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

REPORT TO EMPLOYMENT AND TRAINING ADMINISTRATION

RECOVERY ACT: EFFECTIVENESS OF Colorado IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS AND IMPLEMENTATION OF EMPLOYMENT AND TRAINING ADMINISTRATION NATIONAL STRATEGIES

This audit was performed by Moss Adams LLP, CPAs, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Elliot P. Lewis

Assistant Inspector General for Audit

Date Issued: December 16, 2015
Report Number: 18-16-003-03-315

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

BRIEFLY…

Highlights of report number 18-16-003-03-315, 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 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 benefits for the Extended Benefits (EB), Emergency Unemployment Compensation (EUC), and Federal Additional Compensation (FAC) programs.

The audit covered Colorado's efforts to detect, reduce, recover, and report UI improper payments from the February 2009 inception of the Recovery Act through December 2012. The state paid $3.9 billion in EB, EUC, and FAC benefits, in addition to $3.3 billion in state-funded UI benefits during that period.

WHY OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

> How effective was Colorado at detecting, reducing, recovering, and reporting UI improper payments and at implementing Employment and Training Administration (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/2016/18-16-003-03-315.pdf.

December 2015

RECOVERY ACT: EFFECTIVENESS OF COLORADO IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS AND IMPLEMENTATION OF EMPLOYMENT AND TRAINING ADMINISTRATION NATIONAL STRATEGIES

WHAT OIG FOUND

We found Colorado did not effectively detect, reduce, or recover improper payments, and the integrity of the data Colorado reported to ETA could not be determined. Colorado's detection rates remained well short of its target of 50 percent from 2010 through 2012, and its improper payment rates remained above the target rate of 10 percent during our audit period. This was due in part to the state experiencing a significant increase in volume of UI claims, combined with the increased complexity of the EB and EUC programs, which overloaded Colorado's capacity and strained its resources. Colorado implemented all nine of the ETA National Strategies, but was not able to demonstrate their effectiveness.

WHAT OIG RECOMMENDED

We made several recommendations for ETA to work with Colorado to help the state demonstrate the effectiveness of ETA's National Strategies and improve its detection and recovery rates.

ETA and Colorado generally agreed with the recommendations and described planned and in-process corrective actions, except Colorado disagreed with the way information was depicted in the graphs. However, Colorado said it would continue to work with ETA to adopt new approaches to prevent, detect, and recover overpayments.

Table of Contents

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Prepared by Moss Adams LLP
For the U.S. Department of Labor – Office of Inspector General

December 8, 2015

INDEPENDENT AUDITORS' REPORT

Portia Y. Wu
Assistant Secretary
for Employment and Training
200 Constitution Avenue, N.W.
Washington, D.C. 20210

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. The Colorado Department of Labor and Employment (Colorado) is 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 benefits for the Extended Benefits (EB), Emergency Unemployment Compensation (EUC), and Federal Additional Compensation (FAC) programs.

We conducted a performance audit to answer the following question:

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

We found Colorado did not meet established targets for detecting improper payments and reported data could not be validated. Furthermore, while Colorado implemented the nine ETA National Strategies for reducing improper payments, it could not demonstrate these strategies effectively reduced improper payments.

The Recovery Act provided funding from the general fund of the U.S. Department of the Treasury (Treasury) and extended the ending date of EUC benefits; created and funded a new program, FAC; and provided for 100 percent federal funding and extended the date of EB. 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, they were not required to track and report on the separate funding sources within these programs. Therefore, Colorado did not have a mechanism in place to identify overpayments and recoveries related to Recovery Act funds. As a result, we were not able to separately report on or determine the effectiveness of Colorado's ability to detect, reduce, recover, and report on UI improper payments related solely to Recovery Act improper payments.

Moss Adams, under contract with the U.S. Department of Labor (DOL) Office of Inspector General (OIG), audited Colorado's effectiveness in detecting, reducing, recovering, and reporting improper payments for the period from the February 2009 inception of the Recovery Act through December 31, 2012. However, the scope of our audit was limited in 2009 because there was insufficient Benefit Accuracy Measurement (BAM) and/or Benefit Payment Control (BPC) data reported by Colorado during 2009. Between February 2009 and December 2012, Colorado paid $3.9 billion in EB, EUC, and FAC benefits, in addition to $3.3 billion in state-funded UI benefits.

Objective — How effective was Colorado at detecting, reducing, recovering, and reporting UI improper payments and at implementing ETA National Strategies to reduce improper payments?

Colorado did not fully meet established targets for detecting, reducing, and recovering improper payments; reported data could not be validated; and it could not demonstrate that implemented strategies were effective.

We found Colorado did not effectively detect, reduce, or recover improper payments, and the integrity of the data Colorado reported to ETA could not be determined. Colorado's detection rates remained short of its target of 50 percent from 2010 through 2012, while its improper payment rates remained above the target rate of 10 percent. This was due in part to the state experiencing a significant and unprecedented increase in volume of UI claims, combined with the increased complexity of the EB and EUC programs, which overloaded Colorado's capacity and strained its resources.

Colorado's UI mainframe system was incapable of capturing the required data elements to properly track and report UI Recovery Act funding for EB and EUC. It lacked a coding field that would allow the system to reproduce UI Recovery Act and non-Recovery Act reports of overpayments, underpayments, and recoveries for the period February 2009 through December 2012. Additionally, Colorado's UI legacy system did not have the capability of integrating the FAC program into its existing UI benefits system. Consequently, Colorado paid $256 million in FAC outside of its UI mainframe system. These system constraints hindered Colorado's ability to detect, reduce, recover, and report improper payments.

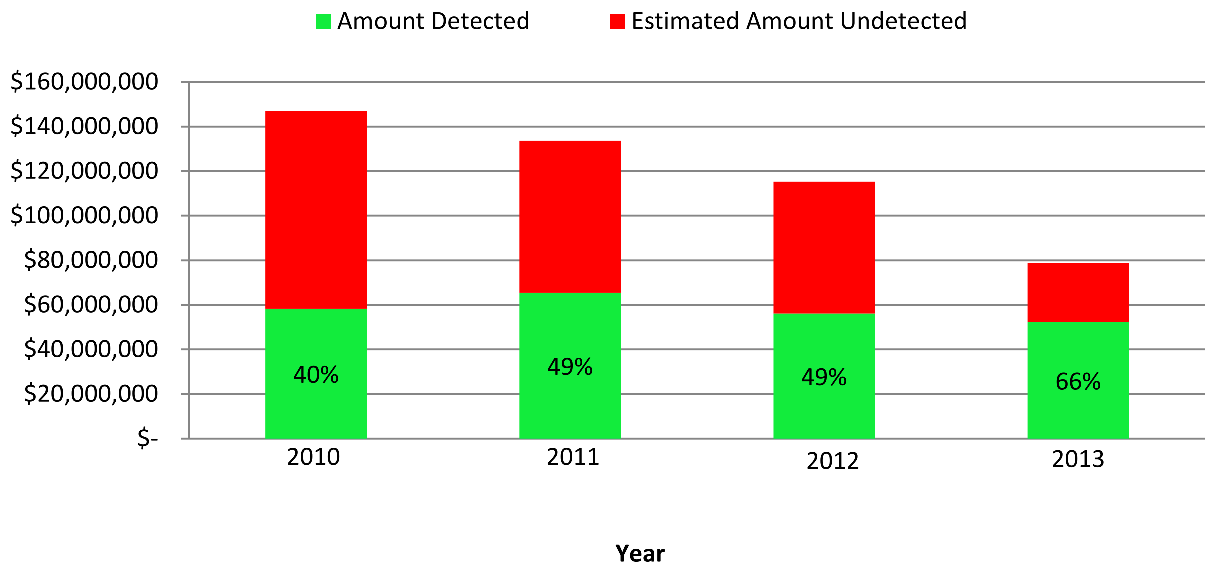
Colorado implemented all nine of ETA's National Strategies aimed at reducing, detecting, and recovering improper payments. However, Colorado could not demonstrate the effectiveness of these strategies and the Treasury Offset Program (TOP) and State Directory of New Hires (SDNH) were not implemented timely. TOP supplemental funding was available to states in fiscal year (FY) 2012. However, Colorado chose not to implement TOP until January 2013 due to a combination of a lack of personnel as well as numerous other pressing priorities. SDNH was not implemented until April 2013 because Colorado misinterpreted guidance directing states to utilize both the National Directory of New Hires (NDNH) and SDNH and was granted an extension by ETA.

Colorado did not fully meet established targets for detecting improper payments and reported data could not be validated.

Detecting Improper Payments

For the years ending December 31, 2010, 2011, and 2012, we found Colorado's detection rate did not meet ETA's target of 50 percent. Additionally, data reported through December 31, 2009, contained data validation issues and the data reported to ETA's website excluded certain quarterly data, which made it impossible for us to determine if the actual percentages were above or below the target rate. Colorado's rates ranged from 40 percent to 66 percent from 2010 to 2013. However, even though the detection rate increased from 2010, the actual overpayment dollars detected gradually decreased from 2011 through 2013 due to a significant decrease in total benefits paid. Chart 1 depicts the amounts detected as compared to the estimate of improper payments.

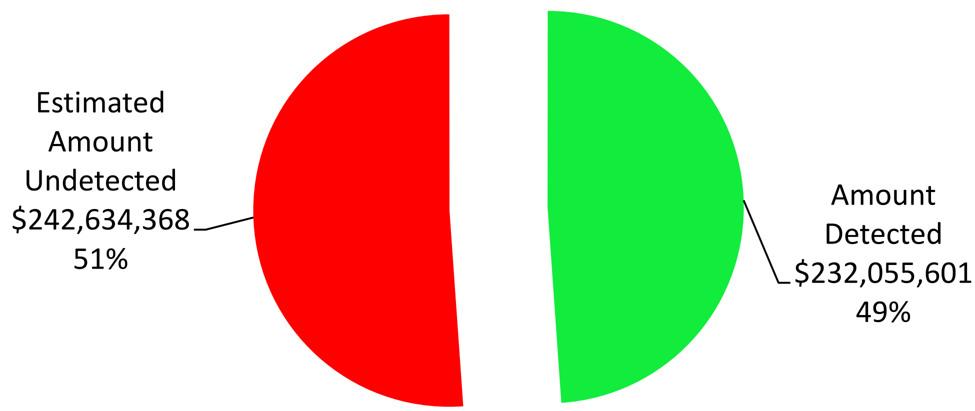
Chart 1 - Overpayments Detected by Year Compared to Total Improper Payments Estimated[1, 2, 3, 4]



The primary means ETA uses to assess states' effectiveness at detecting improper payments is the detection rate, which measures the actual overpayments detected as a percentage of the detectable, estimated recoverable overpayments as calculated by the BAM program. The BAM program 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. As depicted in Chart 2, from calendar years (CY) 2010 through 2013, Colorado detected 49 percent of the estimated improper payments occurring during that time.

[1] Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.
[2] The denominator for the Detection of Overpayments ratio is estimated from the sample-based Benefit Accuracy Measurement Program. Actual detected amounts were compiled from quarterly ETA 227 Overpayment Detection and Recovery and ETA 227 [EUC 08] reports.
[3] ETA's methodology uses a data collection period of the numerator (BPC data) which begins and ends six months after the denominator (BAM data) to allow sufficient time to detect and establish overpayments identified through the wage-benefit cross-match, which is only available quarterly.
[4] There was insufficient BAM and/or BPC data reported by Colorado during 2009. Consequently, the BAM operational rate was not available.

Chart 2 - Amount Detected Compared to Estimate of Total Improper Payments
CYs 2010[5] through 2013[6]



The ETA National Strategies Colorado implemented to detect improper payments included NDNH, SDNH (implemented in April 2013), and several state-specific strategies, including other types of cross matches. The cross-match process included using computer-assisted analysis of Colorado UI information from various state and federal databases to identify claimants who may be ineligible to receive benefits. Identified matches must be researched before an overpayment determination can be made. However, we noted that obtaining third-party corroboration for cross matches can be difficult, and limited staffing resources hampered the state's ability to research the identified matches. As a result, backlogs of matches requiring research developed.

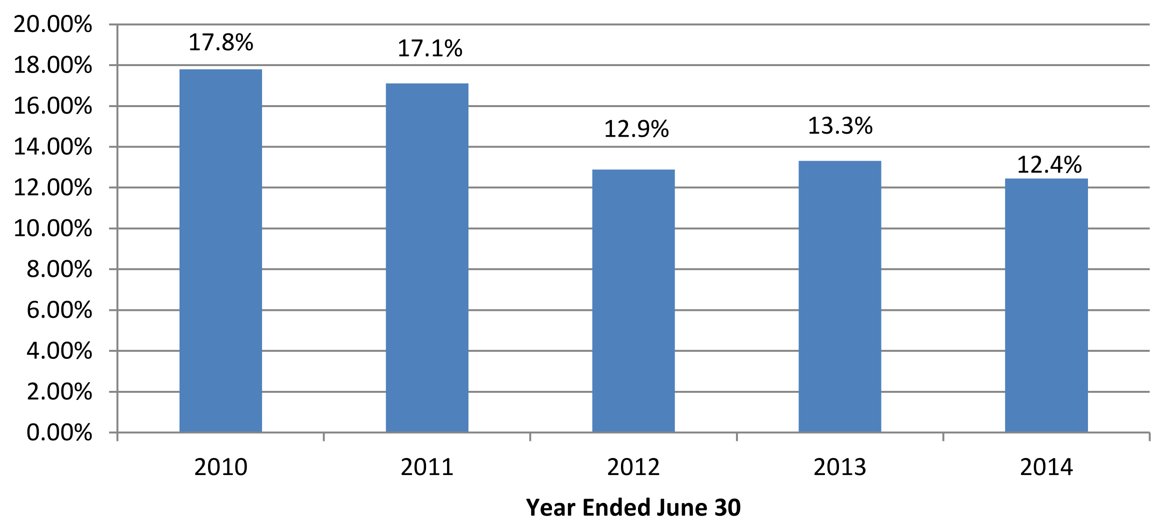
[5] There was insufficient BAM and/or BPC data reported by Colorado during 2009. Consequently, the BAM operational rate was not available.
[6] Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

Colorado used Employer Quarterly Wage and NDNH cross matches to detect improper payments. However, Colorado could not dedicate adequate staffing to ensure timely reviews of cross matches, resulting in significant backlogs in FYs 2010 and 2011. Consequently, overpayments that were never discovered may have occurred in the fourth quarter of FY 2010 and for all of FY 2011. Further, data on the number of matches identified, researched, and the results of research, were not regularly retained and analyzed, making it difficult to determine the effectiveness of the cross-match processes.

Reducing Improper Payments

Colorado was not able to demonstrate effectiveness in reducing improper payments. The primary means ETA uses to measure whether states effectively reduce improper payments are the rates calculated through the BAM program. This program provides a statistical estimate of the rate of improper payments during a period of time. Colorado's improper payment rates between 2010 and 2014 were above the target rate of 10 percent, as depicted in Chart 3.

Chart 3 – Improper Payment Rates by Year [7, 8, 9]



[7] Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Data reflected per ETA guidance includes gross rates from 2010-2012 and net rate adjusted for recoveries in 2013-2014. Gross rates for 2013-2014 were 15.65 percent and 14.80 percent, respectively. UI integrity rates were compiled from rates provided on the ETA website.

[8] A confidence interval, expressed as +/- x percentage points, is constructed for the estimated improper payment rates. The actual rate is expected to lie within 95 percent of the intervals constructed from repeated samples of the same size and selected in the same manner as the BAM sample.

[9] There was insufficient BAM and/or BPC data reported by Colorado during 2009. Consequently, the BAM operational rate was not available.

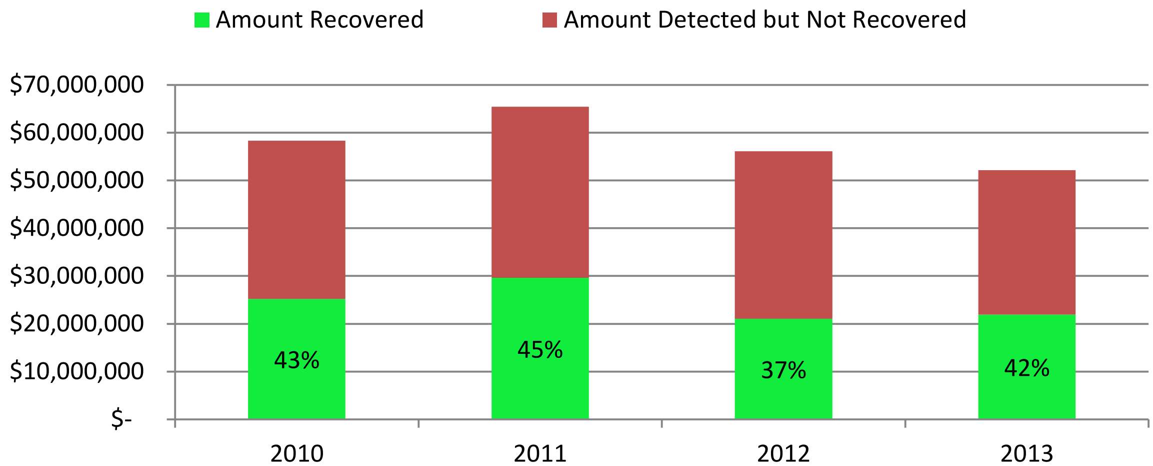
Colorado's estimated overpayment rate ranged from 17.8 to 12.9 percent from June 2010 to June 2012. Although Colorado's rate dipped in 2012, it increased and remained above 10 percent in 2013 and 2014. Reliable data was not available for 2009 to determine the actual overpayment rate. The decrease of 4.9 percent in the overpayment rate from 2010 to 2012 was largely due to a policy change that impacted work search. In FY 2012, Colorado implemented a policy change pursuant to its UI law that provides for a formal warning on the first occurrence of a claimant not meeting the state's work search requirements. Following the implementation of this policy change, the improper payment rate for work search errors decreased by 6.3 percent from FYs 2010 to 2012. Colorado's other key improper payment rate causes, such as benefit year earnings and separation issues, increased from 2010 to 2012. Additionally, the decrease in work search overpayments from 2011 to 2012 appears to be the result of the policy change rather than application of core National Strategies and state-specific strategies to reduce improper error rates.

Many of the ETA strategies Colorado implemented were aimed at detecting or recovering overpayments, rather than preventing overpayments. The effectiveness of strategies Colorado implemented that were aimed at preventing overpayments, such as a Cross-Functional UI Task Force, a State Quality Service Plan (SQSP)/Program Integrity Action Plan, and Claimant and Employer Messaging, cannot be adequately measured other than by the increase or reduction in the state's improper payment rate over time.

Recovering Improper Payments

We found no significant changes in the effectiveness of Colorado's recovery efforts between 2010 and 2013. Other than the implementation of TOP in 2013, there were no significant changes in recovery methods utilized by Colorado. Charts 4 and 5 show the amount recovered compared to the amount detected by year and in total.

Chart 4 - Amount Recovered Compared to Amount Detected by Calendar Year [10, 11, 12]



[10] Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.
[11] There was insufficient BAM and/or BPC data reported by Colorado during 2009. Consequently, the BAM operational rate was not available.
[12] The Overpayment Recovery Rate measure was not implemented by ETA until 2012, effective for reporting years ending June 30, 2013, and 2014. In prior years, there was no official "target" recovery rate.

Chart 5 - Total Recoveries Compared to Amount Detected[13, 14]

CYs 2010[15] to 2013

Once an overpayment was detected and proper notice was given to the claimant, Colorado employed several types of recovery methods, which varied based on the nature of the overpayment, such as whether there was fraud or fault on behalf of the claimant. We found benefit offset accounted for 58 percent[16] of the total recoveries made by Colorado for CYs 2010 through 2013. Recovery methods utilized by Colorado are identified in Table 1.

[13] Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.
[14] Actual amounts detected and recovered were compiled from quarterly ETA 227 overpayment Detection and Recovery and ETA 227 [EUC 08] reports.
[15] There was insufficient BAM and/or BPC data reported by Colorado during 2009. Consequently, the BAM operational rate was not available.
[16] Includes State UI only. ETA does not require dollar amounts by recovery method for EUC to be reported on the EUC 227 report; therefore, this information was not available.

Table 1 – Recovery Methods Utilized by Colorado

Method	Description
Benefit Offset	Reduction of future Colorado UI benefits.
TOP[17]	Interception and recovery by U.S. Treasury from Federal tax refund.
Voluntary repayment/billing notices/checks/credit/debit	Claimant voluntarily repays by check, credit card or debit card after receipt of notice.
State income tax offset	State refunds and similar distributions.
Lottery, homestead and gambling offsets	Intercept lottery, homestead and gambling winnings.
Third-Party collection agents	Third-Party collection efforts.
Interstate recovery	Colorado participates in the Interstate Reciprocal Overpayment Recovery Arrangement (IRORA). When a claimant receives UC benefits from Colorado and another state simultaneously, IRORA allows Colorado to recoup duplicate week overpayments without the claimant's permission.
Wage garnishment and civil action	Collections from garnishment of claimant's wages.
Skip Tracing	Tool used to determine claimant's location.
Referral to OIG and other law enforcement agencies	Investigations may result in prosecution.

Source: Auditors' analysis of descriptions and recovery methods utilized by Colorado

During 2013, Colorado implemented TOP, whereby certain overpayments were submitted to Treasury to intercept federal income tax refunds. This was an important new tool for Colorado. The TOP program recovered $2.5 million as of September 30, 2014.

Reporting Improper Payments

We could not determine the effectiveness of Colorado's reporting of overpayment and recovery activity to ETA because Colorado could not verify the integrity of the underlying mainframe data and pass ETA's data validation process. The ETA 227, *Overpayment, Detection, and Recovery Activities* report (ETA 227) required summary-level information on overpayment detection and recovery activity by various categories, such as detection methods and fund types. Colorado used a combination of mainframe reports, manual reports, and Treasury Offset reports to prepare the quarterly ETA 227, necessitating a manual, labor-intensive process requiring Colorado to implement a

[17] Colorado implemented TOP in January 2013.

variety of compensating controls to ensure the information was compiled and reported accurately. Therefore, although Colorado verified that the amounts reported on the ETA 227 flowed from the amounts recorded in its systems, Colorado did not have any assurance the amounts in its systems were accurate. This impacted the following reports:

- ETA 227 and ETA 227 (EUC 08), Overpayment Detection, and Recovery Activities quarterly report
- ETA 2112, UI Financial Transaction Summary Unemployment Fund Activity
- Annual Schedule of Federal Expenditures of Federal Awards

ETA Handbook 361, *Unemployment Insurance Data Validation Handbook* (November 2009), established data validation requirements for the ETA 227 and related data elements, which states were required to perform and pass. To complete data validation, the state was required to provide ETA with individualized records (extracts) to be used to recalculate the report figures. Colorado's legacy system did not enable the state to obtain the necessary extracts, and therefore it was not able to perform data validation to ensure the integrity of the underlying data reported to ETA until it implemented automated reporting supported by data validation in 2012.

Colorado implemented all nine ETA National Strategies, but was not able to demonstrate these strategies were effective.

Although Colorado implemented all nine ETA National Strategies and its improper payment rate decreased, Colorado could not provide evidence of each strategy's effectiveness. Some strategies had an indirect impact on preventing overpayments that could not be measured in a meaningful way. For other strategies Colorado implemented, information was not collected in a manner that allowed for evaluation of the effectiveness of the strategy.

ETA issued a "call to action" to help improve improper payment rates throughout the UI system and identified nine National Strategies that were designed to help states prevent, detect, and recover UI improper payments. The strategies were:

- **Cross-Functional Task Forces** – These are cross-functional teams that include a combination of management, front-line workers, and state subject matter experts that will assess and address root causes of improper payments in individual states. The key objectives for these task forces 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.

- **SQSP/Program Integrity Action Plan Development** – 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 plan format.

- **Mandatory Use of NDNH and Recommended Operating Procedures (ROP)** – For several years, ETA has encouraged states to use NDNH to reduce improper payments in the UI program. NDNH, which was created for the purpose of child support enforcement, has 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 ROP 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.

- **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.

- **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.

- **Employment Services (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.

- **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.

- **State-Specific Strategies** – State-specific strategies are designed 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.

Colorado did not use SDNH during our audit period. Colorado misinterpreted the implementation guidance and was granted an extension by ETA and established SDNH in April 2013. TOP supplemental funding was available to states in FY 2012. However, Colorado chose not to implement TOP until January 2013, due to a lack of personnel. Table 2 illustrates the status of Colorado's implementation of these strategies as of June 2013, when we performed our fieldwork:

Table 2 - Status of Implementation of ETA National Strategies

Strategy	Status
Cross-Functional Task Force	✓
State Quality Service Plan	✓
National Directory of New Hires/State Directory of New Hires	✷
State Information Data Exchange System	✓
Claimant Messaging	✓
Employer Messaging	✓
ES Registration/Work Search	✓
State-Specific Strategies	✓
Treasury Offset Program	✷
✓ - Implemented prior to December 2012 ✷ - Fully implemented subsequent to December 2012	

Source: Auditor analysis of Colorado's implementation

Recommendations

We recommend that the Assistant Secretary for Employment and Training work with and encourage Colorado to:

1. Establish controls to ensure any future ETA strategies are implemented timely.

2. Enhance the UI claims system to capture activities of temporary UI funding that will allow the state in the future to produce reports of all UI Recovery Act overpayments, underpayments and recoveries.

3. Continue the use of the Integrity Task Force to develop and implement state specific integrity strategies and reevaluate the data and resources needed to effectively monitor and implement strategies.

4. Maximize available state resources by reviewing and optimizing current cross-match processes to eliminate duplication and prioritize hits for review focusing on cases which provide for a high return on investment such as those with high-dollar overpayment.

Moss Adams LLP

Moss Adams, LLP

ETA'S AND COLORADO'S RESPONSES

The Assistant Secretary for Employment and Training and Colorado generally agreed with our recommendations. In its response, ETA stated it will work with Colorado to ensure future strategies are implemented timely and future systems are capable of monitoring temporary compensation. ETA will ensure Colorado's Integrity Task Force continues to be fully engaged and will work with Colorado to streamline the cross match process to provide for a high return on investment. ETA's response to our draft report is included in its entirety in Appendix D.

Colorado emphasized in its response that unemployment claims had increased over 200 percent during our audit period and Colorado had to redirect resources to pay benefits when due during this national economic crisis. This number does not include EUC and EB claims. Colorado felt our report did not illustrate the complexities of the UI program, particularly at the height of the Great Recession, or credit the state's efforts to perform the essential work of the program and progress made despite budget and expertise constraints while simultaneously meeting program timeliness. Colorado's response is included in its entirety in Appendix E.

Appendices

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Appendix A

Objective, Scope, Methodology, and Criteria

Objective

We conducted an audit to answer the following question:

> How effective was Colorado at detecting, reducing, recovering, and reporting UI improper payments and at implementing ETA National Strategies to reduce improper payments?

Scope

The audit covered the processes and procedures Colorado used to detect, reduce, recover, and report UI improper payments between February 2009 and December 2012. Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Our audit work was performed at the Colorado Department of Labor, Unemployment Insurance Division, in Denver, CO, and ETA's National Office in Washington, DC.

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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

Methodology

To conduct the audit, we interviewed officials in the ETA Office of Unemployment Insurance in Washington, DC, and reviewed relevant ETA policy letters and guidance issued to the states. We obtained information and data specific to Colorado from the ETA National Office and the ETA Regional Office (Region 4). We also interviewed officials at the Colorado Department of Labor, Unemployment Insurance Division, reviewed Colorado state policies and procedures, and performed walkthroughs and testing of certain internal controls. We also performed testing on reports submitted to ETA and on a judgmental selection of recorded overpayments.

In planning and performing our audit, we obtained an understanding Colorado's internal controls considered significant to the audit objective. The testing of Colorado's controls was not determined to be significant to our audit objective. We considered Colorado's internal controls relevant to our audit objective by obtaining an understanding of those controls and assessing risk for the purpose of achieving our objective. The objective of our audit was not to provide assurance on the internal controls; therefore, we did not express an opinion on ETA's or Colorado's internal controls. Our 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

Acronyms and Abbreviations

BAM	Benefit Accuracy Measurement
BPC	Benefit Payment Control
CY	Calendar Year
DOL	U.S. Department of Labor
EB	Extended Benefits
ES	Employment Services
ETA	Employment and Training Administration
ETA 227	ETA *Overpayment, Detection, and Recovery Activities* report
EUC	Emergency Unemployment Compensation
FAC	Federal Additional Compensation
FY	Fiscal Year
NDNH	National Directory of New Hires
OIG	Office of Inspector General
P.L.	Public Law
ROP	Recommended Operating Procedures
SDNH	State Directory of New Hires
SIDES	State Information Data Exchange System
SQSP	State Quality Service Plan
SSN	Social Security Number
TOP	Treasury Offset Program
Treasury	U.S. Department of the Treasury
UI	Unemployment Insurance

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Appendix C

Glossary

Cash – Checks or money orders

Claimant Benefit Offsets – Deductions of claimants' weekly benefit payments that are applied toward their overpayment balances. Colorado law allows 25 percent of a claimant's weekly benefit to be offset in cases of non-fraud overpayments, and 100 percent for fraud overpayments.

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.

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Appendix D

ETA Response to Draft Report

U.S. Department of Labor

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

OCT - 6 2015

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

FROM: PORTIA WU
Assistant Secretary

SUBJECT: Response to the Office of the Inspector General (OIG) Audit Report No. 18-15-008-03-315 – Recovery Act: Effectiveness of Colorado in Detecting and Reducing Unemployment Insurance Improper Payments and Implementation of Employment and Training Administration National Strategies

Thank you for the opportunity to respond to the 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 Colorado to address your recommendations and improve the integrity of its UI program.

It is important to note that the audit period for this report fell in the aftermath of the Great Recession, which was a time of continued high unemployment. All states, including Colorado, experienced unprecedented increases in claims due to the massive numbers of workers who became unemployed. Additionally, the enactment of both the Emergency Unemployment Compensation program in 2008 and the Federal Additional Compensation program in 2009, and subsequent changes to these programs, contributed to increases in the claims workload. Extremely high workloads and the requirement to rapidly implement the complex new programs strained states' capacity. To maintain the statutory requirement to pay benefits "when due", states were forced to reallocate staff and rapidly train and deploy new staff with sub-optimal amounts of training and experience. This created a major challenge for states in addressing improper payments. In addition, the complex and changing requirements of the temporary emergency and additional benefit programs also overloaded state capacity. Many states, like Colorado, struggled with antiquated and inflexible information technology systems that impacted their ability to address program integrity issues. These strains on state resources further hindered their ability to detect, prevent, and recover improper payments.

As noted in your 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. We are pleased that Colorado has implemented all the national strategies as reported in this audit. ETA continues to actively work with all states to identify and implement new and innovative strategies to improve program integrity and bring down the improper payment rate.

To promote development of innovative integrity strategies, ETA has established the national UI Integrity Center of Excellence (Center) through a cooperative agreement with the New York State Department of Labor. The Center is working collaboratively with ETA, a Steering Committee comprised of representatives from five state workforce agencies, and the National Association of State Workforce Agencies (NASWA) to guide the Center's work and ensure its strategies support all states' integrity activities, creating greater efficiency, improving operations, and saving millions of taxpayer dollars. The strategies and tools being developed by the Center will be made available to Colorado and to all states. These strategies 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; locally-adaptable staff training on fraud solutions and integrity practices; highlighting integrity practices that should be included in state UI modernization efforts; and creation of a "model" plan for Benefit Payment Control operations.

I have attached our response to the recommendations in the audit report. If you have questions, please contact Nicholas Lalpuis, Regional Administrator for the Dallas Office, at (972) 850 - 4601.

Attachment

2

Employment and Training Administration (ETA) Response To Office of the Inspector General (OIG) Report No. 18-15-008-03-315 – Recovery Act: Effectiveness of Colorado in Detecting and Reducing Unemployment Insurance Improper Payments and Implementation of Employment and Training Administration National Strategies

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

Recommendations

1. **ETA should work with and encourage Colorado to ensure that any future ETA strategies are implemented timely.**

   Generally, ETA provides recommended timeframes for implementation of new national strategies. However, depending on available resources and priorities, a state may request an extension on the implementation timeframes. Taking into consideration the justification for the extension, ETA may approve/disapprove the timeline provided by the state. Given the various factors that may impact the implementation of a project at the state-level, ETA will work with states to the extent possible to ensure that future strategies are implemented in a timely manner.

2. **ETA should work with and encourage Colorado to enhance the UI claims system to capture activities related to temporary UI funding that will allow the state in the future to produce reports of all UI Recovery Act overpayments, underpayments and recoveries.**

   ETA believes that implementing this recommendation will require commitment of limited state Information Technology resources and may not be particularly useful and cost beneficial given that the Recovery Act programs ended in December 2013 and states are no longer required to report on Recovery Act activities. However, ETA will work closely with states for future enactments of temporary unemployment compensation programs to ensure that state UI systems have the capability to produce necessary reports to monitor state UI overpayments, underpayments and recoveries.

3. **ETA should work with and encourage Colorado to continue the use of the Integrity Task Force to develop and implement state specific integrity strategies and reevaluate the data and resources needed to effectively monitor and implement strategies.**

   As reflected in their FY 2015 State Quality Service Plan (SQSP) submission, Colorado has used the Integrity Task Force to develop and implement state specific integrity strategies. ETA will ensure that Colorado's Integrity Task Force continues to be fully engaged and actions associated with the task force activities are reflected in its FY 2016 SQSP

1

submission. Additionally, ETA will monitor the state's progress in the development and implementation of strategies for preventing, reducing and recovering improper payments.

4. **ETA should work with and encourage Colorado to maximize available state resources by reviewing and optimizing current cross-match processes to eliminate duplication and prioritize hits for review focusing on cases which provide for high return on investment such as those with high-dollar overpayments.**

ETA will work with Colorado to review and optimize its current crossmatch processes to streamline the process and prioritize cases which provide for a high return on investment such as those with high-dollar overpayments. ETA will monitor the progress and provide any technical assistance that Colorado may require for the streamlining of staffing and processes in their Benefit Payment Control (BPC) unit.

Additionally, ETA is working collaboratively with UI Integrity Center of Excellence (Center), a Steering Committee comprised of representatives from five state workforce agencies, and the National Association of State Workforce Agencies to guide the Center's work and ensure its strategies support all states' integrity activities, creating greater efficiency and improving operations. The strategies and tools being developed by the Center, which include the creation of a "model" plan for BPC operations, will be made available to Colorado and to all states.

2

Appendix E

Colorado Response to Draft Report

JOHN HICKENLOOPER
Governor

ELLEN GOLOMBEK
Executive Director

JEFF FITZGERALD
Unemployment Insurance
Director

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Division of Unemployment Insurance
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September 24, 2015

U.S. Department of Labor
Office of Inspector General
200 Constitution Ave., N.W., Room S-5512
Washington, DC 20210

Re: Draft Report No.18-15-008-03-315, Recovery Act: Effectiveness of Colorado in Detecting and Reducing Unemployment Insurance Improper Payments and Implementation of Employment and Training Administration National Strategies

The Colorado Division of Unemployment Insurance (UI) is committed to the integrity of its program and ranks the prevention, detection, and recovery of improperly paid benefits as one of the top three priorities in its administration of the program, alongside timeliness and quality of service delivery. Although Colorado remains above the acceptable level of performance for improper payments, the UI Division has made significant strides since 2009. Since the audit period, Colorado has surpassed acceptable performance levels for detection and recovery and continues to progress toward meeting performance levels in prevention of improper payments.

During the audit period, the initial claims in Colorado had increased over 200 percent from the years prior to the recession. That number does not include Emergency Unemployment Compensation and Extended Benefits claims. Colorado had to direct more resources towards processing these claims and paying benefits when due while balancing integrity efforts at preventing improper payments during this national economic crisis. During the audit period, and to date, numerous steps have been taken to implement best practices identified at both the national level and at the other-state level.

Colorado has made improvements in most areas that cause improper payments. A cross-functional Integrity Task Force continues to investigate ways to decrease the main causes of improper payments and the overall improper-payment rate, as well as to pilot new efforts to make improvements and evaluate the effectiveness of the improvements. In addition, Colorado reduced backlogs in work load and is finding a balance between quality and timeliness with preventing, detecting, and reducing improper payments.

This audit report does not effectively illustrate the nuances and complexities associated with an unemployment insurance program, particularly at the height of the Great Recession, nor does it credit the Colorado Division of Unemployment for the steps taken to perform the essential work of the program and the progress made through the efforts implemented. National best practices in unemployment insurance integrity point towards a multi-pronged approach to address the root problems. When multiple strategies are available for implementation, states may not have the luxury of an extensive, isolated evaluation for the effectiveness of each implemented strategy because of constraints in both budget and expertise while simultaneously meeting timeliness needs of the program. However, a drop in the improper-payment rate was realized; thus a reasonable conclusion can be made that the strategies developed and implemented for such purpose was effective.

Colorado is and will continue to be committed to improving all performance standards, including the quality and integrity of the program. The UI Division will work in earnest to fulfill all the recommendations made in this audit report, as well as continue to seek out new best practices not only to reduce Colorado's improper payments but also to improve the overall effectiveness of the program.

If you have questions, please contact Angela Pfannenstiel at 303-318-9323 or angela.pfannenstiel@state.co.us.

Sincerely,

Ellen Golombek
Executive Director

cc: Gay Gilbert, Administrator, Office of Unemployment Insurance, U.S. Department of Labor
Robert Kenyon, Dallas Regional Office, U.S. Department of Labor
Jeff Fitzgerald, Unemployment Insurance Division Director, Colorado Department of Labor and Employment
Kristin Corash, Deputy Executive Director, Colorado Department of Labor and Employment

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