

U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION



**THE DISTRICT OF COLUMBIA'S DEPARTMENT
OF EMPLOYMENT SERVICES HAS NOT
IMPLEMENTED KEY RECOMMENDATIONS THAT
ADDRESSED CAUSES OF IMPROPER PAYMENTS
AND FRAUD**

Date Issued: September 30, 2014
Report Number: 03-14-003-03-315

BRIEFLY...

Highlights of Report Number 03-14-003-03-315, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

The Assistant Secretary for Employment and Training requested the Office of Inspector General (OIG) to conduct an investigation of allegations concerning fraudulent Unemployment Insurance (UI) benefit payment issues at the District of Columbia (DC) Department of Employment Services (DC DOES). At the time of the request, DC OIG was in the process of planning and conducting reviews to specifically address the allegations regarding UI benefits. Also, in 2012, DC DOES requested the National Association of State Workforce Agencies (NASWA) to perform a comprehensive review of its UI operations. Therefore, we decided to start this audit after DC DOES and NASWA completed their reviews, and to focus on the corrective actions that DC DOES took, or planned to take, to address the reviews' recommendations. Our audit covered 69 recommendations made by DC OIG and NASWA related to DC DOES' processing of UI claims and detecting and recovering improper payments.

WHY OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

Did DC DOES implement corrective actions to address the findings and recommendations identified in the DC OIG evaluations and NASWA analysis regarding problems found in its UI claims process?

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/2014/03-14-003-03-315>.

September 30, 2014

THE DISTRICT OF COLUMBIA'S DEPARTMENT OF EMPLOYMENT SERVICES HAS NOT IMPLEMENTED KEY RECOMMENDATIONS THAT ADDRESSED CAUSES OF IMPROPER PAYMENTS AND FRAUD

WHAT OIG FOUND

DC DOES implemented corrective actions for 62 of the 69 recommendations that covered various program integrity mechanisms, such as use of the State Information Data Exchange System, Treasury Offset Program, and National Directory of New Hires. However, it did not take sufficient action to completely address and implement seven key recommendations, and we were not able to evaluate the corrective actions taken for two recommendations because they were implemented after the completion of our audit work. Corrective actions for these recommendations are needed to address problems found in DC DOES' UI claims process, including its ability to detect and recover improper UI benefit payments, and prevent fraudulent UI claims from occurring.

WHAT OIG RECOMMENDED

We recommended that the Assistant Secretary for Employment and Training require DC DOES to develop and implement policies and procedures to track the status of all audit report recommendations. These policies and procedures should prioritize the corrective actions to be taken, set milestones, and assign responsibility to the appropriate senior DC DOES official to ensure the recommendations are implemented timely and functioning as intended.

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U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210



September 30, 2014

Inspector General's Report

Ms. Portia Y. Wu
Assistant Secretary
for Employment and Training
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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. In order to be eligible for benefits, jobless workers must demonstrate workforce attachment, usually measured by amount of wages and/or weeks of work, and must be able and available for work. The UI program is administered at the state level but is funded by both state and federal monies. The U.S. Department of Labor's (DOL) Employment and Training Administration (ETA) is responsible for monitoring the UI program to ensure the states operate it effectively and efficiently. This oversight includes ensuring the states do not provide unemployment compensation to ineligible recipients and ensuring states detect these overpayments when they do occur. In the District of Columbia (DC), the Department of Employment Services (DC DOES) is responsible for administering the UI program for DC citizens.

In 2011, there were allegations of fraudulent activities at DC DOES that DC DOES staff falsely created UI claims and provided UI benefits to certain individuals to whom they were related; fraudulently charged employer UI taxes for individuals who were not the employer's employees; and charged costs to the UI administrative grants for salary expenses to individuals who were not entitled to receive payments. In 2011, the DC Office of Inspector General (DC OIG) issued two reports of its special evaluation of DC DOES' UI claims process in which it found automated controls designed to prevent improper and fraudulent payments were "turned off."

On October 6, 2011, the DOL Assistant Secretary for Employment and Training requested that the Office of Inspector General (OIG) conduct an investigation of allegations concerning fraudulent UI benefit payment issues at DC DOES. We conducted two audits as a result of this request. Since DC OIG was already planning and conducting reviews specifically addressing the UI benefit allegations, we first conducted an audit of DC DOES' financial management of ETA grants, for which we issued the final report in March 2013. This report covered DC DOES' non-financial administration of the UI program. DOL OIG's Office of Labor Racketeering and Fraud Investigations also initiated criminal investigations of DC government employees who allegedly fraudulently collected UI benefits of \$15,000 or more.

In July 2012, DC OIG issued a follow-up report to its 2011 special evaluations it conducted of DC DOES' UI process. Also, in 2012, DC DOES contracted with the National Association of State Workforce Agencies (NASWA) to analyze and evaluate DC DOES' UI business processes and information technology (IT) structure. The primary aim of the analysis and evaluation was to identify both short and long-term actions DC DOES could take to improve the performance, efficiency, and overall integrity of its UI program.

In fiscal year (FY) 2012, DC DOES also launched a UI fraud probe to uncover DC government employees who received UI benefits while employed. The alleged fraud involved DC government workers who had lost their jobs and legitimately received UI benefits while unemployed, but failed to inform DC DOES when they returned to work. The UI fraud probe identified 90 DC government employees who may have collected UI benefits while employed. NASWA's report to DC DOES contained several recommendations that addressed controls related to this UI fraud probe.

Together, DC OIG and NASWA made a total of 136 recommendations, of which 69 addressed significant internal control deficiencies related to processing UI claims and detecting and recovering improper payments. We conducted an audit to answer the following question:

Did DC DOES implement corrective actions to address the findings and recommendations identified in the DC OIG evaluations and NASWA analysis regarding problems found in its UI claims process?

This audit covered corrective actions that DC DOES took, or planned to take, to address 69 recommendations related to processing UI claims and detecting and recovering improper payments that were made in separate reports by DC OIG and NASWA. We tested corrective actions DC DOES took at the time of our audit to determine their effectiveness in addressing the DC OIG and NASWA recommendations. We interviewed key DC DOES staff, reviewed DC DOES policies and procedures, and evaluated internal controls that DC DOES had in place regarding implementing corrective actions to address the recommendations.

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.

Results

Objective – Did DC DOES implement corrective actions to address the findings and recommendations identified in the DC OIG evaluations and NASWA analysis regarding problems found in its UI claims process?

DC DOES implemented corrective actions for 62 of the 69 recommendations that covered various program integrity mechanisms, such as use of the State Information Data Exchange System (SIDES), Treasury Offset Program (TOP), and National Directory of New Hires (NDNH), but did not take sufficient action to completely address and implement seven key recommendations and we were not able to evaluate the corrective actions taken for two recommendations because they were implemented after the completion of our audit work. Corrective actions for these recommendations are needed to address problems found in DC DOES' UI claims process, including its ability to detect and recover improper UI benefit payments, and prevent fraudulent UI claims from occurring. Specifically, we found that DC DOES had not:

- Addressed the problems that occurred when it disabled automated UI processing controls during the period February 2009 through July 2010. Specifically, DC DOES had not identified the individuals who were not eligible for but received UI benefits, and recouped the UI benefits improperly paid to them.
- Completed and issued written policy for requesting and implementing programming modifications to its UI management information system (MIS) — like those that occurred when the automated controls were disabled — including requirements to document that the DC DOES Director and General Counsel reviewed the programming modifications and forwarded a copy of the modifications to the DC Inspector General.
- Modified the DC DOES system Change Approval form for programming changes to the UI MIS to require the DC DOES Director's and General Counsel's review and approval of the form, as well as the inclusion of all relevant information, such as the reason for a computer system change, the effect of not implementing the change, and a risk assessment.
- Implemented controls to ensure that DC government employees who received UI benefits while employed were identified and appropriate action taken.
- Identified and recovered funds from DC government and private sector employees who improperly collected UI benefits.
- Adequately monitored repayment agreements for compliance.
- Developed a quality assurance mechanism to verify UI claimants' eligibility before UI benefit payments are made.

Although DC DOES officials told us that the Director and UI managers and supervisors monitor and track corrective actions and meet bi-weekly on the corrective actions' status, DC DOES management did not establish milestone dates for completing the recommendations' corrective actions and did not perform any follow-up work to ensure the corrective actions were completed and implemented as designed.

DC DOES completed corrective actions for two of the nine outstanding recommendations after our fieldwork was done; therefore, we were not able to test the effectiveness of the corrective actions. Specifically, DC DOES:

- Contracted with a firm to assist the agency in using vital records, including prisoner data, to perform cross matches with UI claimants and identify possible improper payments.
- Hired a degreed and certified internal auditor who reports to the DC DOES Director.

Until DC DOES completes the corrective actions noted above to completely address the nine key recommendations, the risk of UI benefit improper payments and fraud occurring will continue, and amounts owed to the UI trust fund will not be recovered.

All nine recommendations that have not been completely implemented, or were implemented but we were not able to test the effectiveness of the corrective actions, are discussed in detail below.

A) Three recommendations to address problems that resulted from disabling the automated processing controls were not implemented.

DC OIG issued a report to DC DOES in June 2011¹ of its review of a referral that controls in its District On-Line Compensation System (DOCS) were disabled. All UI applications for benefits are processed using DOCS. The report stated that in January 2011, a DC DOES official from its Office of Unemployment Compensation (OUC) informed DC OIG that a former manager in OUC requested programmers to “turn off” certain indicators or safeguards in DOCS. These safeguards were in place to prevent or stop payment of UI benefits in cases where the applicant stated he/she had refused work, quit a job, was discharged from a job, was not available or able to work, or was not actively seeking work.² The report stated that the controls were disabled for more than 17 months, from February 2009 to July 2010. The DC OIG report contained four recommendations, three of which DC DOES had not implemented:

¹ Management Alert Report (MAR 11-1-001), entitled *Computer Programming Safeguards for Accurate Issuance of Unemployment Benefits Were Inappropriately Turned Off Due to Inadequate Internal Controls*, June 8, 2011

² DC Code 51-109 required that an individual must be available and physically able to work and have a minimum of 2 contacts for new work for each week of employment. DC Code 51-110 provided examples of situations that disqualify an individual from receiving benefits. The examples included voluntarily leaving most recent employment without good cause connected to work, termination due to gross misconduct, or failure to accept suitable work.

1. Determine the number of claims for which issues were not detected when indicators were disabled from February 2009 through July 2010 to ensure that only eligible individuals received unemployment benefits. Further, take necessary actions to recoup unemployment benefits that were not issued in accordance with statutes and regulations while these indicators were disabled. The results of these actions should be reported to the Inspector General when completed.
2. Expeditiously ensure the completion and issuance of a clear and detailed written policy for requesting and implementing programming modifications to its MIS, and formalize a mechanism by which such a policy will be periodically reviewed and updated. The final policy should be reviewed by the DOES General Counsel and the Director, and a copy forwarded to the Inspector General.
3. In collaboration with the MIS vendor, modify the existing DOES System Change Approval form to require the review and approval by the Director and General Counsel of DOES, as well as the inclusion of all relevant information, such as the reason for a computer system change, the effect of not implementing the change, and a risk assessment.

As a result, DC DOES cannot ensure that the \$4 million in benefits paid during this 17-month period were made to only eligible claimants, and it remains at increased risk to unauthorized changes being made to its UI MIS.

For the first recommendation DC DOES officials told us that they performed an investigation and identified claimants who were affected during the time the controls were disabled. DC DOES informed DC OIG that it would contact each claimant and determine their eligibility for UI benefits during the weeks in question, as well as any subsequent weeks. If the claimant did not meet the requirements for payment of UI benefits under the law, DC DOES stated it would establish the ineligibility and overpayment.

To verify the actions DC DOES said it took, we requested supporting documentation for the affected claimants, the action taken to determine their eligibility, and the action taken on those who DC DOES determined were not eligible for UI benefits. DC DOES officials could not provide adequate documentation to support any of the actions they said they had taken. They did provide an electronic spreadsheet containing 2,672 claimants and UI benefits totaling \$3,924,828 that was paid to them.

DC DOES officials told us that to determine claimant eligibility, they mailed each of the identified claimants a notice requesting them to answer questions on work availability and reasons why their employment was terminated. DC DOES officials said that 1,325 claimants responded and they identified 261 claimants who responded in a way that raised questions as to their eligibility for UI benefits. The benefits paid to the 261 claimants totaled \$423,023. DC DOES officials provided copies of Restitution Agreements for 28 claimants who owed a total of \$25,475, but could not explain why they took action on only 28 claimants when they said they had identified 261 as being questionable. Also, DC DOES officials could not provide any documentation to

substantiate the number of possible ineligible claimants and the amount of possible UI benefit overpayments, and could not explain what action, if any, they took on those 1,347 claimants who did not respond to the notices that were mailed to them.

Regarding the second unimplemented recommendation, DC DOES' actions were not complete. On November 21, 2013, DC DOES issued policy number DOES-SEC-002, *Change Control Policy*, which addressed the corrective action in that it provided guidelines covering the life cycle of all information systems, including change management. However, DC DOES officials told us that they did not forward the policy to the DC DOES General Counsel for review and approval because the DC DOES General Counsel does not have the requisite technical knowledge to review and approve technical policies. DC DOES officials also told us they assumed the OIG referenced in the recommendation referred to DOL OIG, not DC OIG. We disagreed with DC DOES' conclusion. We believe the intent of the recommendation was to ensure the policies, including those that were technical, were reviewed for legal compliance by the DC DOES General Counsel, including an independent review by DC OIG.

DC DOES' actions to address the third recommendation were also incomplete. The DOES System Change Approval form contained information regarding the effective date of change, resource effort, lead, summary description, and signatures for UI management, Office of Information Technology (OIT) management, and MIS contractor management. However, the form did not provide for or require review and approval by the DC DOES Director and DC General Council, risk assessment, reason for making change, and the effect of not making the change, as required by the recommendation. The DC OIG report stated that DC DOES' General Council review and approval was important to ensure that programming changes were in compliance with current regulations.

B) Corrective actions for two recommendations related to DC government employees who improperly collected UI benefits while employed were not completely implemented.

DC DOES did not implement corrective actions for two recommendations that addressed fraud that occurred when DC government employees received UI benefits while working for DC government. Although DC DOES implemented a process to identify DC government employees who received UI benefits while working, it did not develop written policies and procedures covering this new process. Written policies and procedures are needed to ensure the process is working as designed and management's directives are followed. Additionally, DC DOES could not demonstrate that it took action on those employees who were found to be simultaneously working and receiving UI benefits. As a result, DC DOES cannot ensure that improperly paid UI benefits to these DC government employees were recovered.

NASWA found that DC DOES did not have a process to prevent DC DOES employees from obtaining UI benefits while working. NASWA recommended that DC DOES:

4. Implement a process to identify DC government employees receiving UI benefits and take action if they are not eligible.
5. Monitor repayment agreements for DC government employees who owe DC DOES amounts related to UI overpayments.

We found that DC DOES implemented a process in FY 2013 to identify all active DC government employees receiving UI benefits, as recommended by NASWA. DC DOES officials explained that it is not always possible to stop the initial UI benefit payment to individuals who may be working for the DC government because of the required time limits in which initial UI benefit payments have to be made. Therefore, DC DOES relies on subsequent reviews to identify and stop such payments, including recovering any improper payments. DC DOES officials told us that the OIT developed an application that compared the entire DC government payroll to its UI recipient data base to create a report called the “watch dog” report. The watch dog report identified employees who were working for DC and simultaneously receiving UI benefits. However, DC DOES did not develop written policies and procedures covering this new process or the action to be taken on those employees who were found to be simultaneously working and receiving UI benefits. Such policies and procedures are needed to ensure the processes for identifying DC government employees who receive UI benefits are performed in a consistent manner, DC DOES employees responsible for performing the processes understand their responsibilities and what is expected of them, and DC DOES management can rely upon them to meet UI program integrity objectives.

We requested copies of the ‘watch dog’ reports for the months October through December 2013, and DC DOES’ action it took on employees shown to be collecting UI benefits. Table 2 reflects the results of the ‘watch dog’ reports:

Table 2: ‘Watch Dog’ Report Results

Report Date	Number of Claimants Collecting UI Benefits While Employed by the DC Government
October 26, 2013	124
November 9, 2013	82
November 23, 2013	76
December 7, 2013	80
December 21, 2013	66

DC DOES could not provide any documentation to support actions taken on claimants identified in the ‘watch dog’ reports. As a result, these people could still be improperly receiving UI benefits. We did not perform work to determine if any of these claimants improperly received UI benefits.

Additionally, DC DOES could not demonstrate that it took appropriate action on individuals identified through its 2012 fraud probe to determine if these employees fraudulently applied for and/or received UI benefit payments while employed by the DC government. We reviewed documentation of DC DOES’ collection efforts as a result of its 2012 UI fraud probe. DC DOES provided repayment schedules for DC government

employees who improperly received UI benefit payments. Our review of the documentation found the narrative portion of the overpayment case status did not reconcile to information on a separate repayment schedule. We found at least 20 instances in which claimants names appeared as having repayment case status but were not listed on the repayment schedule, or vice versa. Of these 20, there were at least 10 instances where no information was given, such as balance owed or date of payment received for the claimant. We also found long time lags between when the overpayment was established and when the first payment was received. For example, in the narrative portions of an overpayment case status, we found the case was settled and a garnishment request made on September 24, 2012. However, the repayment schedule for this case showed that the first payment of \$89 dollars was not made until May 3, 2013, 8 months later. This raises questions as to the effectiveness of DC DOES' monitoring of the repayment agreements.

We concluded that the repayment schedules provided by DC DOES were not reliable, and therefore, UI benefit payments improperly paid to claimants were not always identified and recovered.

C) Repayment agreements were not adequately monitored for compliance.

DC DOES did not implement corrective action for a recommendation that addressed monitoring of all repayment agreements for compliance. DC DOES had not yet developed policies and procedures for monitoring all repayment agreements and could not provide sufficient documentation to demonstrate that the monitoring efforts it did perform were effective in ensuring claimants complied with their repayment agreements.

NASWA reported that DC DOES monitored only the repayment agreements for DC government employees on a regular basis, and subjected only DC government employees to wage garnishment. NASWA recommended that DC DOES:

6. Monitor for compliance all repayment agreements, including employers who owed DC DOES for underpayment of UI wage taxes.

DC DOES officials told us they maintain a database on all overpayments and UI wage tax underpayments, which contains information on the established repayment amount and its current balance. DC DOES had established \$5 million in repayment agreements between individuals and employers. However, it did not have policies and procedures in place for monitoring repayment agreements. OUC planned to develop such policies and procedures to ensure debts are collected in a uniform manner. DC DOES officials also stated that they recently established a collections unit consisting of a staff of seven that is responsible for monitoring repayment agreements for compliance.

We confirmed through interviews that DC DOES had established a collections unit to monitor repayment agreements. However, our comparison of the overpayment database and documentation that DC DOES provided as support identified discrepancies that led us to question the reliability of the database and the adequacy of DC DOES' monitoring.

For example, DC DOES had a repayment agreement with a claimant that started on May 19, 2012, for \$8,567. The agreement called for monthly payments of \$200. As of December 17, 2013, the time of our audit, the balance should have been \$4,767.³ According to DC DOES' records, the balance as of December 17, 2013, was \$8,457, and the claimant was current and compliant with the repayment agreement. However, according to our calculation the claimant had paid only \$110 instead of \$3,800 as per the repayment agreement. In another example, DC DOES had a repayment agreement with an employer that started on March 21, 2007, for \$26,523. The agreement called for monthly payment of \$1,500. As such, by December 17, 2013, the balance should have been paid in full. However, according to DC DOES' records, the balance as of December 17, 2013, was \$13,523 and the claimant was current and compliant with the repayment agreement. DC DOES' status report of these repayment agreements showed the claimant was current and complying with the repayment agreements.

Based on our analysis, we do not place any confidence on DC DOES' monitoring of all repayment agreements to ensure they are in compliance

D) A quality assurance mechanism to verify UI claimants' eligibility before the payment of UI benefits was not developed.

DC DOES did not implement corrective action for a recommendation to create a quality assurance process to ensure all required verifications, such as cross matches with SIDES and NDNH, were performed of UI claimants before benefit payments were made. As a result, DC DOES is at significant risk of paying UI benefits to ineligible and high-risk claimants.

In its July 2012 report,⁴ DC OIG found numerous deficiencies in DC DOES' UI claims processing and made 18 recommendations, 17 of which DC DOES implemented. The recommendation not implemented was that DC DOES:

7. Create a quality assurance process as part of the UI eligibility determination.

DC DOES officials told us that in response to the remaining recommendation to create a quality assurance process, they made technical enhancements to DOCS and formed a Claims Validation Unit. We confirmed that technical enhancements such as cross-matches with SIDES and NDNH had been made, but DC DOES could not demonstrate that the Claims Validation Unit it formed was operational. DC DOES provided the unit's mission statement and a list of employees, but it did not have policies and procedures specific to the unit, and the unit was not included on DC DOES' organization chart. We interviewed two of the unit's six employees who told us they performed UI claims validation functions but did not document their work. DC DOES did not have any reports of the unit's workload or production. Without established policies, procedures, and metrics for this new unit, DC DOES could not measure the adequacy

³ \$8,567 - \$3,800 (19 months x \$200 month)

⁴ Report of Special Evaluation (12-I-0046CF), entitled District of Columbia, Department of Employment Services, Office of Unemployment Compensation, Part II, July 2012

of the unit's performance in ensuring UI claimants were eligible for UI benefits before receiving them.

E) DC DOES had not executed a contract with a firm to conduct vital records cross matches.

DC DOES implemented corrective actions for a recommendation in the NASWA report that addressed performing matches against vital records to detect UI claims filed using Social Security Numbers (SSN) of deceased individuals. However, the corrective action was taken after we completed our fieldwork and we were not able to determine its effectiveness.

NASWA recommended that in order to reduce fraud, DC DOES needed to:

8. Gain real-time access to vital records to ensure a claimant's social security information was valid and did not belong to a deceased individual.

DC DOES procured a contractor to provide access to vital records to assist DC DOES in certifying UI claims. However, because the contract was executed after our fieldwork, we were not able to evaluate its effectiveness.

F) An Internal Auditor position reporting to the Director had not been filled.

NASWA recommended that to prevent the type of integrity issues that occurred in the recent past, DC DOES needed to:

9. Establish an Internal Audit position and/or office, with a degreed, certified individual who reports to the Director.

We found that DC DOES established a compliance unit and hired a degreed and certified internal auditor to lead this unit. The internal auditor reports to the Director. However, the internal auditor was hired after we completed our fieldwork; consequently we were not able to evaluate adequacy of the corrective action taken.

In summary, it is important that DC DOES complete all actions required to adequately address the nine outstanding recommendations to prevent or mitigate the potential for fraud in its unemployment system. Our review found that DC DOES did not ensure that the appropriate individuals were assigned to each action item, milestones for completion were established, and progress was monitored until all actions were completed. Such a system would help DC DOES ensure it completes the remaining actions on these recommendations and that it promptly and fully addresses any future recommendations to the agency.

Recommendations

We recommend that the Assistant Secretary for Employment and Training require DC DOES to:

1. Develop and implement policies and procedures to track the status of all audit report recommendations. These policies and procedures should prioritize the corrective actions to be taken, set milestones, and assign responsibility to the appropriate senior DC DOES official to ensure the recommendations are implemented timely and functioning as intended.
2. Regarding the first recommendation cited in Results A, determine to the extent possible, the number of claims for which issues were not detected when indicators were disabled from February 2009 through July 2010 to ensure that only eligible individuals received unemployment benefits and take necessary actions to recoup unemployment benefits that were improperly issued.
3. Complete corrective actions related to the remaining eight recommendations made in the DC OIG and NASWA reports that we found were either not fully implemented or were implemented after our fieldwork.

DC DOES Response

DC DOES officials agreed with the report recommendations and stated that they have recently created a Program Performance Monitoring unit to improve status tracking of all audit report recommendations. However, DC DOES did not agree with the report's Results A and D. For Results A, DC DOES officials stated that their Benefit Payment Control unit identified, investigated, established, and recovered a material number of improper payments and can confidently estimate that the aggregate amount of improper payments will be approximately \$500,000. Concerning the DOES-SEC-002, *Change Control Policy*, DC DOES officials stated it is their position that the DC DOES General Counsel does not have the requisite technical knowledge to review and approve technical policies and forwarding DC DOES policy to DC OIG is not standard operating procedure. Finally, concerning the DOES System Change Approval form, DC DOES officials stated that they implemented an automated approval workflow solution that addressed the DC OIG's recommendation.

For Results D, DC DOES officials stated that in addition to developing policies and procedures for quality assurance verifications, they have fully staffed the Claims Validation Unit and it is fully operational.

OIG Conclusion

DC DOES' response did not change the audit results. For Results A, since the information in DC DOES' response was provided after our audit work, we could not

substantiate its accuracy and validity. Concerning DOES-SEC-002, *Change Control Policy*, it is our position that DC OIG required DC DOES' General Council's review and approval to ensure that programming changes complied with regulations. Regarding the DOES System Change Approval form, our audit report states that DC DOES implemented use of the form but it was missing some of the elements required by DC OIG's recommendation — review and approval by the DC DOES Director and DC General Council, risk assessment, reason for making change, and the effect of not making the change.

For Results D, the audit report states that DC DOES' created and staffed a Claims Validation Unit; however, DC DOES' response did not provide policies and procedures specific to the unit and metrics for this new unit that are needed to measure the adequacy of its performance.

We appreciate the cooperation and courtesies that ETA and DC DOES officials extended to the OIG during this audit. OIG personnel who made major contributions to this report are listed in Appendix D.



Elliot P. Lewis
Assistant Inspector General
for Audit

Exhibit

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List of Reports and 69 Recommendations Reviewed

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
Report of Special Evaluation of the DC DOES Unemployment Compensation Benefits Division, DC OIG Report No. OIG 11-I-0038CF, February 2011			
1	Ensure the completion and issuance of a comprehensive policies and procedures manual for processing unemployment claims, and formalize a mechanism by which it will be periodically reviewed and updated.	Developed standard operating procedures (SOP) and distributed them to OUC staff in FY 2011 and 2012. Each policy identified the effective date and review date.	Implemented
2	Provide structured, formal classroom training on processing initial claims to its claims examiners and adjudicators. Also provide adequate on-the-job training on processing initial claims to its claims examiners and adjudicators.	OUC supervisory staff and DOL provided necessary training to both claims examiners and adjudicators.	Implemented
3	Identify and implement strategies to increase employee retention in senior positions. Also implement a policy requiring DOES Human Resource (HR) employees to conduct formal exit interviews upon an employee's departure, or consider routinely requesting the results of the exit interviews from DC HR.	Developed policies that require interviews to be performed on departing employees. Interviews are designed to identify workplace, organizational or human resource factors that contributed to an employee's decision to leave the agency.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
4	Identify and implement strategies to ensure that there is an ongoing quality assurance and performance monitoring program and that progressive disciplinary actions are taken as needed in accordance with the District Personnel Manual.	Established a quality assurance group and it performed data validation within UI program. Made case aging and workloads available to employees and routinely send to staff as a means of monitoring performance.	Implemented
5	Implement enhancements to the MIS to routinely produce real time reports of aggregate division and individual employee performance data.	Made enhancements to the MIS which included a comprehensive review and validation of federal reports, a refinement of existing bi-weekly internal reports, and the development of an intranet reporting system.	Implemented
DC DOES, Office of Employment Compensation – Part II, Report of Special Evaluation, DC OIG Report No. OIG 12-I-0046CF, July 2012			
6	Implement strategies to educate employers and to enhance the Separation Form to improve employers' responses to requests for separation information.	Published updated Employer Handbook on May 13, 2013, which describes the process on obtaining separation information.	Implemented
7	Gain access to and use SIDES.	Implemented access to and use of SIDES on September 30, 2012.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
8	Increase training to ensure adjudicators are adequately skilled and knowledgeable. Ensure training topics include areas identified as weaknesses from such quality assurance mechanisms as supervisory case reviews.	<p>In October 2012, instituted monthly training for all OUC staff to ensure that DOL performance standards were communicated to staff.</p> <p>OUC supervisory staff and DOL provided necessary training to both claims examiners and adjudicators.</p> <p>Made case aging and workload reports available to employees and are routinely sent to staff as a means of monitoring performance.</p>	Implemented
9	Clarify with the U.S. Department of Health and Human Services (HHS) any restrictions on documenting and retaining the information transmitted to NDNH as well as the results of all NDNH verifications in a centralized computer system, including the date and result of the verification for each claimant.	Clarified HHS' restriction on documenting and retaining results of NDNH verifications. This is in compliance with HHS directives.	Implemented
10	Conduct NDNH verifications for all previous unemployment claims dating back as far as HHS indicates is possible.	Conducted a 2-year reach-back of NDNH records.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
11	Comply with DOL recommendations regarding implementing internal controls.	Resolved the outstanding items of concern that were identified by DOL with the submission and approval of final SOPs. In July 2014, DOL will conduct an onsite review of DC DOES processes to verify the implementation of its Corrective Action Plans.	Implementation will be verified in DOL's onsite review.
12	Implement a system to automatically check whether claimants have claims in other states when they file a new claim, regardless of how the claim is filed, and document these verifications. If DOES is unable to automate these verifications, they should ensure that employees consistently conduct and document these verifications for all claims	Implemented the use of the automated Interstate Connection Network to identify and stop multiple claims from being filed within the same benefit year.	Implemented
13	Electronically record the results of all verifications conducted to determine whether claimants are already receiving UI benefits by DC DOES at the time of filing new claims.	Implemented automated safeguards in the benefit payment system to prevent concurrent payments on claims filed with the same SSN with overlapping benefit years.	Implemented
14	Review computer safeguards to ensure that it does not allow claimants to receive payments from multiple UI claims simultaneously by DC DOES.	See corrective action in number 13.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
15	Explore automated mechanisms that would reduce claims filed in error for reasons such as already having an open UI claim, entering incorrect SSN, and not earning wages in DC.	Safeguards existed to prevent concurrent payments on claims with overlapping benefit years. Took additional measures and attached names and SSNs to the wage record file to reduce the possibility that claims filed under the incorrect SSNs will be erroneously paid. Put in place verifications to ensure claimant had earned wages within DC.	Implemented
16	Ensure that a supervisor regularly reviews a sample of claims with alien registration numbers to ensure that Systematic Alien Verification for Entitlements (SAVE) verifications are conducted and documented properly and timely.	There are regular supervisory reviews of the alien verification process. Reports are generated daily to show exceptions and outstanding claims that need to be verified through the SAVE program.	Implemented
17	Ensure that OUC has detailed written procedures for conducting and documenting SAVE verifications.	Completed the SOP for SAVE in August 2012.	Implemented
18	Ensure that OUC has adequate coverage for SAVE verifications when the regularly assigned employee is absent	Included the SAVE process in the claims validation unit which will ensure adequate coverage for SAVE verifications.	Implemented
19	DC DOES work with the Department of Human Services to fully automate SAVE verifications and documentation of these verifications.	Incorporated the SAVE application in the initial claims processing cycle, which is automated.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
20	Ensure that SOPs are finalized and implemented expeditiously for adjudications and all other unemployment claims processes.	Finalized and implemented the SOPs and distributed them to OUC staff in 2012.	Implemented
21	Implement verifications of UI benefits with public assistance and workers' compensation benefits.	Developed an internal check with the workers' compensation unit to conduct an investigation whenever a claimant receives both unemployment and workers' compensation.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
22	Implement a quality assurance mechanism to ensure that they conduct and record all required verifications prior to issuing unemployment benefits.	<p>Made continuous improvements in the OUC processes.</p> <p>Changed the structure of Benefits unit in January 2013 to include a claims validation unit responsible for wage, alien, SAVE, SSA, NDNH, and SIDES validations prior to issuance of any benefits.</p> <p>Stabilized current systems while exploring methods to modernize tax and benefits processes.</p> <p>Made technical enhancements to the UI computer systems such as SSN and NDNH verifications.</p> <p>Increased the reliability of the current computer systems by eliminating some manual processes for claims examiners, where feasible, such as automating the issuances of letters and scanning all incoming faxes to email.</p>	Not Implemented. See result D

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
23	Assess current verification processes for unemployment claims to identify and implement ways to further use automation to conduct and record verifications.	DOES has refined usage of SIDES, NDNH, and claimant reported or collected data in conjunction with new business analytics procedures to increase the timeliness and validity of processed claims.	Implemented
Computer Programming Safeguards for Accurate Issuance of Unemployment Benefits Were Inappropriately Turned Off due to Inadequate Internal Controls, Management Alert Report, DC OIG Report No. MAR11-1-001, July 2011			
24	Expediently ensure the completion and issuance of a clear and detailed written policy for requesting and implementing programming modifications to its MIS, and formalize a mechanism by which such a policy will be periodically reviewed and updated. The final policy should be reviewed by the DOES General Counsel and Director and copy forwarded to the Inspector General.	Implemented a formal change management policy and accompanying procedures.	Not Implemented. See Result A
25	In collaboration with the MIS vendor, modify the existing DOES System Change Approval form to require the review and approval by the Director and General Counsel of DOES, as well as the inclusion of all relevant information, such as the reason for a computer system change, the effect of not implementing the change, and a risk assessment.	Modified the policy to align with best practices and practicability.	Not Implemented. See result A

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
26	<p>Determine the number of claims for which issues were not detected when indicators were disabled from, February 2009 through July 2010 to ensure that only eligible individuals received unemployment benefits.</p> <p>Take necessary actions to recoup unemployment benefits that were not issued in accordance with status and regulations while these indicators were disabled.</p>	<p>Queried the identified population to determine the legitimacy of imposing additional sanctions.</p> <p>Issued determinations to all applicable claimants.</p>	<p>Not Implemented. See result A</p>
27	<p>Conduct a comprehensive audit of OUC's computer systems to ensure that there are no existing programming mechanisms or internal control weaknesses that could allow unemployment benefits to be issued in violation of current laws and regulations.</p>	<p>Procured a contract with NASWA to review the computer systems and internal processes within OUC.</p>	<p>Implemented</p>
<p>National Association of State Workforce Agencies' (NASWA): DC DOES Business Process Review and UI IT Modernization, dated September 10, 2012</p>			
28	<p>To detect and prevent internal fraud and integrity issues, DC DOES must establish a working unit that is responsible for routine monitoring of UI activities and conducting special investigations and audits in accordance with nationally recognized Internal Audit standards and procedures. It should be independent of all Agency programs and report to the Director.</p>	<p>Created a quality assurance unit in 2013 that is responsible for routine monitoring of UI activities and special investigations. The Quality Assurance supervisor reports to DC DOES UI Chief of Benefits, who in turn reports to the Associate Director of DC DOES UI program.</p>	<p>Implemented</p>

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
29	Identify areas where only one individual is responsible and proficient in performing the particular duty and establish a trained back up for those areas.	In 2011, identified several single points of failure in OUC. Continued efforts to ensure cross-functioning tasks and proficiencies to avoid these single points of failure within OUC processes.	Implemented
30	Ensure that the individuals who manage the programs and conduct the reviews are competent in the subject operations and they must be objective. At the point of discovery, the review units need to communicate all potentially systemic issues up the chain of command rather than only as a component of periodic reporting to DOL.	In 2012, instituted monthly training for all OUC staff to ensure that DOL performance standards were communicated to staff. Implemented a comprehensive MIS for managers to document systematic issues that would affect the accurate and timely processing of claims and employer tax reports.	Implemented
31	DC DOES' working units each carefully examine all standardized correspondence for opportunities in which written messaging might be consolidated or delivered through another medium	Units regularly review correspondences and frequently use alternative methods of communication such email, robocall, and web messaging.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
32	When a new employer is notified by the Status Unit of its new account number and rate, it should receive an Employer Handbook or be directed to the location of an online printable style version of the same.	Published the Employer Handbook May 13, 2013. The status unit revised its correspondence to new employers to include a link to the Employer Handbook in the new employer correspondence.	Implemented
33	Status Unit staff and Field Unit staff should be retrained regarding liability determination guidelines and statutory requirements, be required to utilize the Status Determination Checklist and strictly adhere to the applicable law and policy.	During FY 2012, DOL provided training to Accounting, Status and Field Audit Staff. Implemented the use of the Status Determination Checklist.	Implemented
34	As DC DOES is informed of potentially liable employers by either the 940 or quarterly report of newly assigned Federal Employer Identification Numbers (FEIN), it should promptly assign the "leads" to a Field Examiner for direct employer contacts and investigation.	Implemented a process to follow up on IRS leads of newly assigned FEINs to ensure DC liability is investigated.	Implemented
35	Utilize the installed State Unemployment Tax Act (SUTA) Dumping software. Although the version currently installed is the most recent to be released to the states, for enhanced security and supportability DC DOES should consider upgrading v3.0 upon its release.	On September 30, 2012, installed and implemented the use of the SUTA Dumping Software v3.0 on September 30, 2012	Implemented
36	Explore the usefulness of the SUTA Dumping software to detect predecessor/successor relationships that were not detected at the time the successor account was established.	Established the use of SUTA dumping software to detect predecessor/successor relationships.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
37	Hire additional claimant representatives in the Call Center and cease diversion of claims examiners as backup so that diverting staff from one key function to another does not diminish the quality in both areas, foster backlogs in non-monetary; and impede achievement of acceptable levels of performance.	In 2013, ceased diversion of claims examiners as back up and increased Call Center Staff by seven employees.	Implemented
38	Require Claims Takers to review 18 month employment histories for each claimant, and recognize and account for missing employers, multistate/federal/military employment.	Complied with current DC Code.	Implemented
39	Include claimant's name on the benefit section wage file.	Included claimant name and the full wage amounts in wage files.	Implemented
40	Assign more than one individual to the function of scanning and attaching documents to the appropriate records for adjudication.	Provided Benefits staff the ability to scan and retrieve documents from their workstation.	Implemented
41	Develop a standardized training curriculum for the Benefits Claim Intake process that includes a foundational knowledge about the UI program, hands-on training with DC DOES systems, performance expectations, time management skills, reporting of time to the correct function area, and security/integrity responsibilities.	<p>In FY 2012, conducted a 5-day adjudication claims examiner training for new staff, including UI claims and hands-on training of OUC systems.</p> <p>Implemented a requirement that all adjudicators take time management courses.</p> <p>Secured an expert and other resources to train DC DOES and Office of the Chief Financial Officer (OCFO) staff to ensure proper reporting of time.</p>	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
42	Update Combined Wage Claim (CWC) on-line handbook and CWC option letter.	Updated the CWC online handbook and options letter.	Implemented
43	After the call center claims taker views the WIC2 screen, a hard copy screen shot should be created and saved with the claim record. These hard copies should be collected by the manager and delivered to the IPC on a daily basis.	Implemented the requirement that a screen shot of the WIC2 screen is saved with the claim record to help with the backdate process.	Implemented
44	Consider recruiting and training additional claims examiners to be dedicated to only claims adjudication.	In 2012, hired additional staff to support claims adjudication.	Implemented
45	Conduct a historical review of non-monetary workload to determine the minimum number of claims examiners required to accomplish that work in compliance with federally mandated timeliness and quality standards.	Reviewed the non-monetary workload and hired/assigned six additional staff to support the Benefits operations.	Implemented
46	Supervisors can monitor the status of cases through the non-monetary determination system and the examiner's entries throughout the course of the fact-finding process. All examiners must be required to keep current the on-line status and actions relevant to cases.	Supervisors monitor pending cases and workloads reports daily. Made case aging and workload reports available to employees and routinely sent them to staff as a means of monitoring performance.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
47	Develop a standardized training curriculum for the Benefits Adjudication process that includes a foundational knowledge about the UI program, hands-on-training with DC DOES systems, performance expectations, time management skills, reporting of time to the correct functional area, and security/integrity responsibilities.	<p>Conducted a five-day full-adjudication claims examiner training in 2012 for new staff, including UI claims and hands-on training of OUC systems.</p> <p>Also, all adjudicators are now required to take time management courses.</p> <p>Finally, secured an expert and other resources to train DOES and OCFO staff to ensure proper reporting of time.</p>	Implemented
48	Immediately generate a 7-day notice to the claimant when the new hire cross match is performed.	Implemented a requirement that a notice is sent to claimants when a possible conflict is discovered during the new hire cross match. The letter is sent 7 days after the agency gains knowledge that the claimant has returned to work.	Implemented
49	Determine standard repayment schedule based on the amount of the overpayment.	Implemented a standard 24-month repayment plan for overpayment recovery.	Implemented
50	Utilize a stop code on SSNs of all DC DOES employees.	OIT developed an application to search for employee SSNs as part of its security protocol.	Not Implemented. See Result B

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
51	Monitor all repayment agreements for compliance.	This activity took place at time of review. The Benefit Payment Control Unit monitored pay agreements on a quarterly basis for compliance.	Not Implemented. See Result C
52	To assure continued delivery of UC services during disasters, develop contingency plans that address DC DOES OIT and UC program requirements. During and after development, documentation and testing of these plans, coordinate with Office of the Chief Technology Officer (OCTO) to assure complete coverage of contingency response requirements.	In 2012, issued a Continuity of Operations Plan (COOP). Will continue to review and update the COOP.	Implemented
53	To assure that every account is properly assessed during the semi-annual review, each account needs to be reviewed by the account holders' supervisor or other management staff who can determine whether the account is still needed and that appropriate privileges are associated with each active account.	In accordance with DC DOES Access control Policy, the Information Security Officer leads efforts by coordinating between Office of Information Technology, HR, OUC and OCTO, a semi-annual system access review exercise. Review looks at all current users to identify privilege level and if level needs to be modified.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
54	To assure that awareness training is completed by all staff at the time of employment and annually thereafter, adopts a formal documented training program that includes tracking of the completion (initial and annual) of all personnel.	Developed a formal training program for all employees. All training is documented and maintained by the DOES HR Office.	Implemented
55	Establish an Internal Auditor position and or office with a degreed, certified individual in the lead who reports to the Director.	In the process of hiring a lead internal auditor.	Implemented. See Result F
56	Develop lead workers for the Call Center with the knowledge and experience to respond to questions and problems as they occur.	Hired two individuals to serve as leads in the Call Center. These individuals have the knowledge and experience to respond to questions.	Implemented
57	Call Center volume varies seasonally and during certain times of the week. Develop a method of responding to workload fluctuations rather than diversion of staff from one key task to another.	Increased Call Center Staff by seven employees. These employees were hired to cease the diversion of staff from one key task to another.	Implemented
58	Train all adjudicators to adjudicate all issues so that case scheduling is not complicated, claims examiner productivity is not limited, supervisor flexibility is not diminished, and achievement of acceptable levels of performance is not impeded.	OUC conducts monthly training for staff to ensure all adjudicators can work on all claims.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
59	<p>There are four different levels of claims examiners and productivity is dictated by pay grade. Lower grade examiners adjudicate fewer cases than those with higher grades. This underutilizes adjudicators who are capable of greater productivity. Monitor claims examiner performance and ensure their automatic promotions are consistent with their ability. Demote claims examiners not adjudicating at levels consistent with their pay grade. Work with HR to create three adjudication levels: an entry level probationary, a standard adjudicator, and a supervisor level. Ensure that all Adjudicators past the probationary level perform at the same level.</p>	<p>Employees in the same Career Service level are expected to perform at the same level of proficiency. Worked with Human Resource to effectively manage staff performance. DC DOES holds all adjudicators accountable for their work. Employees are promoted and demoted based on their work. All adjudicators past the probationary level are expected to perform at the same level.</p>	Implemented
60	<p>When the Interactive Voice Response (IVR) detects a non-preferred response during the certification process, offer the claimant the opportunity to immediately correct the error via the IVR if he/she responded incorrectly.</p>	<p>The IVR has always allowed claimants to modify their responses prior to disconnecting from the IVR system.</p> <p>Claimants are given two opportunities to modify their responses. On the third attempt to modify a response the claimant is routed to a Call Center Representative.</p>	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
61	Develop a comprehensive fraud prevention program including claimant and employer outreach.	In FY 2012, launched a probe to identify and recover funds from DC government employees who illegally collected UI benefits. Also designed and implemented the “Deter, Detect, Collect” anti-fraud marketing campaign to educate the public about UI fraud.	Not Implemented. See Result B
62	Perform a match against vital records to detect claims filed against deceased SSNs.	Working to procure a vendor to receive vital records and prison information.	Implemented. See Result E
63	Implement the \$100 fraud penalty for all claimants with a new fraud overpayment.	Adhered to ETA’s Program Letter 02-12. Section 4 of the Program Letter states a minimum 15 percent penalty will be assessed on UI improper payments due to fraud.	Implemented
64	New Hire data should be used to detect claimants who have returned to work and now have some ability to repay.	Sent a notice to claimants when a possible conflict is discovered during the NDNH cross-match audit. Claimants are given seven calendar days to respond.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
65	A System Security Plan (SSP) provides a central point of reference for documenting and managing an organization's security controls. Develop a SSP for DC DOES IT systems to enhance the management of the DC DOES IT systems security program that supports the UI program.	Created and approved a collection of security driven policies to govern the integrity of DC DOES IT systems. Compiled these policies into a plan that provides a center point of reference for managing the security controls.	Implemented
66	To assure that all recommended policies and procedures associated with a National Institute of Standards and Technology (NIST) compliant security program are in place, enhance existing documentation to cover all security areas and provide full coverage of all NIST Security Families.	In 2013 updated policy 600.20.1 which is for the acceptable and secure use of all IT used to process or store information for business needs.	Implemented
67	To assure that consistent and adequate audit procedures are in place, review documented practices. Also, develop audit policies and procedures for DOES OIT and for the unemployment compensation applications.	Two external audits are conducted each year to test the integrity and accuracy of the benefits and tax operations. The Integrity Task force and the new quality assurance unit also performed standard DOL audits on the Tax and Benefits systems to ensure the programs meet the quality and performance standards established by DOL.	Implemented

No.	Recommendation	DC DOES Corrective Action	OIG Conclusion
68	Risk assessments have the potential to identify potential risks associated with organizational vulnerabilities before they are exploited, allowing remediation measures to be adopted proactively. Adopt a risk assessment program for DC DOES OIT to provide risk management capabilities.	Conducted regular audits internally by program, including internal user acceptance testing. Developed a risk assessment program to manage and mitigate perceived or detected system defects.	Implemented
69	OCTO currently provides Enterprise level security services that support multiple DC agencies. Work with OCTO to establish such services as Common Controls.	Regularly worked with the OCTO on establishing and refining Common Controls. These controls included physical security associated with the Data center, Firewalls protecting the networks and patching activities associated with the servers maintained in the data center.	Implemented

Appendices

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Appendix A

Objective, Scope, Methodology, and Criteria

Objective

Our audit objective was to answer the following question:

Did DC DOES implement corrective actions to address the findings and recommendations identified in the DC OIG evaluations and NASWA analysis regarding problems found in its UI claims process?

Scope

The audit covered corrective actions that DC DOES took, or planned to take, to address 69 recommendations made in separate reports issued by the DC OIG and NASWA between February 2011, and September 2012. Although these reports contained a total of 136 recommendations, our audit focused on the 69 recommendations addressing significant deficiencies related to the UI claims processing, detecting improper payments, and recovering UI overpayments.

The four reports were:

1. February 2011, DC OIG issued Report of Special Evaluation of the Department of Employment Services' Office of Unemployment Compensation Benefits Division (OIG NO. 11-I-0038CF)
2. June 8, 2011, DC OIG issued Management Alert Report (MAR), Computer Programming Safeguards for Accurate Issuance of Unemployment Benefits Were Inappropriately Turned Off Due to Inadequate Internal Controls (MAR 11-1-001)
3. July 13, 2012, DC OIG issued Report Special Evaluation of the Department of Employment Services' Office of Unemployment Compensation-Part II (OIG No. 12-I-0046CF)
4. September 10, 2012, NASWA issued report District of Columbia DOES, Business Process Review and UI IT Modernization

We conducted our audit work at DC DOES' main office and ETA's National Office, both located in Washington, DC; and the ETA regional office in Philadelphia, PA.

We considered the internal control elements of the control environment, risk assessment, control activities, information and communication, and monitoring during our planning and substantive audit phases.

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

We tested corrective actions DC DOES took at the time of our audit to determine their effectiveness in addressing the DC OIG and NASWA recommendations. To assess DC DOES' internal controls over managing the DC OIG and NASWA reports' recommendations, we interviewed key DC DOES staff and reviewed DC DOES' policies and procedures. We evaluated the internal controls that DC DOES had in place regarding implementing corrective actions to address recommendations as of January 2014. We reviewed all 136 recommendations and identified those recommendations that addressed significant deficiencies related to our audit objective. Table 3 lists the DC OIG and NASWA reports, the number of recommendation in each report and the number of recommendations we tested for implementation.

Table 3 – DC OIG and NASWA Reports, Recommendation, and Recommendations Tested for Implementation

Report	Recommendations	Recommendations Tested for Implementation
DC OIG – Report of Special Evaluation of the Department of Employment Services' Office of Unemployment Compensation Benefits Division. February 2011, Report No. 11-I-0038CF	5	5
DC OIG – Management Alert Report, Computer Programming Safeguards for Accurate Issuance of Unemployment Benefits Were Inappropriately Turned Off Due to Inadequate Internal Controls. June 2011, Report No. MAR 11-1-001	4	4
DC OIG – Special Evaluation of the Department of Employment Services' Office of Unemployment Compensation-Part II. July 2011, Report No. 12-I-0046CF	19	18

Report	Recommendations	Recommendations Tested for Implementation
NASWA – DC DOES, Business Process Review and UI IT Modernization September 2012	108	42
Totals	136	69

In planning and performing our audit, we considered DC DOES' internal controls that were relevant to our audit objective by obtaining an understanding of these controls, and assessing control risk for the purposes 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 the internal controls as a whole. Our consideration of DC DOES' internal controls relevant to our audit objective would not necessarily disclose all matters that might be reportable conditions. Because of the inherent limitations on internal controls, noncompliance may nevertheless occur and not be detected.

Criteria

Employment and Training Handbook No. 382, Handbook for Measuring UI Lower Authority Appeals Quality, March 2011

Internal Control Integrated Framework, May 1994

Office of Management and Budget Circular A-123, Management' Responsibility for Internal Control, December 2004

DC Codes 51-109, Eligibility for Benefits and 51-110, Disqualification for Benefits

DC DOES Policies and Procedures

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Appendix B**Acronyms**

COOP	Continuity of Operations Plan
CWC	Combined Wage Claim
DC	District of Columbia
DC DOES	District of Columbia Department of Employment Services
DC OIG	District of Columbia Office of Inspector General
DOCS	District On-Line Compensation System
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FEIN	Federal Employer Identification Number
FY	Fiscal Year
HHS	U.S. Department of Health and Human Services
HR	Human Resources
IT	Information Technology
IVR	Interactive Voice Response
MAR	Management Alert Report
MIS	Management Information System
NASWA	National Association of State Workforce Agencies
NDNH	New Directory of New Hires
NIST	National Institute of Standards and Technology
OCFO	Office of the Chief Financial Officer
OCTO	Office of the Chief Technology Officer
OIG	Office of Inspector General
OIT	Office of Information Technology
OUC	Office of Unemployment Compensation
SAVE	Systematic Alien Verification for Entitlement
SIDES	State Information Data Exchange System
SOP	Standard Operating Procedure
SSN	Social Security Number
SSP	System Security Plan
SUTA	State Unemployment Tax Act
TOP	Treasury Offset Program
UI	Unemployment Insurance

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Appendix C

DC DOES Response to Draft Report

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Department of Employment Services

VINCENT C. GRAY
MAYOR



F. THOMAS LUPARELLO
ACTING DIRECTOR

September 19, 2014

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
U.S. Department of Labor
Office of the Inspector General
Washington, D.C. 20210

RE: District of Columbia Department of Employment Services' implementation of recommendations for Unemployment Insurance Program benefit payments, draft audit report number 03-14-003-03-315.

Dear Mr. Lewis:

The District of Columbia Department of Employment Services (DC DOES) appreciates the opportunity to provide a response to the Office of the Inspector General's (OIG) audit report on the implementation of recommendations for Unemployment Insurance Program benefit payments. These responses address both recommendations and specific results of the audit report.

Recommendation 1: Develop and implement policies and procedures to track the status of all audit report recommendations. These policies and procedures should prioritize the corrective actions to be taken, set milestones, and assign responsibility to the appropriate senior DC DOES official to ensure the recommendations are implemented timely and functioning as intended.

Recommendation 2: Regarding the first recommendation cited in Results A, determine to the extent possible, the number of claims for which issues were not detected when indicators were disabled from February 2009 through July 2010 to ensure that only eligible individuals received unemployment benefits and take necessary actions to recoup unemployment benefits that were improperly issued.

Recommendation 3: Complete corrective actions related to the remaining eight recommendations made in the DC OIG and NASWA reports that we found were either not fully implemented or were implemented after our fieldwork.

DC DOES concurs with these recommendations. DC DOES recognizes the importance of maintaining adequate internal controls to detect, prevent and recover improper payments, and remains strongly committed to continuous improvement in ensuring the integrity of its benefit program. Additionally, through the newly formed Program Performance Monitoring unit, DC DOES will improve status tracking of all audit report recommendations. While DC DOES has concurred with the overall recommendations of the audit report, there are several results of the audit report with which DC DOES does not concur. Specifically in Result

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A, DOL OIG stated that "DC DOES cannot ensure that the \$4 million dollars in benefits paid during this 17-month period were made to only eligible claimants, and it remains at increased risk to unauthorized changes being made to its UI MIS." DC DOES does not agree with this result.

The DC DOES Benefit Payment Control (BPC) unit has identified, investigated, established and recovered a material number of improper payments. Given the number of claimant responses resulting in an overpayment, DC DOES can confidently estimate that the aggregate amount of improper payments will be approximately \$500,000. Additionally, DC DOES has completed and issued DOES-SEC-002, Change Control policy which addresses the findings of the audit report. The accompanying document entitled, "Response to Audit Results" provides greater detail of the aforementioned corrective actions.

Based upon the resolution of 62 of 69 findings and the forthcoming implementation of corrective actions for the remaining findings, DC DOES is extremely concerned with alarming language of the finding. DC DOES has successfully implemented measures to significantly reduce or alleviate the risk associated with the DOL OIG's findings.

In partnership with the ETA Regional Office, we look forward to completing any work necessary to remediate any outstanding corrective actions. The job of integrity is an ongoing one and DC DOES is dedicated to continuing to harden its processes and procedures to further mitigate risk wherever possible.

Sincerely,



F. Thomas Luparello
Acting Director

Enclosure

Cc: Leo Miller, DOL
M. Jeffery Miller, DMPED

**District of Columbia Department of Employment Services
Response to Audit Results**

Result A: Three recommendations to address problems that resulted from disabling the automated processing controls were not implemented.

1. Determine the number of claims for which issues were not detected when indicators were disabled from February 2009 through July 2010 to ensure that only eligible individuals received unemployment benefits. Further, take necessary actions to recoup unemployment benefits that were not issued in accordance with statutes and regulations while these indicators were disabled. The results of these actions should be reported to the Inspector General when completed.

DC DOES Response

DC DOES does not concur with this finding. As of mid-August 2014, BPC has established 186 overpayments, totaling \$235,640 and recovered \$86,407 of the identified improper payments. Given the number of claimant responses resulting in an overpayment, DC DOES can confidently estimate that the aggregate amount of overpayments will be approximately \$500,000.

DC DOES Benefit Payment Control (BPC) unit continues to attempt to contact claimants, however many remain non-responsive. DC DOES is investigating various strategies for contacting non-responsive claimants but also welcomes any technical assistance from the ETA Regional Office regarding the imposition of the liability due to these claimants.

DC DOES is cognizant that BPC processes are cumbersome and they struggle to provide timely and/or adequate documentation. To improve overall performance, BPC is utilizing a multi-tiered corrective action plan to address issues with overpayment detection, establishment, collection and monitoring.

First, BPC management will conduct monthly refresher training for all Claims Examiners as well as hold bi-weekly one-on-one meetings to discuss ways to address challenging issues. These efforts will help to standardize BPC processes and improve outcomes.

Second, DC DOES have initiated a software upgrade of the Benefits Audit, Reporting and Tracking System (BARTS). BARTS 4.3 is a robust system that performs multiple types of audits and automatically manages cases. The system also streamlines the adjudication process, reduces paperwork for agency stakeholders, including staff, claimants and employers, and provides performance metrics by division, department, units, and Claims Examiners.

DOES will also utilize the BARTS Fast Path feature to consume BARTS and internal cross match results as well as the results of targeted integrity monitoring efforts, (e.g. The Watch Dog Report). This implementation will be completed by fiscal year, second quarter 2015.

Finally, performance is currently monitored via ETA reports produced on a weekly, monthly and/or quarterly basis, and unstandardized reporting processes. DOES is currently developing

dashboards and other reporting tools for BPC management. These tools will provide data for greater visibility into BPC operational performance and key performance indicators. This is a vital part of DOES' performance improvement and monitoring process.

2. Expeditiously ensure the completion and issuance of a clear and detailed written policy for requesting and implementing programming modifications to its MIS, and formalize a mechanism by which such a policy will be periodically reviewed and updated. The final policy should be reviewed by the DOES General Counsel and the Director, and a copy forwarded to the Inspector General.

DC DOES Response

DC DOES does not concur with this finding. Based on further feedback from DOL OIG, in December 2013, DOES provided the updated DOES Policy DOES-SEC-002, Change Control and the supporting documentation that the policy was forwarded to all DC DOES staff and contractors.

It is standard operating procedure that DC DOES General Counsel reviews and approves business policy for legal sufficiency before it is issued. However, under this circumstance DC DOES General Counsel does not have the requisite technical knowledge to review and approve technical policies. These policies were written and approved by the Office of Information Technology, Chief Information Officer and they conform to industry best practices for change management and the DC Office of Information Technology (OCTO) policies.

Additionally, forwarding DC DOES policy to the DC Inspector General is not standard operating procedure. However, a copy of the policy will be forwarded to DC OIG, if deemed necessary.

3. In collaboration with the MIS vendor, modify the existing DOES System Change Approval form to require the review and approval by the Director and General Counsel of DOES, as well as the inclusion of all relevant information, such as the reason for a computer system change, the effect of not implementing the change, and a risk assessment.

DOES Response

DC DOES does not concur with this finding. Based on further feedback from DOL OIG, in April 2014, DC DOES provided the DOES System Change Approval form. This form addressed the issues cited in the report. It should also be noted that DC DOES has implemented an automated approval workflow solution that mimics the hard copy process flow. DC DOES rarely utilizes the paper approval process.

Additionally, DC DOES undergoes an annual Comprehensive Annual Financial Report (CAFR) audit. Recent findings as a result of this audit have never produced material weaknesses in DC DOES change management processes.

Result B: Corrective actions for two recommendations related to DC government employees who improperly collected UI benefits while employed were not completely implemented.

4. Implement a process to identify DC government employees receiving UI benefits and take action if they are not eligible.

DOES Response

DC DOES concurs with this finding. Please see the responses to Result A for further corrective actions, (e.g. the Watch Dog results being loaded into BARTS for improved monitoring).

5. Monitor repayment agreements for DC government employees who owe DC DOES amounts related to UI overpayments.

DC DOES Response

DC DOES concurs with this finding. Please see the responses to Result A for corrective actions.

Result C: Repayment agreements were not adequately monitored for compliance.

6. Monitor for compliance, all repayment agreements, including employers who owed DC DOES for underpayment of UI wage taxes.

DC DOES Response

DC DOES concurs with this finding. Please see DOES response to Result A for corrective actions.

Result D: A quality assurance mechanism to verify UI claimants' eligibility before the payment of UI benefits was not developed.

7. Create a quality assurance process as part of the UI eligibility determination

DC DOES Response

DC DOES does not concur with this finding. Several UI policies and procedures govern quality assurance verifications including Systematic Alien Verification for Entitlements (SAVE), Social Security Administration (SSA), National Directory of New Hires (NDNH), and Separation Information Data Exchange (SIDES), among other verifications. Additionally, the Claims Validation Unit has been staffed and is fully operational.

Result E: DC DOES had not executed a contract with a firm to conduct vital records cross matches.

8. Gain real-time access to vital records to ensure a claimant's social security information was valid and did not belong to a deceased individual.

DC DOES Response

DC DOES is pleased that DOL OIG has agreed that corrective actions for this finding have been completed. However, there is some inconsistent language between the *Results* section and the *List of Reports and 69 Recommendations Reviewed* section. As such, DC DOES is uncertain the document fully reflects the completion of the corrective action.

Result F: An Internal Auditor position reporting to the Director had not been filled.

9. Establish an Internal Audit position and/or office, with a degreed, certified individual who reports to the Director.

DC DOES Response

DC DOES is pleased that DOL OIG has agreed that corrective actions for this finding have been completed. However, there is some inconsistent language between the *Results* section and the *List of Reports and 69 Recommendations Reviewed* section. As such, DC DOES is uncertain the document fully reflects the completion of the corrective action.

Appendix D

Acknowledgements

Key contributors to this report were Michael Hill (Audit Director), Michael Elliott (Audit Manager), Miguel Hughes, and Goleda Sutton-Watson.

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