MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit
FROM: PORTIA WU
Assistant Secretary

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

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

As noted in your report, ETA has identified a number of national strategies for state implementation designed to address major root causes of UI improper payments as part of a comprehensive strategic plan. ETA continues to actively work with all states to identify and implement new and innovative strategies to improve program integrity and bring down the improper payment rate.
To promote development of innovative integrity strategies, ETA has established the national UI Integrity Center of Excellence (Center) through a cooperative agreement with the New York State Department of Labor. The Center is working collaboratively with ETA, a Steering Committee comprised of representatives from five state workforce agencies, and the National Association of State Workforce Agencies (NASWA) to guide the Center's work and ensure its strategies support all states' integrity activities, creating greater efficiency, improving operations, and saving millions of taxpayer dollars. The strategies and tools being developed by the Center will be made available to California and to all states. These strategies include, among others: data analytics and predictive modeling methodologies and tools to improve UI fraud prevention and detection; a secure portal for the rapid exchange of fraud information between states; locally adaptable staff training on fraud solutions and integrity practices; highlighting integrity practices that should be included in state UI modernization efforts; and creation of a "model" plan for Benefit Payment Control operations.

I have attached our response to the recommendations in the audit report. If you have questions, please contact Virginia Hamilton, Regional Administrator for the San Francisco Office, at (415) 625-6900.

Attachment
Employment and Training Administration (ETA) Response To  
Effectiveness of California in Detecting and Reducing Unemployment Insurance Improper Payments and Implementation of Employment and Training Administration National Strategies

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

Recommendations

1. **ETA should work with and encourage California to implement the National Directory of New Hires (NDNH) core strategy.**

   Currently, California is developing NDNH cross-match business requirements to provide to its Information Technology Branch to assess the level of effort for implementation. ETA will provide appropriate technical assistance to ensure that California submits a corrective action plan to implement NDNH cross-match as part of the Fiscal Year (FY) 2016 State Quality Service (SQSP) submission. States are required to submit the FY 2016 SQSPs to ETA by September 30, 2015.

   ETA will monitor the state’s progress and provide any technical assistance that California may require for the implementation of the NDNH cross-match.

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

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

3. **ETA should work with and encourage California to reactivate the Integrity Task Force and have it reevaluate the data and resources needed to effectively monitor and implement strategies.**

   ETA will work with California to ensure that its Integrity Task Force activities are reactivated and actions associated with the task force activities are outlined in its FY 2016 SQSP submission. Additionally, ETA will monitor the progress and the continued use of the state’s Integrity Task Force in the development and implementation of strategies for preventing, reducing and recovering improper payments.
4. ETA should work with and encourage California to review current Employer Quarterly cross-match staffing and processes to identify a way to streamline this process and to make the process more efficient so that backlogs are less likely to occur.

ETA will work with California to review and optimize its current cross-match processes to streamline the process and prioritize cases which provide for a high return on investment, including cases with high-dollar overpayments. In FY 2014, ETA provided supplemental funding to California to hire additional staff to reduce existing backlogs in its Benefit Payment Control (BPC) unit. ETA will monitor the progress and provide any technical assistance that California may require for the streamlining of staffing and processes in their BPC unit.