

# U.S. Department of Labor

Office of Inspector General—Office of Audit

## REPORT TO EMPLOYMENT AND TRAINING ADMINISTRATION



## RECOVERY ACT: EFFECTIVENESS OF NEW YORK 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.

A handwritten signature in blue ink that reads "Elliott P. Lewis".

Assistant Inspector General for Audit

Date Issued: September 30, 2015  
Report Number: 18-15-003-03-315

## **BRIEFLY...**

Highlights of Report Number 18-15-003-03-315, 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 New York State Department of Labor's Unemployment Insurance Division (New York) 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 New York used to detect, reduce, recover, and report UI improper payments from the inception of the Recovery Act through December 2012. The state paid \$17.6 billion in EB, EUC, and FAC benefits, in addition to \$14 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 New York 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/2015/18-15-003-03-315.pdf>.

September 2015

## **RECOVERY ACT: EFFECTIVENESS OF NEW YORK IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS AND IMPLEMENTATION OF ETA NATIONAL STRATEGIES**

### **WHAT OIG FOUND**

We found New York showed significant improvement in its detections of improper payments and generally met or exceeded the goals established by ETA for reducing and recovering improper payments. However, the accuracy of New York's reporting of overpayment and recovery activities could not be determined because New York was not able to pass ETA's data validation process.

New York took a proactive approach in implementing and developing new and innovative methods to detect, reduce, and recover improper payments. New York was able to initiate all eight ETA National Strategies prior to experiencing a large increase in claims due to the implementation and extension of federal UI benefits.

### **WHAT OIG RECOMMENDED**

We recommended the Assistant Secretary for Employment and Training work with and encourage New York to develop controls for the periodic review and testing of its legacy systems' data extraction and reporting process, and include in its systems modernization effort the necessary applications and processes to enable New York to pass ETA data validation requirements.

ETA agreed with the recommendations and has already taken steps to implement the recommendations.

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## Independent Auditors' Report

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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 New York State Department of Labor's Unemployment Insurance Division (New York) 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.

We conducted a performance audit to answer the following question:

How effective was New York 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 New York showed significant improvement in its detection of improper payments and generally met or exceeded the goals established by ETA for reducing and recovering improper payments. However, the accuracy of New York's reporting of overpayment and recovery activities could not be determined. New York was able to initiate all eight ETA National Strategies prior to experiencing a large increase in claims due to the implementation and extension of federal UI benefits.

The Recovery Act provided funding from the general fund of the U.S. Department of the Treasury (Treasury). When the Recovery Act was underway, it: 1) extended the ending date of EUC benefits; 2) created and funded a new program, FAC; and 3) provided for 100 percent federal funding and extended the date of EB benefits. EUC, FAC, and EB 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, New York 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 New York’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 U.S. Department of Labor’s (DOL) Office of Inspector General (OIG), audited New York’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, New York paid \$17.6 billion in EB, EUC, and FAC benefits, in addition to \$14 billion in state-funded UI benefits.

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

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*New York showed significant improvement in its detections of improper payments, and generally met or exceeded the ETA targets for reducing and recovering improper payments; however, reporting accuracy of overpayment and recovery activities could not be determined.*

New York took a proactive approach to implement and develop new and innovative methods to detect, reduce, and recover improper payments; and was able to initiate all eight ETA National Strategies prior to experiencing a large increase in claims due to the implementation and extension of federal UI benefits. During our audit period, New York was also in the early stages of modernizing its UI systems, which primarily consisted of legacy mainframe systems and applications that were decades old.

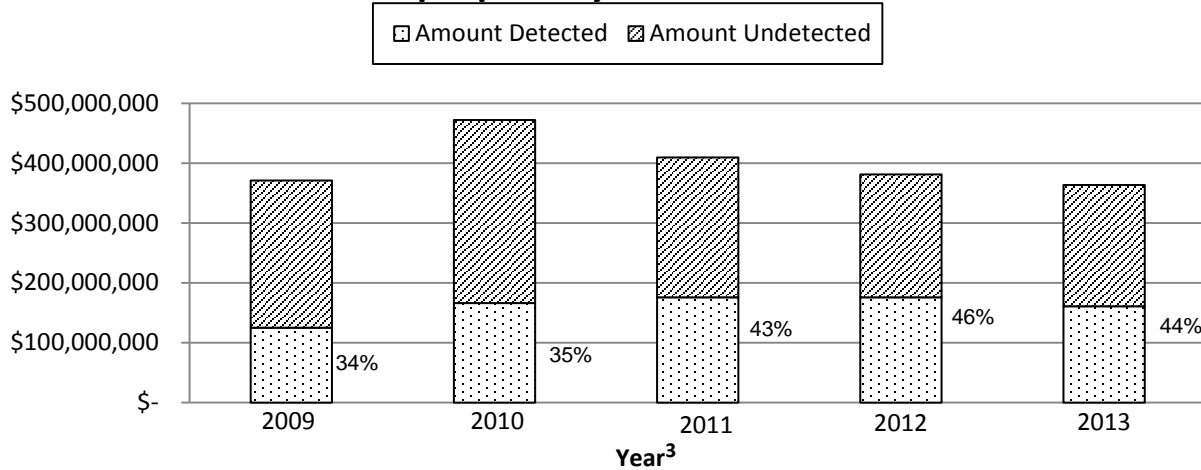
**New York showed significant improvement in its detections of improper payments, and generally met or exceeded targets for reducing and recovering improper payments, but reported data could not be validated.**

Detecting Improper Payments

New York’s detection rate showed steady improvement from 2009 to 2013, increasing approximately 10 percent during this period, and approaching the target rate of

50 percent. Chart 1 below depicts the amounts detected compared to the estimate of improper payments.

**Chart 1 - Overpayments Detected by Year Compared to Total Improper Payments Estimated<sup>1,2</sup>**



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.

During our audit period, New York detected and established for recovery annual overpayments ranging from \$125 million to \$176 million. As depicted in Chart 2, from calendar years 2009 through 2013, New York detected 40 percent of the estimated improper payments occurring during that time.

<sup>1</sup> ETA's methodology used a data collection period of the numerator (Benefit Payment Control data), which began and ended six months after the denominator (BAM data), to allow sufficient time to detect and establish overpayments identified through the wage-benefit cross match, which was only available quarterly.

<sup>2</sup> The denominator for the Detection of Overpayments ratio was estimated from the sample-based BAM program.

<sup>3</sup> Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.



**Chart 2 - Amount Detected Compared to Estimate of Total Improper Payments  
 CYs 2009 through 2013<sup>4</sup>**



The ETA National Strategies that New York implemented to aid in detecting improper payments included the National Directory of New Hires (NDNH), the State Directory of New Hires (SDNH), and several other state-specific cross-match strategies. The cross-match process included using computer-assisted analysis of New York UI information from various state and federal data bases to identify if a claimant was ineligible to receive benefits. Some examples of state-specific cross-match strategies New York utilized included:

- State Identification Inquiry system in the Interstate Connection Network – this tool was used in the initial claims process and allowed New York to determine which states had wages noted for a particular claimant.
- Prison cross match – an inmate listing from New York’s Department of Corrections was compared monthly to the social security number, name, and date of birth in the claimant database.
- Business owner cross match – done on a quarterly and annual basis, New York compared registered business owners against claimants in the data warehouse to check for business owners who were claiming benefits.

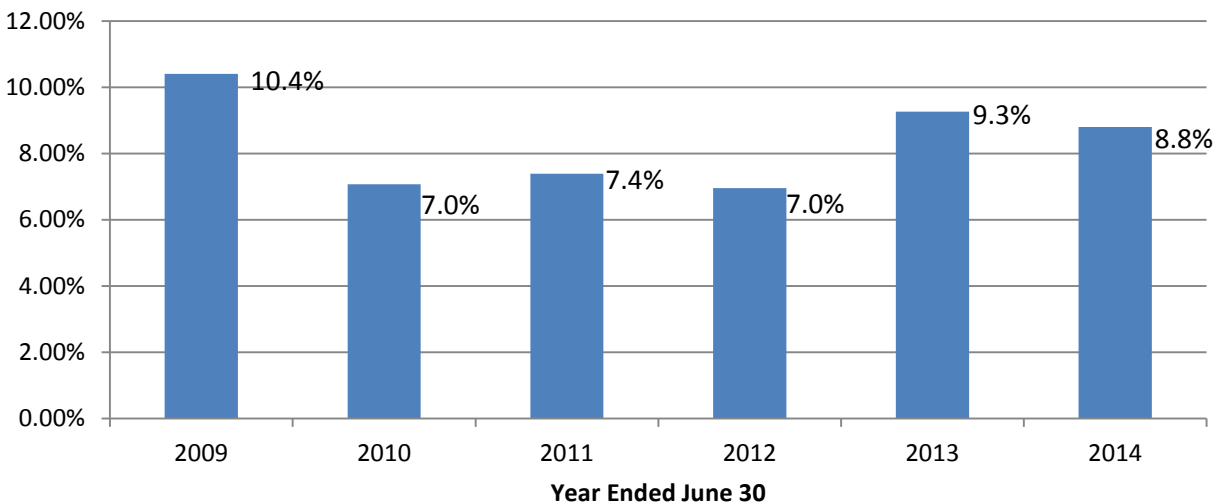
New York’s implementation of these cross-matching strategies assisted it in improving its detection rate over the course of the audit. Overpayments detected from NDNH and SDNH cross matches averaged more than \$19 million annually.

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

Reducing Improper Payments

New York generally met or exceeded the target improper payment rate during our audit period. As shown in Chart 3, the improper payment rates decreased from 10.4 percent in 2009, to 7.0 percent in 2012, before jumping back to 9.3 percent in 2013, and dropping down again to 8.8 percent in 2014. The primary means ETA used to measure whether states effectively reduced improper payments were the rates calculated through the BAM program, which provided a statistical estimate of the rate of improper payments during a period of time.

**Chart 3 - Improper Payment Rates by Year<sup>5,6</sup>**



We noted the improper payment rates we cited may be understated because BAM does not include EB or EUC in its sampling. Additionally, in 2011, ETA conducted a follow-up review on New York’s implementation of the EUC and EB programs, and in its report issued August 29, 2011, stated New York was not properly detecting improper payments due to claimants who failed to meet the EB program’s work search requirements. Therefore, the amount of overpayments related to work search issues for claimants receiving EB was not being estimated and established for recovery. In response to the monitoring report, New York stated it must follow a Federal Consent Decree, which requires claimants to be individually counseled on work search before benefits can be denied. Subsequent to the monitoring report, New York added warnings and stronger language to the claimants’ handbook, as well as a weekly certification statement notifying claimants of their work search requirements and responsibilities.

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

<sup>6</sup> 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.

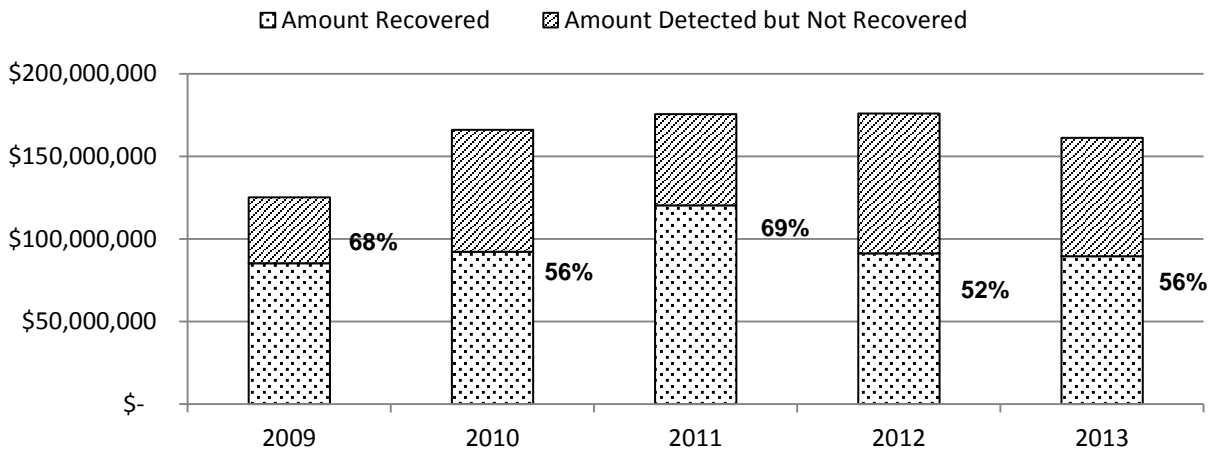
However, New York was unable to provide us data on any EB overpayments established for claimants who failed to meet work search requirements.

New York had in place a fully automated Employment Services (ES) Registration process, whereby UI claimants were automatically enrolled in the ES Registration program. New York integrated its ES Registration process into the initial claims process.

Recovering Improper Payments

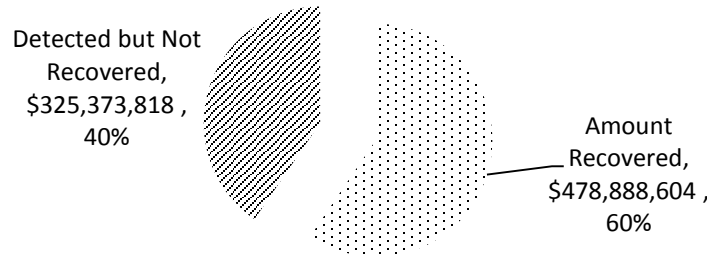
New York’s annual recovery rate remained above 50 percent during our audit period, reaching a high of 69 percent in 2011 before dropping to 56 percent in 2013. Recoveries averaged approximately \$96 million annually during our audit period, peaking in 2011 at \$120 million. Charts 4 and 5 show the amount recovered compared to the amount detected by year and in total.

**Chart 4 - Amount Recovered Compared to Amounts Detected by Calendar Year<sup>7</sup>**



<sup>7</sup> Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

**Chart 5 - Total Recoveries Compared to Amounts  
Detected<sup>8,9</sup>  
CYs 2009 through 2013**



Once an overpayment was detected and proper notice was given to the claimant, New York 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 that benefit offset accounted for 49 percent<sup>9</sup> of the total recoveries made by New York. Recovery methods New York utilized were as follows:

**Table 1 – Recovery Methods Utilized by New York**

Method	Description
Benefit Offset	Reduction of future New York UI payments
Treasury Offset Program (TOP)	Intercept and recovery by U.S. Treasury from federal tax refund
State Income Tax Offset	Intercept 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	New York recovers from another state (which participates in the Interstate Reciprocal Coverage Arrangement) by offsetting UI benefits to claimant
Wage garnishment	Deduction of wages by Employers and remitting to State.
Estates/probate/bankruptcy	New York recovers from estate of deceased claimant if estate is \$5,000 or greater. New York receives notice of bankruptcy and, if there are assets to be distributed, files a proof of claim
Civil Action	Department refers matters to Attorney General's office for claimants owing at least \$3,000
Skip-tracing	The Department uses a third-party service provider for skip-tracing efforts
Liens <sup>10</sup>	New York records liens on claimants' property to recover funds in the event of a sale

Source: Auditors' analysis of descriptions and recovery methods utilized by New York

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

<sup>9</sup> 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.

<sup>10</sup> Implemented subsequent to our audit period

### Reporting Improper Payments

We could not determine the effectiveness of New York’s reporting of overpayment and recovery activity to ETA because New York could not determine the integrity of the underlying mainframe data since it could not pass ETA’s data validation process.

The ETA 227 report, *Overpayment Detection and Recovery Activities* (ETA 227), required summary-level information on overpayment detection and recovery activity by various categories, such as detection methods and fund types.

ETA Handbook 361, *Unemployment Insurance Data Validation Handbook* (November 2009), established data validation requirements for the ETA 227 and related data elements, which states were required to perform and pass. To complete data validation, the state was required to provide ETA with individualized records (extracts) to be used to recalculate the report figures.

New York was not able to pass ETA’s data validation process for the ETA 227 because its legacy system did not enable the state to obtain the necessary extracts, and New York did not have controls to determine the integrity of the underlying data and the compilation process of that data for reporting to ETA.

Additionally, New York did not accurately report on the ETA 227 for the EUC program the overpayments and recoveries related to ex-federal employees (UCFE) and ex-Service members (UCX) claims, as required by ETA. This was due to limitations in the legacy UI system. During our audit period, all of the overpayment and recovery amounts were incorrectly reported under regular UI instead of EUC. Due to system limitations, all overpayment and recovery amounts for the above-mentioned claimant types could not be determined.

### **New York implemented all eight ETA National Strategies.**

New York took a proactive approach in implementing and developing new and innovative methods to detect, reduce, and recover improper payments. New York was able to initiate all eight ETA National Strategies prior to experiencing a large increase in claims due to the implementation and extension of federal UI benefits.

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. These 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) **State Quality Service Plan (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 National Directory of New Hires (NDNH) and Recommended Operating Procedures (ROP)** – For several years, ETA has encouraged states to use NDNH to reduce improper payments in the UI program. NDNH, which was created for the purpose of child support enforcement, has 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 ROP have been developed to provide states with information about best practices in conducting this match. ROP 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 states that received FY 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, ES Registration, applied only to states whose ES Registration error rates exceeded 3 percent. New York 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.

Table 2 illustrates the status of New York’s implementation of the ETA National Strategies as of November 2013, when we performed our fieldwork.

**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	
ES Registration/Work Search	
State-Specific Strategies	
Treasury Offset Program	
- Implemented	

*Source: Auditor analysis of New York’s implementation.*

## Recommendations

We recommend the Assistant Secretary for Employment and Training work with and encourage New York to:

1. Develop controls for the periodic review and testing of its legacy systems' data extraction and reporting process.
2. Include in its systems modernization effort the necessary applications and processes to enable the state to pass ETA data validation requirements. Specific milestones for remedying data validation should be included in the New York Corrective Action Plan.

## ETA'S RESPONSE

The Assistant Secretary for Employment and Training agreed with our recommendations. ETA stated that it has provided, and will continue to provide, technical assistance for data extraction and reporting to New York. ETA also stated it has provided pre-implementation guidance and requirements regarding data validation prior to implementing a new UI system, and that ETA will work with New York to ensure specific actions and milestones are included in New York's corrective action plan. ETA's response to our draft report is included in its entirety in Appendix D.



WithumSmith+Brown PC



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## Appendices

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## Appendix A

### Objective, Scope, Methodology, and Criteria

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#### Objective

We conducted an audit to answer the following question:

How effective was New York 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 New York 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 New York Department of Labor, Unemployment Insurance Division, in Albany, NY; 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 New York from the ETA National Office and the ETA Regional Office (Region 1). We also interviewed officials at the New York Department of Labor, Unemployment Insurance Division in Albany, NY, reviewed New York 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 New York's internal controls considered significant to the audit objective. The testing of New York's controls was not determined to be significant to our audit objective. We considered New York'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 New York'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**

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BAM	Benefit Accuracy Measurement
DOL	Department of Labor
EB	Extended Benefits
ES	Employment Service
ETA	Employment and Training Administration
ETA 227	ETA 227 report, <i>Overpayment Detection and Recovery Activities</i>
EUC	Emergency Unemployment Compensation
FAC	Federal Additional Compensation
FY	Fiscal Year
NDNH	National Directory of New Hires
OIG	Office of Inspector General
P.L.	Public Law
RECOVERY ACT	American Recovery and Reinvestment Act of 2009
ROP	Recommended Operating Procedures
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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## Appendix C

### Glossary

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**Cash** – Checks or money orders

**Claimant Benefit Offsets** – Deductions of claimants' weekly benefit payments that are applied toward their overpayment balances. New York 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



**AUG 10 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. 18-15-003-03-315 – Recovery Act: Effectiveness of  
New York 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) 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 New York to address your recommendations and improve the integrity of its UI program.

ETA appreciates the acknowledgement on page 2 of the report that New York experienced a large increase in claims due to the implementation and extension of Federal UI programs. This change, caused by the recession, created a major challenge for states in addressing improper payments. Significant increases in the volume of UI claims resulted in states shifting resources to ensure timely payments to eligible claimants as required under Federal law. In addition, the complex and changing requirements of the temporary additional benefit programs overloaded state capacity. Many states, like New York, 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. We are pleased that New York has implemented all the national strategies as reported in this audit. 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 New York and 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.

Finally, for many years, ETA has supported state UI agencies in the modernization of their information technology (IT) legacy systems, which continues to be a high priority for ETA. To further these efforts, ETA provides funding to and works collaboratively with the Information Technology Support Center (ITSC) operated by NASWA. ITSC provides technical assistance and support to individual states and state consortia on their UI IT modernization efforts – UI IT modernization is the main focus of ITSC’s operations.

I have attached our response to the recommendations in the audit report. If you have questions, please contact Holly O’Brien, Regional Administrator for the Boston Office, at (617) 788-0170.

Attachment

**Employment and Training Administration (ETA) Response To  
Office of the Inspector General (OIG) Report No. 18-15-003-03-315 – Recovery Act:  
Effectiveness of New York 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 on implementation of the 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 New York to develop controls for the periodic review and testing of its legacy systems' data extraction and reporting process.**

During the second quarter of Fiscal Year (FY) 2015, Office of Unemployment Insurance (OUI), in collaboration with the Regional Office staff, provided technical assistance on data extraction methods and reporting to New York staff. ETA will continue to provide the technical assistance required for New York to test its data extraction and reporting processes.

- 2. ETA should work with and encourage New York to include in its systems modernization effort the necessary applications and processes to enable the state to pass ETA data validation requirements. Specific milestones for remedying data validation should be included in the New York Corrective Action Plan.**

To support the New York's information technology (IT) system modernization efforts, in FYs 2013 and 2014, ETA provided supplemental grants to the New York-New Jersey consortium for the development of business and technical requirements for a modernized IT system. One of the conditions of the grant award is for the consortium system to meet the requirements for UI Data Validation (DV) as outlined in ETA's Handbook No. 361. Additionally, in March 2015, ETA issued Training and Employment Notice No. 28-14 to provide a pre-implementation planning checklist for use by states prior to "going live" with a modernized UI IT system. Among the items noted in the checklist is a requirement that the state ensure that UI DV requirements are met prior to production implementation. ETA will continue to work closely with the consortium to monitor its progress and provide technical assistance in collaboration with the National Association of State Workforce Agencies' Information Technology Support Center to support the consortium's efforts.

Finally, ETA will work with New York to ensure that specific actions and milestones for remedying UI DV are included in the corrective action plan submitted as part of the state's FY 2016 State Quality Service Plan (SQSP) submission.

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