



COVID-19 PAYMENT INTEGRITY CHALLENGES AND SOLUTIONS FOR STATE, LOCAL AND TRIBAL GOVERNMENTS

COVID-19's Impact on State, Local and Tribal Governments and the Federal Response

COVID-19 has dramatically affected every state and tribal area in the country. While varied in degree, these effects universally entail both human health and financial impacts. As of June 2020, the number of cases of COVID-19 per state ranged from hundreds (Montana – 601) to hundreds of thousands (New York – 383,324), many of which required hospitalizations. The economic impact, as well, has been massive. Even with the significant rebound in May, by the middle of that month close to 20 million jobs had been lost since February – 13% of all payroll jobs in the United States. Almost every industry in every state has been affected, and the impact of COVID-19 on each state was the single strongest determinant of the number of jobs lost in that state.

The severity and widespread nature of COVID-19's impacts have driven a massive government response. As MITRE noted in a previous fact sheet, as of May 2020, the U.S. Congress and the Trump Administration have authorized more than \$3 trillion to date in new federal money to counter these impacts; distribution of even more funds is now being considered. The combination of the volume of funding, the wide array of uses, and the varying payment mechanisms present significant payment integrity risks for errors (both by applicants in seeking benefits and by agencies in processing applications) and fraud. For example, a major international fraud ring has already been identified attempting to secure fraudulent unemployment insurance payments from numerous states using stolen identities. With the immediate needs so great and the amount of funding at stake so significant, agencies and stakeholders must explore innovative new approaches to promote payment integrity.

Much of the more than \$3 trillion authorized to date will ultimately be administered at the state, local and tribal government levels. For example, Unemployment Insurance is one of many programs that is receiving significant COVID-19-related funding from the federal government while being administered at the state level. In a June 3, 2020, "listening session" conducted by the Pandemic Response Accountability Committee, the Commissioner of the New Jersey Department of Labor & Workforce Development commented that the volume of such claims has been exponentially higher than ever before – well beyond the volume with disasters such as Hurricane Sandy.

In addition, approximately \$200 billion is slated to go specifically to state and tribal governments via grants and other funding mechanisms. Depending on the program, much of the state-directed funding flows through the state governments to county and city governments for its ultimate use. The primary federal departments through which this funding is moving are the Department of Education and the Department of Health and Human Services.

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This is the fourth in a series of fact sheets addressing the payment integrity challenges with the COVID-19 pandemic and response (see [Five Ways to Fight Fraud, Waste, and Abuse in 3-Trillion Coronavirus Relief Aid](#); [Agile Fusion Cells for COVID-19 Payment Integrity](#); and [Assessing Options for COVID-19 Payment Integrity Analytic Cells](#)). This fact sheet focuses on helping state, local and tribal government officials address their significant payment integrity challenges both with COVID-19 funding and for the long term.

Challenges for State, Local and Tribal Governments

Payment integrity problems often “flow with the money” – presenting challenges at all levels of government, both with COVID-19 funding and with funding for a multitude of programs under normal circumstances. While significant amounts of funding are provided from the federal level, other levels of government often jointly fund programs. And while federal agencies ultimately are accountable for the improper payments made under programs that they help fund, states often have a key role in administering and funding programs and, as a result, in helping to ensure payment integrity.

Federal agencies often provide funding to state, local and tribal governments by means of grants, presenting payment integrity risks that include:

- False statements on grant applications
- Ineligible grant recipients
- Misuse of grant funds
- Questionable costs
- Unsupported or no results

In many cases grantees do not perform the work required under the grant themselves. Instead, they contract the work to other entities. This acquisition process adds more risks, such as:

- Corruption, kickbacks
- Collusion among contractors
- Defective pricing
- Unsupported costs
- Mischarging
- Defective products
- Product substitution
- Fraud in the supply chain

To further complicate matters, state, local and tribal governments can become the targets of fraud schemes that migrate from one level of government to another, from one state to another, and from one program to another. It is often difficult for the various levels of government to keep apprised of the rapidly changing fraud landscape. Similar circumstances can present themselves with applicant and agency processing errors, as state, local and tribal levels of government must manage programs run by numerous federal agencies, where apparently similar things are often, in reality, very different, such as definitions of key words like “household” from one program to another. Critical infrastructure, particularly information technology systems, can be out-of-date, hindering important payment integrity solutions such as data sharing and analytics.



Actions for Consideration

Like federal agencies, state, local and tribal governments can benefit greatly from sharing data, collaborating on analytics, pooling resources to maximize cost-effectiveness, and more (see fact sheets highlighted above). A general approach would feature the following key actions.

1. Comprehensively identify the payment integrity risks in programs receiving pandemic-related funding.
2. Incorporate collaboration into overall risk mitigation. Determine what types of analytic cells would be advisable, especially recognizing the options for collaboration and leadership among multiple levels of government – within each state; between states; among state, local and tribal government entities; and with federal agencies. Consider participating in relevant existing analytic cells, such as many states do with the IRS-led Identity Theft Tax Refund Fraud Information Sharing and Analysis Center and the National Association of State Workforce Agencies’ Unemployment Insurance Integrity Center.
3. Leverage groups like the National Association of Auditors, Comptrollers, and Treasurers for leadership and coordination.

These actions can be taken quickly, and we know from experience that they work. While all levels of government are engaged in data analytics to varying degrees, more needs to be done to create the partnerships and capabilities necessary to use data effectively across all levels of government to deter fraud and prevent errors. Furthermore, while certainly critical for the current situation, these successful fraud and error mitigations should also be kept in place to help strengthen government-wide payment integrity for the long term.

For information about payment integrity expertise and capabilities, contact Gordon Milbourn, gmlbourn@mitre.org.

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