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Office of Inspector General—Office of Audit

REPORT TO THE EMPLOYMENT AND TRAINING ADMINISTRATION



RECOVERY ACT: STATES CHALLENGED IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS

This audit was performed by WithumSmith+Brown PC, CPAs, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

A handwritten signature in blue ink that reads "Elliot P. Lewis".

Assistant Inspector General for Audit

Date Issued: August 2, 2016
Report Number: 18-16-005-03-315

BRIEFLY...

August 2016

RECOVERY ACT: STATES CHALLENGED IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS

WHY OIG CONDUCTED THE AUDIT

The Unemployment Insurance (UI) program is designed to provide benefits to individuals out of work and is administered at the state level, but benefits are funded by both state and federal monies. The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided additional funding for the Extended Benefits (EB), Emergency Unemployment Compensation (EUC), and Federal Additional Compensation (FAC) programs.

From March 31, 2015, to December 16, 2015, the Office of Inspector General (OIG) issued a series of performance audit reports for seven states. This report summarizes those reports and presents common challenges and state-specific strategies for reducing UI improper payments, recommendations, and corrective actions the Employment and Training Administration (ETA) is taking.

WHAT OIG DID

We conducted performance audits to determine the following:

How effective were states at detecting, reducing, recovering, and reporting UI improper payments and at implementing ETA National Strategies to reduce improper payments?

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:
<http://www.oig.dol.gov/public/reports/oa/2016/18-16-005-03-315.pdf>

WHAT OIG FOUND

The data reported by the seven states indicated they were not effective at detecting, reducing, recovering and reporting UI improper payments and could not demonstrate the effectiveness of ETA National Strategies. The seven states included states of different sizes from across the country.¹

The states generally did not meet established targets for detecting and reducing improper payments and the accuracy of their reporting to ETA could not be determined. Accurate reporting of improper payments and rate estimates is critical to determining the effectiveness of state efforts to minimize improper payments and meet targets.

The states implemented the majority of the nine ETA National Strategies aimed at detecting, reducing, and/or recovering improper payments. However, they did not obtain and analyze the information needed to determine the extent to which each of the strategies was effective. The states generally lacked information on whether state-specific strategies were working as intended. Measuring the impact of the National Strategies and leveraging best practices from state-specific strategies and recovery methods found to be effective could improve the states' ability to detect reduce, and recover improper payments.

In our seven individual state audit reports we recommended ETA work with the states to determine the effectiveness of strategies, improve states' mainframe systems and data reliability, and enhance strategic planning to reduce improper payments. ETA generally agreed with the reports' findings and recommendations and agreed to work with states to address them.

WHAT OIG RECOMMENDED

In this roll-up report, we recommended ETA assist states in determining which state strategies are most effective and determine if any should be adopted as National Strategies. ETA agreed with our recommendations.

¹ The seven states selected for audit were California, Colorado, Indiana, Iowa, New York, North Carolina, and Pennsylvania.

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August 2, 2016

INDEPENDENT AUDITORS' REPORT

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The Unemployment Insurance (UI) program is designed to provide benefits to individuals out of work and is administered at the state level, but benefits are funded by both state and federal monies, derived primarily from employer taxes. States are responsible for designing controls to reduce, detect, and recover UI benefit overpayments. The American Recovery and Reinvestment Act of 2009 (Recovery Act), which was enacted in February 2009, provided additional federal funding for the Extended Benefits (EB), Emergency Unemployment Compensation (EUC), and Federal Additional Compensation (FAC) programs.

From March 31, 2015, to December 16, 2015, the Office of Inspector General (OIG) issued a series of Recovery Act performance audit reports for seven states that addressed the following:

How effective were states at detecting, reducing, recovering, and reporting UI improper payments and at implementing Employment and Training Administration (ETA) National Strategies to reduce improper payments?

This report summarizes the findings and recommendations resulting from the seven state audits and makes two additional recommendations to assist in their efforts to reduce UI improper payments.

RESULTS IN BRIEF

The data reported by the seven states showed they were not effective at detecting, reducing, recovering, and reporting UI improper payments and they could not demonstrate the effectiveness of ETA National Strategies they had implemented. We

States Challenged in Reducing UI Improper Payments
Report No. 18-16-005-03-315

found the seven states generally did not meet established targets for detecting and reducing improper payments and the accuracy of their reporting to ETA could not be determined. Further, although states implemented the majority of ETA National Strategies for reducing improper payments, they were not able to demonstrate these strategies effectively reduced improper payments. Similarly, states lacked data to assess the impact of state-specific strategies and methods for reducing, detecting, or recovering improper payments. Measuring the impact of National Strategies and leveraging state-specific strategies and methods determined to be effective could improve the states' ability to detect and reduce improper payments.

BACKGROUND

The Recovery Act: 1) provided funding from the general fund of the U.S. Department of the Treasury (Treasury) and extended the ending date of EUC benefits; 2) created and funded a new program, FAC; and 3) provided for 100 percent federal funding and extended the date of EB benefits. These three programs were further extended and funded by legislation subsequent to the Recovery Act. Although states were required to separately track and report the activities of these programs, their strategies and actions for controlling improper payments were applied across all programs, regardless of funding source. As a result, our audit examined states' efforts to detect, reduce, recover, and report on UI improper payments in programs funded by state and federal monies, including federal monies provided by the Recovery Act.

WithumSmith+Brown, PC, and Moss Adams, LLP, under contract with the U.S. Department of Labor (DOL) Office of Inspector General (OIG), audited the seven states' effectiveness in detecting, reducing, recovering, and reporting improper payments from the February 2009 inception of the Recovery Act through December 31, 2012. The seven states paid \$93.8 billion in EB, EUC, and FAC, in addition to \$77.1 billion in state-funded UI benefits in this period. Although our audit period was through December 31, 2012, we included subsequent period data in our reports for additional analysis.

Table 1 identifies the states selected for audit, the date the final audit report was issued, and the firm that conducted the audit.

Table 1: States Audited

No	Date Report Issued	State	Auditor
1	March 31, 2015	Pennsylvania	WithumSmith+Brown
2	September 30, 2015	North Carolina	WithumSmith+Brown
3	September 30, 2015	New York	WithumSmith+Brown
4	October 30, 2015	California	Moss Adams
5	October 30, 2015	Iowa	Moss Adams
6	November 24, 2015	Indiana	WithumSmith+Brown
7	December 16, 2015	Colorado	Moss Adams

Source: Issued OIG audit reports

RESULTS

Based on the data reported to ETA, we found the seven states generally did not effectively detect, reduce, or recover improper payments during the audit period and the accuracy of their reporting to ETA could not be determined. The states indicated the difficulties they faced in meeting targets for detection, reduction, and recovery were due in part to the significant and unprecedented increase in UI claims, combined with frequent changes to the complex EB and EUC program. Similarly, ETA said all states experienced massive unemployment during the Great Recession and extremely high workloads and rapid implementation of new program requirements strained states' capacity. ETA said many states also struggled with antiquated and inflexible information technology systems that impacted their ability to address program integrity issues.

Even though the seven states implemented the majority of the nine ETA National Strategies aimed at detecting, reducing, and/or recovering improper payments, they were not able to demonstrate these strategies were effective.

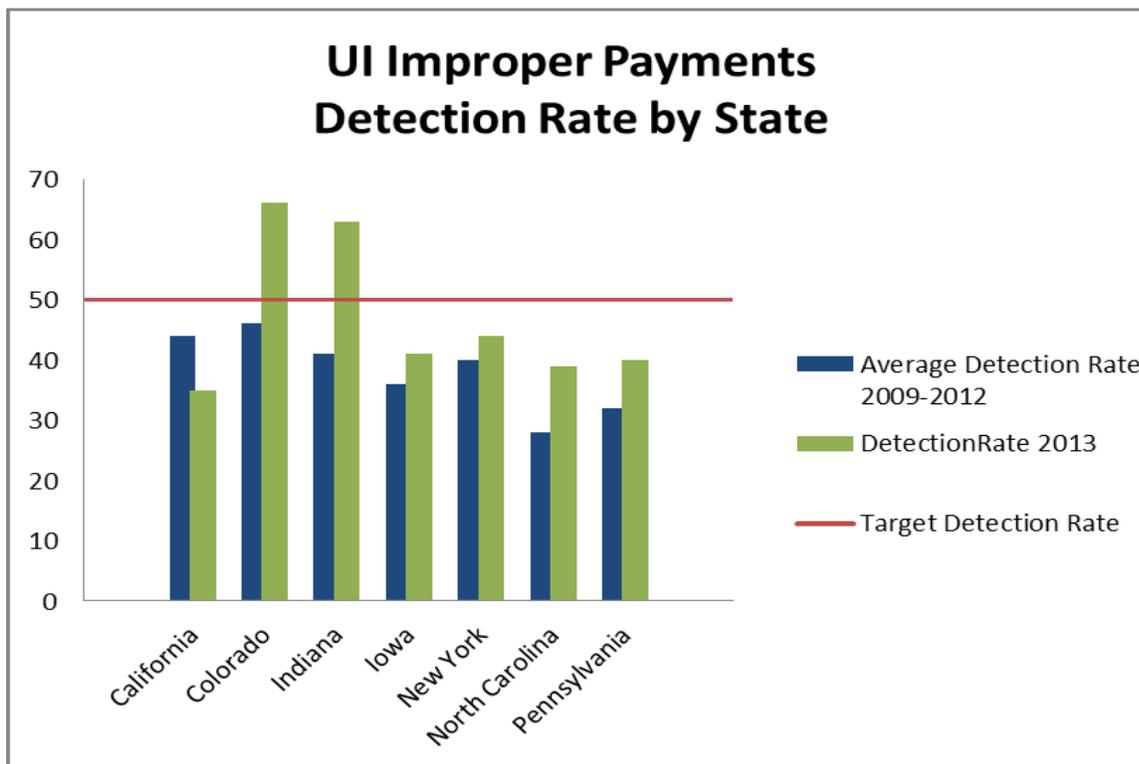
We also identified state-specific strategies and methods used to prevent, detect, and recover improper payments to assess if they should be recommended as ETA National Strategies. ETA had shared some of these strategies between states. However, similar to the national strategies, states generally lacked sufficient data to determine which strategies and methods were most effective. ETA should work with states to identify and collect data needed to determine which state-specific strategies and recovery methods are most effective.

STATES DID NOT MEET TARGETS FOR ADDRESSING IMPROPER PAYMENTS

The following sections present results related to states' efforts to detect, reduce, and recover UI improper payments.

STATES DID NOT MEET TARGETS FOR DETECTING IMPROPER PAYMENTS

We found the seven states had a difficult time meeting ETA's target detection rate of 50 percent for the years in our audit period. The following chart shows the average detection rate for each of the states for the four-year period 2009 – 2012, compared with the detection rate for 2013.



The primary means ETA used to assess states' effectiveness at detecting improper payments was the detection rate, which measures the actual overpayments detected as a percentage of the detectable, estimated recoverable overpayments as calculated by the Benefit Accuracy Measurement (BAM) program. BAM is a national program designed to statistically sample benefit payments made and estimate the improper payments in the

UI program. ETA's target for all states was to detect and establish for recovery 50 percent of the detectable, recoverable overpayments.

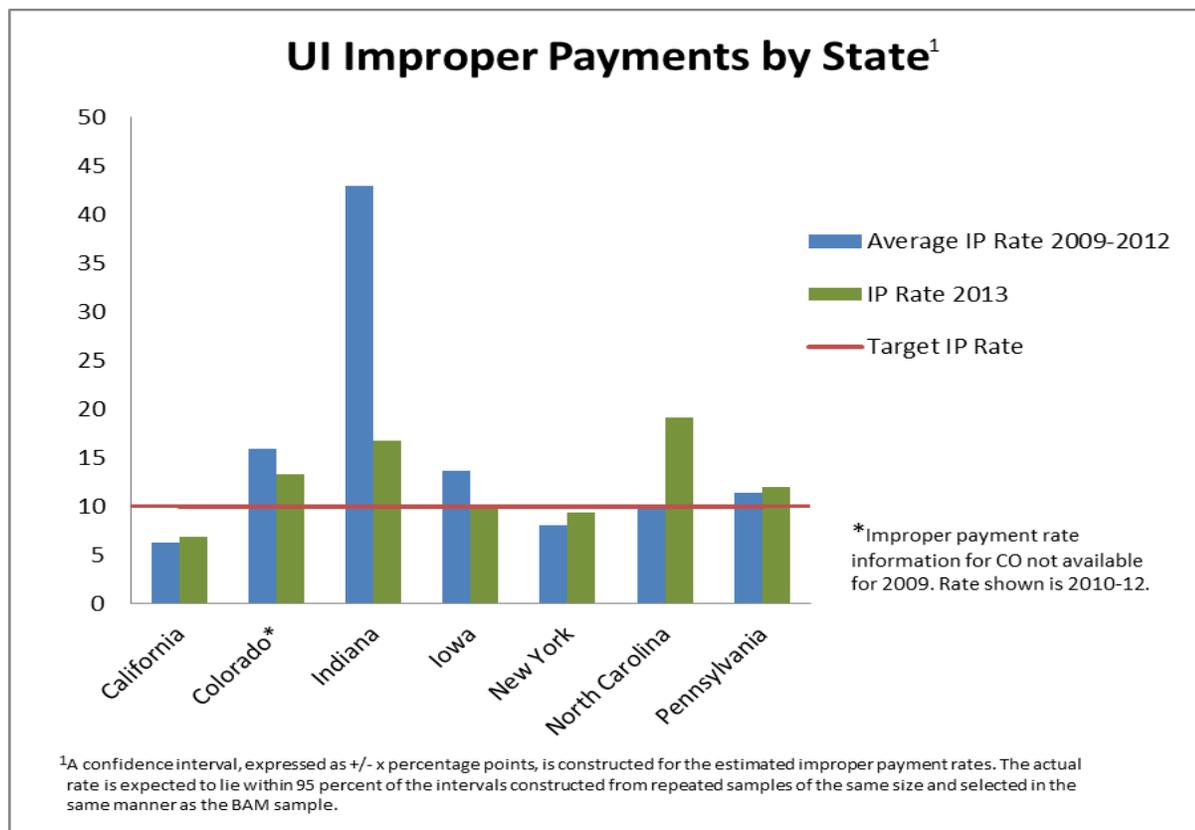
The ETA National Strategies that states implemented to detect improper payments included the National Directory of New Hires (NDNH) and several state-specific strategies, including other types of cross matches. Most of the seven states experienced challenges researching potential overpayments identified by cross matches. Several states redirected personnel from detecting improper payments during the Great Recession to processing the significant increase in UI claims to meet the statutory payment period. None of the seven states exceeded a 40 percent detection rate in calendar year 2010. This year had the greatest amount of benefit payments for the seven states.

The cross match process includes using computer-assisted analysis of UI information from various state and federal databases to identify claimants who may be ineligible to receive benefits. The identified matches must be researched before an overpayment determination can be made. However, obtaining third-party corroboration for cross matches can be difficult, and limited staffing resources hampered states' ability to research the identified matches. As a result, backlogs developed.

FIVE STATES DID NOT MEET THE TARGET FOR REDUCING IMPROPER PAYMENTS

The primary means ETA used to measure whether states effectively reduced improper payments was the rates estimated through the BAM program. This program provides a statistical estimate of improper payment rates during a period of time.

Two states were able to demonstrate effectiveness in reducing improper payments and meeting the established target of 10 percent, while the remaining five states were not able to do so. The following chart shows the average estimated improper payment rate reported by each of the states for the four-year period 2009 – 2012, compared with the estimated improper payment rate reported for 2013.



For 2013, ETA implemented a new metric to measure improper payments that took into account the “net” effect of UI overpayment recoveries. The new metric was total overpayments plus total underpayments estimated from the BAM survey less the actual amount of overpayment recoveries. For consistency, the 2013 rate in the chart above reflects the methodology used to calculate the rate in prior years.

As OIG noted in its April 2014 report, *The Department of Labor’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the FY 2013 Agency Financial Report*, DOL developed the Fiscal Year (FY) 2013 improper payment metric in consultation with and approval from OMB. However, the use of this metric gave the appearance that the occurrence of improper payments was lower than it actually was, and the Improper Payments Elimination and Recovery Improvement Act prohibited netting out recoveries in the calculation of the improper payment rate, which made it necessary for DOL to discontinue the use of this methodology beginning in FY 2014.

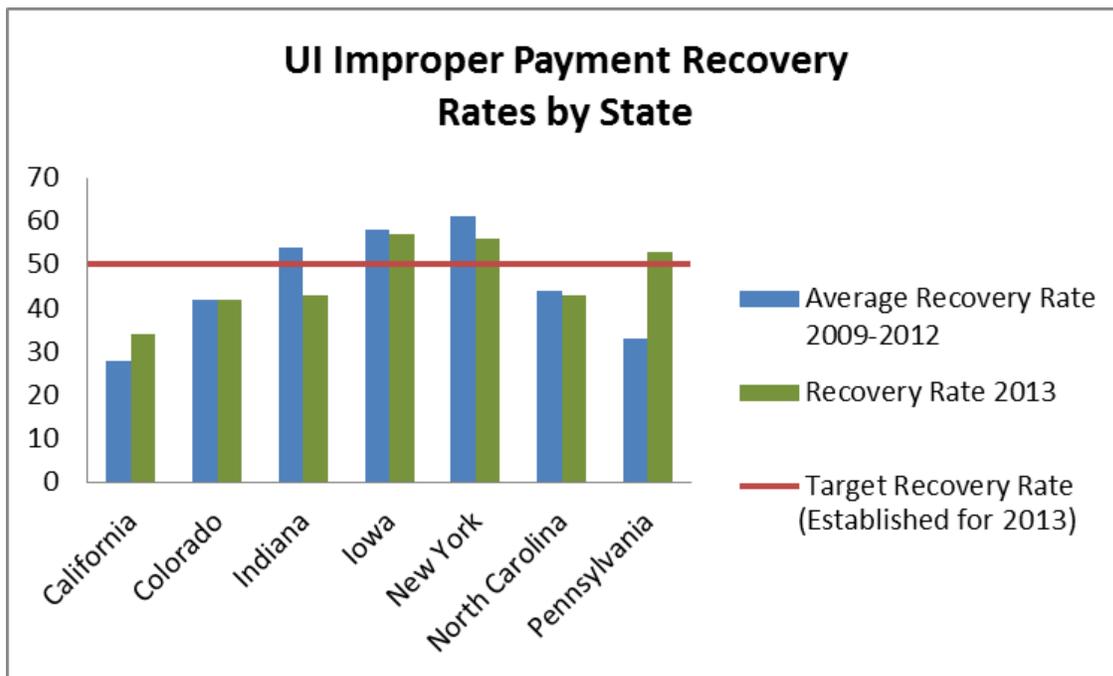
State laws for Employment Service (ES) registration and work search requirements impacted the reported improper payment rates for several of the states. This impact increased when combined with the varying state methods used for the BAM program to determine whether payments were “improper” if the claimants did not meet the state’s

work search requirements. For example, we found California’s overpayment rate may have been understated, as the BAM audit procedures the state followed did not require enforcement of work search for the “key week” under BAM audit. This resulted in the state excluding the work search cause for each period reported.

According to ETA, states’ improper payment rates were impacted by struggles the states faced in validating compliance with their stringent work search requirements, as well as registration errors caused by inadequate state UI and ES system integration.

FIVE STATES HAD DIFFICULTY RECOVERING IMPROPER PAYMENTS

With the exception of New York and Iowa, states generally had difficulty achieving and sustaining recovery rates greater than 50 percent. ETA introduced an annual recovery target for states beginning with the reporting year ending June 30, 2013. The recovery rate is the recovery dollars collected during the year as a percentage of the amount of overpayments detected and established during the year. The following chart shows the average recovery rate for each of the states for the four-year period 2009 – 2012, compared with the recovery rate for 2013.



Offset of future benefits was the most significant state-specific method of recovery, accounting for 48 to 66 percent of total recoveries. States that implemented the Treasury Offset Program (TOP) national strategy reported millions of dollars in recovery.

Under TOP, Treasury offsets federal tax refund payments to collect certain improperly paid benefits. However, TOP did not significantly alter recovery rates because the amount of estimated improper payments also increased. There is also a time lag in the TOP process. Overpayments in one calendar year will not be available for TOP interception until tax returns are filed and processed in the following calendar year.

States used a variety of recovery methods once an improper payment was established for collection. The recovery methods used by each state are outlined in Table 3. We attempted to identify correlations between the number and types of methods used by states with higher recovery rates, such as New York and Iowa, compared to states with lower recovery rates, such as California and Colorado. Although New York and Iowa appeared to be using more recovery strategies than California and Colorado, there was insufficient data to determine if the additional strategies were contributing to higher recovery rates.

STATES REPORTED IMPROPER PAYMENT DATA THAT COULD NOT BE VALIDATED

We identified reporting issues in all seven states. ETA 227, *Overpayment, Detection, and Recovery Activities*, requires states to provide information on overpayment detection and recovery by various categories, such as detection and recovery methods. Most states could not validate the accuracy of the information in the ETA 227 report or pass ETA's data validation process. ETA policy requires states to extract and provide individualized records to ETA to recalculate and compare the data reported on ETA 227. In many cases, states' mainframe systems could not extract the data. Without reliable and timely reporting of improper payments, ETA is challenged to effectively manage the program.

MOST STATES IMPLEMENTED ETA'S NATIONAL STRATEGIES BUT WERE UNABLE TO SHOW EFFECTIVENESS

All seven states implemented four of the nine ETA National Strategies, but there were mixed results in the implementation of four others that applied to all seven states. The ninth strategy, ES Registration, applied to only California and Iowa, because ETA required only those states whose ES registration error rates exceeded three percent to implement this strategy.

All seven states implemented: (1) State Quality Service Plan (SQSP)/Program Integrity Action Plan; (2) Claimant Messaging; (3) Employer Messaging; and (4) state-specific strategies. However, states could not provide evidence of the strategies' effectiveness. Some strategies had an indirect impact on preventing

overpayments that could not be measured in a meaningful way. For other strategies, information was not collected in a manner that allowed one to evaluate the effectiveness of the strategy. States experienced challenges, delays, or obstacles in fully implementing a Cross-Functional Task Force, NDNH, State Information Data Exchange System (SIDES), and TOP. In many cases, these delays were a result of the state implementing a new modernized UI system, and NDNH and SIDES could not be implemented until the new system was operational. Delays in implementing TOP were often a result of states not meeting the Treasury regulations required to participate in the program.

Table 2 identifies the nine National Strategies that we audited from ETA’s 2011 “call to action” to prevent, detect, and recover UI improper payments (see Appendix D for definitions). It also reflects the status of the seven states’ implementation of these strategies.

Table 2 - Status of Implementation of ETA National Strategies

Strategy	California	Colorado	New York	North Carolina	Pennsylvania	Indiana	Iowa
Claimant Messaging							
Cross-Functional Task Force							
Employer Messaging							
ES Registration		N/A	N/A	N/A	N/A		
NDNH							
SIDES							
SQSP							
State-Specific Strategies							
TOP							
Implemented - Not implemented - Partially implemented Implemented after our audit period Implemented in December 2012, with collections beginning in February 2013 N/A – Not applicable; ES Registration error rates were below three percent.							

Source: Issued OIG reports

STATES IMPLEMENTED STATE-SPECIFIC STRATEGIES BUT GENERALLY DID NOT MEASURE THEIR IMPACT

We also identified state-specific strategies used to prevent and detect improper payments, as well as methods states used for recoveries, to assess if they should be recommended as ETA National Strategies. ETA had shared some of these strategies between states on its UI community website and at periodic conferences. The UI Community of Practice website is a robust information-sharing website between states, ETA, and other stakeholders, which includes shared files, links, videos, webinars, e-learning modules, message boards, and other resources organized by topic area.

Two examples of state strategies that were shared on the UI Community of Practice website include New Jersey's use of the NDNH, which was adopted as a National Strategy, and New York's Internet Protocol Blocking project, which matched and blocked foreign Internet Protocol addresses.

In 2011, New Jersey altered its benefit certification process to prevent improper payments, instead of detecting them, using the NDNH. New Jersey began using a "return to work" date instead of the "hire date" to identify claimants certifying for UI benefits for any week after the return to work date. The "claimant challenge" approach required claimants to speak with a UI representative before payment was authorized. New Jersey reported its "claimant challenge" approach stopped current and/or future benefits for over 45,000 claimants from this cross match during the first 27 weeks after implementation.

In 2011, New York began blocking foreign Internet Protocol (IP) addresses to prevent people from filing an initial claim or certifying for weekly benefits while outside the country. Claimants attempting to initiate a claim or certify from a disallowed location were advised that they may not claim benefits until they return to the United States, a U.S. Territory, or Canada. In January 2012, New York reported that over 18,000 claimants during a period of just over 6 months had certified for and collected UI benefits while outside the US and Canada, and that resulting fraud cases from these foreign-filed claims contributed to a 32 percent increase in cases closed over the prior year. New York estimated approximately \$15.6 million in improper payments will be discouraged and prevented per year by blocking foreign IP addresses.

Despite these examples, we found states generally had insufficient data to determine which strategies and methods were most effective. There was also no clear, consistent application of how these strategies were defined. Some states considered certain strategies to be a state-specific strategy, while others did not. Further, certain strategies that some states considered to be state-specific strategies were actually routine processes, rather than a specific strategy designed to reduce improper payments in key root cause areas using specific, measurable targets, as ETA had intended. States also had no data to determine which strategies or recovery methods were most effective. ETA should work with states to identify and collect data needed to determine which state-specific strategies and recovery methods are most effective.

Table 3 reflects the state-specific strategies and recovery methods we identified that states used to prevent, detect, and recover improper payments. For purposes of this analysis, we have combined similar strategies and methods, although there may be variations among states in how they were performed. Additionally, many of the state-specific strategies and methods reported have been used for decades or were not necessarily a result of any recent efforts to improve improper payment rates.

Table 3 – State-specific Strategies and Methods to Prevent, Detect, and Recover Improper Payments

Strategy/Method	Objective	California	Colorado	Indiana	Iowa	New York	North Carolina	Pennsylvania
Border State, Interstate and Intrastate Cross match	Prevention and Detection							
Business Owner Cross Match	Prevention and Detection							
Decedent Cross match, Veris Cross match	Prevention and Detection							
Designated Overpayment Teams	Detection							
Employer Quarterly Wages Cross match	Prevention and Detection							
Foreign Internet Protocol (IP) Blocker	Prevention and Detection							
Interstate Benefit Cross match	Prevention and Detection							
Lag Testing	Prevention and Detection							
Legal Presence	Prevention							
Local IP Identification	Prevention and Detection							
Multi-claimants IP Address, Street Address, and Phone Number Cross Match	Prevention and Detection							
New Claimant Office Visit	Prevention							
Prison Cross matches, Incarceration Roster Review	Prevention and Detection							
Prosecution/Referral to Law Enforcement Agencies (Federal, State, County)	Prevention and Detection							
State Employee Cross match	Prevention and Detection							
State Identification Data Inquiry	Detection							
Systematic Alien Verification for Entitlements	Prevention							
Tips and Leads (UC Fraud Hotline and Fraud Link)	Prevention and Detection							
Wage Benefit Cross match	Prevention and Detection							

continued on next page

Strategy/Method	Objective	California	Colorado	Indiana	Iowa	New York	North Carolina	Pennsylvania
Amnesty	Recovery	⊘	✓	⊘	⊘	⊘	⊘	★
Benefit Offset	Recovery	✓	✓	✓	✓	✓	✓	✓
Estates/probate/ Bankruptcy	Recovery	⊘	⊘	✓	✓	✓	⊘	✓
Interstate recovery	Recovery	⊘	✓	✓	✓	✓	✓	✓
Interstate Reciprocal Overpayment Recovery Arrangement/Interstate Recovery	Recovery	✓	✓	✓	✓	✓	✓	✓
Liens	Recovery	⊘	⊘	⊘	✓	★	⊘	✓
Lottery, homestead, and gambling offsets	Recovery	✓	✓	⊘	✓	⊘	⊘	⊘
Repayment plans	Recovery	⊘	⊘	✓	✓	✓	✓	✓
Skip-tracing	Recovery	✓	✓	⊘	⊘	⊘	⊘	⊘
State Income Tax or Other Refund Offset	Recovery	✓	✓	✓	✓	✓	✓	⊘
Third party collection agent	Recovery	⊘	✓	⊘	⊘	⊘	⊘	⊘
TOP	Recovery	★	★	⊘	✓	✓	⊘	✓
Voluntary repayment /billing notices/checks/demand letters	Recovery	✓	✓	✓	✓	✓	✓	✓
Wage Garnishment	Recovery	✓	✓	⊘	✓	⊘	⊘	⊘

Source: Auditor’s analysis of state-specific strategies and recovery methods reported by states

Some more innovative approaches that were implemented recently included:

- Foreign IP blocker – used to prevent claims from being filed from internet addresses outside the United States (Pennsylvania and New York).
- Prison cross matches – cross matches run against county, state, and/or city inmate populations with UI claims PC used to detect fraudulent claims (Colorado, Iowa, New York, and Pennsylvania).
- Social Security Administration (SSA) decedent cross match – a cross match was performed against the SSA death records to determine if claims were made or paid after the date of death (New York).

PREVIOUS RECOMMENDATIONS

The recommendations for the seven states were similar. In summary, the auditors recommended the Assistant Secretary for Employment and Training work with states to:

1. Determine the effectiveness of strategies.
2. Improve mainframe systems as replacements are researched.
3. Fully develop a cross-functional task force to enhance strategic planning to reduce improper payments.
4. Remedy issues in states' existing and replacement systems that were preventing them from meeting data validation requirements.
5. Encourage state income tax offset as a recovery method.

ETA generally agreed with the reports' findings and recommendations and indicated it would work with the states to address the specific recommendations.

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training:

1. Work with states to identify and collect data needed to determine which state-specific strategies and recovery methods are most effective.
2. Use the data collected to promote the most effective state-specific strategies as National Strategies.

MANAGEMENT RESPONSE

ETA agreed to work with states, in collaboration with the UI Integrity Center for Excellence (Center), to encourage and provide any technical assistance needed to identify data that may be used to determine the effectiveness of the state-specific strategies and recovery methods. ETA agreed to review the information regarding best practices collected by the Center on state-specific strategies and recovery methods, and to determine which of those may be adopted as national strategies.

Management's response to our draft report is included in its entirety in Appendix F.

We appreciate the cooperation and courtesies that DOL personnel extended to us during this audit.

WithumSmith+Brown, PC

WithumSmith+Brown PC

Appendices

APPENDIX A

OBJECTIVE, SCOPE, METHODOLOGY, AND CRITERIA

OBJECTIVE

How effective were states at detecting, reducing, recovering, and reporting UI improper payments and at implementing ETA National Strategies to reduce improper payments?

SCOPE

The audits covered the processes and procedures the states used to detect, reduce, recover, and report UI improper payments between February 2009 and December 2012. Although our audit period ended December 31, 2012, we included subsequent period data for purposes of additional analysis. The audit work was performed at ETA's National Office in Washington, DC, and in the following seven states: 1) Pennsylvania, 2) North Carolina, 3) New York, 4) California, 5) Iowa, 6) Indiana, and 7) Colorado.

WithumSmith+Brown, PC, selected a judgmental sample of seven states from the universe of 53 states and territories (states). Our sample results were not projected to the universe, since the laws governing the UI program and the related internal controls vary among states. The judgmental sample was selected using a three-tiered approach:

- Tier 1 – dollar amount of Recovery Act UI funding to each state
- Tier 2 – states' improper payment rates
- Tier 3 – ETA region

These performance audits were conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusions based on the audit objective. The auditors believe that the evidence obtained provides a reasonable basis for the conclusions based on the audit objective.

METHODOLOGY

To conduct the audits, the auditors interviewed officials in the ETA Office of Unemployment Insurance in Washington, DC, and reviewed relevant ETA policy letters and guidance issued to the states. The auditors obtained information and data specific to each state from the ETA National Office and ETA Regional Offices. They

also interviewed officials at each state, reviewed each state’s policies and procedures, and performed walkthroughs and testing of certain internal controls. The auditors also performed testing on reports submitted to ETA and on a judgmental selection of recorded overpayments.

In planning and performing the audits, the auditors obtained an understanding of each state’s internal controls considered significant to the audit objective. The testing of each state’s controls was not determined to be significant to the audit objective. The auditors considered each state’s internal controls relevant to the audit objective by obtaining an understanding of those controls and assessing risk for the purpose of achieving the objective. The objective of the audit was not to provide assurance on the internal control; therefore, the auditors did not express an opinion on ETA’s or the states’ internal controls. Their consideration of internal control would not necessarily disclose all matters that might be significant deficiencies. Because of the inherent limitation on internal control, misstatements or noncompliance may occur and not be detected.

CRITERIA

- Recovery Act of 2009 (Public Law (P.L.) 111-5)
- Federal Unemployment Tax Act (Title 26, United States Code, Chapter 23)
- Social Security Act
 - Title III, Grants to States for Unemployment Compensation Administration
 - Title IX, Miscellaneous Provisions Relating to Employment Security
 - Title XII, Advances to State Unemployment Funds
 - Title XV, Unemployment Compensation for Federal Employees
- Federal-State Extended Unemployment Compensation Act of 1970, as amended
- Internal Revenue Code, as amended
- Improper Payments Information Act of 2002 (P.L.107-300)
- Executive Order 13520, Reducing Improper Payments (2009)
- Improper Payments Elimination and Recovery Act of 2010 (P.L. 111-204)
- Middle Class Tax Relief and Job Creation Act of 2012

APPENDIX B

GLOSSARY

Cash – Checks or money orders

Claimant Benefit Offsets – Deductions of claimants' weekly benefit payments that are applied toward their overpayment balances. State laws differ regarding the maximum amount that can be offset from a claimant's weekly benefit, which may also vary depending on whether the case was a non-fraud overpayment or a fraud overpayment.

Data Validation – States are required to file a series of standardized reports on their UI operations with ETA on a monthly or quarterly basis. Since state programs differ significantly within established parameters and states utilize a variety of accounting and data processing arrangements, the issue of comparability among state reports has emerged. State reporting requirements are standardized, but states use a variety of reporting procedures and must interpret reporting requirements within the context of their own laws and accounting conventions. The UI Data Validation program was established in an attempt to identify and address discrepancies in reported numbers. The program requires that states recreate reported numbers independently from their reporting process and compare these numbers with actual numbers reported to DOL. States must address any discrepancies found that exceed the established tolerance error rate. The data validation program also requires that states examine a sample of reported cases to verify that the correct information is being counted.

State Directory of New Hires – The process of cross matching social security numbers (SSN) maintained in the SDNH database against SSNs of claimants receiving benefits. This database is operated by state departments. Non-governmental employers are required to submit new-hire information, which populates the database. State Workforce Agencies investigate matches to determine if claimants are receiving UI payments while working, creating a potential overpayment due to unreported earnings.

APPENDIX C

STATE-SPECIFIC STRATEGIES AND METHODS TO RECOVER IMPROPER PAYMENTS

Amnesty – A claimant or employer owing a liability that is eligible for amnesty must file an amnesty form within the amnesty period. The claimant or employer must pay a certain portion of their liability; the remaining portion will be waived.

Benefit Offset – Payments to claimants for valid UI claims are reduced in part or in whole for amounts owed for overpayments.

Estates/Probate/Bankruptcy – States file claims to protect their interest in amounts owed due to UI overpayments in bankruptcy or estate/probate proceedings.

Interstate Recovery – Payments to claimants for valid UI claims in one state are reduced in part or in total for amounts owed for overpayments in another state.

Interstate Reciprocal Overpayment Recovery Arrangement (IRORA) – IRORA is a cooperative agreement allowing participating states to act as agents for each other in a reciprocal arrangement for the recovery of overpaid benefits.

Liens – States file liens against claimant assets to protect their interests if the underlying assets are sold.

Lottery, Homestead, and Gambling Offsets – States reduce amounts paid to claimants for lottery or gambling winnings, or reduce the amount of homestead exemption providing property tax relief, to recover a portion or all of the outstanding UI debt.

Repayment Plans – Claimants enter into a repayment plan with the state to repay overpaid amounts over a period of time.

Skip-tracing – A variety of research and other tools are used to locate a claimant to pursue the outstanding debt.

State Income Tax Offset – State income tax refunds and similar distributions are intercepted by the state and used to offset outstanding overpayments.

Third-Party Collection Agents – States use a third-party to pursue collection activities for a fee. Colorado refers receivables inactive for at least three months to the Colorado Central Collections Agency. Following one year of inactivity, the Collections Agency

refers these receivables to one of its contract collections agencies. Following another year of collections efforts, the receivable is referred back to Colorado's Central Collections Agency who then refers it to another third-party collection agency for another year of collections activity. Following this second year of attempts it is returned back to the Central Collection Agency.

Voluntary Repayment/Demand Letters – After 60 days without payment or a signed payment agreement, Indiana's case management system automatically generates a demand letter to the claimant. A payment agreement form is also sent with the demand letter with a specified amount that the claimant should pay. In California, the Benefit Overpayment Collection Section (BOCS) processes a payment plan letter after an overpayment is established and becomes final. The claimant has up to 24 months to repay the debt. Numerous late payment plan notification letters are mailed to provide opportunities for individuals to remain current on their payments. A payment is considered current if the individual is not behind with their monthly payment. If the individual is delinquent with 2 consecutive monthly payments, a final default letter is mailed which notifies the individual that they must pay the amount due by a given date to avoid legal action. In Colorado, the UI Collections Branch and the Colorado Central Collections Agency have the authority to arrange repayment plans with claimants. Claimants who violate contract terms can be referred to the state's contract attorneys for legal action, including wage garnishment.

Wage Garnishment – If a claimant defaults on a payment plan, California pursues legal action through the civil process which includes a Summary Judgment and Abstract of Judgment, which could lead to the garnishment of wages through the use of an Earning Withholding Order. In Colorado, if claimants fail to meet the requirements of a repayment agreement, the case can be referred to the State's contract attorneys who can implement legal action including wage garnishment.

ETA'S 2011 NATIONAL STRATEGIES

In 2011, ETA issued a “call to action” to help improve improper payment rates throughout the UI system. ETA identified the following nine National Strategies to help states prevent, detect, and recover UI improper payments.

Claimant Messaging – Statewide claimant messaging is a campaign designed to improve claimants’ awareness of their responsibility to report any work and earnings if they are claiming benefits, and improve claimants’ understanding of work search requirements as a condition of eligibility for benefits. A state’s campaign must consider how it may incorporate the Department’s messaging products and tools.

Cross-Functional Task Force – This is a cross-functional team that includes a combination of management, front-line workers, and state subject matter experts to assess and address root causes of improper payments in individual states. The key objective is to have every state focus on the root causes of overpayments that have the highest impact in the state and use this process to inform strategic planning that will achieve immediate and meaningful reductions in the improper payment rate.

Employer Messaging – Statewide employer messaging is a campaign designed to improve employers’ awareness of their responsibility to respond to state requests for separation information and/or earnings/wage verifications. The state’s campaign must consider how it may incorporate the Department’s messaging products and tools.

ES Registration – Strategies include technology or other solutions designed to address improper payments due to a claimant’s failure to register with the state’s ES or job bank in accordance with the state’s UI law. These changes were to be implemented by April 30, 2012.

Mandatory Use of NDNH and Recommended Operating Procedures (ROP) – For several years, ETA has encouraged states to use the NDNH to reduce improper payments in the UI program. New-hire directories, which were created for the purpose of child support enforcement, have allowed for improved access to wage data and data from other states regarding new hires and wages. Studies conducted about NDNH have concluded that the use of this tool results in earlier detection of improper payments, thereby increasing the likelihood of recovery. Detailed recommended operating procedures have been developed to provide states with information about best practices in conducting this match. ROP requires immediate contact with a claimant when there is a match to let them know there is a potential overpayment. This action is considered by ETA to be one of the most effective strategies for addressing

the Benefit Year Earnings' root cause. Any states not already doing so were required to begin conducting cross matches using NDNH by December 2011, and all states were strongly encouraged to implement procedures in line with the recommendations.

SIDES – SIDES is a web-based system that allows electronic transmission of UI information requests from UI agencies to multi-state employers and/or third-party administrators, as well as transmission of replies containing the requested information back to the UI agencies. The current implementation of SIDES allows for the exchange of separation and earnings verification information.

SQSP/Program Integrity Action Plan – As part of the submission of the SQSP (beginning in FY 2012), states are required to develop a Program Integrity Action Plan. States are to analyze their BAM data to identify the top root causes for improper payments and develop strategies that will be effective in reducing or recovering improper payments, using an ETA-prescribed format.

State-Specific Strategies – State-specific strategies are to prevent improper payments and reduce the state's improper payment rates in key root cause areas. States must identify the extent to which the strategy is expected to reduce its improper payment rate, that is, identify a reduction target.

TOP – TOP permits states to recover certain unemployment compensation debts from federal income tax refunds. This strategy is required for those states that received FY 2013 supplemental budget requests.

APPENDIX E

STATE-SPECIFIC STRATEGIES FOR PREVENTING AND DETECTING IMPROPER PAYMENTS

Border State, Interstate and Intrastate Cross Match – New York runs the border state cross match quarterly and compares the records of New York claimants who live near the state’s borders with wage record data. The interstate cross match is run quarterly and compares the records of claimants who file UC claims in the state with wage record data from other states. The intrastate cross match is run quarterly and focuses on New York residents who worked and filed claims within the state. Most of the claimants who hit this cross match reside in New York.

Business Owner Cross Match – New York runs its business owner cross match quarterly and annually, comparing registered business owners in New York against claimants. The objective is to identify business owners who are claiming benefits.

Decedent Cross Match – New York performs a cross match against the SSA death records to determine if claims were made after the date of death. Pennsylvania performs a similar cross match using state Department of Transportation and Department of Health records and attempts to collect the overpayment through the claimant’s estate.

Designated Overpayment Teams – Pennsylvania established Designated Overpayment Teams at each service center to reduce the state’s backlog of unrecorded UC, EUC, and EB overpayments. Iowa utilizes Designated Overpayments Teams, which the division refers to as a Fraud Unit, to match the same type of demographic information to detect overpayments and fraud. Fraud investigators that work closest to the claimant are assigned to facilitate in-person interviews if deemed necessary. If the investigator is unable to verify the claimant’s identity, a third party authentication service will be used.

Foreign IP Blocker – This is used to prevent claims from being filed from internet addresses outside the United States.

Lag Testing – In California, individuals cannot collect on back-to-back UI claims without intervening employment, so California performs a Lag test. The claimant gets a faster response with either a valid claim being established or a denial issued to the claimant with their appeal rights.

Legal Presence – The purpose of this daily cross match is to identify claimants from outside California attempting to claim unemployment within California with no matching employment. This process is performed prior to benefits being processed so

it does not result in detection of overpayments but ensures that claimants are eligible to receive payments.

Local IP Identification – Local IP Identification is a report run internally to identify any claimant registration/reporting originating within Indiana’s office.

Multi-claimants IP Address, Street Address, and Phone Number Cross Match – IP addresses of claimants are analyzed for use by five or more SSNs. Claimant addresses are also analyzed to identify identical addresses. Information is also gathered from the telephone system, and an algorithm is used to compare the phone numbers used to request benefits to the phone numbers within the data warehouse.

New Claimant Office Visit – Indiana individuals receiving unemployment benefits must visit their local office for review of their work search records and orientation, after their fourth week of benefits. Claimants are required by law to keep records of their three weekly work searches and be able to show a record of work searches when requested. If claimant does not show for the appointment, their claim is suspended. Individuals must also bring a picture identification with them at the time of their in-person visit.

Prison Cross Matches – Cross matches are performed comparing UI claimants against county, state, and/or city inmate populations to detect fraudulent claims. Colorado performs a cross match to identify people who are receiving federal or state benefits while they are incarcerated in county jails. Iowa uses a manual process to identify claimants who were incarcerated at least three days in its Department of Corrections. In New York, the inmate listing from its Department of Correction is compared monthly to the SSN, name and date of birth from its claimant database. The county Sheriff’s Association also provides New York a listing of claimant inmates, which is matched bi-weekly against the claimants requesting benefits. The New York City jail cross match is run on a daily basis and matches incarcerated claimants in the New York City jail to the benefit information of the prior two weeks. An inmate report is obtained from the web and checked for admission and discharge dates to ensure benefits are not paid during the period of incarceration. In Pennsylvania, the daily Justice Network cross match is used to identify claimants who are receiving federal or state benefits while they are incarcerated in Pennsylvania’s county jails. Pennsylvania also performs a monthly cross match to identify claimants who are receiving benefits while they are in state prison.

Prosecution and Referral to Law Enforcement – Indiana received a grant with a Marion county prosecutor to work exclusively on UI fraud cases. Iowa refers cases totaling more than \$100,000 to the county attorney. Colorado sends the largest ten overpayment cases to its Law Enforcement Division each month for investigation. Results of the investigation may results in criminal prosecution.

State Employee Cross Match – Weekly cross match of state employee payroll records with unemployment claim benefit records reveals potential concurrence of benefits and wages.

State Identification Data Inquiry (SID) – This tool is used in every initial claims process and allows the state to determine which states have wages noted for a particular claimant. SID has enabled the state to see which states show wages paid to claimants in a comprehensive way. SID has improved efficiency and accuracy in claims administration and the prevention of improper payments by helping staff recognize working-while-collecting issues concealed in another state(s). SID has also been helpful in administering claims made by persons engaged in maritime services under reciprocal agreements between the states and combined wage claims. If claimants have wages in another state or open claims, their accounts are placed “under control” and the claimants are required to call in and resolve the issue.

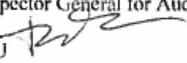
Systematic Alien Verification for Entitlements – This cross match reveals individuals who have entered a permit number, indicating they are an alien, rather than a driver’s license onto the online claims system. Individuals who are matched under this system receive a form asking for verification of employment and authorization for legal residence. This process is performed prior to benefits being processed so it doesn’t result in detection of overpayments but ensures that claimants are eligible to receive payments.

Tips and Leads (Fraud Hotline) – This program allows for internal and external sources to provide information about potential claimants who are receiving benefits but are potentially ineligible. In the state of New York, tipsters can report incidents of fraud on the UC Fraud Link New York unemployment compensation website.² In Iowa, tipsters can report incidents of fraud on the Iowa unemployment compensation website.³ Colorado indicated that leads from external sources were consistently investigated as have those considered “high priority.” However, internal leads that were not categorized as “high priority” were not investigated from April 2011 to June 2012.

² <https://labor.ny.gov/agencyinfo/uifraud.shtm>

³ <https://www.iowaworkforcedevelopment.gov/report-fraud>

ETA'S RESPONSE

U.S. Department of Labor	Assistant Secretary for Employment and Training Washington, D.C. 20210	
JUL 12 2016		
MEMORANDUM FOR:	ELLIOT P. LEWIS Assistant Inspector General for Audit	
FROM:	PORTIA WU  Assistant Secretary	
SUBJECT:	Response to the Office of Inspector General (OIG) Audit Draft Report No. 18-16-005-03-315 – Recovery Act: States Challenged in Detecting and Reducing Unemployment Insurance Improper Payments	

Thank you for the opportunity to respond to the draft report cited above. The Employment and Training Administration (ETA) continues to work aggressively with states to improve the prevention, detection, and recovery of Unemployment Insurance (UI) improper payments and to bring down the improper payment rate. ETA is committed to working with states to address your recommendations and improve the integrity of the UI program.

ETA appreciates the acknowledgment on page 3 of the report that states experienced a large increase in claims, due to the implementation and extension of Federal UI programs during the audit period. This change, caused by the recession, created a major challenge for states in addressing improper payments. Significant increases in the volume of UI claims resulted in states shifting resources to ensure timely payments to eligible claimants as required under Federal law. In addition, the complex and changing requirements of the temporary additional benefit programs, such as the Extended Benefits and the Emergency Unemployment Compensation programs, overloaded state capacity. Many states struggled with antiquated and inflexible information technology (IT) systems that impacted their capacity to address program integrity issues. These strains on state resources further hindered their ability to prevent, detect, and recover improper payments.

ETA's active engagement with states to reduce the UI improper payment rate predates the Recovery Act programs. All states have been called to action to ensure that UI integrity is a top priority and to implement both national and state-specific strategies to bring down the improper payment rate. ETA provides specific attention and assistance to states with high improper payment rates. As you noted in the audit report, ETA has identified a number of national strategies for state implementation designed to address major root causes of UI improper payments as part of a comprehensive strategic plan. This strategic plan continues to evolve as new and innovative strategies are added and outreach is done for state adoption. The plan includes the strategy for states to convene and maintain cross-functional task forces to support the development/enhancement of integrity action plans as part of their State Quality Service Plan submission, which becomes the foundation of a state's grant agreement with ETA.

Between Fiscal Years 2005 and 2015, ETA has provided states with over \$719 million in supplemental funding to implement national and state-specific strategies that will help the states prevent, detect, and recover UI overpayments, and to implement technology-based infrastructure projects. This funding includes approximately \$369 million in supplemental funding provided to state consortia to address outdated IT system infrastructure, which is necessary to improve UI integrity. These grants demonstrate ETA's commitment to the development of integrity-related systems focused on the proper payment of UI benefits. These projects result in state staff cost savings, increased overpayment recoveries that flow back into state trust funds, and prevention of future overpayments.

Since 2008, ETA has hosted a biennial integrity conference to showcase successful practices used in states to prevent, detect, and recover improper payments. In addition, ETA has conducted webinars on strategies to address improper payments. ETA also maintains a UI Community of Practice on its knowledge sharing site, WorkforceGPS, which includes an integrity portal that features integrity best practices.

To further promote development of innovative integrity strategies, ETA has established a national UI Integrity Center of Excellence (Center) through a cooperative agreement with the New York State Department of Labor; the Center is operated by the National Association of State Workforce Agencies (NASWA). The Center's strategies support all states' integrity activities, creating greater efficiency and improving operations. The products and tools developed will be made available to all states and include, among others: data analytics and predictive modeling methodologies and tools to improve UI fraud prevention and detection; a secure portal for the rapid exchange of fraud information between states as it is identified; an integrated data hub to support state cross matching with a wide array of data sources; on-line staff training on fraud solutions and integrity practices; collection and dissemination of integrity best practices through an Integrity Digital Library on the UI Community of Practice; highlighting integrity practices that should be included in state UI modernization efforts; and the creation of a "model" blueprint for Benefit Payment Control operations.

For many years, ETA has supported state UI agencies in the modernization of their IT legacy systems, which continues to be a high priority for ETA. To further these efforts, ETA provides funding to, and works collaboratively with, the Information Technology Support Center (ITSC) operated by NASWA. ITSC provides technical assistance and support to individual states and state consortia on their UI IT modernization efforts – UI IT modernization is the main focus of ITSC's operations.

In addition, ETA continuously works with states to improve data quality through its UI Data Validation (DV) efforts. Data quality is a priority for ETA to ensure the accuracy of the state submission of Federal reports. ETA provides UI DV training, opportunities for supplemental funding, and technical assistance to enable states to meet UI DV requirements. Also, in support of states' system modernization efforts, ETA has issued Training and Employment Notice No. 28-14 to provide a pre-implementation planning checklist for use by states prior to "going live" with a modernized UI IT system. Included in this checklist is a requirement that the state ensure that UI DV requirements are met prior to production implementation of a new UI IT system.

I have attached our response to the recommendations in the draft audit report. If you have questions, please contact Gay M. Gilbert, Administrator, Office of Unemployment Insurance, at (202) 693-3029.

Attachment

**Employment and Training Administration (ETA) Response to
Office of Inspector General (OIG) Draft Report No. 18-16-005-03-315 – Recovery Act:
States Challenged in Detecting and Reducing Unemployment Insurance Improper
Payments**

ETA has and continues to work aggressively with states to address the issue of Unemployment Insurance (UI) improper payments and to implement the national strategies for the prevention, detection, and recovery of improper payments. Below are ETA's responses to the recommendations in this draft report.

Recommendations

- 1. ETA should work with states to identify and collect data needed to determine which state-specific strategies and recovery methods are most effective.**

ETA Response: ETA established a national UI Integrity Center of Excellence (Center) through a cooperative agreement with the New York State Department of Labor; the Center is operated by the National Association of State Workforce Agencies (NASWA). The Center provides information, tools, and technical assistance to states to improve the integrity of their UI programs and to enable peer-to-peer sharing of best practices.

ETA, in collaboration with the Center, will work with states to encourage and provide any technical assistance needed to identify data that may be used to determine the effectiveness of the state-specific strategies and recovery methods. One of the core activities of the Center which is currently underway is the identification and dissemination of state integrity successful practices. The tasks under this core activity include: continuously identifying and disseminating promising state practices; amplification of promising state practices through postings on the Web-based integrity portal, webinars, and presentations at UI system meetings and conferences; researching and disseminating integrity best practices used by other private and public sector entities that may be applicable to the UI program; and periodically conducting studies to assess the impact of specific integrity strategies, their cost-benefit, and providing the information through the integrity portal.

The Center also serves as a laboratory for innovation by supporting the development and piloting of new strategies and tools to combat improper payments and fraud, building on the work of states, other Federal government agencies, and the private sector. The Center is: providing a secure method for states to communicate UI fraud scheme information as soon as it is identified; developing a data analytics and predictive modeling tool that is transferable and expandable for all states to improve UI fraud prevention and detection; developing and delivering both introductory and intensive training on fraud solutions and integrity strategies to all states; developing a UI integrity data hub to support state cross-match efforts; developing an Integrity Digital Library to facilitate the collection and dissemination of integrity best practices providing routine state engagement and technical assistance to states; creating a "model" blueprint for Benefit Payment Control operations; providing funds for states to implement and evaluate innovative program integrity strategies that may be replicated by other states; and organizing and hosting UI integrity knowledge-sharing events

to showcase products and tools that individual states are using to improve UI program integrity.

ETA notes that while we agree that it would be beneficial for the states, the Center, and ETA to track the results of state-specific integrity strategies, due to the many variables and root causes that impact a state's overall improper payment rate, it is particularly challenging to accurately evaluate the effectiveness of individual state-specific strategies.

2. ETA should use the data collected to promote the most effective state-specific strategies as National Strategies.

ETA Response: ETA has previously taken promising state integrity strategies and promoted them nationwide and we intend to continue such efforts. ETA, in collaboration with the Center, will share information regarding best practices from states and provide any technical assistance that may be necessary for any state that plans to adopt and implement strategies that another state has successfully implemented.

ETA will review the information regarding best practices collected by the Center on state-specific strategies and recovery methods, and determine which of these may be adopted as national strategies.

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