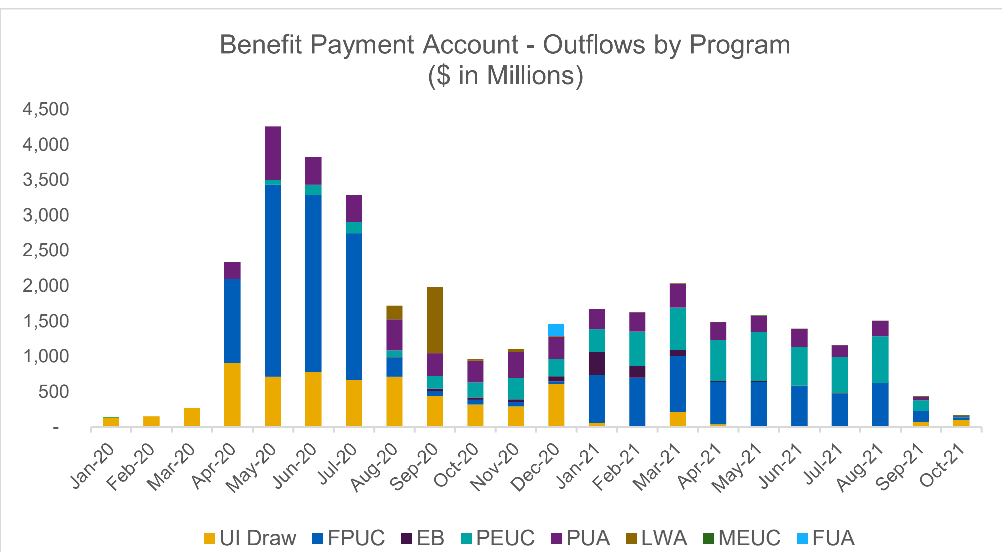


Figure viii. Outflows from Benefit Payment Account Reconciliation

Recommendations

KPMG does not recommend any changes to existing business processes with respect to deposits and benefit disbursements.

A.1.6 ETA 2112 Report Inputs and Mapping Reconciliation

Overview

KPMG performed an in-depth analysis into the mapping of the Benefit Payment column in the ETA 2112 reports. The analysis was conducted on ETA 2112 reports from April 2020 through June 2021 with the goal of identifying mapping or calculation errors within the report. In this exercise, KPMG developed its own model of the report and compared its summary totals with corresponding figures listed on the ETA 2112 report.

Analysis

KPMG calculated its own totals for each line item in the ETA 2112 reports, closely following an up-to-date source mapping document provided by EOLWD. KPMG then compared its own calculated totals to those listed in the original ETA 2112 reports. KPMG documented the differences between the two total amounts as variances. KPMG reviewed each variance between the line items in the original ETA 2112 reports and the reconciliation spreadsheet developed by KPMG. The KPMG team's replication of the ETA 2112 reports served to validate the soundness of the reports, as well as identify necessary adjustments.

The list below highlights the key source documents KPMG used to calculate summary totals that were compared with those on the ETA 2112 reports.

Source documents

1. Cash Management Excel Master Workbook
2. Cash Management Excel Trust Fund Balance
3. ETA 5159
4. UER001
    a. Tabs relating to new federal programs
    b. EB2020 tab
    c. Daily – Workshare tab
    d. Daily – EB2009 tab
    e. Daily – Regular tab
    f. Daily – RED tab
    g. Daily – EUC08 tabs
    h. Daily – TEUC tab
5. FPUC Reconciliation provided by EOLWD Finance team

Observations

KPMG identified variances in its calculation of ETA 2112 report line items, none of which affect the UI Trust Fund balance. KPMG and the EOLWD Finance team engaged in a series of meetings to pinpoint the reasons for these variances. The EOLWD Finance team, with help from partners at the ETA, ultimately identified adjusting entries and mapping issues that created the variances discovered by KPMG. The largest mapping issue occurred in the calculation of Net UI Benefits (Line 31) on the ETA 2112 reports, which incorrectly included line items from the Extended Benefits (EB) 2020 UER001 report. KPMG and EOLWD Finance team corrected the EB2020 inclusions.

KPMG notes that a variance between EOLWD's internal reporting and the U.S. Treasury's reporting of the Commonwealth's UI Trust Fund balance still exists, due to timing and accounting issues. EOLWD is continuing to determine the causes for these variances and correct these issues. Variances greater than $1 million that did not affect the UI Trust Fund balance are noted in the table below.

Month	6/20	11/20	4/21	5/21	9/21
$ in millions					
Line #	42b	42b	42b	42b	42c
Line Name	Short Term Compensation – FPUC	Short Term Compensation – FPUC	Short Term Compensation – FPUC	Short Term Compensation – FPUC	Short Term Compensation – PUA
2112 – Benefit Payment Acct (Column F)*	**$2,483**	**$59**	**$606**	**$631**	**$318**
FPUC/CARES ACT Reconciliation**	2,282	57	554	606	0
Cash Management Master Workbook**	0	0	0	0	320
Source document total	**2,282**	**57**	**554**	**606**	**320**
Variance amount	**$201**	**$2**	**$52**	**$25**	**$(2)**

*Primary Document

**Source Documents

Table v. ETA 2112 (>$1M) variances not affecting the UI Trust Fund

Recommendations

Following this analysis, the KPMG team recommended a meeting with EOLWD's federal partners to review the mapping of the source reports to the ETA 2112. In this meeting, federal partners confirmed that the EB2020 amounts should not be included as they were in the ETA 2112 report and the mapping would need to be corrected. The KPMG team then worked with the EOLWD Finance team to adjust for the Extended Benefits charges which is expounded upon in A.1.7, ETA 2112 report and UER001 Report Reconciliation. KPMG recommends that EOLWD file the amended ETA 2112 reports for this issue to be resolved.

A.1.7 ETA 2112 Report and UER001 Report Reconciliation

Overview

KPMG reviewed adjustments in the monthly ETA 2112 reports from August 2020 to October 2021 based on updating mapping discussed in the line-item reconciliation. KPMG then compared the federal and state shares of EB2020 charges to the EB2020 amounts outlined in the Payments to Claimants file. This step of the analysis compared UER001 amounts for EB2020 to the EB2020 components of authorized payments.

ETA 2112 Line Item	ETA 2112 Line #	Monthly Adjustment
Net UI Benefits	Line 31	Subtracted EB2020 - UER001: Total accounts – UER001 Lines 4 and 16 Combined wages UER001 - Line 46
Net State Share Extended Benefits	Line 32	Added EB2020 - UER001: UI Reimbursable – Lines 37, 40 & 43

ETA 2112 Line Item	ETA 2112 Line #	Monthly Adjustment
Local Government & Other Pol. Subdivisions	Line 33	Subtracted EB2020 - UER001: UI Reimbursable - Lines 37 and 43
Reimbursable Non-Profit	Line 35	Subtracted EB2020 - UER001: Non-Profit UI Reimbursable – Line 34
Federal Share - Extended	Line 38	Added EB2020 - UER001: Combined Wages (Mass Paying) – Line 46

Table vi – ETA 2112 Report EB2020 Adjustments

Analysis

KPMG implemented the adjustments above to accurately account for EB2020 and combined wages within the ETA 2112 report. The primary adjustments were made so that Line 32 would include the state share of EB2020 payments, while Line 38 would account for the federal share of EB2020 payments. These adjustments changed beginning and ending balances for the Benefit Payment Account within the ETA 2112 report, as adjustments in prior months flowed through to subsequent months.

Observations

Even after mapping adjustments were made for EB2020 and Combined Wages, the ETA 2112 reports show balances for the Benefit Payment Account that differ from the balances on the Benefit Payment Account Statements. The EB2020 amounts listed on the UER001 reports also differ significantly from the EB2020 components of the Payment to Claimant queries.

Recommendations

KPMG recommends resolving the mapping issues for the ETA 2112 reports, specifically around the accounting of EB2020 payments. The team also recommends further analysis into the EB2020 - UER001 reports, as they deviate from the authorized EB2020 amounts in the Payments to Claimants file. KPMG also recommends reviewing the report mapping with the ETA to ensure that numbers are being pulled accurately.

A.1.8 Benefit Payments Account Analysis

Overview

KPMG conducted a reconciliation of the Benefit Payment Account from April 2020 through November 2021 by utilizing internal and federal reports to calculate ending balances (referred to below as “Model”). The ending balances were compared against the Commonwealth’s account balances as defined by Benefit Payment Account Statements.

Analysis

KPMG started with the monthly beginning balance from the Benefit Payment Account monthly statements and added PEUC, PUA, State UCX W/D and FEC W/D, and Extended Benefits from the Treasury Direct Federal Activity Report. FPUC numbers were added from the Cash Management Daily Cash Draw Spreadsheet provided by EOLWD. The amount reflects FPUC figures from the unemployment system. Finally, LWA figures, taken from bank data, were also added to create a value for Net Federal Funds Received-Pandemic Programs. A separate section for transfers to the UI Trust Fund adjustments, UI Trust Fund Withdrawals, taken from the Treasury Direct Transaction Statement, and Federal Loan Advances, taken directly from the Treasury Direct MA Borrowings report, were also added to create an Other Fed Funds Received section. Lastly, ACH debit return amounts were added to total inflows. PUA overpayments were taken from bank data and added to the Net Federal Funds Received Pandemic Programs and Other Fed Funds Received to create a section for total inflows. Transfers to the Pandemic Programs Account, Benefit Payments, and other Outflows, taken from bank data, were added to create a section for total outflows. Total outflows were subtracted from total inflows to determine the net Increase or decrease to the bank balance.

An Ending Bank Balance per Model was calculated by taking the beginning balance and adding the net increase/decrease to arrive at an ending balance for the model. An Ending Bank Balance per Statement was taken from the Benefit Payment Account bank statements. The two were compared to create a Variance to bank value. The variance figure displays the difference between the Ending Balance calculated through this Model (which uses Treasury Direct reports) and the Ending Balance stated directly on the Benefit Payment Account statements. The sum of these values from April 2020 through November 2021 netted to $316 million.

Observations

The analysis produced a variance between the two sources of $316 million. In response to federal guidance, EOLWD identified claims totaling $316 million that had been paid with funds from the UI Trust Fund that should have been charged to the new federal programs. In coordination with USDOL, on May 25, 2021, EOLWD was able to return $316 million to the UI Trust Fund to replace payments made to claimants with state funds. The adjustment was made outside of the Benefit Payment Account with the assistance of USDOL. Throughout the pandemic, USDOL provided guidance to aid states in the administration of their UI programs, but due to the unprecedented nature of the COVID-19 pandemic and the existence of new federal programs with different eligibility rules and time frames, guidance was often iterative and at times retroactive. Due to a direct transfer within the U.S. Treasury, funds were deposited directly into the UI Trust Fund, bypassed the Benefit Payment Account, and were not reflected in the bank account statements.

Recommendations

KPMG does not have any recommendations regarding this assessment on the basis that this is not a recurring event or process. However, in the event a one-time event should occur in the future, EOLWD should refine processes to identify and reflect the impact of the event in their accounting records as appropriate.

A.1.9 Benefit Payment Subaccount Recovering/Netting Reconciliation

Overview

KPMG conducted an analysis of the Benefit Payment subaccounts that roll up to the Benefit Payment Account. These subaccounts are all zero-balance accounts created to distribute payments daily to claimants based on program and/or payment method (i.e., via debit card or direct deposit). To process the greatly expanded range of federal benefit programs introduced to respond to the COVID-19 pandemic, three new subaccounts (i.e., 2002, 2003, 2005) were created in April 2020. A fourth subaccount was created in August 2020 for LWA (2570). A fifth subaccount (2006) was created in April 2021.

In the normal course of UI program administration, some small percentage of approved payments made to claimants are occasionally returned to the Benefit Payment Account by third party banks. These returns are received directly into the subaccounts to the Benefit Payment Account from which they originated. These returns occur for a variety of reasons, including closed accounts, invalid account numbers, or suspicions of fraudulent activity. Before the pandemic, with a smaller number of claimants and when nearly all UI benefits were paid with state sources except a few small federally reimbursable programs, accounting for these low-volume returns was relatively simple. The dramatic increase in benefit payment activity beginning in March 2020 combined with the introduction of greatly expanded federal programs, many of which included the payment of benefits to claimants from a mix of state and federal funding sources, resulted in an increase in bank return activity. These bank-returned funds during this period could not be easily reconciled as they were not reported by program or on existing forms, had no formal resolution process, and therefore remained in the Benefit Payment Account.

Analysis

KPMG collected the .CSV files for each subaccount for the period April 2020 through November 2021. The team reconciled the transactions between the Benefit Payment Account to each of its subaccounts to identify potential variances. Within each subaccount, the team compared what the daily approved payment amount was to the amount withdrawn from Benefit Payment Account as a method for determining if the subaccounts held and then paid out recoveries that should instead have been credited to original funding sources.

Observations

KPMG reviewed bank account statements for the Benefit Payment Account and the 12 subaccounts of that account. KPMG identified eight subaccounts with potential surplus and calculated the potential surplus by subaccount to determine the potential overall surplus accumulated in the Benefit Payment Account. The surplus is displayed in the table below.

Description	4/20 – 12/20	1/21 – 11/21	Total Amount
Potential Surplus in subaccount 2003	($294,150,454)	($24,962,193)	($319,112,648)
Potential Surplus in subaccount 2005	(127,999)	(114,222)	(242,221)
Potential Surplus in subaccount 2006	0	1,094,243	1,094,243
Potential Surplus in subaccount 2349	(45,780)	(43,591)	(89,371)
Potential Surplus in subaccount 2356	(13,247)	(26,773)	(40,020)
Potential Surplus in subaccount 2554	(1,558)	(2,850)	(4,408)
Potential Surplus in subaccount 2570	0	0	0
Potential Surplus in subaccount 2588	(4,159)	(36,395)	(40,554)
Total Potential Surplus	**($294,343,198)**	**($24,091,782)**	**($318,434,980)**

Table vii – Benefit Payment Subaccount Analysis

Recommendations

KPMG recommends performing a resolution exercise to return the $318 million to appropriate sources (either federal or UI Trust Fund). This includes matching original claimant disbursements to return activity in subaccounts to account for federal program and UI Trust Fund activity.

Additionally, KPMG recommends EOLWD perform monthly reconciliations on Benefit Payment Account and all subaccounts.

Lastly, KPMG recommends the UI Daily Feed report incorporate returns into the subaccounts on a go-forward basis.

A.1.10 Department of Economic Research Unemployment Trust Fund Report Validation

Overview

KPMG developed a spreadsheet that determined and outlined the inputs to the Department of Economic Research Unemployment Trust Fund Report. The validation denotes which inputs KPMG has validated in its Phase 1 scope versus which sources KPMG has not validated.

The KPMG analysis identified all numerical amounts that were traditionally featured in the Department of Economic Research Unemployment Trust Fund Report and confirmed the sources for those numbers had been validated by KPMG.

Analysis

KPMG calculated its own amounts for each line item in the June 2021 Department of Economic Research Unemployment Trust Fund report, which is the most recent available Department of Economic Research Unemployment Trust Fund Report, using the up-to-date amended versions of the May and June ETA 2112 reports provided by EOLWD. KPMG outlined each of the report's line items source within the ETA 2112 reports and then compared its own calculated totals to those listed in the June 2021 Department of Economic Research Unemployment Trust Fund Report. KPMG documented the differences between the two total amounts as variances. KPMG reviewed each variance between the line items in the original ETA 2112 reports and the reconciliation spreadsheet developed by KPMG.

June 2021 Report				
Line Item (in order of report):	Report Amount:	Findings Amount:	Validate (Y/N)	Source:
Trust Fund Ending Balance	(1,774,000,000)	(1,779,367,443)	Y	E1 of June ETA 2112 report. Also in TD report. Confirmed ETA 2112 report with TD report.
Preliminary private contributory balance	(1,915,000,000)	(2,206,524,799)	Y	C18 on 2nd tab of June ETA 2112 report
Governmental contributory balance	141,000,000	133,322,022	Y	C19 2nd tab of June ETA 2112 report
May's 2021 preliminary employer contributions	83,100,000	83,136,233	Y	C11 on 3rd tab of May 2021 ETA 2112 report
2021 employer contributions YTD total	1,537,000,000	1,537,720,613	Y	Summation of "Total Net Private Contributions" on Amended Private tab of January - May ETA 2112 reports. Work shown in Notes tab.
ARPA Federal Funding	10,100,000	10,088,192	Y	C31 on 3rd tab of May ETA 2112 report
Regular UI YTD total reimbursements	45,300,000	45,303,192	Y	Summation of "Emergency Unemployment Relief - FUA" on Amended Private tab of January - May 2112 reports. Work shown in Notes tab.
Additional Federal funding	4,800,000	4,811,961	Y	F93 on Cares Act tab of UER001 May 2021

Table viii – Trust Fund Report Validation

Observations

The KPMG team's replication of the June 2021 Department of Economic Research Unemployment Trust Fund Report inputs report served to validate that all the reports inputs had been previously validated by KPMG. The KPMG analysis identified that most variances were due to rounding or timing; however, for line item "Preliminary Private Contributory Balance" a significant variance was observed. EOLWD uses a workaround to calculate the Private Contributory balance.

Recommendations

KPMG recommends further analysis into the accounting of the Private Contributory Balance to replace the workaround methodology currently in place.

A.2 Glossary

A.2.1 Federal Acronyms

Program / Title	Description / Expanded Acronym
EB	**Extended Benefits** - Provided up to 20 weeks of benefits to individuals who exhausted regular UC under state or federal law, had no rights to regular unemployment compensation (UC) under any other state or federal law, exhausted PEUC, regular UC benefit year ended on or after May 9, 2020, were not receiving compensation under the UC laws of Canada, and are able to work, available for work, and actively seeking work. However, states must offer flexibility in meeting the "actively seeking work" requirement if individuals are unable to search for work because of COVID-19, including because of illness, quarantine, or movement restriction. Extended Benefits triggered in May 2020, and triggered off in July 2021
ETA	**Employment and Training Administration**: a division of the U.S. Department of Labor that administers various employment related programs, including the Unemployment Insurance Program
FPUC	**Federal Pandemic Unemployment Compensation**[i] - Provided individuals who were collecting regular UC, PEUC, PUA, Extended Benefits (EB), and certain other forms of unemployment compensation with an additional $600 per week from 3/29/2020-7/25/2020, if the claimant was entitled to at least one dollar of benefits in the relevant week - Provided individuals who are collecting benefits as described above with an additional $300 per week from 12/27/2020 through 9/4/2021
LWA	**Lost Wages Assistance**[ii] - Provided individuals who are collecting at least $100 in regular UC, PEUC, PUA, EB, STC, with an additional $300 per week, effective for the weeks 8/1/2020-9/5/2020
MEUC	**Mixed Earners Unemployment Compensation**[iii] - Provided an additional $100 per week, in addition to FPUC payments, for claimants with at least $5,000 in self-employment income in the previous tax year. MEUC was effective 12/27/2020-9/4/2021
PEUC	**Pandemic Emergency Unemployment Compensation**[iv] - Provided up to 13 weeks of benefits to individuals who exhausted regular UC under state or federal law, had no rights to regular UC under any other state or federal law, were not receiving compensation under the UC laws of Canada, and are able to work, available for work, and actively seeking work. However, DUA is waiving work search requirements, as allowed by the federal government during the COVID-19 emergency from 3/29/2020-12/26/2020 - Renewed by CAA and ARPA extending the program from 12/27/2020-9/4/2021

Program / Title	Description / Expanded Acronym
PUA	**Pandemic Unemployment Assistance**[v] - Effective 2/2/2020 – 9/4/2021, PUA provided up to 79 weeks of benefits to individuals who were self-employed, seeking part-time employment, or otherwise would not qualify for regular unemployment compensation (UC) or extended benefits under state or federal law or Pandemic Emergency Unemployment Compensation (PEUC). Coverage includes individuals who have exhausted all rights to regular UC or extended benefits under state or federal law or PEUC and who are affected by COVID-19 - For more information on PUA visit www.mass.gov/PUA
UI	Unemployment Insurance: a joint state-federal program that provides cash benefits to eligible workers. Each state administers a separate UI program, but all states follow the same guidelines established by federal law. DUA administers UI for the Commonwealth

A.2.2 Commonwealth Acronyms

Program / Title	Description / Expanded Acronym
Data warehouse	A large store of data accumulated from a wide range of sources within a company and used to guide management decisions
DUA	Massachusetts Department of Unemployment Assistance: an agency within the Executive Office of Labor and Workforce Development (EOLWD) that oversees the unemployment insurance (UI) program, which provides temporary income assistance to eligible workers in Massachusetts. DUA also determines and collects employer contributions to the UI program
EOLWD	Massachusetts Executive Office of Labor and Workforce Development: an entity of the Commonwealth of Massachusetts
MMARS	Massachusetts Management Accounting and Reporting System
UI Online	An online transactional application used by DUA in the administration of the UI program

A.2.3 Industry Definitions

Acronym / Term	Expanded Title
ACH	Automated Clearing House
Reconciliation	Action of making financial accounts consistent
UI Trust Fund	Unemployment Insurance Trust Fund - A fund that finances the costs of administering unemployment insurance programs, loans made to state unemployment insurance funds, and the state portion of extended benefits during periods of high unemployment

A.2.4 UI Core Banking System

Acronym / Term	Expanded Title
Clearing Account	Bank account held at Bank of America, used to collect unemployment insurance payments from employers. Balances are recorded through Bank of America Statements and UI Online - account #2102
Benefit Payment Account	Bank Account held at People's United Bank, used to pay benefits to claimants. The EOLWD Finance team draws funds from the Trust Fund into Benefit Payment Account based on claims - funds are then paid to claimants from this account #2311

A.2.5 Report Titles and Definitions

Reports	Description
State reporting required by U.S. Department of Labor	
ETA 2112 Reports	Federally required monthly summaries of transactions in a state unemployment fund which consists of the Clearing Account, UI Trust Fund, and Benefit Payment Account. Reports should account for: all payments by employers (and employees where applicable) into a state unemployment fund for contributions, payments in lieu of contributions, and special assessments
ETA 5159 Reports	Reports provide benefit payment charges by program
Pandemic response reporting	
Payments to Claimants by Program Query	Authorized payments to claimants by program, an ad hoc recurring query for authorized benefit amounts to claimant
Standard EOLWD reporting	
326 Revenue Report	Report generated from UI Online, available to be run on demand that records employer assessment revenues
Benefits Reconciliation Spreadsheet	Report produced by the EOLWD Finance team that reconciles inflow and outflow amounts posted by MMARS to total credits and debits on Benefit Payment Account
Benefit Payment Account Statements	Banks statements produced by People's United Bank, EOLWD's external custodian of the Benefit Payment Account, that display the final balances, borrowing amounts, and transactions that occur in the primary Benefit Payment Account #2331
Treasury Direct Transaction Statements	Statements produced by the Treasury Direct system that display balances and transactions that occur in the UI Trust Fund held at the U.S. Treasury
UER001 Reports	Internal benefit payments report generated from UI Online that describe federal and state funded financial transactions
Cash Management Master Workbooks	Excel workbooks maintained by the EOLWD Finance team that capture transactional data for state and federal unemployment programs

A.3 Key Documents

A.3.1 Commonwealth of Mass EOLWD – Phase 1 Report

Final Phase 1 Report socialized with EOLWD to document activities and share findings

Commonwealth of Mass. EOLWD Reconc

A.3.2 EOLWD Phase 1 Detailed Analysis

Final Phase 1 presentation used to summarize key processes and findings outlined in the Phase 1 Report

EOLWD Phase 1 Detailed Analysis.pdf

A.3.3 Revenue Report Reconciliation

Final Phase 1 revenue reconciliation conducted to find variances between DUA and federal reports. Referenced extensively in Phase 1 Report

Revenue Report Reconciliation.xlsx

A.3.4 Phase 1 – #2331 Benefit Payment Account Reconciliation

Final Phase 1 reconciliation on the Benefit Payment Account (#2331 Benefit Payment Account). Used to review inflow and outflow amounts as described by bank statements and internal database. Referenced extensively in Phase 1 Report

Phase 1 2331 Account Reconciliatioı

A.3.5 #2331 Benefit Payment Account Benefits Reconciliation Crosswalk

Crosswalk of sources used to outline reports referenced by KPMG in its #2331 Benefit Payment Account analysis

2331 Benefits Recon Crosswalk.xlsx

A.3.6 ETA 2112 Deposits – Disbursements

Final reconciliation used to analyze inflows and outflows into the #2331 Benefit Payment Account as described by the ETA 2112 Report. Referenced extensively in Phase 1 Report

ETA 2112 Deposits Disbursments.xls

A.3.7 10.22.2021 – ETA 2112 Reconciliation

Final reconciliation of the ETA 2112 Report conducted for Phase 1. KPMG re-created the ETA 2112 Report and compared its own version to that of the Client's. This analysis uncovered reporting discrepancies in the ETA 2112. Referenced extensively in Phase 1 Report

2112 Reconciliation 2021.10.22.xlsx

A.3.8 10.22.2021 – ETA 2112 Reconciliation – Responses

Intermediate version of the ETA 2112 Report reconciliation that includes key notes from the EOLWD Finance team on variances

2112 Reconciliation 2021.10.22 - response

A.3.9 ETA 2112 – Source Columns

Source mapping document published by EOLWD with help from the ETA. Used by KPMG to re-create the ETA 2112 Report

ETA2112 Source Columns.xlsx

A.3.10 Summary 2021 Benefits Bank Activity Cash Management – KPMG

Report developed by KPMG to recreate #2331 Benefit Payment Account bank statements using internal reports. Comes to the original $316 million variance referenced by team

Summary 2021 Benefits Bank Activity

A.3.11 June 2021 Report Validation

Analysis conducted by KPMG to map sources of the monthly Unemployment Trust Fund Report developed by the Department of Economic Research

June 2021 Report Validation.xlsx

A.3.12 Department of Unemployment Assistance Website

Official website of the Commonwealth's Department of Unemployment Assistance. Used for program definitions and process descriptions

A.3.13 Unemployment Insurance Fact Sheet

Official fact sheet for the Regular UI system. Provides context and definitions around program eligibility and application requirements

UI_Program_FactSheet.pdf

A.3.14 ETA 401 Handbook

Official UI Handbook published by the ETA (Employment and Training Administration). Used for key definitions and details around unemployment insurance and required reports

ETA 401 Handbook_5th.pdf

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[i] CARES Act and American Rescue Plan Act | Mass.gov
[ii] CARES Act and American Rescue Plan Act | Mass.gov
[iii] CARES Act and American Rescue Plan Act | Mass.gov
[iv] CARES Act and American Rescue Plan Act | Mass.gov
[v] CARES Act and American Rescue Plan Act | Mass.gov