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REPORT TO THE OFFICE OF THE CHIEF FINANCIAL OFFICER



DOL COULD DO MORE TO REDUCE IMPROPER PAYMENTS AND IMPROVE REPORTING

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WHY OIG CONDUCTED THE AUDIT

OIGs are required by law to review annually improper payment reporting in Agency Financial Reports (AFR) to determine whether agencies complied with the requirements of the Improper Payments Elimination and Recovery Act (IPERA), as amended by the Improper Payments Elimination and Recovery Improvement Act (IPERIA). This report provides our assessment of the Department of Labor's (DOL) compliance for fiscal year (FY) 2015.

In FY 2015, DOL was required to report on its efforts to reduce improper payments in three programs: Unemployment Insurance (UI), Federal Employees Compensation Act (FECA), and Workforce Investment Act (WIA) grants. The UI benefit program reported an estimated \$3.5 billion and the FECA program an estimated \$85.7 million in improper payments with corresponding improper payment rates of 10.73 and 2.87 percent. The WIA Title I grants program reported estimated improper payments of \$22.3 million and a 0.88 percent improper payment rate. DOL reported expending the last of its Hurricane Sandy funding in FY 2014, hence, there were no improper payments to report.

WHAT OIG DID

We performed a review to determine the following:

Did DOL comply with reporting and reduction requirements of IPERA; IPERIA; and OMB Memorandum M-15-02, Requirements for Effective Estimation and Remediation of Improper Payments?

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to: <https://www.oig.dol.gov/public/reports/oa/2016/03-16-002-13-001.pdf>

WHAT OIG FOUND

DOL did not comply with the requirements for reducing improper payments. DOL included all the reporting requirements in its FY 2015 AFR; however, we continued to have concerns regarding the methodology DOL used to estimate improper payments in the FECA and WIA grant programs.

DOL met the IPERA, IPERIA, and OMB reporting requirements to publish its AFR and post it on the DOL website, conduct specific risk assessments for each program activity, publish improper payment estimates for programs identified as susceptible to significant improper payments, and publish programmatic corrective action plans in the AFR.

Although DOL's reported improper payment rate of 10.73 percent met its reduction goal of 11.34 percent, the reported rate did not meet the IPERA requirement of "less than 10 percent." In the WIA grants program, the reduction goal was 0.44 percent, but DOL reported an estimated rate of 0.88 percent.

As previously reported, we continued to have concerns regarding the validity of DOL's published improper payment estimates for the FECA and WIA grants programs. DOL again excluded two categories of compensation payments in its improper payment estimates for FECA, but did not determine and report the full effect of those exclusions on its estimates. DOL continued to use A-133 single audit reports to estimate improper payments in the WIA grants program even though single audits are not designed to be systematic assessments of the allowance of WIA grant costs.

WHAT OIG RECOMMENDED

We did not make any new recommendations for FY 2015, but five prior-year recommendations remain unimplemented.

The Chief Financial Officer (CFO) agreed with the information reported and stated the Office of the Chief Financial Officer and stated it will continue to work with OIG, OWCP, ETA, and other responsible program agencies to improve its improper payment reductions and reporting.

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INSPECTOR GENERAL'S REPORT

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The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA)¹ requires federal agencies to identify and reduce improper payments and report annually on their efforts according to guidance promulgated by the Office of Management and Budget (OMB) in Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*.

Section 3 of IPERA and OMB guidance specify that each agency's Inspector General should review agency improper payment reporting in the Agency Financial Report (AFR), and accompanying materials, to determine whether the agency complied with IPERA and IPERIA. This report provides our assessment of the Department of Labor's (DOL) compliance for Fiscal Year (FY) 2015.

Our objective was to determine the following:

Did DOL comply with reporting and reduction requirements of IPERA; IPERIA; and OMB Memorandum M-15-02, Requirements for Effective Estimation and Remediation of Improper Payments?

RESULTS IN BRIEF

DOL complied with four of the six IPERA requirements. We found that DOL did not meet its reduction target in FY 2015 for the Workforce Investment Act (WIA) grants program,

¹ IPIA, Public Law (P.L.) 107-300; IPERA, P.L. 111-204; IPERIA, P.L. 112-248. All three laws are codified at Title 31 United States Code (31 U.S.C.) 3321. IPERIA requirements intensified the government's efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending. The President signed IPERIA into law on January 10, 2013.

and the reported FY 2015 Unemployment Insurance (UI) improper payment rate of 10.73 percent did not meet the IPERA requirement of “less than 10 percent.”

In FY 2015, DOL reported an estimated improper payment rate in the Federal Employees’ Compensation Act (FECA) program totaling \$85.73 million and an improper payment rate of 2.87 percent. Our review found that DOL’s methodology continued to exclude initial payments made in the first 90 days of a compensation claim, as well as payments made on older claims that originated before FECA implemented its electronic case management system. We also found that the estimate of fraudulent FECA payments was based on actual restitution amounts, and the Office of Workers’ Compensation Programs (OWCP) did not consider alternative methods to produce a more complete estimate of the fraud in the FECA program. Although OWCP officials explained they cannot sample fraud and provide a statistical estimate, they are willing to have further discussions with the Office of Inspector General (OIG) on finding a feasible method for estimation. As a result of these issues, the improper payment estimate for FECA may have been understated. We also noted that DOL should have more fully disclosed the limitations of its FECA program improper payment estimation methodology in the FY 2015 AFR.

Our review also found that DOL’s methodology continued to rely on analyses of questioned cost information derived from OMB Circular A-133 Single Audit Act reports for the WIA grants program, a methodology OIG has previously found to be lacking.

BACKGROUND

IPERA, Section 2(a), requires the head of each agency to periodically review all programs and activities and identify those that may be susceptible to significant improper payments. Reviews shall be performed for each program and activity at least once every three fiscal years. DOL performed a Department-wide assessment of all programs during FY 2014. As part of DOL’s regular cycle of Department-wide risk assessment, risk assessments will be reevaluated for all programs in FYs 2016 and 2017.

Based on DOL’s Department-wide risk assessment, both the UI and FECA programs were determined to be susceptible to significant improper payments. Additionally, the WIA grants² program was classified as susceptible to significant improper payments in OMB’s Circular A-11, Section 57, due to its annual level of expenditures.

DOL was also required to report an improper payments estimate for funds provided in response to Hurricane Sandy through the Disaster Relief Appropriations Act (DRAA),

² DOL focused on the programs that were the “core” of WIA - Title I – Workforce Investment Systems, which authorized funding in three separate programs: Adult, Dislocated Worker, and Youth Programs. These programs primarily provide grant funds to states, which in turn, award the majority of funds to state and local Workforce Investment Boards authorized by Title I of WIA.

2013 (Public Law 113-2), approved on January 29, 2013. Section 904(b) of the DRAA provided that all programs and activities receiving funds under DRAA shall be deemed “susceptible to significant improper payments” for the purposes of IPIA, notwithstanding IPIA section 2(a).

IPERA defines significant improper payments as those exceeding \$10 million of all program or activity payments made during the fiscal year reported and 1.5 percent of program outlays, or \$100 million.³ For each program and activity identified as susceptible to significant improper payments, DOL is required to produce a statistically valid estimate of the improper payments or an estimate that is otherwise approved by OMB and include such estimates in the accompanying materials to its annual financial statements.⁴

DOL was required to prepare a report on actions it took to reduce improper payments for programs with significant improper payments.⁵ The report must include (1) a description of the causes of improper payments, actions planned or taken to correct those causes, and the planned or actual completion date of actions taken to address those causes; and (2) program and activity-specific targets for reducing improper payments that have been approved by the Director of OMB.⁶

IPERA requires the OIG to review the agency’s improper payment reporting in the AFR to determine if it complies with IPERA, as defined in Section 3(a)(3). OMB M-15-02⁷ provides guidance on the review and requires the OIG to determine if DOL had:

- Published an AFR for the most recent fiscal year and posted that report and any accompanying material required by OMB on the agency website;
- Conducted a program specific risk assessment for each program activity that conforms with 31 U.S.C., Section 3321, (if required);
- Published improper payment estimates for all programs or activities susceptible to significant improper payments under its risk assessment, (if required);
- Published programmatic corrective action plans in the AFR, (if required);
- Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments; and

³ Public Law No. 111-204, Section 2(a)(3), 124 Stat. 2224-2225 (2010)

⁴ Public Law No. 111-204, Section 2(b), 124 Stat. 2224, 2225 (2010)

⁵ Public Law No. 111-204, Section 2(c), 124 Stat. 2224, 2225-2226 (2010)

⁶ Public Law No. 111-204, Sections 2 (c) (1) and (4), 124 Stat. 2224, 2225-2226 (2010)

⁷ OMB Memorandum M-15-02, dated October 20, 2014, Appendix C to OMB Circular A-123 Requirements for Effective Estimation and Remediation of Improper Payments

- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.

Further, in November 2009, the President issued Executive Order 13520, “*Reducing Improper Payments*”, which in part, required agencies to review payments and awards in its programs against specific databases to identify ineligible recipients and prevent improper payments. This was referred to as the Do Not Pay (DNP) initiative. IPERIA codified the DNP initiative into law in January 2013, and added a requirement that all payments were to be reviewed through DNP starting June 1, 2013. IPERIA also improved the quality of oversight for high-dollar and high-risk programs and required OMB to examine the rates and amounts of improper payments that agencies have recovered and determine targets for recovering improper payments.

OMB directed agencies to develop plans for using the DNP Solution, a master database managed by the U.S. Department of the Treasury (Treasury), with final plans due to OMB by August 31, 2012. DOL submitted its original DNP implementation plan to OMB by the due date and focused on gaining access to Treasury’s master database in the DNP portal using a phased approach. To meet this requirement, Treasury began matching all payments against the DNP database after the payments were made. This post-payment review was designed to test the usefulness of the DNP database and create business rules for deciding if the payments were proper. In FY 2015, the DNP Portal became available for DOL on matching DOL automated payments against some of IPERIA specified databases. None of the matches resulting from the DNP Portal were found to be improper payments.

RESULTS

For FY 2015, DOL complied with the first four of six IPERA requirements. According to IPERA Section 3(a)(3), compliance means that DOL:

1. Published its AFR for the most recent fiscal year (FY 2015) and posted that report and any accompanying materials required by the OMB on the DOL website;
2. Conducted a specific risk assessment of each program or activity that conforms with Title 31 U.S.C, Section 3321 (if required);
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
4. Published programmatic corrective action plans in the AFR (if required);

5. Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
6. Reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under Section 2(b) of IPIA.

For item number five, DOL published future reduction targets for the UI and FECA programs, but did not publish annual reduction targets for the Hurricane Sandy disaster relief program for FY 2015 since final outlays were recorded in FY 2014. The WIA grants program did not meet the FY 2015 reduction target, as its improper payment rate increased to 0.88 percent from 0.37 percent. However, no future reduction targets were published for the WIA grants program because FY 2015 was its final year. With regard to item number six, DOL reported an estimated improper payment rate of 10.73 percent for the UI program and did not meet the IPERA requirement of “less than 10 percent.”

COMPLIANCE WITH IPERA

DOL included all the reporting requirements in its FY 2015 AFR. Our specific results for the IPERA, IPERIA, and OMB compliance requirements are as follows:

- 1. Did DOL publish its AFR for the most recent Fiscal Year and post that report and any accompanying materials required by OMB on the agency website?**

Yes. DOL published its AFR for FY 2015 on November 19, 2015. The report and accompanying materials required by OMB were posted on the agency website at: www.dol.gov/dol/aboutdol/.

- 2. Did DOL conduct a specific risk assessment for each program or activity that conformed with IPERA (if required)?**

Yes. DOL performed a department-wide risk assessment of all DOL programs in FY 2014. DOL will perform a risk assessment for the Workforce Innovation and Opportunity Act (WIOA) grants program in FY 2016 since it replaced the WIA grants program, which ended in FY 2015. As part of DOL’s regular cycle, a department-wide risk assessment is planned for all programs in FY 2017. IPERA, Section 2(a)(2), requires agency heads to review all programs to identify risk susceptibility for improper payments every three years.

DOL performed the risk assessments based on criteria prescribed in IPERA, Section 2(a)(3)(b), outlined below:

In conducting the reviews, the head of each agency shall take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments, such as —

- i. whether the program or activity reviewed is new to the agency;
- ii. the complexity of the program or activity reviewed;
- iii. the volume of payments made through the program or activity reviewed;
- iv. whether payments or payment eligibility decisions are made outside of the agency, such as by a State or local government;
- v. recent major changes in program funding, authorities, practices, or procedures;
- vi. the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and
- vii. significant deficiencies in the audit report of the agency or other relevant management findings that might hinder accurate payment certification.

DOL's risk assessments for the UI and FECA programs found them to be at risk of significant improper payments. While DOL's risk assessment for the WIA⁸ Title I grants program found it to be below IPERA's threshold of a risk-susceptible program, the program was classified as at risk in OMB Circular A-11 (2002), Section 57,⁹ due to the program's annual level of expenditures. Although DOL's risk assessment over the past several years did not support a high-risk designation for the WIA grants program, the Office of the Chief Financial Officer (OCFO) and Employment and Training Administration (ETA) continued to perform and report improper payment analyses each year. OMB M-15-02 states an agency may request relief from OMB on the annual reporting requirements for any programs identified as susceptible to significant improper payments and must include an assertion from the Office of Inspector General that it concurs with the agency's request for relief.

In addition to these programs, DOL was required to report an improper payments estimate for funds provided in response to Hurricane Sandy. Section 904(b) of DRAA provided that all programs and activities receiving funds under DRAA shall be deemed to be "susceptible to significant improper payments" for the purposes of IPIA, notwithstanding IPIA, Section 2(a). DOL's risk assessment for the Hurricane Sandy disaster relief program found it to be below IPERA's threshold

⁸ On July 22, 2014, WIOA was signed into law. WIOA rescinded WIA of 1998. Funding for programs under WIA ended on June 30, 2015. As reported in the FY 2015 AFR, DOL is in the process of conducting risk assessments to determine if these new programs exceed the statutory thresholds for improper payment reporting.

⁹ Section 57 was removed from OMB Circular A-11 in 2003.

of a risk-susceptible program. Since DOL reported the program's final outlays in FY 2014, improper payment estimates were not reported in FY 2015.

3. Did DOL publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessments (if required)?

Yes. DOL published improper payment estimates for the UI benefit program, FECA program, and WIA Title I grants program as required. Since final outlays were reported in FY 2014 for the Hurricane Sandy disaster relief program, no estimates were reported. OIG continued to have concerns on how the estimates were determined and reported in the FY 2015 AFR for the FECA and WIA grants programs.

The UI benefit program's estimated annual improper payments for FY 2015 were \$3.5 billion (10.73 percent), consisting of \$3.4 billion in overpayments plus \$146 million in underpayments. For the FECA program, estimated annual improper payments were \$85.7 million (2.87 percent), consisting of \$81.22 million in overpayments plus \$4.51 million in underpayments. For the WIA Title I grants program, estimated annual improper payments were \$22.3 million (0.88 percent). For the Hurricane Sandy disaster relief program, there were no reporting requirements since there were no outlays of Hurricane Sandy-related funds by the Department in FY 2015.

4. Did DOL publish programmatic corrective action plans in the AFR (if required)?

Yes. DOL published corrective action plans to reduce and collect improper payments for the UI and FECA programs, as both were susceptible to significant improper payments exceeding the statutory threshold listed in OMB Circular A-123, Appendix C.

For the UI benefit program, DOL developed a strategic plan to address several root causes of improper payments. In September 2015, DOL awarded \$39.3 million in supplemental funding to 44 states for the detection, prevention, and recovery of improper UI benefit payments. According to DOL, these incentive funds are to improve state performance, address outdated Information technology (IT) system infrastructures necessary to improve UI program integrity, and implement projects to reduce worker misclassification.

For the FECA program, DOL indicated the major categories of errors found were primarily failure to verify, inability to authenticate eligibility, administration or process errors, and "other". According to DOL, some improper payments in the FECA program were "technically proper" when they were initiated, but due to payment cycles, the payments could not be adjusted timely when additional information was received. DOL considered these to be failure to verify errors. In order to reduce this aspect of the FECA improper payment rate, OWCP stated

that it has continued discussions with Treasury to shorten the payment cycles. This change has produced positive results. To address the inability to authenticate eligibility, OWCP developed a Program Integrity Unit with auditors and data analysts to provide greater oversight and analysis of payment accuracy, and also contracted with a data analytics firm to build agency capacity in this area. To address what it categorized as administrative or process errors, such as incorrect pay rates and other errors that resulted from the lack of timely and accurate documentation, OWCP stated it continued to engage in greater outreach efforts to the employing agencies, stressing the importance of timely and accurate reporting.

For the WIA Title I grants programs, DOL was not required to publish corrective action plans, as the improper payment rate was below the statutory threshold.

5. Has DOL published, and met, annual reduction targets for each program assessed to be at risk and measured for improper payments?

No. Although DOL published the annual reduction targets for the DOL programs, it did not meet the target rate for the WIA Title I grants program.

DOL published and met the annual reduction targets for the UI benefit program for FY 2015. The target improper payment rate for FY 2015 was 11.34 percent; DOL reported an estimated improper payment rate of 10.73 percent.

For the FECA program, DOL did not publish reduction targets in the prior AFR, as FY 2014 served as a full baseline year. The FY 2015 FECA improper payment rate was 2.87 percent. Targets were set for FY 2016 through FY 2018.

For the WIA Title I grants program, DOL published, but did not meet, the FY 2015 reduction target of 0.44 percent; DOL reported an actual rate of 0.88 percent. The target rates and estimates were based on eligibility findings from Single Audit Act reports.

6. Did DOL report an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under Section 2(b) of IPIA?

No. DOL reported an estimated FY 2015 improper payment rate of 10.73 percent for the UI benefit program and did not meet the IPERA requirement of less than 10 percent. The FECA program and WIA Title I Grants met the less than 10 percent requirement with reported improper payment rates of 2.87 percent and 0.88 percent, respectively. An improper payment rate was not reported for Hurricane Sandy since final outlays were recorded in FY 2014.

In the FY 2014 AFR, DOL reported an estimated improper payment rate of 11.57 percent for the UI program. In the FY 2013 AFR, DOL reported an estimated improper payment rate of 9.32 percent for the UI program after netting

recoveries, using a methodology that had been approved by OMB. Without netting the recoveries, the estimated UI improper payment rate would have been 11.5 percent. The estimated 10.73 percent improper payment rate for FY 2015 represented a decrease from the two prior years.

ACCURACY AND COMPLETENESS OF REPORTING

We found DOL reported accurate and complete improper payment estimates for the UI program, but additional improvements were needed for the FECA and WIA grants programs.

For the FECA program, the improper payment estimates reported by DOL may have continued to understate the reported improper payment rate because the estimation methodology excluded two types of payments — initial payments made in the first 90 days of a compensation claim and payments made on claims initiated prior to November 2000 that had not been imaged and stored electronically into its Integrated Federal Employees' Compensation System (iFECs). DOL disclosed in the FY 2015 AFR the limitations of using this methodology to estimate improper payments, but did not include the dollar amount or magnitude of the payment exclusions. Also, the estimate of fraudulent payments was based on actual restitution amounts and, therefore, may not reflect the full amount attributed to the types of improper payments that potentially could be identified through fraud investigations. For the WIA grants program, DOL continued to rely on analyses of questioned cost information derived from OMB Circular A-133 Single Audit Act reports, a methodology OIG has previously found to be lacking. Funding under WIA ended on June 30, 2015, as WIOA superseded WIA. DOL will assess the risk for the WIOA grants program and determine whether reporting an improper payment estimate is warranted. OIG will evaluate DOL's risk assessment of WIOA as part of our FY 2016 IPERA review. For the Hurricane Sandy disaster relief program, estimates were not reported since final outlays were recorded in FY 2014; therefore, we did not perform any additional review procedures for this program.

UI

We found in FY 2015 the Benefit Accuracy Measurement (BAM) program DOL used to estimate UI improper payments was designed to produce accurate and complete results. The BAM program is administered for DOL by all 50 states, the District of Columbia and Puerto Rico, to assist with identifying error and abuse in UI programs. Under BAM, states conduct comprehensive audits of samples of claims weekly to verify claimant eligibility and determine the accuracy of decisions to pay or deny UI benefits.

FECA

To estimate improper payments for FY 2015, OWCP sampled compensation and medical benefit payments to identify payment errors. OWCP continued to exclude two categories of payments from its improper payment estimates as it did in FY 2014: initial payments made in the first 90 days of a compensation claim and compensation payments on claims initiated prior to November 2000 that had not been imaged and stored electronically in iFECS.¹⁰ DOL reiterated its position in the FY 2015 AFR, stating that it was dedicated to ensuring beneficiaries receive timely benefits, and to include these two payment categories in a review would hinder timely payment to injured workers and would not be cost effective. DOL stated that initial compensation payments are often estimates and OWCP adjusts payments once the employing agency submits the correct information. Initial payments represented only about 1 percent of the compensation dollars for FECA chargeback year 2014. DOL further stated that pursuing information on non-imaged cases would be neither cost effective, nor provide a significant benefit because this steadily diminishing population accounted for 17 percent of the cases. DOL disclosed in the FY 2015 AFR that these two categories of compensation payments were excluded from the sampling estimation methodology, but it did not report the magnitude and dollar amount of these exclusions. To further improve the FECA program's estimation methodology, OWCP should include the initial 90 days of compensation payments and compensation payments for non-imaged cases or demonstrate they are not material.

We also noted that OWCP continued to use actual restitution dollars as the basis of its estimate of improper payments resulting from fraud. The use of actual restitution amounts did not reflect a complete estimate attributed to the types of improper payments that potentially could be identified through fraud investigations. As a result, OWCP's estimate of improper payments was likely understated. In the FY 2015 AFR, DOL reiterated that there is no reliable method to estimate undetected fraud. DOL does not need to estimate fraud per se, but should identify the improper payment issues identified by fraud investigations and estimate the extent to which these issues exist in the payment population. We have modified the recommendation we made in last year's IPERA report (Report No. 03-15-001-13-001) to eliminate the reference to undetected fraud and emphasize instead the overpayment issues identified by fraud investigations. OWCP stated it will focus on using data analytics to look for correlations and anomalies to understand improper payment causes and potential remedies.

¹⁰ In 2005, OWCP fully implemented iFECS, a case management system used to support core business functions and to electronically store FECA claimant case file documents. All FECA cases initiated after October 31, 2000, were imaged and stored electronically into this new system. OWCP officials informed OIG during our FY 2014 review that some cases initiated prior to November 1, 2000 have been imaged for specific reasons including cases that have been filed with the Employee Compensation Appeals Board.

WIA

For 2015, DOL focused its WIA improper payment methodology on eligibility findings in OMB Circular A-133 Single Audit Act reports. However, as we have reported in prior years, Single Audit Act reports typically do not project likely total questioned costs for the grant or entity audited, but simply report those questioned costs identified for the specific sample items reviewed during the audit. As a result, these audit reports do not provide a valid proxy for improper payments in the WIA grants program.

While previous assessments (up to and including FY 2013) of WIA improper payments computed an estimated error rate based on an extensive analysis of questioned cost information derived from OMB Circular A-133 Single Audit Act reports,¹¹ DOL redesigned the methodology for FY 2014 based on recommendations from OIG. In response to OIG's recommendation and based on the WIA risk analysis, DOL determined that a quantitative assessment of eligibility findings in OMB Circular A-133 reports would provide the most effective means to estimate a potential improper payment risk rate. This methodology continued in FY 2015, which resulted in an estimated improper payment rate of 0.88 percent, and estimated improper WIA payments of approximately \$22.3 million for \$2.5 billion in outlays.

With WIA's complex funding stream, in which federal funds are granted to states and then passed through to localities and Workforce Investment Boards and then to service providers, DOL still believes that leveraging Single Audit Act reports was the only cost-effective means of estimating improper payments. In the FY 2015 AFR, DOL stated that "it would not be cost effective to evaluate a completely statistically valid nationwide sample of WIA grantees and sub-grantees each year...."

OIG continues to have concerns with DOL's reliance on Single Audit Act reports to develop WIA improper payment estimates, but recognizes that WIA, which provides grants to states, cities, counties, non-profits and other organizations, poses unique challenges. DOL will assess the risk for the WIOA grants program and determine whether reporting an improper payment estimate is warranted. OIG will evaluate ETA's estimation methodology as part of our FY 2016 IPERA review.

PERFORMANCE IN REDUCING AND RECAPTURING IMPROPER PAYMENTS

DOL worked with states to reduce UI improper payment rates, which decreased from an estimated 11.57 percent in 2014 to 10.73 percent in 2015. For the FECA program, DOL has taken steps to improve performance as described below. For the WIA grants program, DOL reported in the FY 2015 AFR an improper payment rate of 0.88 percent,

¹¹ OIG Report No. 03-14-004-13-001, April 15, 2014, *The Department of Labor's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the FY 2013 Agency Financial Report*

which was higher than its target rate of 0.44 percent due to uncontrollable circumstances as described below.

DOL reported that it coordinated with states to recapture UI overpayments totaling approximately \$1.1 billion in FY 2015. However, recapture audits were cost effective for only the UI program. As part of DOL's regular cycle of department-wide risk assessments, these risk assessment determinations will be reevaluated for all programs in FYs 2016 and 2017.

UI

DOL has made UI payment integrity a priority. It reported an estimated FY 2015 improper payment rate of 10.73 percent, down from 11.57 percent in FY 2014. DOL established a reduction target of 11.34 percent for FY 2015.

The UI Benefit Payment Control (BPC) operations identified overpayments for recovery through such methods as cross matching claimant Social Security Numbers with the State and National Directories of New Hires, employer quarterly wage records, and other state databases for workers' compensation. States collected overpaid UI claims through offsets against current UI benefits, federal income tax refunds under the Treasury Offset Program (TOP), state income tax offsets, and direct cash reimbursements from claimants. The BAM program is used as a tool to identify the improper payment root causes on which estimates are based.

DOL coordinated with states to recover UI overpayments and during FY 2015 they recovered approximately \$1.1 billion in overpayments, including an estimated \$221.6 million through TOP. In September 2015, DOL awarded \$39.3 million in supplemental funding to 44 states to support the prevention, detection, and recovery of improper UI benefit payments; improve state performance; address outdated IT system infrastructures necessary to improve UI program integrity; and implement projects to reduce worker misclassification. As of September 2015, 44 states have implemented TOP and 5 other states are in various stages of implementation.

DOL stated it implemented an aggressive strategic plan to work with states to control UI improper payments. These strategies, documented in ETA's Integrity Strategic Plan, targeted the three largest root causes of UI improper payments, as summarized below:

1. Payments to individuals who continue to claim benefits after they have returned to work. (Benefit Year Earnings).

Strategy 2.1 Pilot the use of financial data sources that may indicate a claimant's return to work.

Strategy 2.2 Targeted technical assistance.

2. Failure of employers, or their third-party administrators, to provide timely and adequate information on the reason for an individual's separation from employment (Separation).

Strategy 3.1 Implementation and expansion of the State Information Data Exchange System (SIDES).

3. Failure of claimants to comply with work search requirements.

Strategy 4.1 Re-envisioning work search requirements in the 21st Century labor market.

Additionally, DOL stated it is (1) continuing the development of a UI Integrity Center of Excellence to develop, implement, and promote innovative program integrity strategies to reduce UI improper payments, including the prevention and detection of fraud; (2) engaging in state strategies to recover improper payments and bring the individual state rate into compliance with the 10 percent threshold such as launching a web site for improper payment data transparency, identifying annually high-priority states with persistently high improper payment rates to provide technical assistance and monitoring, offering states opportunities to apply for supplemental budget requests (SBR) to target specific root causes and support integrity strategies, proposing an integrity legislative package on state implementation of various UI integrity initiatives such as TOP, SIDES, and the National Directory of New Hires (NDNH), and convening a new interagency fraud prevention and detection workgroup; (3) targeting states to comply with the implementation of new state performance measures or develop corrective action plans as part of the State Quality Service Plan (SQSP); and (4) conducting a structural impact study to support states' integrity efforts.

As DOL noted in the Improper Payments section of the FY 2015 AFR, states administer the UI program and set operational priorities. Therefore, DOL has limited authority to ensure states pursue improper payment activities. DOL's ongoing coordination with the states to support UI payment recapture audits and activities showed these audits and activities were cost effective.

OIG recently issued a series of audit reports for seven states assessing their performance detecting, reducing, recovering, and reporting UI improper payments. The audits of the seven states (California, Colorado, Indiana, Iowa, New York, North Carolina, and Pennsylvania) found the states generally did not meet established targets for detecting, reducing, and recovering improper payments and the accuracy of their reporting to ETA could not be determined. Further, although the states implemented the majority of DOL's National Strategies for reducing improper payments, they were not able to demonstrate the effectiveness of these strategies. Similarly, the states lacked data to assess the impact of state-specific strategies and methods for reducing, detecting, and recovering improper payments.

FECA

DOL had taken steps to improve performance and continued to work toward reducing improper payments. DOL stated that many improper payments in the FECA program were "technically proper" when they were initiated, but due to current payment cycles,

the payments could not be adjusted when additional information was received. In order to reduce the FECA improper payment rate, OWCP had discussions with Treasury to modify the current payment cycles in order to significantly reduce the number of adjustments needed. As noted in the FY 2015 AFR, OWCP believed the changes to an enhanced Treasury payment cycle that was initiated toward the end of the prior review period will result in even larger gains in FY 2016, thus resulting in reductions to the improper payment rate. Though in place for only one quarter, these changes showed positive results. OWCP informed OIG that the Social Security Administration (SSA) intends to include data sharing language in proposed legislation scheduled for submission in FY 2017.

OWCP stated it continued to reach out to employing agencies regarding the need for timely and accurate reporting of payment information. OWCP enhanced program integrity by hiring additional staff dedicated to process improvement and improper payment reduction, and contracted with a data analytics firm to assist in developing technology and tools to detect and monitor inherent risk in claims, payments, and providers. In addition, OWCP continues to work with other federal partners, such as SSA, the Internal Revenue Service, and the Office of Personnel Management (OPM) to facilitate data matches aimed at reducing improper payments.

DOL determined that it would not be cost effective to conduct a recapture audit for the FECA program based on past analysis.

WIA

For the WIA Title I grants program, DOL reported an improper payment rate of 0.88 percent, which was higher than its target rate of 0.44 percent. DOL stated the estimates were overstated because the Federal Audit Clearinghouse website which was used to store Single Audit reports was nonoperational for the reporting period. Instead, DOL used back-up data from the Census Bureau to determine the estimation rate. DOL officials stated the inability to identify duplicate findings, as it had in prior years, accounted for the FY 2015 improper payment rate increase.

WIA overpayments are identified for recovery primarily through onsite grant monitoring activities, as well as agency follow up on Single Audit Act reports and OIG audits. DOL determined that it would not be cost effective to conduct recapture audits for WIA grantees.

EVALUATION ASSESSMENT ON RISK FOR HIGH PRIORITY PROGRAMS

OMB Circular A-123, Appendix C, defines as “high priority” any program with improper payments greater than \$750 million. Within DOL, the UI program, with estimated improper payments of \$3.5 billion in 2015, was the only program designated as “high priority.”

DOL officials stated that they used the BAM program to identify payment errors and develop and track solutions to systemic problems. Improper payment estimates are based on results of the BAM survey which examines a statistically valid sample of payments from the State UI, Unemployment Compensation for Federal Employees, and Unemployment Compensation for ex Service Members programs (the three largest permanently authorized unemployment compensation programs), but does not include Emergency Unemployment Compensation and Extended Benefits payments. According to DOL officials, they are continuously monitoring the BAM program results and analyzing root causes.

As discussed in the Performance in Reducing and Recapturing Improper Payments section, DOL used results from its BAM program to identify and target the root causes (risks) of UI improper payments, such as payments made to individuals who continue to claim benefits after they have returned to work, employers' or their third-party administrators' failure to provide timely and adequate information on the reason for an individual's separation from employment, and claimants' failure to comply with state work search requirements.

DOL developed a strategic plan for reducing UI improper payments that focuses on the risks. In FY 2015, DOL continued to track states' implementation on the following core strategies:

SQSP/Strategic Plan Development – The SQSP is intended to be a dynamic document states use not only to ensure strong program performance, but also to guide key management decisions, such as where to focus resources. The SQSP should focus state efforts to ensure well-balanced performance across the range of UI activities. The SQSP also is designed to be flexible so as to accommodate, among other things, multi-year planning and significant changes in circumstances during the planning cycle.

Business Process Analysis (BPA) for Improper Payments – Engage in a BPA to identify areas of weakness and to set the stage for reengineering processes that will improve program integrity performance. The review must be conducted collaboratively by state staff and a qualified independent third party contracted by the state, and recommendations from this review should be included in the state's strategic plan to the extent feasible. This strategy is required for those states with a Calendar Year 2012 improper payment rate above 10 percent that received supplemental funding in FY 2013.

BPA for "At Risk" States – Engage in a BPA of the state benefit system to identify areas where changes in business processes will lead to performance improvement for first payment and/or first level appeals promptness. The review must be conducted collaboratively by state staff and a qualified independent third party contracted by the state, and recommendations from this review should be included in the state's strategic plan to the extent feasible. This strategy is required for those states designated "At Risk" that received FY 2013 SBRs.

SIDES Implementation – 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.

SIDES Expansion – States that implement SIDES must also commit to expand the program to a minimum threshold of employer participation for both SIDES Web Services and SIDES E-Response. Specifically, states commit to using SIDES to transmit requests to individual employers not using third-party administrators for information on separations and receive employer responses for at least 35 percent of all UI initial claims.

SIDES Messaging – Implementation of products and tools designed for use by state UI agencies to communicate with employers and third-party administrators about the offerings and benefits of SIDES. This strategy is required for those states that implemented SIDES and received supplemental funding in FY 2013.

State-Identified Prevention Strategies – Implementing new strategies aimed at addressing the state-specific root causes of overpayments, DOL provided supplemental funding opportunities with incentives to accelerate state actions to reduce improper payments. This strategy is required for those states that received FY 2013 SBRs.

TOP – Implementing the Treasury's TOP to recover certain unemployment debts from Federal income tax refunds. This strategy is required for those states that received FY 2013 SBRs.

Also in FY 2015, DOL continued to be active in working collaboratively with the UI system to develop and implement innovative new integrity strategies and pilot projects that may prove beneficial for adoption by all state UI programs. DOL stated that it will commence tracking state implementation of these initiatives if it is determined these strategies will be effective in identifying and preventing improper payments.

Work Search Pilot – Supplemental grant funding was provided to the New York State Department of Labor to build the necessary basic system linkages between the Workforce and UI systems to effectively capture, organize and share individual UI claimant work search record information.

Financial Data Pilot – OMB's Partnership Fund for Program Integrity Innovation provided funding to pilot the use of financial institutions' payroll deposit and payroll information to detect individuals receiving UI benefits who also have payroll payments or deposits to their bank accounts during the same period, allowing for timely follow-up by states with those individuals who may be newly employed. This project is being conducted in collaboration with the National Association of State Workforce Agencies' Information Technology Support

Center and volunteer states. The project is a value test to determine if financial data can enable earlier detection of improper payments than NDNH and if the "hits" from the cross matching are "quality hits."

Value Test of The Work Number – During the first quarter of FY 2014, DOL began incorporating the use of The Work Number into existing state UI programs' business practices for the matching of claimant records as a value test for earlier detection of improper payments. The results of this effort may help DOL assess if these sources will enhance UI agency efforts to detect fraud or errors in weekly claimant certifications.

UI Integrity Center of Excellence – Supplemental funding was provided to New York State for the development of a UI Integrity Center of Excellence, via a cooperative agreement with DOL, with the goal of promoting the development and implementation of innovative integrity strategies, including the prevention and detection of fraud, in the UI program. One of the key goals for the Center will be to actively explore the use of new technologies and new data sources to enable sophisticated data analytics and predictive modeling to improve prevention and detection of improper payments.

These strategies target the three largest root causes of improper payments identified in ETA's Integrity Strategic Plan. DOL's plan is continuously evolving as new strategies are identified and the progress with each strategy is monitored.

DOL has proposed a comprehensive integrity legislative package designed to provide states with new tools and resources to combat UI fraud and improper payments. Some components included the use of SIDES and TOP. UI has also established new workgroups in FY 2015 on federal interagency fraud prevention and detection. The purpose of the interagency workgroup is to share information on combating fraud schemes impacting programs. Additional workgroups to support states' UI integrity efforts were established to re-envision state work search requirements in the 21st century labor market, and perform structural impact study on the UI improper payment rate. DOL has included the integrity legislative package as part of the FY 2017 President's Budget.

DO NOT PAY

DOL was using Do Not Pay (DNP) as required by IPERIA during FY 2015, although none of the matches from the DNP Portal have resulted in improper payments. DOL has implemented the screening of payments through the Treasury DNP Portal, and as appropriate, screens payments via the DNP databases directly. DOL timely submitted its original DNP implementation plan to OMB by August 31, 2012, which provided a comprehensive Department-wide roadmap for full integration of DNP into payment processes and creation of pilot programs with the states. However, the passage of IPERIA required all payments to be reviewed through DNP Working System by June 1, 2013. In response to this requirement, DOL updated its DNP implementation plan to

place more emphasis on post-payment reviews as designed by OMB and Treasury. DOL continued to use the pilot approach to gain access to the DNP Portal. According to DOL's DNP plan and its Standard Operating Procedures, the OCFO is responsible for monitoring compliance and any changes to DNP.

During FY 2014, the DNP Portal was not operating as intended for prepayment cross matches due to system problems at Treasury. Also, select state UI programs worked with Treasury and DNP staff to test the use of DNP services, including a pilot of "The Work Number" which is operated by Equifax outside of the DNP portal. "The Work Number" is a real time database that includes current employment and income data on about one third of the U.S. workforce and is the largest database of its kind. As of September 2014, DNP prohibited the acceptance of any state data for UI cross matching or data analytics. This prohibition included states not having access authorization to the "Work Number" database. Due to issues with DNP statutory/legal authority to provide its services to states that administer federally-funded programs, UI access to DNP was suspended in January 2015.

In the first quarter of FY 2015, the DNP Portal became available to DOL on matching DOL automated payments against some of IPERIA specified databases. However, the portal was neither reliable nor fully functional until the second quarter of FY 2015. As reported by DOL in the FY 2015 AFR, none of the matches resulting from the DNP Portal have been found to be improper payments. According to DOL, it maintained comprehensive, cost effective internal controls to ensure payment integrity of all programs. DOL programs already review IPERIA-specified databases outside the DNP Portal as appropriate. For example, the use of the DNP Portal would be redundant, as OWCP has direct access to the SSA Death Master File. DOL programs also review payment files against non-IPERIA specified databases to prevent improper payments. Although states are currently prohibited by law from participating in the DNP initiative, many state programs review UI beneficiaries against versions of the Death Master File independently.

PREVIOUS RECOMMENDATIONS

OIG issued three prior reports with recommendations to help DOL better prevent and recover improper payments. Certain recommendations from these reports are still unimplemented, as discussed below.

In Report No. 03-15-001-13-001, *DOL Could Do More to Reduce Improper Payments and Improve Reporting*, issued May 15, 2015, we made three recommendations, all were unimplemented. In the report, we recommended OWCP:

- Improve the estimation methodology for the FECA program to ensure its completeness by including the initial payments made in the first 90 days of compensation and compensation payments for non-imaged cases.

- Report in the AFR any limitations with the sampling methodology for the FECA program.
- Identify the improper payment issues identified by fraud investigations and estimate the extent to which these issues exist in the payment population.¹²

In 2015, OCFO reconfirmed its response to our prior recommendation to improve the estimation methodology for the FECA program in which the Acting Chief Financial Officer (CFO) stated, “The Department has made the policy decision to prioritize timeliness of payments during the initial 90-day period and must rely on the accuracy of payment data being reported by federal agencies and their injured employees.” The Acting CFO also stated, “OWCP’s improper payment estimation methodology for the FECA program was ... approved by OMB ... and is consistent with OPM’s OMB-approved methodology for the Federal Retirement Program based on similarities in initial payments.” Regarding non-imaged cases, the Acting CFO stated, “The Department has concluded that pursuing information on non-imaged cases (older than 15 years) would require an undue use of limited resources for a statistically insignificant benefit.” During a meeting with OCFO and OWCP in February 2016, agency officials stated that it is not practical to spend the time and resources necessary to test a statistically valid sample of the non-imaged cases. Although OMB accepted FECA’s estimation methodology, OIG is not precluded from questioning it, as our review is more in depth than OMB’s.

DOL responded to the prior recommendation to report in the AFR any limitations with the sampling methodology by stating, “The Department is strongly committed to transparency and completeness in financial reporting. OCFO and OWCP will ensure that all material limitations to improper payment sampling methodologies are more clearly explained in the Department’s AFR.” In the FY 2015 AFR, the Department disclosed the exclusion of FECA initial compensation payments and payments from older, non-imaged cases in its improper payments estimation methodology. However, to further improve transparency and completeness, the OCFO needs to report additional information in its AFR regarding the magnitude and dollar amount of the exclusions.

DOL responded to the prior recommendation on incorporating an estimate of undetected fraud in the FECA improper payment estimate stating its current method of using the court ordered restitution is the best available method. The Acting CFO referenced the Congressional Budget Office (CBO) report “*How Initiatives to Reduce Fraud in Federal Health Care Programs Affect the Budget*” (October 2014), that found “...although fraud that has been successfully prosecuted can be quantified, there is no reliable method to estimate the amount of fraud that goes undetected...”. The Acting CFO stated, “Given the unreliability of such an estimate, OWCP has concluded that the most appropriate use of limited resources is to focus on using data analytics to understand the types of improper payments, and to look for correlations and anomalies

¹² Recommendation has been modified. See discussion on page 10.

in order to understand causes and potential remedies.” During a February 2016 meeting with OWCP, OIG agreed that the terminology “undetected fraud” was restrictive in terms of resolving the recommendation and has modified the recommendation (see discussion on page 10).

In Report No. 22-12-016-13-001, *The Department of Labor’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2011 Agency Financial Report*, issued March 15, 2012, we made two recommendations; one remains unimplemented. In the report, we recommended DOL:

- Consider methods for improving the WIA sampling methodology to provide a more complete estimate of improper payments and include information on the limitations of the data used in the estimation of WIA overpayment in the AFR.

DOL initially did not agree with the recommendation because it said direct sampling of payments to derive a statistical projection was not practical and would be cost prohibitive. In response to OIG’s recommendation, during FY 2014, DOL determined that a quantitative assessment of eligibility findings in OMB Circular A-133 reports would provide the most effective means to estimating an improper payment rate. OIG continues to have concerns with DOL’s reliance on Single Audit Act reports.

Funding under WIA ended on June 30, 2015, as WIOA superseded WIA. DOL plans to conduct a risk assessment of the WIOA grants program in FY 2016. Once this risk assessment has been completed, OIG will evaluate DOL’s WIOA improper payment estimation methodology.

In Report 03-12-001-04-431, *OWCP’s Efforts to Detect and Prevent FECA Improper Payments Have Not Addressed Known Weaknesses*, issued February 15, 2012, we made five recommendations; one remains unimplemented. In the report, we recommended that OWCP:

- Develop effective procedures, including seeking legislative authority to conduct matches with SSA retirement records, to ensure that claimants who receive SSA retirement benefits are identified timely and their FECA benefits are adjusted accordingly.

During FY 2013, OWCP created a workgroup with SSA and OPM to explore methods of creating a data match for retirement benefits. During our current IPERA fieldwork, OIG and OWCP discussed the progress of the workgroup. OWCP stated SSA intends to include data sharing language in proposed legislation scheduled for submission in FY 2017. OIG will review the proposed legislation to verify the OWCP – SSA data sharing language provides OWCP the information required to identify those FECA recipients receiving SSA retirement benefits.

OIG RECOMMENDATIONS

The five recommendations OIG made in prior reports remain unimplemented and continue to address the concerns raised in this report. We are not making any additional recommendations in this report.

MANAGEMENT RESPONSE

The CFO agreed with the information in this report. The CFO acknowledged the need for the Department to continue focusing on program integrity improvements and stated it will continue working with OIG, OWCP, ETA, and other responsible program agencies to improve its improper payment reductions and reporting.

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

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



Elliot P. Lewis
Assistant Inspector General
for Audit

Appendices

**OBJECTIVE, SCOPE, METHODOLOGY, AND
CRITERIA**

OBJECTIVE

Did DOL comply with reporting and reduction requirements of IPERA, IPERIA, and OMB Memorandum M-15-02, Requirements for Effective Estimation and Remediation of Improper Payments?¹³

Specifically, we:

- A) determined whether DOL complied with all requirements of IPERA and in its Improper Payments Information section in the FY 2015 AFR;
- B) evaluated DOL’s accuracy and completeness of reporting in the Improper Payment Information Section of the FY 2015 AFR;
- C) evaluated DOL’s performance in reducing and recapturing improper payments;
- D) evaluated DOL’s assessment of risk for high priority programs;
- E) determined the status of DOL’s execution of its corrective action plans in order to address prior-year findings and recommendations; and
- F) determined if DOL is using DNP as required by IPERIA.

SCOPE

DOL, in accordance with IPIA, as amended by IPERA and IPERIA, was required to include a report on improper payments in its FY 2015 AFR. OIG conducted this review in accordance with guidance issued by OMB Memorandum M-15-02, Appendix C to OMB Circular A-123 and OMB Memorandum M-12-11, “*Reducing Improper Payments through the Do Not Pay List*” to determine if DOL was in compliance with IPERA and IPERIA.

METHODOLOGY

We reviewed the DOL FY 2015 AFR – Improper Payment for compliance with the six items under IPERA and the DNP initiative as required under IPERIA. In addition, we:

¹³ The “Do Not Pay” initiative was codified into Section 5 of IPERIA. Although IPERIA was not effective until 2014, OMB Memorandum M-12-11 required agencies to submit final DNP plans to OMB by August 31, 2012.

- evaluated DOL’s accuracy and completeness of reporting improper payment information;
- evaluated DOL’s information on its efforts to reduce and recapture improper payments;
- evaluated DOL risk assessments of programs that may be susceptible to improper payments;
- reviewed the status of DOL’s corrective action plans that addressed prior findings and recommendations; and
- interviewed key personnel in the OCFO, ETA and OWCP on improper payment estimation methodologies and reduction actions.

CRITERIA

- IPERIA of 2012 – P.L. No. 112-248
- IPERA of 2010 – P.L. No. 111-204
- IPIA of 2002 – P.L. No. 107-300
- OMB Circular A-11 Section 57, 2002, Information on Erroneous Payments
- OMB Memorandum M-15-02, dated October 20, 2014, Appendix C to OMB Circular A-123 Requirements for Effective Estimation and Remediation of Improper Payments
- Executive Order 13520, dated November 20, 2009, Reducing Improper Payments and Eliminating Waste in Federal Programs
- OMB Memorandum M-12-11 dated April 12, 2012, Reducing Improper Payments through the "Do Not Pay List"
- OMB Memorandum, M-11-04, dated November 16, 2010, Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits
- Disaster Relief Appropriations Act, 2013 P.L. 113-2 dated January 29, 2013
- OMB Memorandum, M-13-07, dated March 12, 2013, Accountability for Funds Provided by the Disaster Relief Appropriations Act

OCFO'S RESPONSE

U.S. Department of Labor

Office of the Chief Financial Officer



May 12, 2016

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

FROM: 
GEOFFREY KENYON
Principal Deputy Chief Financial Officer

SUBJECT: Response to the Office of the Inspector General's "DOL Could Do More to Reduce Improper Payments and Improve Reporting", Report No. 03-16-002-13-001

The Office of the Chief Financial Officer (OCFO) would like to thank the Office of the Inspector General (OIG) for its annual review of the Department's compliance with Improper Payment Elimination and Recovery Improvement Act (IPERA) requirements and for the opportunity to respond to its draft Fiscal Year (FY) 2015 report entitled "*DOL Could Do More to Reduce Improper Payments and Improve Reporting*", (Report No. 03-16-002-13-001).

The Department is strongly committed to being a responsible steward of public funds, and we take very seriously our obligations under the IPERA and other statutes to reduce improper payments in the Unemployment Insurance (UI), Federal Employees' Compensation Act (FECA), and other programs.

The Department has implemented a number of important steps in the past several years - many of which are outlined in the OIG report - to reduce improper payments, improve reporting, and build capacity in states to enhance their detection, prevention, and recovery of improper payments. These efforts have helped reduce the Department's overall reported improper payment rate from 10.57 percent in FY 2014 to 9.47 percent in FY 2015. In light of these efforts, the Department appreciates that the OIG had no new recommendations and has revised a previous recommendation in response to evidence provided by OCFO and the FECA program.

The Department will continue its focus on program integrity improvement and take cost-effective measures to minimize risk. Additionally, we acknowledge the OIG's recommendations from previous reviews. For more information on the Department's responses to these recommendations, please see our response to the OIG's FY 2014 IPERA compliance review published as Report No. 03-15-001-13-001¹. OCFO looks forward to working with OIG, FECA, UI, and other responsible program agencies to ensure continued improvement.

Again, thank you for your annual review and the opportunity to comment on the draft FY 2015 report. If you have any further questions or require additional information on the Department's program integrity efforts, please contact Chris Polen or myself at (202) 693-6800.

¹ "DOL Could Do More to Reduce Improper Payments and Improve Reporting", (Report No. 03-15-001-13-001), <https://www.oig.dol.gov/public/reports/oa/2015/03-15-001-13-001.pdf>.

APPENDIX C

ACKNOWLEDGEMENTS

Key contributors to this report were Stephen Fowler, (Audit Director), Daniel Pompili, (Audit Manager), Lisa LaRosa, David Halstead, and Christine Allen.

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