



July 28, 2025

MEMORANDUM FOR: LORI FRAZIER BEARDEN  
Acting Assistant Secretary  
for Employment and Training

A handwritten signature in blue ink that reads "Laura B. Nicolosi".

FROM: LAURA B. NICOLOSI  
Assistant Inspector General  
for Audit

SUBJECT: Agency Comments to Draft Audit Report  
Number 19-25-XXX-03-315, *ETA and State  
Workforce Agencies Need to Do More to Recover  
Pandemic UI Program Improper Payments*

On July 3, 2025, the Acting Assistant Secretary for the Employment and Training Administration (ETA) provided the agency's response to the subject draft report. ETA agreed with all of the OIG's recommendations to improve improper payment recoveries. ETA provided the OIG with the Department's recent and ongoing efforts to support states in detecting and recovering improper payments.

ETA's response included corrective actions taken to address three of the four recommendations in the subject draft report. ETA requested that these three recommendations be considered for closure based on the actions taken. The OIG will review the corrective actions, along with any supporting documentation, to determine whether they adequately address the OIG's recommendations and have been fully implemented.

If you have any questions, please contact Tracy M. Katz, Audit Director, at [katz.tracy@oig.dol.gov](mailto:katz.tracy@oig.dol.gov) or (202) 210-0769.

Attachment – Agency Response to Draft Audit Report

cc: Chantel A. Sollers  
Audit Liaison

Greg Hitchcock  
Audit Liaison


**U.S. Department of Labor**

Employment and Training Administration  
200 Constitution Avenue, N.W.  
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July 3, 2025

MEMORANDUM FOR: LAURA NICOLosi  
Assistant Inspector General for Audit

FROM: LORI FRAZIER BEARDEN   
Acting Assistant Secretary

SUBJECT: Response to Draft Report – *ETA and State Workforce Agencies Need to Do More to Recover Pandemic UI Program Improper Payments*, Report No. 19-25-XXX-03-315

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The U.S. Department of Labor's (Department) Employment and Training Administration (ETA) appreciates the opportunity to respond to the above-referenced draft report. The Department places a heightened priority on program integrity, which includes addressing the root causes of improper payments, mitigating Unemployment Insurance (UI) fraud risks, and recovering overpayments.

ETA's responses to the draft report's recommendations are provided below. Attachment I to this memorandum provides the Department's recent and ongoing efforts to support states in detecting and recovering improper payments.

**Responses to the Recommendations**

Please find below each of the recommendations contained in the draft report, followed by ETA's response to each of the recommendations.

**Recommendation 1:** Develop lessons learned based on the control failures identified by [State Workforce Agencies] SWAs that led them to request the use of blanket waivers for overpayments. Provide SWAs with guidance, technical assistance, and other resources, as needed, to address the root causes of overpayments.

**ETA's Response:** ETA agrees with this recommendation. The approved scenarios for which states could apply blanket waivers for overpayment recovery, in accordance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act statute, as amended, highlight challenges that states faced as they quickly established new programs and attempted to adapt to the changing core eligibility requirements for these same programs over the life of the programs. ETA intends to capture lessons learned from the pandemic experience in implementing these temporary programs to help inform actions for similar future programs and, as needed, to issue guidance, technical assistance, and other resources.

The Administrator for the Office of Unemployment Insurance, in collaboration with the Department's Chief Evaluation Officer, is responsible for the implementation of this

recommendation. The anticipated completion date for this recommendation is the end of Fiscal Year (FY) 2026.

**Recommendation 2: Require SWAs to use all mandatory recovery methods permitted under federal law and provide resources, as needed, for SWAs to use ETA's strongly recommended recovery methods.**

**ETA's Response:** ETA agrees with this recommendation, and considers this recommendation duplicative of a prior Office of Inspector General (OIG) recommendation that was already closed from OIG Report No. 19-22-006-03-315.<sup>1</sup> Specifically, Recommendation 2 from the prior audit report, "Require states to have written policies and procedures, which apply lessons learned during the COVID-19 pandemic, to continue eligibility testing and [Benefit Payment Control] BPC procedures during emergencies or other times of increased claims volume. These policies and procedures should include strategies to pay claimants timely." In the prior audit, the OIG also acknowledged states paused or discounted certain required and recommended program integrity activities. However, as stated in ETA's response to this prior audit, ETA never approved the discontinuance of compliance with statutory eligibility requirements or the discontinuance of the benefit payment control operations, including mandatory overpayment recovery methods.

Additionally, on July 13, 2023, ETA issued Unemployment Insurance Program Letter (UIPL) No. 11-23,<sup>2</sup> in which ETA made it clear that required program integrity functions are not activities that can be suspended in future mass layoff events absent explicit statutory authorization to do so. Specifically, Section 4.b.ii. of this UIPL states:

"ETA reiterates the importance of conducting the required program integrity functions and encourages states to incorporate all recommended functions into a state's fraud management operations. States must continue to use, operate, and maintain the required integrity controls and the required overpayment recovery activities discussed below at all times, including during times of mass unemployment events, absent specific statutory authorization allowing suspension of such controls or activities. ETA also strongly encourages states to use, operate, and maintain the recommended integrity controls and recommended overpayment recovery activities discussed below during such periods."

Based on ETA's actions to remind states of their obligation to continue the required program integrity functions and overpayment recovery activities, the OIG closed the recommendation from the prior report. ETA is also including Attachment I to provide details on specific efforts the Department has taken in recent years to provide additional resources to states to support them in taking a multi-layered approach in bolstering overpayment prevention and recovery efforts, including funding and technical assistance for state-specific action; establishing and

<sup>1</sup> OIG Report No. 19-22-006-03-315, *COVID-19: ETA and States Did Not Protect Pandemic-Related UI Funds from Improper Payments Including Fraud or From Payment Delays*, issued September 30, 2022, <https://www.oig.dol.gov/public/reports/oa/2022/19-22-006-03-315.pdf>.

<sup>2</sup> See Section 4.b.ii of UIPL No. 11-23, *Announcement of Grant Opportunities and National Identity (ID) Verification Offering under the American Rescue Plan Act (ARPA)*, issued July 13, 2023, <https://www.dol.gov/agencies/eta/advisories/uipl-11-23>.

overseeing the National UI Integrity Center; establishing partnerships with other federal agencies; and providing states with access to additional data sources and services. ETA is committed to developing and continuing to promote additional integrity resources to meet existing risks and any identified risks in the future.

Based on the OIG's closure of Recommendation 2 from the prior audit and ETA's actions to provide resources as described in Attachment I, ETA respectfully requests that this recommendation be considered for closure.

**Recommendation 3: Continue to work with Congress to lift restrictions on the use of contractors for the Treasury Offset Program recovery method.**

ETA's Response: ETA agrees with this recommendation. As acknowledged on page 19 of the draft report, ETA has included a legislative proposal in prior Department budgets submitted to Congress that would allow the use of contractors to recover overpayments using the Treasury Offset Program.

Based on the inclusion of the legislative proposal in previous budgets, ETA respectfully requests that this recommendation be considered for closure.

**Recommendation 4: Continue to work with Congress to develop incentives for SWAs to: (1) detect and address ongoing or past instances of overpayment and fraud, and (2) recover federally-funded UI overpayments.**

ETA's Response: ETA agrees with this recommendation and would add that developing incentives, as well as requiring certain activities be consistent across all states, is necessary to further bolster such efforts. As acknowledged on page 18 of the draft report, ETA included a legislative proposal in prior Department budgets submitted to Congress that would allow states to retain a certain percentage of UI overpayment recoveries for program integrity use and to provide the Department with more meaningful enforcement authority and the ability to reward good performance. This legislative proposal also includes a recommendation to require the use of certain recommended activities, such as crossmatching against the National UI Integrity Center's Integrity Data Hub; using the State Information Data Exchange System to exchange information electronically with employers; crossmatching against the National Directory of New Hires; and crossmatching with a system providing information on individuals who are incarcerated.<sup>3</sup>

Based on the inclusion of the legislative proposal in the budgets, ETA respectfully requests that this recommendation be considered for closure. ETA will continue to reference this material in its discussions with Congress and provide technical assistance.

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<sup>3</sup> See pages 22 – 25 of *State Unemployment Insurance and Employment Service Operations* under the FY 2025 Budget, <https://www.dol.gov/general/budget/index-2025>.

Attachment

- Attachment I – The Employment and Training Administration’s Ongoing Efforts to Support States in Detecting and Recovering Improper Payments



**Attachment I**

**The Employment and Training Administration's Ongoing Efforts to Support States in  
Detecting and Recovering Improper Payments**

The U.S. Department of Labor's (Department) Employment and Training Administration (ETA) places a heightened priority on program integrity, which includes addressing the root causes of improper payments,<sup>1</sup> mitigating unemployment insurance (UI) fraud risks, and recovering overpayments. ETA provides guidance and instructions to states in the form of Unemployment Insurance Program Letters (UIPL) and Training and Employment Notices (TEN) that alert states to UI program requirements, important program trainings, UI integrity resources, and operational recommendations, including best practices in reducing improper payments.

ETA is committed to supporting states in pursuing effective improper payment reduction and antifraud strategies. The Department strongly encourages states to employ a multi-layered approach to fraud prevention, using an array of controls, tools, strategies, and resources to identify and prevent fraud. More information regarding the Department's completed, underway, and planned strategies to bolster state UI programs against fraud can be found in Action Area 4 of the Department's UI Transformation Plan.<sup>2</sup>

It is important to note that while fraud contributes to improper payments, not all improper payments are fraud. In fact, most UI improper payments are attributable to claimant errors and misunderstandings and/or lack of timely or adequate responses from employers.

***Establishing and Overseeing the National UI Integrity Center***

ETA established and oversees the operation of the National Association of State Workforce Agencies' (NASWA) UI Integrity Center, which is designed to assist states in their efforts to prevent, detect, and recover improper and fraudulent payments and improve program integrity by developing and promoting innovative program strategies. The UI Integrity Center provides technical assistance and consultative services to states to reduce the leading root causes of improper payments, develops and disseminates tools and products to highlight best practices, and provides operational recommendations to improve states' UI program performance.

Since 2019, the UI Integrity Center has been supporting states with behavioral insights, providing behavioral science information, expertise, and evidence-based insights for states seeking to achieve better outcomes on challenging program problems like improper payment reduction. The UI Integrity Center's Behavioral Insights (BI) Toolkit,<sup>3</sup> provides a collection of

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<sup>1</sup> In Fiscal Year (FY) 2024, the leading root causes of UI improper payments were from Work Search, Benefit Year Earnings (BYE), and Separation errors. Work search improper payments occur when UI claimants fail to document their work search efforts or fail to comply with state work search requirements. BYE improper payments occur when UI claimants fail to report earnings, or they incorrectly report earnings from employment. Separation improper payments occur when UI claimants receive benefits and are later determined to be ineligible due to a disqualifying separation from previous employment.

<sup>2</sup> UI Transformation Plan – *Building Resilience: A plan for transforming unemployment insurance*, published April 2024, [https://oui.doleta.gov/unemploy/transformation\\_plan.asp](https://oui.doleta.gov/unemploy/transformation_plan.asp).

<sup>3</sup> BI Toolkit, <https://library.naswa.org/bitoolkit>.

resources, articles, templates, and how-to information developed to help state UI agencies apply the learnings of BI within their UI programs to address some of the leading root causes of improper payments.

Below are some of the successful strategies ETA and the UI Integrity Center have encouraged states to integrate into their UI programs to reduce the leading root causes of improper payments:

- Implement work search requirements that have clear and easily understandable requirements and that reflect how individuals find jobs in the current labor market. States should review their work search requirements to ensure UI work search policy supports rapid reemployment and countable work search activities reflect how people find work in today's labor market (TEN No. 17-19<sup>4</sup>).
- Strengthen the use of the National Directory of New Hires to help identify claimants who have returned to work (UIPL Nos. 13-19,<sup>5</sup> 19-11,<sup>6</sup> TEN No. 05-20<sup>7</sup>).
- Increase the use of the States Information Data Exchange System (SIDES) to improve employers' timely and accurate submission of separation information (TEN No. 12-16<sup>8</sup>). The Office of Inspector General (OIG) has noted that SIDES is an effective integrity tool to address separation-related improper payments.<sup>9</sup>
- Simplify claimant handbooks and use plain language to provide clear instructions to UI claimants regarding:
  - The state's acceptable work search activities and work search documentation requirements.
  - Earnings reporting requirements (for example, reporting gross wages vs. net wages, reporting earnings when they are earned vs. when they are paid).
  - The state's definitions of the different reasons for separation.
- Leverage behavioral insight strategies to nudge compliance:
  - Use reminder/pop up messaging to remind UI claimants about work search and earnings reporting requirements.

<sup>4</sup> See TEN No. 17-19, *Model Unemployment Insurance State Work Search Legislation*, issued February 10, 2020, <https://www.dol.gov/agencies/eta/advisories/training-and-employment-notice-no-17-19>.

<sup>5</sup> See UIPL No. 13-19, *National Directory of New Hires (NDNH) and State Directory of New Hires (SDNH) Guidance and Best Practices*, issued June 7, 2019, <https://www.dol.gov/agencies/eta/advisories/unemployment-insurance-program-letter-no-13-19>.

<sup>6</sup> See UIPL No. 19-11, *National Effort to Reduce Improper Payments in the Unemployment Insurance (UI) Program*, issued June 10, 2011, <https://www.dol.gov/agencies/eta/advisories/unemployment-insurance-program-letter-no-19-11>.

<sup>7</sup> See TEN No. 05-20, *National Directory of New Hires (NDNH), State Directory of New Hires (SDNH), and Other Improper Payment Prevention and Detection Resources, Tools, and Services Available to States*, issued September 24, 2020, <https://www.dol.gov/agencies/eta/advisories/training-and-employment-notice-no-05-20>.

<sup>8</sup> See TEN No. 12-16, *Unemployment Insurance (UI) State Information Data Exchange System (SIDES)*, issued September 27, 2016, <https://www.dol.gov/agencies/eta/advisories/training-and-employment-notice-no-12-16>.

<sup>9</sup> OIG Report No. 04-17-003-03-315, *Better Strategies Needed to Increase Employer Participation in the State Information Data Exchange System*, issued March 31, 2017, <https://www.oig.dol.gov/public/reports/oa/2017/04-17-003-03-315.pdf>.

- Provide online options during the continued claim certification process for UI claimants to timely record and document work search activities.
- Embed automated earnings calculators to help UI claimants more accurately report their earnings from employment.

*Establishing Partnerships with Other Federal Agencies and Providing States with Access to Additional Data Sources and Services*

An important component of the Department's antifraud and improper payment reduction strategies is providing access to additional datasets and more data sources, offering states the ability to improve identity (ID) verification, data analysis capabilities, and more effectively identify suspicious activity prior to paying benefits. The Department actively pursues partnerships with other federal agencies and external parties to make additional data available to state UI agencies.

Another major effort involves supporting the growth and enhancement of the UI Integrity Center's UI Integrity Data Hub (IDH), which is operated by NASWA. The IDH is a critical payment integrity tool states use to submit UI claims for cross-matching and analysis to support the prevention and detection of UI fraud and improper payments. The IDH is available to states at no cost. ETA provides funding to NASWA to pursue new and innovative data sources and implement these tools into the IDH for use by states. Over the past several years, NASWA deployed numerous new data sources and data analysis resources into the IDH, including a risk scoring solution, a prioritization tool, and a bank account verification service.

- In FY 2024, ETA developed a strong data sharing partnership with the U.S. Department of the Treasury's (Treasury) Bureau of the Fiscal Service (Fiscal Service) to provide state UI agencies with streamlined access to Do Not Pay (DNP) data sources and services through the IDH. This partnership was officially announced on May 2, 2024, via a joint press release<sup>10</sup> and TEN No. 28-23,<sup>11</sup> and the first DNP data source went live in IDH production on July 10, 2024. ETA continues to work closely with Treasury's Fiscal Service to make additional DNP data sources and services available to states through the IDH in FY 2025.
- On September 17, 2024, NASWA developed and launched an Employer Data Module (EDM) into the IDH production environment. The first phase of the EDM allows states to create known fictitious employer records in the Fictitious Employer Repository (FER) and crossmatch employer registration data against the FER and fictitious employer fraud alerts. NASWA held a webinar for states on

<sup>10</sup> Press Release – *Departments of Labor, Treasury Announce Partnership to Make Federal Fraud Prevention Tool Available to State Unemployment Insurance Agencies*, issued May 2, 2024, <https://www.dol.gov/newsroom/releases/eta/eta20240502-1>.

<sup>11</sup> See TEN No. 28-23, *Announcement of a New Data Sharing Partnership Between the U.S. Department of Treasury's (Treasury) Bureau of the Fiscal Service (Fiscal Service) and the National Association of State Workforce Agencies' (NASWA) Unemployment Insurance (UI) Integrity Center to provide State UI Agencies Access to Do Not Pay Working System (DNP) Data Sources and Services through the UI Integrity Data Hub (IDH)*, issued May 2, 2024, <https://www.dol.gov/agencies/eta/advisories/ten-28-23>.



October 16, 2024, to provide states with more details on this important new IDH functionality (*see* TEN No. 10-24.<sup>12</sup>).

***Funding and Technical Assistance to States for State-Specific Action***

Starting in 2021, the Department deployed expert multi-disciplinary teams (known as Tiger Teams) to analyze state UI systems and fund the implementation of recommended operational improvements.<sup>13</sup> In FY 2024, ETA delivered final Tiger Team state-specific recommendations for all 36 participating states, providing 378 state-specific recommendations for improvements, including recommendations to reduce the top root causes of improper payments.

The Department also made available up to \$525 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act grant funding to support states with fraud prevention, improper payment reduction, and overpayment recovery in the temporary pandemic-related unemployment compensation (UC) programs established by the CARES Act. ETA also recently provided states with an opportunity to request additional funding to cover ongoing administrative costs related to reporting; data retention; audit-related and oversight activities; efforts to detect, establish and recover overpayments; and financial reconciliation efforts associated with the pandemic-related UC program established under the CARES Act (*see* UIPL No. 17-24.<sup>14</sup>). Permissible use of these funds includes the reconciliation and return of recovered funds, and other claim or payment resolution actions. In addition, funds can be used by states to pursue civil and/or criminal investigations related to fraudulent claims and states' overpayment collection activities associated with Federal Pandemic Unemployment Compensation, Pandemic Emergency Unemployment Compensation, and Pandemic Unemployment Assistance benefits.

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<sup>12</sup> See TEN No. 10-24, *Announcing Webinar for the Integrity Data Hub (IDH) Employer Data Module (EDM): A New UI Employer Integrity Tool*, issued October 11, 2024, <https://www.dol.gov/agencies/eta/advisories/ten-10-24>.

<sup>13</sup> Tiger Team engagements with states ended after the \$1.0 billion rescission of American Rescue Plan Act funds for the UI program, which was included in the Fiscal Responsibility Act of 2023.

<sup>14</sup> See UIPL No. 17-24, *Supplemental Budget Request (SBR) Opportunity for Additional Administrative Funding to Support States' Ongoing Administrative Activities Associated with Certain Coronavirus Aid, Relief, and Economic Security (CARES) Act Unemployment Compensation (UC) Programs*, issued August 26, 2024, <https://www.dol.gov/agencies/eta/advisories/uipl-17-24>.