

U.S. Department of Labor

Office of Inspector General—Office of Audit

**EMPLOYMENT AND
TRAINING
ADMINISTRATION**



GEORGIA DEPARTMENT OF LABOR MISSED OPPORTUNITIES TO DETECT AND RECOVER UNEMPLOYMENT INSURANCE OVERPAYMENTS

Date Issued: March 15, 2013
Report Number: 04-13-001-03-315

**U.S. Department of Labor
Office of Inspector General
Office of Audit**

BRIEFLY...

Highlights of Report Number 04-13-001-03-315, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

The Unemployment Insurance (UI) program is designed to provide benefits to individuals out of work, generally through no fault of their own, for periods between jobs. The UI program is administered at the state level, but benefits are funded by both state and federal monies. State Workforce Agencies (SWA) are responsible for designing controls to detect and recover UI benefit overpayments. The Georgia Department of Labor (GDOL) is one of 53 SWAs designated to administer the UI program. Between October 1, 2008, and March 31, 2011, GDOL paid \$8 billion in federal and state-funded UI benefits.

In November 2009, the President issued Executive Order 13520 – Reducing Improper Payments. Its purpose was to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the federal government, while continuing to ensure these programs served and provided access to their intended beneficiaries.

According to the Government Accountability Office, of all federal programs, the U.S. Department of Labor UI program had the fourth highest estimated improper payment amount for fiscal year 2011, with an estimated \$13.7 billion in improper payments and an error rate of 12 percent. These improper payments were primarily the result of claimants continuing to claim benefits after returning to work (under-reported earnings) and other eligibility issues.

WHY OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

Did GDOL have adequate controls and systems in place to detect and recover UI benefit overpayments?

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/2013/04-13-001-03-315.pdf>.

March 2013

GEORGIA DEPARTMENT OF LABOR MISSED OPPORTUNITIES TO DETECT AND RECOVER UNEMPLOYMENT INSURANCE OVERPAYMENTS

WHAT OIG FOUND

The OIG found that GDOL did not have adequate controls and systems in place to detect and recover UI benefit overpayments. GDOL missed opportunities to detect and recover overpayments; and ETA could not ensure GDOL's reported overpayment data were accurate, or measure the effectiveness of GDOL's recovery activities.

Although the National Directory of New Hires cross-match process to detect overpayments has been available to SWAs since 2008, GDOL did not implement it until December 2011. Consequently, GDOL missed opportunities to maximize overpayment detection.

GDOL did not conduct all data validation for UI detection and recovery data as required by ETA. While GDOL did submit Corrective Action Plans (CAP) to ETA to address its data validation deficiencies, the CAPs did not include specific milestones, which hindered ETA's ability to monitor and track GDOL's progress in taking corrective actions. This may have contributed to GDOL not making measurable improvements toward correcting its data validation deficiencies.

ETA did not define an acceptable level of performance for measuring recovery of overpayments. As such, ETA had no mechanism for evaluating the effectiveness of GDOL's recovery activities, including \$14.9 million of \$58.7 million (25 percent) in overpayments, and \$343,000 of \$2.24 million (15 percent) in Federal Additional Compensation overpayments.

WHAT OIG RECOMMENDED

The OIG made five recommendations to the Assistant Secretary for Employment and Training to improve ETA's monitoring of overpayment recovery efforts and GDOL's detection and recovery of UI benefit overpayments.

The Assistant Secretary generally agreed with the recommendations and stated that the agency has either initiated or completed corrective actions to address all five recommendations.

Table of Contents

Assistant Inspector General’s Report 1

Results in Brief 2

Objective — Did GDOL have adequate controls and systems in place to detect and recover UI overpayments? 3

GDOL did not timely implement all available tools to detect and recover overpayments. 3

 Finding 1 — GDOL did not timely implement the NDNH cross-match process for detecting and recovering overpayments..... 3

 Finding 2 — GDOL did not conduct all required data validation of detection and recovery data. 4

 Finding 3 — GDOL CAPs did not contain specific milestones to ensure resolution of data validation deficiencies..... 6

 Finding 4 — ETA did not have a defined acceptable level of performance for overpayment recovery. 6

 ETA has taken steps to improve the detection and recovery of overpayments..... 8

 GDOL has taken steps to strengthen its detection and recovery of overpayments..... 8

Recommendations 9

Appendices

 Appendix A Background 13

 Appendix B Objective, Scope, Methodology, and Criteria 15

 Appendix C Acronyms and Abbreviations 19

 Appendix D Definitions 21

 Appendix E ETA Response to Draft Report..... 23

 Appendix F Acknowledgements 29

PAGE INTENTIONALLY LEFT BLANK

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



March 15, 2013

Assistant Inspector General's Report

Jane Oates
Assistant Secretary
for Employment and Training
Room S2307
200 Constitution Avenue, N.W.
Washington, DC 20210

The Unemployment Insurance (UI) program is designed to provide benefits to individuals out of work. In order to be eligible for benefits, jobless workers must show they were separated from work through no fault of their own, met minimum length of time and wage requirements before they were separated, and were available for work. The UI program is administered at the state level, but benefits are funded by both state and federal monies. State Workforce Agencies (SWA) are responsible for designing controls to detect and recover UI benefit overpayments (overpayments). The Georgia Department of Labor (GDOL) is one of 53 SWAs designated to administer the UI program. Between October 1, 2008, and March 31, 2011, the GDOL UI program paid \$8 billion in state and federally-funded benefits to unemployed workers.

We performed the audit to answer the following question:

Did GDOL have adequate controls and systems in place to detect and recover UI benefit overpayments?

Our audit focused on \$58.7 million in overpayments that GDOL detected between October 1, 2008, and March 31, 2011; and \$14.9 million it recovered between October 1, 2008, and October 23, 2011.

We analyzed 60,736 overpayments and identified methods GDOL used to detect and recover overpayments, interviewed key personnel, and conducted walkthroughs of the units responsible for these activities. We also examined GDOL's processes for validating data used to prepare Overpayment Detection and Recovery report (ETA 227), and the Employment and Training Administration's (ETA) monitoring of these activities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our

audit objective. Our objective, scope, methodology, and criteria are detailed in Appendix B.

RESULTS IN BRIEF

GDOL did not have adequate controls and systems in place to detect and recover UI benefit overpayments. We found GDOL did not timely implement cross-matching procedures with the National Directory of New Hires (NDNH) database. Additionally, GDOL did not ensure the accuracy of data it used to report overpayment activities on the ETA 227, as GDOL did not conduct or submit all data validation results to ETA. While GDOL did submit Corrective Action Plans (CAP) to ETA to address data validation deficiencies, the CAPs did not include specific milestones. Finally, ETA did not define an acceptable level of performance for measuring recovery activities. As a result, GDOL missed opportunities to detect and recover overpayments; and ETA could not ensure GDOL's reported overpayment data were accurate, or measure the effectiveness of GDOL's recovery activities.

Although the NDNH cross-match process to detect overpayments has been available to SWAs since 2008, GDOL did not implement it until December 2011. GDOL contended that federally-funded programs necessitated that it prioritize limited information technology programming resources to ensure claimants received benefits instead of performing cross matching with NDNH. As a result of delaying its implementation of NDNH cross matching, GDOL missed opportunities to maximize overpayment detection.

GDOL did not conduct all data validation for UI detection and recovery data as specified in ETA Handbook 361. GDOL's failure to validate this data required it to include CAPs in its State Quality Service Plan (SQSP) in accordance with Employment and Training (ET) Handbook 336. However, the CAPs GDOL submitted did not provide measurable milestones, hindering ETA's ability to monitor and track GDOL's progress.

ETA did not define an acceptable level of performance for measuring recovery of overpayments. As such, ETA had no mechanism for evaluating the effectiveness of GDOL's recovery activities — \$14.9 million of \$58.7 million (25 percent) in overpayments and \$343,000 of \$2.24 million (15 percent) in Federal Additional Compensation (FAC) overpayments.¹

Since the end of our fieldwork, GDOL continued to improve its UI detection and recovery activities by implementing the Separation Information Data Exchange System (SIDES), participating in the Treasury Offset Program (TOP), and implementing additional controls for granting waivers of overpayments.

¹ FAC amounts were established for recovery in June 2010 and are included in GDOL's overall detection and recovery amounts.

We recommended the Assistant Secretary for Employment and Training ensure GDOL has implemented NDNH cross matching; GDOL conducts data validation of overpayment data; GDOL submits CAPs that contain sufficient, detailed milestones; ETA regional reviewers ensure CAPs meet requirements before accepting them; and ETA defines an acceptable level of performance for measuring the effectiveness of overpayment recovery efforts.

The Assistant Secretary generally agreed with the recommendations and stated that the agency has either already addressed or has begun addressing each finding and recommendation in the report. ETA's response is included in its entirety in Appendix E.

RESULTS AND FINDINGS

Objective — Did GDOL have adequate controls and systems in place to detect and recover UI overpayments?

GDOL did not timely implement all available tools to detect and recover overpayments.

GDOL did not have adequate controls and systems in place to detect and recover UI benefit overpayments, nor could GDOL ensure the accuracy of the data it used to report on overpayment activities. We found GDOL did not timely implement one of the most effective overpayment detection tools available, conduct and submit to ETA all results of data validation for UI detection and recovery activities, and submit to ETA CAPs with specific milestones to address deficiencies in conducting data validation. Additionally, ETA did not have a defined acceptable level of performance to measure the effectiveness of overpayment recovery activities.

Finding 1 — GDOL did not timely implement the NDNH cross-match process for detecting and recovering overpayments.

GDOL did not implement the NDNH cross-match process to detect overpayments — available to SWAs as early as 2008 — until December 2011, after our audit period. According to GDOL, an increased UI program workload and computer programming requirements to process federally-funded UI programs delayed its implementation of NDNH for identifying potential overpayments. GDOL stated that ensuring claimants received benefits took precedence over NDNH programming for detecting overpayments and it allocated resources accordingly.

The NDNH database contained new-hire reports it received directly from federal civilian and military employers, as well as new-hire reports that private employers submitted to their State Directory of New Hires (SDNH) database. During our audit period, GDOL used SDNH, but not NDNH, to conduct new-hire cross matches to identify potential overpayments. Because NDNH would have provided GDOL access to a wider universe

of new-hire information (i.e., multi-state, federal civilian and military employers) than SDNH, GDOL missed opportunities to maximize its overpayment detections.

Unemployment Insurance Program Letter (UIPL) 22-06 cited a 2005 pilot study that indicated NDNH was one of the most effective tools SWAs had to detect overpayments caused by unreported or under-reported earnings. The study identified the following advantages of using NDNH:

- More comprehensive than the SDNH – An estimated 40 percent of new hires are reported by multi-state employers to a state other than the one where the new hire works; and NDNH contains information about federal civilian and military hires which is not contained in any other database.
- Better targeting of investigations than the benefit-wage cross match – New-hire reports include the "date of hire," which helps eliminate false-positive "hits."

ETA mandated that SWAs implement cross matching with NDNH to identify UI overpayments by December 2011. Prior to that time, ETA actively encouraged the SWAs' use of NDNH.

Congress passed several laws extending or authorizing various federally-funded programs. GDOL officials told us that computer modifications were necessary in order to administer these programs. GDOL officials further stated they decided to allocate their limited resources to ensure claimants received benefits instead of implementing NDNH. GDOL's delay in implementing NDNH until December 2011 resulted in missed opportunities to maximize detection of overpayments caused by unreported earnings.

Finding 2 — GDOL did not conduct all required data validation of detection and recovery data.

For fiscal years (FY) 2010 through 2012, GDOL did not always conduct and submit to ETA the results of data validation for established overpayments and overpayment recovery data that it used to prepare the ETA 227. SWAs used ETA software to ensure their overpayment and recovery results were valid. Also, SWAs used the data validation process to verify the accuracy of the overpayment and recovery information reported to ETA by reconstructing the count of transactions during a specific period for each report item to be validated. The data validation process identifies reporting system² errors and human errors. Items pass the validation process when the accuracy of both reporting systems and data are considered verified.

ETA Handbook 361 – UI Data Validation requires SWAs to validate reported data every third year, except for data elements used to calculate Government Performance and Results Act measures, which must be validated annually. Items that do not pass validation must be revalidated the following year.

² Reporting systems are computer programs that create the federal reports.

The outcome of GDOL’s data validation for established overpayments and overpayment reconciliation activities during our audit period is presented in Table 1 below.

Table 1

Data Validation Results			
<i>FY</i>	<i>Measurement Period</i>	<i>Type of Data</i>	
		<i>Established Overpayments</i>	<i>Overpayment Reconciliation Activities</i>
2010	April 1, 2009 – March 31, 2010	Not Conducted	Not Conducted
2011	April 1, 2010 – March 31, 2011	Not Conducted	Not Conducted
2012	April 1, 2011 – March 31, 2012	Passed	Not Conducted

GDOL officials stated they encountered various barriers that prevented them from completing the data validation requirements, including competing demands on the information technology resources that were needed to develop required data extract files. GDOL officials made the administrative decision to place a higher priority on using available information technology resources to ensure claimants received their benefits.

In November 2012, GDOL submitted and passed data validation for overpayment reconciliation activities for the reporting period July 1, 2012, through September 30, 2012. Despite this accomplishment, GDOL needs to ensure its controls are sufficient to conduct and pass data validation in future years.

As a result of GDOL not conducting all data validation processes for established overpayments and overpayment reconciliation activities, GDOL or ETA could not verify the accuracy of data in the ETA 227. The ETA 227 is used by ETA and SWAs to monitor trust fund activities. Data are provided for the establishment of overpayments, recoveries of overpayments, criminal and civil actions involving overpayments obtained fraudulently, and an aging schedule of outstanding benefit overpayment accounts. SWAs that fail data validation must address these deficiencies in their SQSP by preparing CAPs.

Because the ETA 227’s users include SWAs, ETA, Congress, governmental agencies, the press, and the general public, it is imperative that ETA ensures the data contained in the ETA 227 is accurate.

Finding 3 — GDOL CAPs did not contain specific milestones to ensure resolution of data validation deficiencies.

GDOL was required to include CAPs in its SQSP because data validation processes for established overpayments and overpayment reconciliation activities were not conducted. However, the CAPs submitted by GDOL to ETA did not contain specific milestones (key actions and improvement activities) as required by ETA’s guidance.

ET Handbook 336 requires CAPs to include concise milestones, identifying specific key actions or improvement activities and their anticipated completion dates. Field Memorandum No. 1-09 requires the ETA regional reviewer to ensure CAP milestones are measurable and represent concrete operational steps that can be used to track and assess progress during the plan year.

GDOL officials stated they believed the CAPs submitted to ETA complied with ET Handbook 336 because ETA accepted them. ETA officials agreed the CAPs were accepted and indicated an assessment of its review and acceptance procedures may be warranted.

The lack of specific milestones to address data validation deficiencies impaired ETA’s ability to assess GDOL’s progress or monitor its corrective actions. In addition, this may have contributed to GDOL not making measurable improvements toward correcting its data validation deficiencies.

Finding 4 — ETA did not have a defined acceptable level of performance for overpayment recovery.

ETA did not have a defined acceptable level of performance for overpayment recovery, which limited its ability to appropriately measure the effectiveness of GDOL’s recovery activities. We analyzed 60,736 overpayments totaling \$58.7 million over a 3-year period ending October 2011, and found that GDOL collected \$14.9 million in overpayments, a 25 percent recovery rate. Our separate analysis of 14,629 FAC overpayments totaling \$2.24 million detected in June 2010 (FAC 2010)³ found that GDOL recovered approximately \$343,000, or 15 percent. Because Georgia’s statute of limitation for recovering overpayments extends up to 4 years — barring any court actions — opportunities exist for GDOL to make additional recoveries of the overpayments we analyzed. As illustrated in the tables below, GDOL used three primary methods for overpayment recovery.

³ GDOL’s 60,736 overpayments include the FAC overpayments separately analyzed.

Table 2**Recovery Activity – Total Overpayments**

	Type of Recovery	Percent of Recovery
Cash ⁴	\$5,453,736	36.48 %
Benefit Offsets	5,691,775	38.07 %
<u>State Income Tax Refund Intercepts</u>	<u>3,805,807</u>	<u>25.45 %</u>
Total Funds Recovered	\$14,951,318	100.00 %
Total Amount Detected	\$58,779,538	
Recovery Rate ⁵	25.44 %	

Table 3**Recovery Activity – FAC 2010 Cases**

	Type of Recovery	Percent of Recovery⁶
Cash	\$133,894	39.02 %
Benefit Offsets	166,146	48.43 %
<u>State Income Tax Refund Intercepts</u>	<u>43,063</u>	<u>12.55 %</u>
Total Funds Recovered	\$343,103	100.00 %
Total Amount Detected	\$2,239,175	
Recovery Rate ⁷	15.32 %	

In order to evaluate UI recovery effectiveness, ETA needs to establish quantifiable targets (acceptable levels of performance) and a uniform reporting system. In the past, ETA attempted to establish a standard acceptable level of performance for SWAs, but discontinued the standard because of dissimilarities among the SWAs. Without establishing an acceptable level of performance, ETA provides GDOL with neither a level of expectation regarding its performance in overpayment recoveries nor any incentive to improve its current recovery rates.

Performance measurements indicate whether sufficient recovery is being accomplished and whether desired results are being achieved. The measures help SWAs by providing a gauge on how resources and efforts should be allocated to ensure effectiveness. More importantly, performance measurements are a key control for measuring how well

⁴ Cash refers to checks and money orders, not coin and currency.

⁵ The recovery rate was calculated by dividing total funds recovered by total amount detected (\$14,951,318/\$58,779,538).

⁶ Percentages are rounded.

⁷ The recovery rate was calculated by dividing total funds recovered by total amount detected (\$343,103/\$2,239,175).

SWAs are doing in recovering overpayments. Therefore, ETA needs to define quantifiable targets in order to evaluate UI recovery effectiveness.

ETA has taken steps to improve the detection and recovery of overpayments.

ETA has taken steps to reduce overpayments and increase recovery of overpayments. As detailed below, ETA revised its monitoring of data validation to ensure SWAs were in compliance with required procedures; issued guidance to SWAs, and if requested, provided SWAs with supplemental funding to develop state-specific strategies to improve the prevention, detection, and recovery of overpayments.

In February 2012, ETA issued the UI Data Validation Monitoring Guide (ET Handbook 412), which outlined a monitoring program for ETA regional staff to follow. It expanded the scope of ETA oversight by focusing on data validation results that have passed. According to the handbook, ETA anticipates this monitoring process will ensure SWAs that reported passing data validation results are following the prescribed methodology and that their reported results are valid.

In May 2012, ETA issued UIPL No. 18-12, which announced the availability of supplemental funds for eight Core Integrity Activities designed to assist SWAs' efforts to reduce their improper payment rates. The eight activities addressed prevention of overpayments, tools to enhance the detection and recovery of overpayments, and strategies to increase awareness of claimants' and employers' responsibilities (see Appendix A for details).

In August 2012, ETA issued UIPL No. 29-12, which provided additional guidance to SWAs to improve the detection and recovery of overpayments in federally-funded programs, specifically the EUC and EB programs. This guidance suggested that SWAs retroactively conduct cross matches using NDNH and other detection tools, and encouraged SWAs to take advantage of TOP. To support this initiative, ETA developed a performance ratio to measure the extent to which each SWA detected and established EUC and EB overpayments. Although no benchmarks are associated with the performance ratio, management can use the information to assess the progress of each SWA in their detection of EUC and EB overpayments.

GDOL has taken steps to strengthen its detection and recovery of overpayments.

GDOL has implemented some of ETA's strategies to improve the prevention, detection, and recovery of overpayments. For example, since February 2011, GDOL participated in an ETA pilot program to prevent overpayments using SIDES. Since the end of our fieldwork, GDOL started participating in TOP to improve recovery. In addition, GDOL issued a rule change to more effectively manage granting overpayment waivers.

SIDES provide a nationally-standardized format in which employers and third-party administrators (TPA)⁸ can receive and easily respond to SWAs' requests for UI separation information. It also allows SWAs to electronically share information across state lines with other SWAs, multi-state employers, or TPAs. SIDES provides claims examiners with more timely and accurate separation information used to determine claimants' eligibility to receive UI benefits helping to prevent improper payments to individuals not eligible for benefits.

In September 2011, GDOL submitted to ETA a Supplemental Budget Request for funding to participate in TOP. TOP is a centralized offset program, administered by the Treasury Department with authority to intercept federal income tax refunds to recover overpayments when a claimant fails to report earnings. GDOL began submitting eligible debts for TOP collection in June 2012. As of December 2012, TOP recovered \$159,724 by intercepting 225 federal income tax refunds on behalf of GDOL.

On February 12, 2012, GDOL initiated rule changes pertaining to overpayment waivers to strengthen GDOL's management of overpayments by: a) reducing the time to request a waiver from 90 to 15 days; b) requiring individuals to demonstrate that repayment would result in a financial hardship and they have no reasonable prospect of future employment nor future ability to repay; c) eliminating the right to appeal the denial of a request for waiver; and d) eliminating the granting of waivers based on the recommendation of an administrative hearing officer or board of review. Once a waiver is granted, collection efforts must stop. Controlling the granting of overpayment waivers allows GDOL to continue collection efforts on more cases until the statute of limitation is reached.

The initiatives ETA and GDOL have undertaken reflect their efforts to eliminate payment error, waste, fraud, and abuse in the UI program, while also continuing to ensure that they serve intended beneficiaries. Although it is impossible to completely eliminate improper payments, these strategies are a major step to reducing overpayments. And while we recognize the initiatives ETA and GDOL have undertaken, additional steps are necessary for ETA and GDOL to take to fully maximize reductions in overpayments.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Employment and Training ensure:

1. GDOL has implemented NDNH cross matching for detecting overpayments.
2. GDOL conducts data validation of overpayment data in accordance with ETA Handbook 361 requirements.

⁸ Third-party administrators are companies that provide information and management services for employers in the area of unemployment insurance.

3. GDOL submits CAPs that contain sufficient, detailed milestones to track and access progress in correcting identified deficiencies in accordance with ET Handbook 336 requirements.
4. ETA regional reviewers ensure CAPs meet the requirements of ET Handbook 336 before accepting them.
5. ETA develops an acceptable level of performance for recovery of overpayments.

We appreciate the cooperation and courtesies that ETA and GDOL personnel extended to the Office of Inspector General during this audit. OIG personnel who made major contributions to this report are listed in Appendix F.



Elliot P. Lewis
Assistant Inspector General
for Audit

Appendices

PAGE INTENTIONALLY LEFT BLANK

Background

UI Program

The UI program is designed to provide benefits to individuals out of work. In order to be eligible for benefits, jobless workers must show they were separated from work through no fault of their own, met minimum length of time and wage requirements before they were separated, and were available for work. The UI program is administered at the state level, but benefits are funded by both state and federal monies. SWAs are responsible for designing controls to detect and recover UI overpayments. GDOL is one of 53 SWAs designated to administer the UI program. Between October 1, 2008, and March 31, 2011, the GDOL UI program paid \$8 billion in state and federally-funded benefits to unemployed workers.

The primary permanent UI programs consist of states' basic UI program and federal programs for civilian employees and ex-servicemen. In recent years, Congress has authorized additional federally-funded UI programs, including Emergency Unemployment Compensation, Extended Benefits, and FAC. FAC was authorized under the American Recovery and Reinvestment Act of 2009 to pay eligible claimants an additional \$25 per week beginning March 2009, until December 7, 2010.

Reducing Improper Payments

In November 2009, the President issued Executive Order 13520 – Reducing Improper Payments. The purpose of this order was to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the federal government, while continuing to ensure that federal programs serve and provide access to their intended beneficiaries. On July 22, 2010, the President signed into law the Improper Payments Elimination and Recovery Act of 2010, which requires agencies to periodically review all programs and activities that they administer and identify those susceptible to significant improper payments.

According to the Government Accountability Office, of all federal programs, the DOL UI program had the fourth highest estimated improper payment amount for FY 2011. DOL estimated that the UI program had \$13.7 billion in improper payments with an error rate of 12 percent (amount of overpayments divided by total benefits paid). The primary causes of the overpayments were due to claimants who continued to claim benefits after they returned to work (under-reported earnings) and ineligibility issues.

DOL focused on these root causes by issuing UIPL No. 19-11, National Effort to Reduce Improper Payments in the UI Program (issued on June 10, 2011). To combat under-reported earnings, DOL required all SWAs to conduct NDNH cross matches, effective December 2011. Untimely and incomplete job separation information was the second leading cause of overpayments. To address this issue, the DOL worked collaboratively with SWAs to develop SIDES. SIDES enables more rapid and accurate

communications between SWAs and employers, electronically transmitting information used to determine claimants' eligibility to receive UI benefits.

In December 2010, the President signed the Claims Resolution Act of 2010 authorizing the Treasury Department's use of TOP to recover all UI overpayments resulting from the claimant's failure to report earnings, even if not due to fraud. The Trade Adjustment Assistance Extension Act of 2011, enacted in October 2011, contains the following three key provisions intended to reduce UI overpayments:

- Requiring SWAs to impose a monetary penalty on claimants whose fraudulent acts resulted in overpayments;
- Requiring employers to report the first day of earnings for new hires and report rehires to the NDNH; and
- Preventing an employer's account from being relieved of charges if the actions of the employer led to an improper payment; potentially affecting the employer's payroll tax rate.

ETA issued UIPL No. 18-12 in May 2012, which announced supplemental budget request opportunities to fund eight Core Integrity Activities. The impact of the following four Core Integrity Activities have been discussed in this report:

- Up to \$250,000 to implement NDNH cross matches using recommended operating procedures;
- Up to \$500,000 to implement SIDES and up to \$100,000 to market SIDES to encourage employers' participation;
- Up to \$100,000 to implement a messaging campaign designed to increase claimants' awareness of their responsibility to report wages while receiving benefits; improving claimants' understanding of work search requirements for continued UI eligibility; and improving employers' awareness of their responsibility to provide separation information timely and accurately; and
- Up to \$400,000 to implement TOP.

These activities helped SWAs develop their own state-specific strategies to reduce their improper payment rates. ETA also offered SWAs between \$1.85 million to \$2.2 million per SWA for Incentive Integrity Activities, contingent on the SWA implementing or agreeing to implement all eight Core Integrity Activities by ETA's deadline. ETA identified several incentive activities that qualified for the additional funds, including:

- Hiring staff to eliminate backlogs of pending appeals or Benefit Payment Control unit activities and obtaining contractor support to explain reporting wage requirements to claimants identified as "hits" during cross matches; and
- Enhancing NDNH operating procedures by requiring claimants identified as "hits" during cross matches to contact SWA claims representatives when filing for their next weekly benefit payment.

Appendix B

Objective, Scope, Methodology, and Criteria

Objective

Our audit objective was to answer the following question:

Did GDOL have adequate controls and systems in place to detect and recover UI benefit overpayments?

Scope

The audit covered the detection of overpayments established by GDOL between October 1, 2008, and March 31, 2011; and its recovery activity between October 1, 2008, and October 23, 2011. Our audit work was performed at GDOL's main office for UI activities located in Atlanta, GA; ETA's National Office in Washington, DC; and its Regional Office in Atlanta, GA. We also met with auditors from the State of Georgia Department of Audits and Accounts, located in Atlanta, GA.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Methodology

To answer our audit objective, we identified methods used by GDOL to detect and recover overpayments by interviewing key GDOL personnel and conducting walkthroughs of the units responsible for these activities. We also interviewed personnel who have a responsibility for the UI program from the ETA National Office of Unemployment Insurance (OUI) and ETA's Atlanta Regional Office.

We researched available methods for detecting and recovering overpayments by reviewing ETA Handbooks and UIPLs OUI issued that provided guidance to SWAs. We also reviewed applicable federal and state laws, executive orders, and Congressional hearings; prior audit reports; government websites; and news reports. We compared the available methods used to detect and recover overpayments against the methods used by GDOL.

GDOL provided in a "Database Report" a universe of 63,896 overpayments it had established during the audit period. Within this universe, we identified a subgroup of 14,874 FAC overpayments that GDOL had detected between March 2009 and

June 2010. We removed rescinded cases⁹ and cases with ending balance variances¹⁰ from both the universe (see Table 4) and from the FAC 2010 cases (see Table 5), reducing the universe to 60,736, and 14,629 respectively.

Table 4**Database Report – Adjusted Overpayment Amounts Used in Analyses**

	Number of Cases	Beginning Balance
Original Amounts	63,896	\$62,954,533
Less: Rescinded Cases	2,558	3,456,760
<u>Less: Cases with Variance in Ending Balances</u>	<u>602</u>	<u>718,235</u>
Adjusted Amounts	60,736	\$58,779,538

Using the adjusted database of 60,736 cases with beginning balance totaling \$58,779,538, we calculated the overall recovery rate from the \$14,951,318 recovered. We further analyzed the recovery rates and funds recovered based on the cause of the overpayment and method used to detect the overpayment. We also analyzed the adjusted database based on whether the case was fraud or non-fraud; funded by federal or non-federal funds; and when the case was established.

Based on the analyses, we found that an unusually high number of cases were established in June 2010. We determined, through inquiry with GDOL, that the high volume was due to FAC 2010 cases established in the computer system in June 2010. However, through review of available documents and sampled FAC 2010 cases, we determined that the FAC 2010 cases might have been detected as early as April 2009. We analyzed FAC 2010 to determine its impact on recovery activities. Using the adjusted FAC 2010 population of 14,629 cases with beginning balance totaling \$2,239,175 (see Table 5); we determined the amount collected during our audit period and calculated the overall recovery rate.

Table 5**FAC 2010 Cases – Adjusted Overpayment Amounts Used in Analyses**

	Number of Cases	Beginning Balance
Original Amounts	14,874	\$2,290,000
Less: Rescinded Cases	229	47,150
<u>Less: Cases with Variance in Ending Balances</u>	<u>16</u>	<u>3,675</u>
Adjusted Amounts	14,629	\$2,239,175

⁹ If a case was incorrectly established (e.g., entered with the wrong social security number), then it must be removed or rescinded. Including rescinded cases in the analysis of the database or of the FAC 2010 cases would overstate the beginning balance, and therefore, understate the recovery rates.

¹⁰ When comparing the ending balance as reported in the Database Report against the ending balance we had calculated, we identified 602 cases with ending balance variances. The beginning balance of these cases totaled \$718,235. Including these cases in the analysis of the database cases or of the FAC 2010 cases would overstate the beginning balance, and therefore, understate the recovery rates.

We examined GDOL's processes for validating data used to prepare ETA 227. Our focus was on validation of data for overpayments established, overpayment reconciliation activities, and age of overpayments submitted by GDOL for reporting periods from FYs 2010 through 2012. We requested validation results from GDOL and discussed the validation process with GDOL and ETA. We identified the requirements for validating and submitting results by researching the Data Validation Handbook – ETA Handbook 361. We compared the results GDOL submitted against ETA Handbook 361 requirements, identified discrepancies, and researched their cause(s).

We interviewed GDOL and ETA to gain an understanding of how ETA monitored UI detection and recovery activities using the SQSP. We obtained from ETA SQSP notification letters for FY 2010 through FY 2012. Because these letters directed GDOL to include CAPs regarding submitted data validation results, we identified the requirements for acceptable CAPs by researching the SQSP Handbook – ET Handbook 336, and compared the CAPs GDOL submitted against these requirements to determine if GDOL submitted acceptable CAPs.

Criteria

- ET Handbook No. 336: 18th Edition, UI SQSP, Planning and Reporting Guidelines (December 2009)
- UIPL No. 19-08: Call Memo for FY09 UI SQSP (instructions for preparations) (May 2008)
- UIPL No. 25-09: Call Memo for FY10 UI SQSP (instructions for preparations) (June 2009)
- UIPL No. 23-10: Planning Guidance for FY11 UI SQSP (instructions for preparations) (April 2010)
- ETA Handbook 361: UI Data Validation Handbook (November 2009)
- ET Handbook No. 402, 5th Edition: UI Reports User Manual -- Web-based (May 2009)
- ET Handbook No. 412: UI Data Validation Monitoring Guide (February 2012)
- UI Reports Handbook No. 401: Section IV-3 – ETA 227 Overpayment Detection and Recovery Activities (April 2007)
- UIPL No. 22-06: National Directory of New Hires – Use for UI Program Integrity (June 2006)
- UIPL No. 02-12: Unemployment Compensation Program Integrity – Trade Adjustment Assistance Extension Act of 2011 amendments (December 2011)

- UIPL No. 19-11: National Effort to Reduce Improper Payments in the UI Program (June 2011)
- UIPL No. 18-12: UI Supplemental Funding Opportunity for Program Integrity, Performance, Systems Improvements (May 2012)
- UIPL No. 29-12: Improving Overpayment Detection and Recovery Efforts Related to Emergency Unemployment Compensation, Extended Benefits, and Federal Additional Compensation (August 2012)
- Rules of the Georgia Department of Labor, 300-2-4.08: Waiver of Overpayments. Amended
- GA Code, Section 9-3-25: Civil Practice, Limitation of Actions, Specific Periods of Limitation (2011)
- Public Law 111–204: Improper Payments Elimination and Recovery Act of 2010
- Claims Resolutions Act of 2010

Appendix C

Acronyms and Abbreviations

CAP	Corrective Action Plan
DOL	Department of Labor
ET	Employment and Training
ETA	Employment and Training Administration
FAC	Federal Additional Compensation
FY	Fiscal Year
GDOL	Georgia Department of Labor
NDNH	National Directory of New Hires
OIG	Office of Inspector General
OUI	Office of Unemployment Insurance
SDNH	State Directory of New Hires
SIDES	Separation Information Data Exchange System
SQSP	State Quality Service Plan
SSN	Social Security Number
SWA	State Workforce Agency
TOP	Treasury Offset Program
TPA	Third Party Administrator
UI	Unemployment Insurance
UIPL	Unemployment Insurance Program Letter

PAGE INTENTIONALLY LEFT BLANK

Appendix D

Definitions

Benefit Payment Control – UI staff responsible with protecting the UI Trust Fund by preventing, discouraging, detecting, investigating, and recovering unemployment insurance benefit overpayments.

Cash – Checks or money orders (GDOL does not accept actual cash or currency as payment).

Claimant Benefit Offsets – Deductions of claimants' weekly benefit payments that are applied toward their overpayments. Georgia law allows up to 50 percent of a claimant's weekly benefit payment to be offset.

SDNH Database Cross Matches – The process of cross matching SSNs maintained in the SDNH database against SSNs of claimants receiving benefits. SDNH's databases are operated by state departments. Non-governmental employers are required to submit new-hire information which populates the SDNH database. SWAs investigate "hits" to determine if a claimant received UI payments while working, creating a potential overpayment due to unreported earnings.

State Income Tax Refund Intercepts – Amounts withheld from claimants' state income tax refunds by the state taxing authority and transferred to the SWA to repay benefit overpayments. Intercepts only occur a maximum of three years on an overpayment.

SQSP – The principal vehicle an SWA uses to plan, record, and manage UI program improvement efforts. The SQSP is intended to be a dynamic document that SWAs can use as a management tool, not only to ensure strong program performance, but also to guide key management decisions, such as where to focus resources. The SQSP is also the grant document through which SWAs receive federal UI administrative funding.

TOP – A centralized offset program, administered by the Treasury Department with authority to intercept federal income tax refunds to recover overpayments when the claimant failed to report earnings.

TPA – An organization that provides information and management services for employers in the area of UI. TPAs typically support clients by handling the transfer of separation information required by SWAs when an employee of the client files for UI benefits.

Waivers – Voluntary relinquishments of SWAs' legal authority to recover overpayments.

PAGE INTENTIONALLY LEFT BLANK

ETA Response to Draft Report

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



FEB 28 2013

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM: JANE OATES *Jane Oates*
Assistant Secretary

SUBJECT: Response to the Office of the Inspector General (OIG) Report No. 04-13-001-03-315 -- Georgia Department of Labor Missed Opportunities to Detect and Recover Unemployment Insurance (UI) Overpayments

Thank you for the opportunity to respond to the findings and recommendations in the draft final report cited above. I am pleased to report that the Employment and Training Administration (ETA) has either already addressed or has begun addressing each of the five recommendations in this report. Specifically, we have taken steps to ensure that the Georgia Department of Labor: 1) continues to fully utilize cross matching with the National Directory of New Hires to detect UI overpayments; 2) conducts UI Data Validation in accordance with the requirements in Employment and Training (ET) Handbook 361; and 3) submits Corrective Action Plans (CAPs) in accordance with the requirements of ET Handbook 336. In addition, ETA will continue to work closely with Regional Office staff to ensure that CAPs submitted by all states as part of the State Quality Service Plan process meet the requirements of ET Handbook 336.

Finally, ETA has established an acceptable level of performance for the recovery of UI overpayments with the publication of UI Program Letter No. 9-13 on January 29, 2013. ETA believes that this action addresses Recommendation 5 in your draft report and respectfully requests that this recommendation be removed from the final issuance of the report.

I have attached our detailed responses to the findings and recommendations in the report. If you have questions, please contact Gay Gilbert, Administrator of the Office of Unemployment Insurance, at 202-693-3029.

Attachment:

Response to the Draft OIG Report No. 04-13-001-03-315

**Employment and Training Administration (ETA) Comments On
Office of the Inspector General (OIG) Draft Report No. 04-13-001-03-315**

ETA has been working closely with the Regional Offices and the State Workforce Agencies to ensure that states meet all UI integrity operational and performance requirements. As a result of that work, actions to address the recommendations in OIG Report No. 04-13-001-03-315 have either already been completed or are well under way.

Please note that ETA was unable to replicate the Georgia recovery data included in the draft report. On January 29, 2013, ETA provided OIG staff data from the ETA 227 reports submitted by Georgia. Based on these data, ETA calculated that Georgia recovered 43.76% of the State UI and Federal Unemployment Compensation program overpayments and 27.79% of EUC program overpayments, resulting in an overall recovery rate of 41.01%, which is significantly higher than the 25.44% rate in the OIG draft report. In response, OIG staff agreed that due to the methodology used by the OIG in collecting its data from the Georgia agency and the differences in the periods covered by the data, a reconciliation of the two data sets is not possible.

Below are ETA's specific responses to the findings and recommendations in this report.

Finding 1. GDOL did not timely implement the NDNH cross-match process for detecting and recovering overpayments.

Recommendation 1. We recommend that the Assistant Secretary for Employment and Training ensure: GDOL has implemented National Directory of New Hires (NDNH) cross matching for detecting overpayments.

Based on data provided by the Office of Child Support Enforcement, U. S. Department of Health and Human Services, which administers the NDNH, ETA has documented that the Georgia Department of Labor (DOL) began submitting files of UI payments for cross matching on April 4, 2008. The National Office has reviewed sample records from the files that the Georgia agency submitted for NDNH matching and has verified that they meet the specifications in UI Program Letter (UIPL) No. 3-07 (October 11, 2006) and UIPL No. 3-07, Change 1 (February 27, 2008) for BAM NDNH matching.

ETA revised the Overpayment Detection and Recovery report (ETA 227) with the publication of UIPL No. 8-12, issued January 11, 2012, to support the separate reporting of UI overpayments detected through the NDNH and the State Directories of New Hires (SDNH). Georgia began reporting NDNH and SDNH data on the June 2012 quarterly ETA 227 report. For the period April to December 2012, Georgia's Benefit Payment Control (BPC) operation detected over \$300,000 in UI overpayments using NDNH, nearly two-thirds of all overpayments detected through new hire matching.

UI / UCFE / UCX / EB Overpayments Detected -- April - December 2012

	Fraud Cases	Fraud Dollars	Average	Nonfraud Cases	Nonfraud Dollars	Average	Total OP Detected	% OP Detected
NDNH	138	\$144,489	\$1,047.02	578	\$157,977	\$273.32	\$302,466	65.09%
SDNH	35	\$38,969	\$1,113.40	381	\$123,269	\$323.54	\$162,238	34.91%
Total	173	\$183,458	\$1,060.45	959	\$281,246	\$293.27	\$464,704	100.00%

In calendar year 2012, Georgia detected overpayments representing an estimated \$5.8 million through new hire matching as part of the Benefit Accuracy Measurement (BAM) audits of paid claims samples.

In March 2013, Atlanta Regional Office will conduct a semi-annual review of BAM cases, which will validate the use of NDNH in BAM investigations. Also, the biennial review of Georgia's BAM Methods & Procedures has just been completed, and the Regional Office has concluded that Georgia is in compliance with the BAM NDNH requirements. Additionally, a BPC review of Georgia will be scheduled before the end of fiscal year (FY) 2013, which will include a review of BPC use of NDNH matching.

The Regional Office will conduct a review of Georgia's Emergency Unemployment Compensation (EUC) program during the June quarter of 2013, which will include a review of Georgia's use of NDNH to detect EUC program overpayments.

While outside the audit period, ETA believes that it has completed all the corrective actions necessary to ensure that the Georgia DOL has implemented NDNH cross matching for detecting UI overpayments and has processes in place to ensure Georgia DOL complies moving forward. We respectfully request that the final report reflect that ETA has already addressed this recommendation.

Finding 2. GDOL did not conduct all required data validation of detection and recovery data.

Recommendation 2. We recommend that the Assistant Secretary for Employment and Training ensure: GDOL conducts data validation of overpayment data in accordance with ETA Handbook 361 requirements.

Georgia has submitted and passed DV population 13 (Recovery / Reconciliation) for Validation Year (VY) 2013. Georgia submitted and passed DV population 12 (Overpayments Established) for Validation Year 2012.

ETA has completed or initiated several actions to ensure that all state agencies fully meet the requirements of the Data Validation (DV) program:

- ETA issued the UI DV Monitoring Guide (ET Handbook 412) on February 22, 2012, and has established a vigorous monitoring program to ensure the validity of DV results. Field Memorandum (FM) No. 1-12 instructed the Regional Offices to begin monitoring state DV operations immediately and provided a three-year initial monitoring schedule. This

monitoring will ensure that states that have reported passing DV populations are following the prescribed DV methodology and that their reported results are valid.

- In September 2012, ETA conducted a webinar to provide technical guidance to states on changes to the DV software to reflect changes in the ETA 227 Overpayment Detection and Recovery report, including the addition of a new DV population to verify section B of the report -- Overpayments Established - Methods of Detection.
- In February 2013 ETA will conduct a webinar on DV Data Element Validation to facilitate state compliance with this important component of UI DV.
- In September 2011, ETA contracted with National Association of State Workforce Agencies' Information Technology Support Center (ITSC) to conduct a comprehensive assessment of and support for UI DV, with particular emphasis on the validation of data covering overpayments established, recovered, and reconciled that states report on the ETA 227 report. A contractor was selected by ITSC in June 2012 to perform this assessment. The contractor, in collaboration with ETA, has developed a work plan and has completed its assessment of each state's (including Georgia's) validation status and operation. This assessment includes identifying the reasons for each state's success or lack of success in implementing DV and verifying the validity of its UI reports data.

Information on reasons for success will be disseminated to all states as best-practice guidance. During the final phase of the project, the contractor will develop a Technical Assistance Plan, which will include its recommended approach for delivering training and technical assistance to all states, and specifically ensure that at least five states are trained on DV methodology and ten states are provided technical assistance in conducting DV tasks. The Technical Assistance Plan will identify specific state needs, including grouping the states by common conditions that can be addressed collectively. The plan will identify recognized system-wide problems and develop solutions.

Finding 3. GDOL CAPs did not contain specific milestones to ensure resolution of data validation deficiencies.

Recommendation 3. We recommend that the Assistant Secretary for Employment and Training ensure: GDOL submits CAPs that contain sufficient, detailed milestones to track and access progress in correcting identified deficiencies in accordance with ET Handbook 336 requirements.

ETA's Atlanta Regional Office has taken the necessary steps to ensure the quality of the CAPs provided by states as part of their annual State Quality Service Plan (SQSP) submission. The DV CAPs provided in FY 2012 and FY 2013 by Georgia DOL includes specific milestones which can be used to track and assess their progress in correcting identified deficiencies. Additionally, as mentioned in the response for recommendation #2 above, Georgia DOL has made considerable progress with addressing the deficiencies in the DV program.

The National Office periodically conducts webinars to ensure that state CAPs meet the requirements of ET Handbook 336. A webinar will be conducted during the fourth quarter of FY 2013. Each year ETA issues guidance to the state agencies for the SQSP process, including those program performance issues that require CAPs. UIPL No. 24-12, issued June 29, 2012, addresses the Fiscal Year 2013 SQSP.

While outside the audit period, ETA believes that it has necessary procedures in place to ensure that Georgia DOL submits CAPs with sufficient and detailed milestones. We respectfully request that the final report reflect that ETA has already addressed this recommendation.

Recommendation 4. We recommend that the Assistant Secretary for Employment and Training ensure: ETA regional reviewers ensure CAPs meet the requirements of ET Handbook 336 before accepting them.

Each year ETA issues guidance to the Regional Offices for the SQSP process, which complements the UIPL referenced in the response to Recommendation 3. Field Memorandum No. 3-12, issued July 25, 2012, includes guidance on the requirements of CAPs and SQSP narratives submitted by the state agencies. The National Office also holds an annual conference call with the Regional Office SQSP coordinators to review all of the requirements of ET Handbook 336, including the review of state CAPs.

Finding 4. ETA did not have a defined acceptable level of performance for overpayment recovery.

Recommendation 5. We recommend that the Assistant Secretary for Employment and Training ensure: ETA develops an acceptable level of performance for recovery of overpayments.

ETA has met the recommendation with the publication of UIPL No. 9-13 on January 29, 2013. The UIPL establishes an acceptable level of performance (ALP) for recovery of overpayments:

The Department conducted an analysis of the UI payment, overpayment detection, and recovery data and established recovery targets of 55 percent for the 2013 [Improper Payments Information Act] IPIA reporting period, and 58 percent for the 2014 IPIA reporting period. These targets were reviewed by [the Office of Management and Budget] OMB and published in the Department's FY 2012 [Annual Financial Report] AFR (p. 181).

The performance period will be based on the ETA 227 and ETA 227 EUC data for the Improper Payments Information Act (IPIA) period (July 1 to June 30 of the IPIA reporting year). The first measurement period will be July 1, 2012 to June 30, 2013. States failing to meet the ALP for the 2013 IPIA reporting period will be expected to develop a CAP as part of the FY 2015 SQSP.

ETA respectfully requests that the OIG acknowledge in the report that ETA's actions taken prior to receipt of the report have fully responded to the recommendation.

PAGE INTENTIONALLY LEFT BLANK

Appendix F

Acknowledgements

Key contributors to this report were Anthony Grice, Dwight Gates, Laura Brockway, Freddie Hall, Ron Larry, Lorenzo Thornton, Michael Roberts, Ann Marie Lawrence, and Ajit Buttar.

TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

Online: <http://www.oig.dol.gov/hotlineform.htm>
Email: hotline@oig.dol.gov

Telephone: 1-800-347-3756
202-693-6999

Fax: 202-693-7020

Address: Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210