

ETA's Response to Draft Report


U.S. Department of Labor

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



MAR 26 2015

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

FROM: PORTIA WU 
Assistant Secretary

SUBJECT: Response to the Office of the Inspector General (OIG) Audit
Report No. 18-15-001-03-315 – Recovery Act: Effectiveness of
Pennsylvania in Detecting and Reducing Unemployment Insurance
Improper Payments and Implementation of Employment and
Training Administration National Strategies

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

ETA appreciates the acknowledgement on page 2 of the report that the recession created a major challenge for states in addressing improper payments. States experienced significant increases in the volume of UI claims that resulted in the shifting of resources to ensure timely payments to eligible claimants. In addition, the complexity of the temporary benefit programs overloaded state capacity. Many states, like Pennsylvania, also struggled with antiquated and inflexible information technology systems that impacted their capacity to address program integrity issues. These strains on state resources further hindered their ability to detect, prevent, and recover improper payments.

As you 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 will continue working with 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 a 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 all states and include, among others: data analytics and predictive modeling methodologies and tools to improve UI fraud prevention and detection; a secure portal

for the rapid exchange of fraud information between states as it is identified; staff training on fraud solutions and integrity practices that is locally adaptable; 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 responses to the recommendations in the report. If you have questions, please contact Leo Miller, Acting Regional Administrator for the Philadelphia Office, at (215) 861-5204.

Attachment

**Employment and Training Administration (ETA) Response To
Office of the Inspector General (OIG) Report No. 18-15-001-03-315 – Recovery Act:
Effectiveness of Pennsylvania in Detecting and Reducing Unemployment Insurance
Improper Payments and Implementation of Employment and Training Administration
National Strategies**

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

1. ETA should work with and encourage Pennsylvania to continue to make improvements and enhancements to its legacy system, while other alternatives to replacing the legacy system are researched.

Supporting modernization and enhancements to state information technology (IT) legacy systems has been a high priority for ETA for many years. To address this challenge, ETA funds and works collaboratively with the Information Technology Support Center (ITSC) operated by the National Association of State Workforce Agencies (NASWA), to provide technical assistance and support to individual states and state consortia on their UI information technology (IT) modernization efforts.

At Pennsylvania's request, ITSC is working with the state to explore alternatives to address its need to modernize its IT system, including conducting a business process analysis to identify areas of improvement in their claims-intake process to improve program integrity. ETA and ITSC will continue to identify opportunities that may be available to the Pennsylvania to modernize its IT system.

2. ETA should work with and encourage Pennsylvania to develop measures for determining the effectiveness of cross-matching and other strategies.

ETA will work with Pennsylvania to encourage and provide technical assistance to develop and implement metrics that can be used to measure the effectiveness of the state's strategies. We agree that it would be beneficial for the state to track the results of their integrity strategies to the extent feasible. However, we note that many variables impact a state's overall improper payment rate and root causes making it particularly challenging to develop measures that accurately evaluate the effectiveness of individual strategies.

3. ETA should work with and encourage Pennsylvania to explore the steps necessary to utilize state income tax offset as a method of recovery, and make legislative recommendations if necessary.

ETA will work with Pennsylvania to encourage the implementation of the state income tax offset as a method of recovery of UI overpayments. If the state decides to pursue the state income tax offset recovery method, ETA will share information regarding best practices from other states

that have implemented the offset and provide any technical assistance that may be necessary for drafting state legislation to ensure it conforms to Federal law.

Pennsylvania's Response to Report

**PENNSYLVANIA RESPONSE TO US DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL AUDIT REPORT
3/20/15**

**Pennsylvania Has Made Improvement in the Targets for Detecting, Reducing
and Recovering Improper Payments**

Detecting Improper Payments

Although Pennsylvania's improper payment detection rate decreased slightly from 46% to 40% from 2012 to 2013, the rates have significantly improved since the 27% rate in 2010 and 2011. Pennsylvania is committed to continued improvement in detecting improper payments.

Reducing Improper Payments

From 2012 to 2013, Pennsylvania's improper payment rate improved, decreasing from nearly 14% to approximately 12%. Pennsylvania is committed to continued improvement in reducing improper payments.

Recovering Improper Payments

From 2012 to 2013, Pennsylvania's improper payment recovery rate improved, increasing from 35% to 53%. It is important to note that ETA did not have an Overpayment Recovery Rate measure until 2013. So during the review period of 2009 to 2012, any reference to a failure to meet the 50% requirement is inaccurate. Also, contrary to the report, Pennsylvania is a full participant in the Interstate Reciprocal Recovery Arrangement (IRORA). Pennsylvania is committed to continued improvement in recovering improper payments.

Reporting Improper Payments

As indicated in the audit report, Pennsylvania was unable to conduct data validation during the audit period due to the limitations in the Legacy mainframe system and the anticipated transition to a new computer system, UC Management System (UCMS), which was discontinued. However, Pennsylvania is currently working with ETA to revise its data validation guidebook and expects to begin UC Benefits data validation in 2016.

**Pennsylvania Has Implemented Eight of the Eight
ETA National Strategies and Can Demonstrate That They Are Effective**

Pennsylvania has implemented all eight of the eight ETA National Strategies aimed at the prevention, detection and recovery of UI overpayments. Pennsylvania strongly disagrees with the broad assertion in the audit report that "Pennsylvania could not provide evidence of the [ETA National] strategies' effectiveness." Pennsylvania provided the Office of Inspector General statistics on every measurable ETA strategy one year ago which is summarized below. All of these strategies contributed to the improvement in Pennsylvania's improper payment rate, detection rate and recovery rate.

1. Cross Functional UI Integrity Task Force

- Status – implemented
- Target – prevention, detection, recovery
- Measurable Results – The UI Integrity Task Force is a cross-functional team that includes a combination of management, front-line workers, and state subject matter experts that assess and address root causes of improper payments. The key objective for the task force is to focus on the root causes of overpayments that have the highest impact in the state and use this process to plan strategies that will achieve immediate and meaningful reductions in the improper payment rate. See the results of all of the State Specific Strategies below.

2. State Quality Service Plan (SQSP)

- Status - implemented
- Target – prevention and detection
- Measurable Results – The SQSP is a roadmap to state improvement, whereby states identify action steps to improve performance and then chart outcomes. A key component of the SQSP is the reporting and tracking of performance. The assessment of the SQSP actions is the performance outcome. Utilizing the SQSP action plan, PA increased its overpayment detection performance from 34.80% for the 4th qtr. of 2012 to 38.88% in 4th qtr. 2013.

3. National Directory of New Hires (NDNH) and State Directory of New Hires (SDNH)

- Status - implemented
- Target - prevention
- Measurable Results –

Period	No. of Overpayments (OP) Established	Dollar Amount of Overpayments Established
2009	2,157	\$1,880,255
2010	1,533	\$1,234,370
2011	4,950	\$3,649,432
2012	5,704	\$3,702,590
2013	5,269	\$3,083,780
Totals	19,613	\$13,550,427

4. State Information Data Exchange Systems (SIDES)

- Status - implemented
- Target - prevention
- Measurable Results – SIDES is a web-based system that allows electronic transmission of UI information requests from UI agencies to employers and/or Third Party Administrators, as well as transmission of replies containing the requested information back to the UI agencies. To date, over 12,000 employers participate in SIDES and exchange UI information with PA electronically.

5. Claimant Messaging

- Status - implemented
- Target – prevention
- Measurable Results – Implementation of a statewide claimant messaging campaign designed to: 1) improve claimants' awareness of their responsibility to report any work and earnings if they are claiming benefits, and 2) improve claimants' understanding of work search requirements as a condition of eligibility for benefits. This strategy is an awareness campaign, the results of which are difficult to quantify.

6. Employer Messaging

- Status - implemented
- Target - prevention
- Measurable Results – Implementation of a statewide employer messaging campaign designed to improve employers' awareness of their responsibility to respond to state requests for separation information and/or earnings/wage verifications. This strategy is an awareness campaign, the results of which are difficult to quantify.

7. Treasury Offset Program (TOP)

- Status - implemented
- Target - recovery
- Measurable Results – TOP allows the state to offset federal tax refund payments to collect unemployment compensation debts.

Period	No. of Garnished Refunds	Percent Increase between 2012-2013	Dollar Amount Recovered	Percent Increase between 2012-2013
2012 (2011 tax year)	4,317		\$9,468,396.18	
2013 (2012 tax year)	9,019		\$16,776,213.37	
Totals	13,336	208.92%	\$26,244,609.55	177.18%

8. State Specific Strategies

a. DOT team (Designated Overpayment Teams)

- Status - implemented
- Target – detection
- Measurable Results – DOTs were responsible for establishing over \$63 million in overpayments for calendar year 2013; with a total of \$174,348,508 in overpayments established since their inception in September 2011.

b. Foreign IP blocker

- Status - implemented
- Target - prevention
- Measurable Results – Foreign IP blocker runs the IP addresses that access the UC claimant website and creates a list of hits for further investigation. During calendar year 2013, 6,477 foreign IP addresses were blocked.

c. UC Fraud Hotline and UC Fraud Link

- Status - implemented
- Target – prevention and detection
- Measurable Results – In 2013 the Internal Audit Division (IAD) supervisors received a total of 1,441 new cases and staff completed 1,556 cases. From January 1, 2013 through December 31, 2013, IAD investigations resulted in the detection of an estimated \$4,547,399 in fraud related overpayments.

d. Border State, Intrastate and Interstate Cross-Match

- Status - implemented
- Target - prevention
- Measurable Results –

Border State and Intrastate Cross-Match

Period	No. of Overpayments Established	Dollar Amount of Overpayments Established
February 1, 2009 to December 31, 2009	636	\$629,870
2010	1,205	\$1,344,686
2011	3,019	\$3,317,615
2012	9,655	\$16,800,427
2013	5,627	\$12,033,003
Totals	20,143	\$34,125,601

Interstate Cross-Match

Period	No. of OP Established	Dollar Amount of Overpayments Established
February 1, 2009 to December 31, 2009	67	\$202,287
2010	531	\$1,748,019
2011	693	\$1,578,642
2012	1,233	\$3,170,309
2013	1,449	\$2,278,641
Totals	3,973	\$8,977,898

e. Justice Network (JNET)/Department of Corrections Cross-match

- Status - implemented
- Target - prevention
- Measurable Results –

JNET Cross-Match

Period	No. of Overpayments Established	Dollar Amount of Overpayments Established
As of 1/16/13	268	\$965,454

Period	Number of JNET Hits
2012	2,337
2013	18,961
Totals	21,298

Department of Corrections Cross-Match

Period	No. of Overpayments Established	Dollar Amount of Overpayments Established
CY 2012	202	\$38,941

Period	Number of PA Department of Corrections Hits
2012	202
2013	86
Totals	288

f. Amnesty Program

- Status - implemented
- Target - recovery
- Measurable Results –

Type	No. of Overpayments Recovered	Dollar Amount of Overpayments Recovered
Claimants	6,524	\$5,166,152
Employers	6,459	\$10,418,837
Total	12,983	\$15,584,989

g. PA Department of Transportation (PennDOT) Cross-match

- Status - implemented

- Target - prevention
- Measurable Results – There were 359 hits from this cross-match during calendar year 2012 and 137 hits from this cross-match between January 1, 2013, and June 30, 2013.

Recommendations Response

- 1) As indicated to the audit team and mentioned in the audit report, Pennsylvania has been making modifications to the Legacy mainframe system to improve its overall process efficiency since the discontinuance of the UCMS project in 2013. Pennsylvania is also in the process of researching the options to replace the legacy system.
- 2) As demonstrated in this response, Pennsylvania does measure the effectiveness of the ETA National Strategies and state specific strategies on overpayments. Pennsylvania has implemented all of the recommended ETA National Strategies and continues to work with ETA to adopt new approaches to prevent, detect and recover overpayments.
- 3) Pennsylvania will explore whether implementation of state income tax interception for UC overpayments is a viable option.

Conclusion

While Pennsylvania's overpayment performance did not meet all of the existing ETA standards during the audit period of 2009-2012, it must be reaffirmed that this occurred during a recessionary period that was unrivaled in recent history. Pennsylvania's claims load more than doubled during the review period and the focus had to be on providing UC benefit services to the unemployed. In addition, during this period, federal legislation resulted in complex benefit administration that was extremely difficult to manage and implement in a 40 year old Legacy mainframe system. As the workload has normalized, Pennsylvania is recommitted to improving all aspects of UC performance including overpayment metrics. Several improvements have been pointed out in this response and positive progress is expected to continue in the future.