

U.S. Department of Labor

Office of Inspector General—Office of Audit

REPORT TO EMPLOYMENT AND TRAINING ADMINISTRATION



RECOVERY ACT: EFFECTIVENESS OF NORTH CAROLINA IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS AND IMPLEMENTATION OF EMPLOYMENT AND TRAINING ADMINISTRATION NATIONAL STRATEGIES

This audit was performed by WithumSmith+Brown PC, CPAs, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Ernest P. Lewis

Assistant Inspector General for Audit

Date Issued: September 30, 2015
Report Number: 18-15-002-03-315

BRIEFLY...

Highlights of Report Number 18-15-002-03-315, issued to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

The Unemployment Insurance (UI) program is designed to provide benefits to individuals out of work and is administered at the state level, but benefits are funded by both state and federal monies derived primarily from employer taxes. The North Carolina Department of Commerce Division of Employment Security (North Carolina) is responsible for designing controls to detect and recover UI benefit overpayments. The American Recovery and Reinvestment Act of 2009 (Recovery Act), which was enacted in February 2009, provided additional funding for the Extended Benefits (EB), Emergency Unemployment Compensation (EUC), and Federal Additional Compensation (FAC) programs.

The audit covered the processes and procedures North Carolina used to detect, reduce, recover, and report UI improper payments from the February 2009 inception of the Recovery Act through December 2012. The state paid \$9.2 billion in EB, EUC, and FAC benefits, in addition to \$6.9 billion in state-funded UI benefits during that period.

WHY OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

How effective was North Carolina at detecting, reducing, recovering and reporting UI improper payments and at implementing Employment and Training Administration (ETA) National Strategies to reduce improper payments?

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:

<http://www.oig.dol.gov/public/reports/oa/2015/18-15-002-03-315.pdf>.

September 2015

RECOVERY ACT: EFFECTIVENESS OF NORTH CAROLINA IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS AND IMPLEMENTATION OF EMPLOYMENT AND TRAINING ADMINISTRATION NATIONAL STRATEGIES

WHAT OIG FOUND

We found North Carolina did not effectively detect, reduce, or recover improper payments, and did not report to ETA in a timely manner. North Carolina's detection rates remained well short of its target of 50 percent during our audit period. Its recovery rates also remained well short of 50 percent, although ETA did not implement its Overpayment Recovery Measure until 2013. Furthermore, North Carolina's improper payment rates increased above the target rate of 10 percent. This was due in part to the state experiencing a significant increase in volume of UI claims, combined with the increased complexity of the EB and EUC programs, which overloaded North Carolina's capacity and strained its resources.

North Carolina implemented six of eight ETA National Strategies, but was not able to demonstrate these strategies were effective because of the indirect impact some had on preventing overpayments, the lack of information collected to evaluate effectiveness, and the lack of significant change in rates during the period to indicate improvement.

WHAT OIG RECOMMENDED

We recommended the Assistant Secretary for Employment and Training: 1) work with and encourage North Carolina to fully develop a Cross-Functional Task Force that can enhance its strategic planning process for improving its improper payment rates; and 2) develop measures for determining the effectiveness of cross-matching and other strategies.

ETA generally agreed with the recommendations and described planned actions and actions already in process to implement the recommendations.

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Independent Auditors' Report

September 30, 2015

Ms. Portia Y. Wu
Assistant Secretary
for Employment and Training
200 Constitution Avenue, NW
Washington, DC 20210

The Unemployment Insurance (UI) program is designed to provide benefits to individuals out of work and is administered at the state level, but benefits are funded by both state and federal monies derived primarily from employer taxes. The North Carolina Department of Commerce Division of Employment Security (North Carolina) is responsible for designing controls to detect and recover UI benefit overpayments.

The American Recovery and Reinvestment Act of 2009 (Recovery Act), which was enacted in February 2009, provided additional funding for benefits for the Extended Benefits (EB), Emergency Unemployment Compensation (EUC), and Federal Additional Compensation (FAC) programs.

We conducted a performance audit to answer the following question:

How effective was North Carolina at detecting, reducing, recovering and reporting UI improper payments and at implementing Employment and Training Administration (ETA) National Strategies to reduce improper payments?

We found North Carolina did not meet established targets for detecting, reducing, and recovering improper payments, and did not report data to ETA in a timely manner. Further, while North Carolina initially implemented six of eight ETA National Strategies for reducing improper payments, North Carolina could not demonstrate these strategies were effective.

The Recovery Act provided funding from the general fund of the U.S. Department of the Treasury (Treasury) and extended the ending date of EUC benefits; created and funded a new program, FAC; and provided for 100 percent federal funding and extended the date of EB benefits. The EUC, FAC, and EB programs were further extended and funded by legislation subsequent to the Recovery Act. Although states were required to separately track and report the activities of these programs, they were not required to track and report on the separate funding sources within these programs. Therefore, North Carolina did not have a mechanism in place to identify overpayments and recoveries related to Recovery Act funding. As a result, we were not able to separately report on or determine the effectiveness of North Carolina's ability to detect, reduce, recover, and report on UI improper payments related solely to Recovery Act improper payments.

WithumSmith+Brown (WS+B), under contract with the Department of Labor's (DOL) Office of Inspector General (OIG), audited North Carolina's effectiveness in detecting, reducing, recovering, and reporting improper payments for the period from the February 2009 inception of the Recovery Act through December 31, 2012. Between February 2009 and December 2012, North Carolina paid \$9.2 billion in EB, EUC, and FAC benefits, in addition to \$6.9 billion in state-funded UI benefits.

Objective — How effective was North Carolina at detecting, reducing, recovering, and reporting UI improper payments and at implementing ETA National Strategies to reduce improper payments?

North Carolina did not meet established targets for detecting, reducing, and recovering improper payments; reporting was not timely; and it could not demonstrate that implemented strategies were effective.

We found North Carolina did not effectively detect, reduce, or recover improper payments, and did not report data to ETA in a timely manner. North Carolina's detection rates remained well short of its target of 50 percent during our audit period. Its recovery rates also remained well short of 50 percent, although ETA did not implement its Overpayment Recovery Rate Measure until 2013. Furthermore, North Carolina's improper payment rates increased above the target rate of 10 percent. This was due in part to the state experiencing a significant increase in the volume of claims, combined with the increased complexity of the EB and EUC programs, which overloaded North Carolina's capacity and strained its resources, making it difficult for North Carolina to effectively detect, reduce, and recover improper payments.

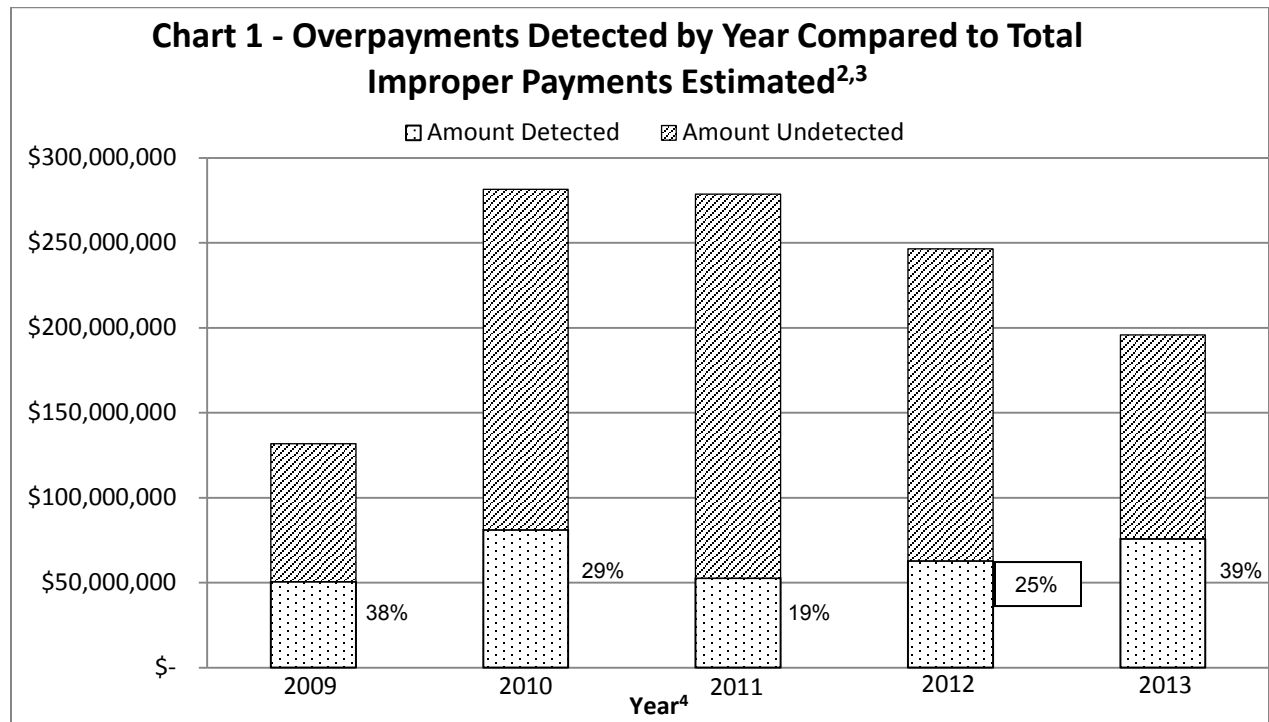
In addition, of ETA's eight National Strategies aimed at reducing, detecting, and recovering improper payments, North Carolina implemented six during our audit period, but could not demonstrate these strategies were effective. The two National Strategies that North Carolina did not implement were the Cross-Functional UI Integrity Task Force

and the Treasury Offset Program (TOP).¹ While North Carolina’s legislature had formed a House Unemployment Fraud Task Force to stop unemployment fraud and abuse, there was not a task force within North Carolina that administered the UI program. North Carolina’s ability to reduce improper payments was diminished by not having a Cross-Functional UI Integrity Task Force, which would have incorporated a system-wide approach across all UI functions and units focused on developing state-specific strategies to address the key root causes of improper payments.

North Carolina did not meet established targets for detecting, reducing, and recovering improper payments and did not report data to ETA timely.

Detecting Improper Payments

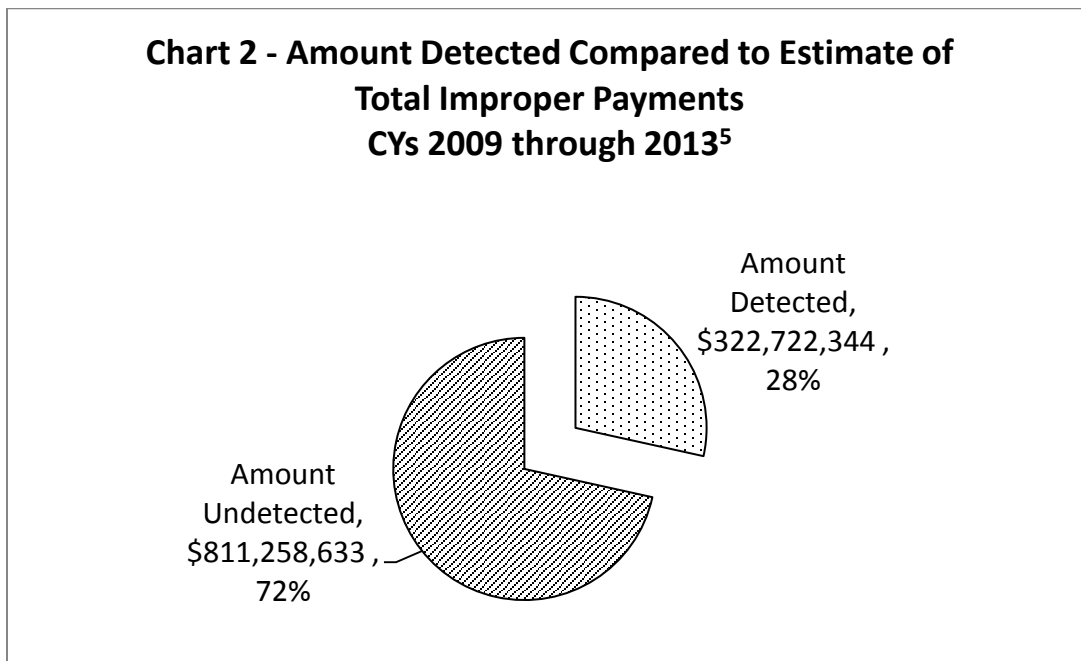
Although some of the ETA strategies North Carolina implemented helped to increase the dollar value of overpayments it detected, the strategies did not increase the detection rates. North Carolina remained well short of its detection rate target of 50 percent during our audit period. North Carolina’s detection rate declined from 38 percent in 2009, to 19 percent in 2011, before rising to 39 percent in 2013. Although the detection rate dipped and then rebounded, the dollar value of overpayments detected steadily rose from \$51 million in Calendar Year 2009 to \$76 million in Calendar Year (CY) 2013. Chart 1 below depicts the amounts detected compared to the estimate of improper payments.



¹ North Carolina implemented TOP in December 2012 and began collections in February 2013.

The primary means ETA used to assess states' effectiveness at detecting improper payments was the detection rate, which measured the actual overpayments detected as a percentage of the detectable, recoverable overpayments as calculated by the Benefit Accuracy Measurement (BAM) program. The BAM program is a national program designed to statistically sample benefit payments made and estimate the improper payments in the UI program. ETA's target for all states was to detect and establish for recovery 50 percent of the detectable, recoverable overpayments.

As depicted in Chart 2, from CYs 2009 through 2013, North Carolina detected 28 percent of the estimated improper payments occurring during that time.



The ETA National Strategies North Carolina implemented to detect improper payments included the National Directory of New Hires (NDNH) and several state-specific strategies, including other types of cross matches. The cross-match process included using computer-assisted analysis of North Carolina UI information from various state

² ETA's methodology uses a data collection period of the numerator (Benefit Payment Control data) which begins and ends six months after the denominator (BAM data) to allow sufficient time to detect and establish overpayments identified through the wage-benefit cross match, which is only available quarterly.

³ The denominator for the Detection of Overpayments ratio is estimated from the sample-based BAM program.

⁴ Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

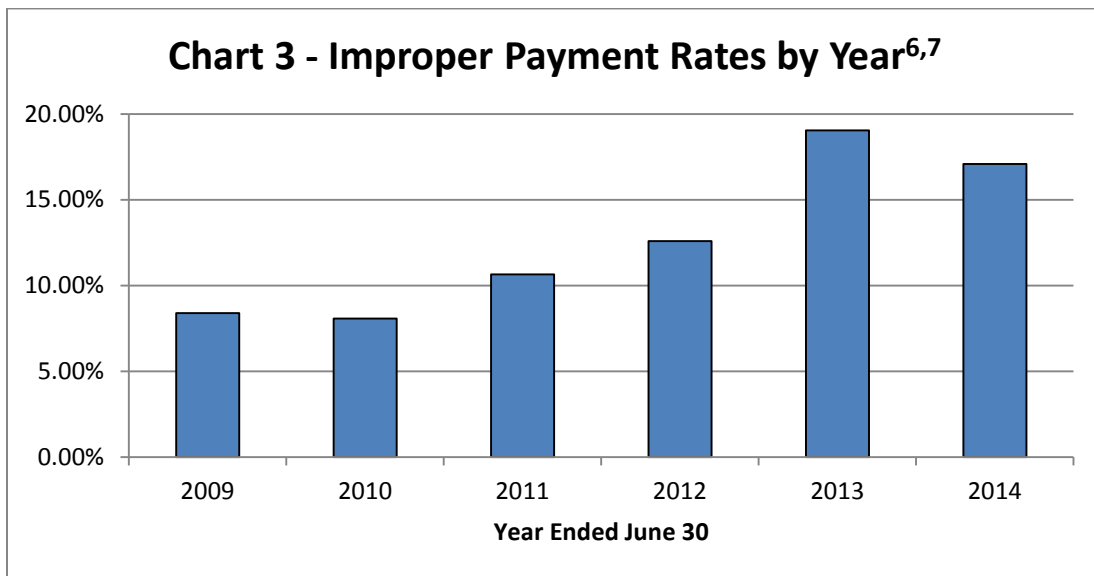
⁵ Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

and federal databases to identify claimants who may be ineligible to receive benefits. Identified matches must be researched before an overpayment determination can be made. However, we noted obtaining third-party corroboration for cross matches could be difficult, and limited staffing resources hampered North Carolina’s ability to research the identified matches. As a result, backlogs of matches requiring investigation developed and increased over time.

North Carolina reported overpayments of about \$2 to \$3 million per year from 2009 to 2012 that it established using NDNH. However, the lack of available performance metrics, such as number of hits identified, number investigated, etc., made it difficult to determine NDNH’s effectiveness.

Reducing Improper Payments

North Carolina was not able to demonstrate effectiveness in reducing improper payments during our audit period. The primary means ETA used to measure whether states effectively reduce improper payments were the rates calculated through the BAM program. This program provided a statistical estimate of the rate of improper payments during a period of time. North Carolina’s improper payment rates have remained above the ETA established targeted rate of 10 percent since the fiscal year ended June 30, 2011, as depicted in Chart 3.



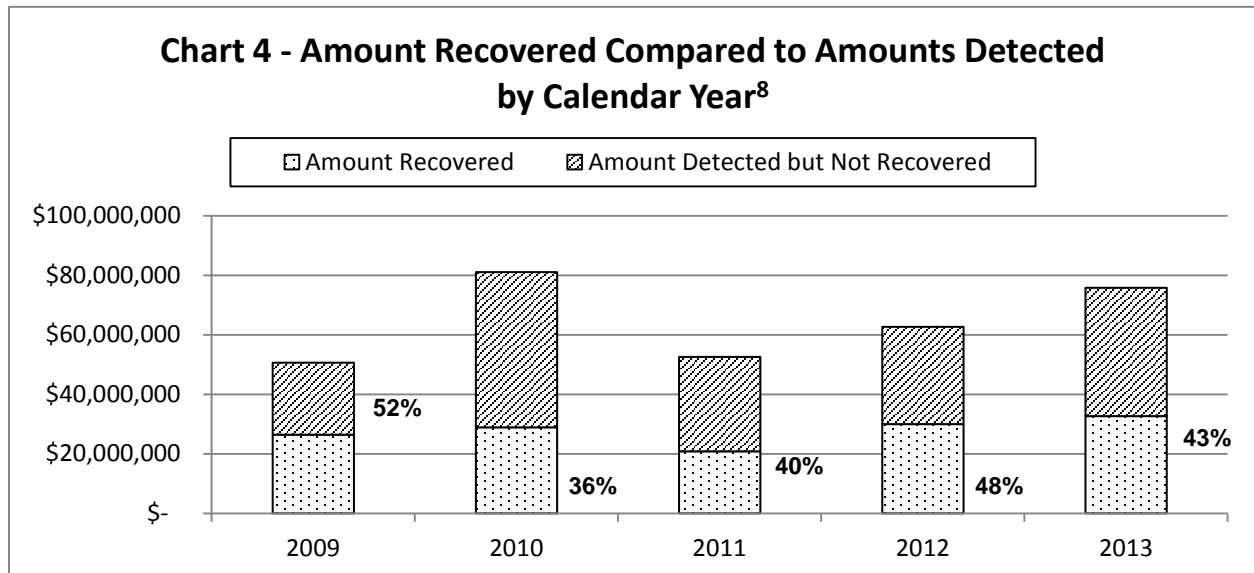
⁶ Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

⁷ A confidence interval, expressed as +/- x percentage points, is constructed for the estimated improper payment rates. The actual rate is expected to lie within 95 percent of the intervals constructed from repeated samples of the same size and selected in the same manner as the BAM sample.

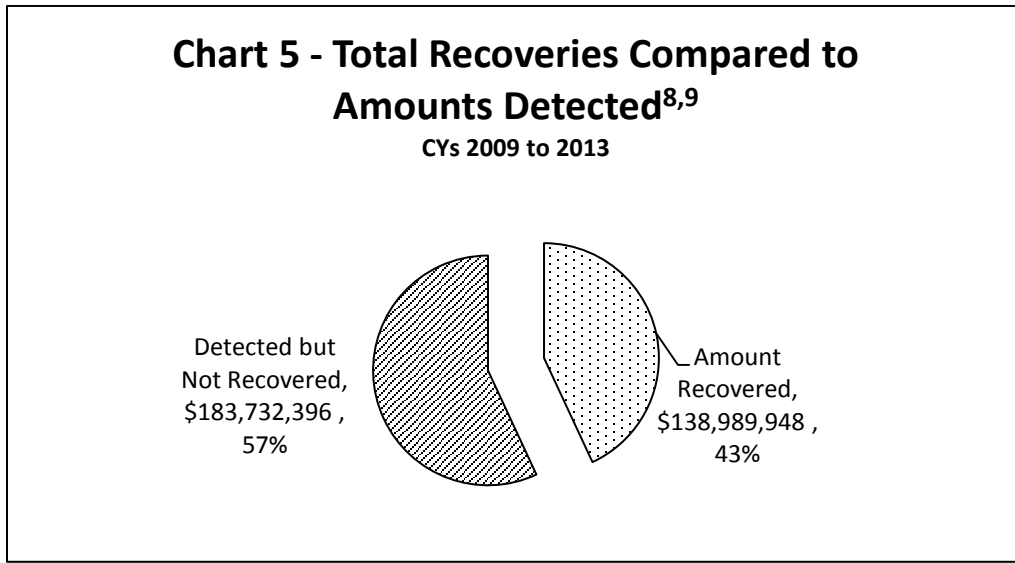
Many of the ETA strategies that North Carolina implemented were aimed at detecting or recovering overpayments, rather than preventing overpayments. The improper payment rate would not be impacted by improvements in detecting or recovering overpayments since these strategies would not reduce the actual occurrence of overpayments, but rather would increase the detection of overpayments that have occurred. The effectiveness of strategies implemented by North Carolina that were aimed at preventing overpayments, such as the State Quality Service Plan (SQSP)/Program Intergity Action Plan, and Claimant and Employer Messaging, cannot be adequately measured other than by the increase or reduction in the state’s improper payment rate over time.

Recovering Improper Payments

North Carolina did not alter its recovery methods during our audit period. Its recovery results fluctuated primarily as a result of the amount of unemployment benefit offset that was available in any given period, which was North Carolina’s primary method of recovery. Legislation extending the benefit weeks available to claimants impacted the total dollars recovered. North Carolina’s total recoveries ranged from approximately \$21 to \$33 million per year. One measure of states’ effectiveness at recovering improper payments is the rate of recoveries as a percentage of the overpayments detected and established (i.e., the recovery rate). North Carolina’s recovery rate started at 52 percent for 2009, but was below 50 percent during the remainder of our audit period, ranging from 36 to 48 percent. Charts 4 and 5 show the amount recovered compared to the amount detected by year and in total.



⁸ Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.



Once an overpayment was detected and proper notice was given to the claimant, North Carolina employed several types of recovery methods, which varied based on the nature of the overpayment (such as whether there was fraud or fault on behalf of the claimant). We found benefit offset accounted for 53 percent¹⁰ of the total recoveries made by North Carolina. Recovery methods utilized by North Carolina were as follows:

Table 1 - Recovery Methods Utilized by North Carolina

| Method | Description |
|---|---|
| Benefit Offset | Reduction of future North Carolina UI benefit payments |
| State Income Tax Offset | Interception and recovery of state income tax refund |
| Voluntary repayment /billing notices/checks | Claimant voluntarily repays by check after receipt of notice |
| Repayment plans | Claimant enters into a repayment plan with the state |
| Interstate recovery | North Carolina recovers from another state (which participates in the Interstate Reciprocal Overpayment Recovery Agreement) by offsetting UI benefits to claimant |

Source: Auditors' analysis of descriptions and recovery methods utilized by North Carolina

⁹ Amounts detected included approximately \$19 million of overpayments that were waived by NC.

¹⁰ Includes State UI only. ETA does not require dollar amounts by recovery method for EUC to be reported on the ETA 227 report; therefore, this information was not available.

Reporting Improper Payments

We determined North Carolina accurately reported overpayment and recovery activity to ETA, although it did not do so in a timely manner. The ETA-227, *Overpayment Detection, and Recovery Activities* report is due the first day of the second month after the quarter ends. North Carolina's Benefits Integrity Unit submitted the reports late, ranging from 20 days to 7.5 months after their due date. The current Benefits Integrity Unit staff attributed the prior untimeliness to internal systems problems.

North Carolina implemented six of eight ETA National Strategies, but was not able to demonstrate these strategies were effective.

Although six of the eight ETA National Strategies were implemented, North Carolina could not provide evidence of the strategies' effectiveness. Some strategies had an indirect impact on preventing overpayments that could not be measured in a meaningful way. For other strategies, information was not collected in a way to evaluate their effectiveness. Additionally, an analysis of the changes in the improper payment rates, detection rates, and recovery rates, showed no significant improvement in these rates, preventing demonstration of the strategies' effectiveness.

In 2011, ETA issued a "call to action" to help improve improper payment rates throughout the UI system and identified eight National Strategies that were designed to help states prevent, detect, and recover UI improper payments. The strategies were:

- 1) **Cross-Functional Task Forces** – These are cross-functional teams that include a combination of management, front-line workers, and state subject matter experts that will assess and address root causes of improper payments in individual states. The key objectives for these task forces is to have every state focus on the root causes of overpayments that have the highest impact in the state and use this process to inform strategic planning that will achieve immediate and meaningful reductions in the improper payment rate.
- 2) **SQSP/Program Integrity Action Plan** – As part of the submission of the SQSP (beginning in Fiscal Year (FY) 2012), states are required to develop a Program Integrity Action Plan. States are to analyze their BAM data to identify the top root causes for improper payments and develop strategies that will be effective in reducing or recovering improper payments, using an ETA prescribed format.
- 3) **Mandatory Use of NDNH and Recommended Operating Procedures (ROP)** – For several years, ETA has encouraged states to use the NDNH to reduce improper payments in the UI program. New-hire directories, which were created for the purpose of child support enforcement, have allowed for improved access to wage data and data from other states regarding new hires and wages. Studies conducted about NDNH have concluded that the use of this tool results in earlier detection of improper

payments, thereby increasing the likelihood of recovery. Detailed recommended operating procedures have been developed to provide states with information about best practices in conducting this match. Recommended Operating Procedures requires immediate contact with a claimant when there is a match to let them know there is a potential overpayment. This action is considered by ETA to be one of the most effective strategies for addressing the Benefit Year Earnings' root cause. Any states not already doing so were required to begin conducting cross matches using NDNH by December 2011, and all states were strongly encouraged to implement procedures in line with the recommendations.

- 4) **State Information Data Exchange System (SIDES)** – 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.
- 5) **Claimant Messaging** – Statewide claimant messaging is a campaign designed to improve claimants' awareness of their responsibility to report any work and earnings if they are claiming benefits, and improve claimants' understanding of work search requirements as a condition of eligibility for benefits. A state's campaign must consider how it may incorporate the Department's messaging products and tools.
- 6) **Employer Messaging** – Statewide employer messaging is a campaign designed to improve employers' awareness of their responsibility to respond to state requests for separation information and/or earnings/wage verifications. The state's campaign must consider how it may incorporate the Department's messaging products and tools.
- 7) **TOP** – TOP permits states to recover certain unemployment compensation debts from federal income tax refunds. This strategy is required for those states that received Fiscal Year 2013 supplemental budget requests.
- 8) **State-Specific Strategies** – State-specific strategies are to prevent improper payments and reduce the state's improper payment rates in key root cause areas. States must identify the extent to which the strategy is expected to reduce its improper payment rate, that is, identify a reduction target.

A ninth strategy, Employment Services (ES) Registration, applied only to states whose ES Registration error rates exceeded 3 percent. North Carolina did not exceed this threshold during our audit period.

- 9) **ES Registration** –Strategies include technology or other solutions designed to address improper payments due to a claimant’s failure to register with the state’s ES or job bank in accordance with the state’s UI law. These changes were to be implemented by April 30, 2012.

One of the two National Strategies North Carolina had not implemented was the Cross-Functional UI Integrity Task Force. ETA’s purpose of the cross-functional task force was to bring management, frontline workers, and subject matter experts together to reduce improper payments at the root cause level, using a top-down, strategic approach. Although North Carolina’s legislature formed a House Unemployment Fraud Task Force to stop unemployment fraud and abuse, it consisted of state legislators rather than management and frontline workers from UI operational units within North Carolina. The result was that North Carolina’s program integrity activities continued to take a decentralized approach from the individual operational units within North Carolina, rather than a top-down strategic approach.

Other factors that challenged North Carolina’s development of a cross-functional strategic planning process was a high turnover in top management, internal restructuring, and other priorities. The UI program had five Chief Executive Officers in four years. North Carolina’s primary focus during this period was to implement new legislation related to state unemployment benefit eligibility and benefit amounts, and the technology improvements necessary to meet the new legislative requirements. Other priorities included retiring Unemployment Trust Fund debt by 2015 and improving timeliness and accuracy of claims processing. North Carolina did establish a Task Force at the end of 2011, consisting of management officials from various UI functional areas, and that task force continued to meet through 2012. This task force, however, appeared to be primarily focused on Tax Operations. While beneficial to the overall UI operations, this task force did not appear to adequately address strategies for key root causes of UI improper payments.

North Carolina did implement TOP at the end of 2012, with collections beginning in February 2013, after our audit period.

Although North Carolina did not implement any state-specific strategies aimed at prevention or detection of UI improper payments, it had implemented two state-specific strategies aimed at recovery – the State Income Tax Offset and [participation in] the Interstate Reciprocal Overpayment Recovery Agreement.

Table 2 illustrates the status of North Carolina’s implementation of the ETA National Strategies as of the end of our audit period, December 31, 2012.

Table 2 - Status of Implementation of ETA National Strategies

| Strategy | Status |
|--|--------|
| Cross-Functional Task Force | * |
| State Quality Service Plan | |
| National Directory of New Hires | |
| State Information Data Exchange System | |
| Claimant Messaging | |
| Employer Messaging | |
| State-Specific Strategies | |
| Treasury Offset Program | |
| - Implemented - Not implemented - Implemented in December 2012, with collections beginning in February 2013 * - According to ETA, task force meetings were temporarily suspended in 2012 and resumed in October 2014 | |

Source: Auditor analysis of North Carolina’s implementation.

Recommendations

We recommend the Assistant Secretary for Employment and Training work with and encourage North Carolina to:

1. Fully develop a Cross-Functional Task Force within North Carolina that can enhance its strategic planning process for improving its improper payment rates.
2. Develop measures for determining the effectiveness of its cross-match strategies and the related follow-up on identified matches.

ETA’S RESPONSE

The Assistant Secretary for Employment and Training generally agreed with our recommendations. In its response, ETA stated the North Carolina Cross-Functional UI Task Force was created in June 2011. However, due to leadership changes in the state’s Benefits Integrity Unit, task force meetings were suspended in mid-2012. The meetings resumed as of October 2014 and are now monthly in 2015. ETA also stated it will ensure North Carolina has a fully functioning cross-functional integrity task force that continues to focus on developing and implementing strategies to reduce its improper



payment rate. Finally, ETA stated it will continue to monitor North Carolina to review and follow-up on the strategies and milestones included in North Carolina's Integrity Action Plan. ETA will also work with North Carolina to encourage and provide any technical assistance to measure the effectiveness of the state's strategies. ETA's response to our draft report is included in its entirety in Appendix D.

A handwritten signature in blue ink that reads "WithumSmith+Brown, PC".

WithumSmith+Brown PC

Appendices

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Appendix A

Objective, Scope, Methodology, and Criteria

Objective

We conducted an audit to answer the following question:

How effective was North Carolina at detecting, reducing, recovering, and reporting UI improper payments and at implementing ETA National Strategies to reduce improper payments?

Scope

The audit covered the processes and procedures North Carolina used to detect, reduce, recover, and report UI improper payments between February 2009 and December 2012. Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Our audit work was performed at the North Carolina Department of Commerce, Division of Employment Security, in Raleigh, NC; and ETA's National Office in Washington, DC.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

Methodology

To conduct the audit, we interviewed officials in the ETA Office of Unemployment Insurance in Washington, DC, and reviewed relevant ETA policy letters and guidance issued to the states. We obtained information and data specific to North Carolina from the ETA National Office and the ETA Regional Office (Region 3). We also interviewed officials at the North Carolina Department of Commerce, Division of Employment Security in Raleigh, NC, reviewed North Carolina state policies and procedures, and performed walkthroughs and testing of certain internal controls. We also performed testing on reports submitted to ETA and on a judgmental selection of recorded overpayments.

In planning and performing our audit, we obtained an understanding of North Carolina's internal controls considered significant to the audit objective. The testing of North Carolina's controls was not determined to be significant to our audit objective. We considered North Carolina's internal controls relevant to our audit objective by obtaining an understanding of those controls and assessing risk for the purpose of achieving our objective. The objective of our audit was not to provide assurance on the internal control; therefore, we did not express an opinion on ETA's or North Carolina's internal

controls. Our consideration of internal control would not necessarily disclose all matters that might be significant deficiencies. Because of the inherent limitation on internal control, misstatements or noncompliance may occur and not be detected.

Criteria

- Recovery Act of 2009 (Public Law (P.L.) 111-5)
- Federal Unemployment Tax Act (Title 26, United States Code, Chapter 23)
- Social Security Act
 - Title III, Grants to States for Unemployment Compensation Administration
 - Title IX, Miscellaneous Provisions Relating to Employment Security
 - Title XII, Advances to State Unemployment Funds
 - Title XV, Unemployment Compensation for Federal Employees
- Federal-State Extended Unemployment Compensation Act of 1970, as amended
- Internal Revenue Code, as amended
- Improper Payments Information Act of 2002 (P.L. 107-300)
- Executive Order 13520, Reducing Improper Payments (2009)
- Improper Payments Elimination and Recovery Act of 2010 (P.L. 111-204)
- Middle Class Tax Relief and Job Creation Act of 2012

Appendix B

Acronyms and Abbreviations

| | |
|--------------|--|
| BAM | Benefit Accuracy Measurement |
| CY | Calendar Year |
| DOL | Department of Labor |
| EB | Extended Benefits |
| ES | Employment Service |
| ETA | Employment and Training Administration |
| EUC | Emergency Unemployment Compensation |
| FAC | Federal Additional Compensation |
| NDNH | National Directory of New Hires |
| OIG | Office of Inspector General |
| P.L. | Public Law |
| RECOVERY ACT | American Recovery and Reinvestment Act of 2009 |
| SIDES | State Information Data Exchange System |
| SQSP | State Quality Service Plan |
| TOP | Treasury Offset Program |
| UI | Unemployment Insurance |
| WS+B | WithumSmith+Brown |

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Glossary

Cash – Checks or money orders

Claimant Benefit Offsets – Deductions of claimants' weekly benefit payments that are applied toward their overpayment balances. North Carolina law allows 50 percent of a claimant's weekly benefit to be offset in cases of non-fraud overpayments, and 100 percent for fraud overpayments.

Data Validation – States are required to file a series of standardized reports on their UI operations with ETA on a monthly or quarterly basis. Since state programs differ significantly within established parameters and states utilize a variety of accounting and data processing arrangements, the issue of comparability among state reports has emerged. State reporting requirements are standardized, but states use a variety of reporting procedures and must interpret reporting requirements within the context of their own laws and accounting conventions. The UI Data Validation program was established in an attempt to identify and address discrepancies in reported numbers. The program requires that states recreate reported numbers independently from their reporting process and compare these numbers with actual numbers reported to DOL. States must address any discrepancies found that exceed the established tolerance error rate. The data validation program also requires that states examine a sample of reported cases to verify that the correct information is being counted.

State Directory of New Hires – The process of cross matching social security numbers maintained in the State Directory of New Hires database against social security numbers of claimants receiving benefits. This database is operated by state departments. Non-governmental employers are required to submit new-hire information, which populates the database. State Workforce Agencies investigate matches to determine if claimants are receiving UI payments while working, creating a potential overpayment due to unreported earnings.

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ETA's Response to Draft Report

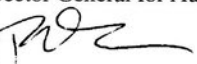
U.S. Department of Labor

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



JUL 23 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. 18-15-002-03-315 – Recovery Act: Effectiveness of
North Carolina 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 North Carolina 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 as required under Federal law. In addition, the complex and changing requirements of the temporary benefit programs overloaded state capacity. Many states, like North Carolina, 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; 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 comments and responses to the findings and recommendations in the audit report. If you have questions, please contact Les Range, Regional Administrator for the Atlanta Office, at (404) 302-5300.

Attachment

**Employment and Training Administration (ETA) Response To
Office of the Inspector General (OIG) Report No. 18-15-002-03-315 – Recovery Act:
Effectiveness of North Carolina 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 comments and responses to the findings and recommendations in this report.

Findings

On page 3, the report states that “The two National Strategies that North Carolina did not implement were the Cross-Functional UI Integrity Task Force and the Treasury Offset Program (TOP).”

Comment: In Fiscal Year (FY) 2011, the Department selected eleven states based on their largest dollar amounts of improper payments and designated them “High Impact” since the reductions in the improper payments in these states will have a significant impact on the national improper payment rate. ETA requested each of these high impact states to join in a collaboration to bring down the UI improper payment rate. As one of the selected states, North Carolina collaborated with the Department to meet one of the key expectations of this initiative which was the formation of a state cross-functional UI improper payment task force. Based on ETA's records and information provided by North Carolina, the state created its Cross-Functional UI Task Force in June, 2011. This task force analyzed North Carolina's root causes and developed a strategic plan to bring down the rate of overpayments in the state. Additionally, North Carolina included this strategic plan as part of its FY 2012 State Quality Service Plan. The task force meetings and activities continued in 2011 and 2012. However, due to leadership changes in the state's Benefits Integrity Unit, task force meetings were temporarily suspended in mid-2012 while the members continued to provide strategic planning activities and quarterly reports to the ETA regional office. These task force meetings have resumed as of October 2014 and are now monthly in 2015.

On pages 6 - 7, Recovering Improper Payments section, Chart 4 – Amount Recovered Compared to Amounts Detected by Calendar Year

Comment: North Carolina's recovery rate data for Calendar Year (CY) 2012 as indicated in Chart 4 is inaccurate. North Carolina's recovery rate data for CYs 2009 – 2013 is shown below for your reference.

| CY | Recovery Rate |
|-----------|----------------------|
| 2009 | 52.17% |
| 2010 | 35.72% |
| 2011 | 39.69% |
| 2012 | 47.87% |
| 2013 | 43.21% |

On pages 10 – 11, the report states “One of the two National Strategies that North Carolina had not implemented was the Cross-Functional UI Integrity Task Force.” Additionally Table 2 presents the status of the Cross-Functional Task Force as “Not Implemented”

Comment: As mentioned above, North Carolina created its Cross-Functional UI Task Force in June, 2011. The task force meetings and activities continued in 2011 and 2012. However, due to leadership changes in the state’s Benefits Integrity Unit, task force meetings were temporarily suspended in mid-2012 while the members continued to provide strategic planning activities and quarterly reports to the ETA regional office. These task force meetings have resumed as of October 2014 and are now monthly in 2015. ETA recommends the status on Table 2 of the OIG report should reflect the Cross-Functional Task Force as “Implemented”.

Recommendations

- 1. ETA should work with and encourage North Carolina fully develop a Cross-Functional Task Force with the Department of Employment Security that can enhance North Carolina’s strategic planning process for improving its improper payment rates.**

In FY 2011, the Department selected eleven states based on their largest dollar amounts of improper payments and designated them “High Impact” since the reductions in the improper payments in these states will have a significant impact on the national improper payment rate. ETA requested each of these high impact states to join in a collaboration to bring down the UI improper payment rate. As one of the selected states, North Carolina collaborated with the Department by meeting one of the key expectations of this initiative which included forming a cross-functional UI improper payment task force to analyze their state’s root causes and to develop a strategic plan to bring down the rate in their state. Based on our records, in June 2011, the North Carolina Cross-Functional UI Task Force was created. The task force meetings and strategic planning activities continued in 2011 and 2012. However, due to leadership changes in the state’s Benefits Integrity Unit, task force meetings were temporarily suspended in mid-2012 while the members continued to provide strategic planning activities and quarterly reports to the ETA regional office. These task force meetings have resumed as of October 2014 and are now monthly in 2015.

As part of its quarterly monitoring process, ETA will ensure that North Carolina has a fully functioning cross-functional integrity task force that continues to focus on developing and implementing strategies to reduce its improper payment rate.

- 2. ETA should work with and encourage North Carolina to develop measures for determining the effectiveness of its cross-match strategies and the related follow-up on identified matches.**

In September, 2014, ETA conducted a comprehensive onsite review of North Carolina’s program integrity operations. This review helped assess the effectiveness of the state’s operations, identify deficiencies and provide technical assistance to implement corrective

action. As part of its quarterly monitoring process, ETA will continue its review and follow-up to the strategies and milestones included in North Carolina's Integrity Action Plan.

ETA will also work with North Carolina to encourage and provide any technical assistance 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 which make it particularly challenging to develop measures that accurately evaluate the effectiveness of individual strategies.

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