

# U.S. Department of Labor

Office of Inspector General—Office of Audit

## REPORT TO EMPLOYMENT AND TRAINING ADMINISTRATION



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

This audit was performed by Moss Adams LLP, 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 "Elliot P. Lewis".

Assistant Inspector General for Audit

Date Issued: October 30, 2015  
Report Number: 18-16-001-03-315

**U.S. Department of Labor  
Office of Inspector General  
Office of Audit**

## **BRIEFLY...**

Highlights of Report Number 18-16-001-03-315, 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. The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided additional funding for benefits for the Extended Benefits (EB), Emergency Unemployment Compensation (EUC), and Federal Additional Compensation (FAC) programs.

The audit covered California's efforts to detect, reduce, recover, and report UI improper payments from the inception of the Recovery Act in February 2009 through December 2012. The state paid \$40.5 billion in EB, EUC, and FAC benefits, in addition to \$31.2 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 California 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/2016/18-16-001-03-315.pdf>.

**October 2015**

## **RECOVERY ACT: EFFECTIVENESS OF CALIFORNIA IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS AND IMPLEMENTATION OF EMPLOYMENT AND TRAINING ADMINISTRATION NATIONAL STRATEGIES**

### **WHAT OIG FOUND**

We found California did not fully meet established targets for detecting improper payments, and the integrity of the data the state reported to ETA could not be validated. With the exception of 2012, during our audit period California's detection rates remained well short of its target of 50 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 California's capacity and strained its resources. Its improper payment rates remained below the target rate of 10 percent. However, the rate may have been understated because California's reporting excluded data on required work search verifications.

California implemented eight of the nine ETA National Strategies, but was not able to demonstrate their effectiveness. Some strategies had an indirect impact on preventing overpayments that could not be measured. For other strategies, information was not collected in a manner that allowed the effectiveness to be evaluated.

### **WHAT OIG RECOMMENDED**

We made several recommendations for ETA to work with California to help the state demonstrate the effectiveness of ETA's National Strategies and improve its detection and recovery rates.

ETA generally agreed with the recommendations and described planned and in-process corrective actions.

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Prepared by Moss Adams LLP  
For the U.S. Department of Labor – Office of Inspector General

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October 30, 2015

## **INDEPENDENT AUDITORS' REPORT**

Portia Y. Wu  
Assistant Secretary  
for Employment and Training  
200 Constitution Avenue, N.W.  
Washington, D.C. 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 California Employment Development Department (California) is responsible for designing controls to reduce, detect, and recover UI benefit overpayments. The American Recovery and Reinvestment Act of 2009 (Recovery Act), which was enacted in February 2009, provided additional federal 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 California at detecting, reducing, recovering, and reporting UI improper payments and at implementing Employment Training and Administration (ETA) National Strategies to reduce improper payments?

California did not fully meet established targets for detecting improper payments and reported data that could not be validated. Further, while California implemented eight of nine ETA National Strategies for reducing improper payments, California could not demonstrate that these strategies effectively reduced improper payments.

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. These three 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, California 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 California's ability to detect, reduce, recover, and report on UI improper payments related solely to Recovery Act improper payments.

Moss Adams, under contract with the U.S. Department of Labor's (DOL) Office of Inspector General (OIG), audited California's effectiveness in detecting, reducing, recovering, and reporting improper payments for the period from the inception of the Recovery Act in February 2009 through December 31, 2012. Between February 2009 and December 2012, California paid \$40.5 billion in EB, EUC, and FAC benefits, in addition to \$31.2 billion in state-funded UI benefits.

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.

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

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*California did not fully meet the established target for detecting improper payments, reported data that could not be validated; and could not demonstrate that implemented strategies were effective.*

Except for 2012, California's detection rates for each year between 2009 and 2013 fell short of its target of 50 percent. Its recovery rates averaged 28 percent during the same period, 2009 to 2013. Its improper payment rates remained below the target rate of 10 percent between 2009 and 2014. However, the rate may have been understated because California's reporting excluded data on required work search verifications. California's UI system was incapable of capturing the required data elements to properly track and report UI Recovery Act funding for EB and EUC. It lacked a coding field that could distinguish Recovery Act from non-Recovery Act UI. Also, California's UI system did not allow it to record a new program like FAC. California paid \$2.9 billion in FAC outside of its UI system. Additionally, although California established an Integrity Task Force timely per ETA guidance, the Task Force was suspended in 2012 because it lacked funding, personnel, and information technology resources to fully implement all ETA guidance. The Task Force also lacked data to effectively monitor the cost-benefit of each ETA core strategy due to UI system limitations.

California implemented eight of ETA's nine National Strategies aimed at reducing, detecting, and recovering improper payments. The National Strategy California had not

implemented was the National Directory of New Hires (NDNH). NDNH was not implemented due to a lack of available staff, including information technology personnel to assist in system implementation. Treasury Offset Program (TOP) supplemental funding was available to states in Fiscal Year (FY) 2012. However, California chose not to apply for it or to implement TOP at that time due to a lack of personnel. California eventually implemented TOP in September 2014, and the State Information Data Exchange System (SIDES) in June 2015.

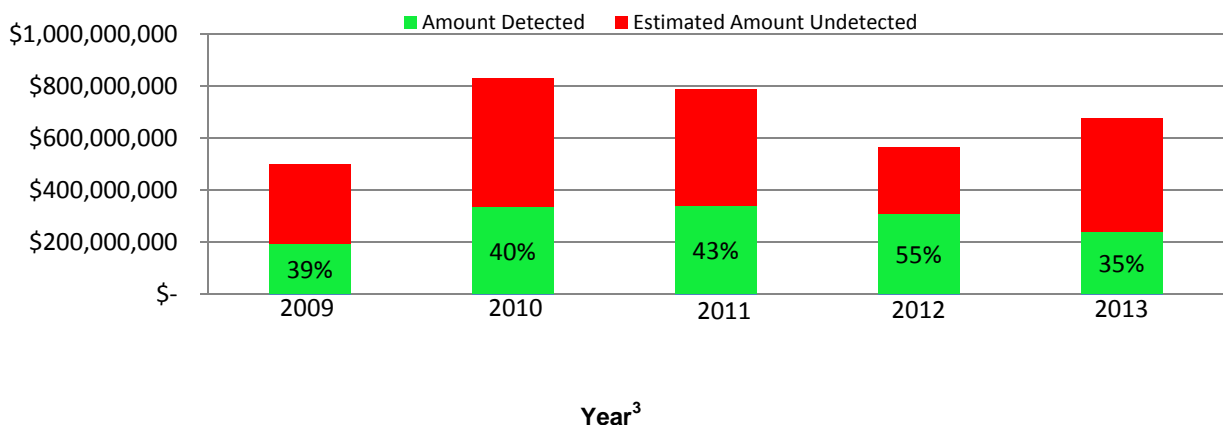
**California did not fully meet established target for detecting improper payments and reported data that could not be validated.**

Detecting Improper Payments

With the exception of 2012, California’s detection rate for each year between 2009 and 2013 remained below ETA’s target of 50 percent. California’s detection rates increased from 39 percent in 2009, to 55 percent in 2012, but then declined to 35 percent in 2013. California used Employer Quarterly Wage and State Directory of New Hires (SDNH) cross matches to detect improper payments. However, due to staffing shortages California could not dedicate adequate staffing to ensure timely research of cross matches, resulting in significant backlogs in 2010 and 2011. Consequently, overpayments may have occurred in 2010 and 2011 that were never discovered.

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

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



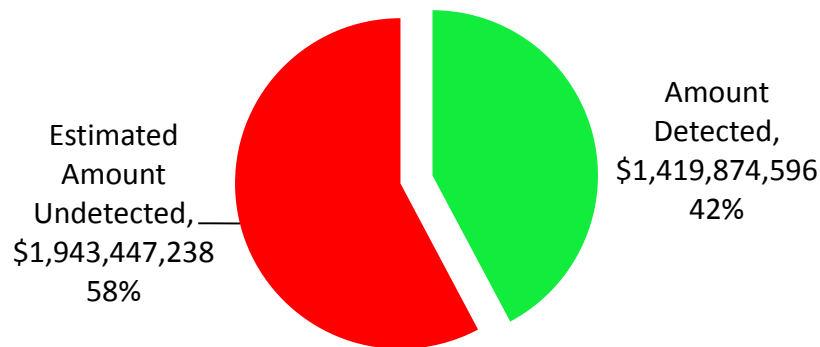
<sup>1</sup> Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

<sup>2</sup> The denominator for the Detection of Overpayments ratio is estimated from the sample-based Benefit Accuracy Measurement (BAM) Program. Actual detected amounts were compiled from the quarterly *Overpayment Detection and Recovery Activities* reports (ETA 227).



The primary means ETA uses to assess states' effectiveness at detecting improper payments is the detection rate, which measures the actual overpayments detected as a percentage of the detectable, recoverable overpayments as calculated by the 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 50 percent of the detectable, recoverable overpayments and establish them for recovery. As depicted in Chart 2, from calendar years (CY) 2009 through 2013, California detected 42 percent of the estimated improper payments occurring during that time.

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



The ETA National Strategies California implemented to detect improper payments included SDNH and several state-specific strategies, including other types of cross matches. The cross-match process included using computer-assisted analysis of California UI information from various state and federal databases to identify claimants who may have been ineligible to receive benefits. Identified matches must be researched before an overpayment determination can be made. However, we noted that obtaining third-party corroboration for cross matches can be difficult, and limited staffing resources hampered California's ability to research the identified matches. As a result, California experienced backlogs of matches requiring research.

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<sup>3</sup> 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.

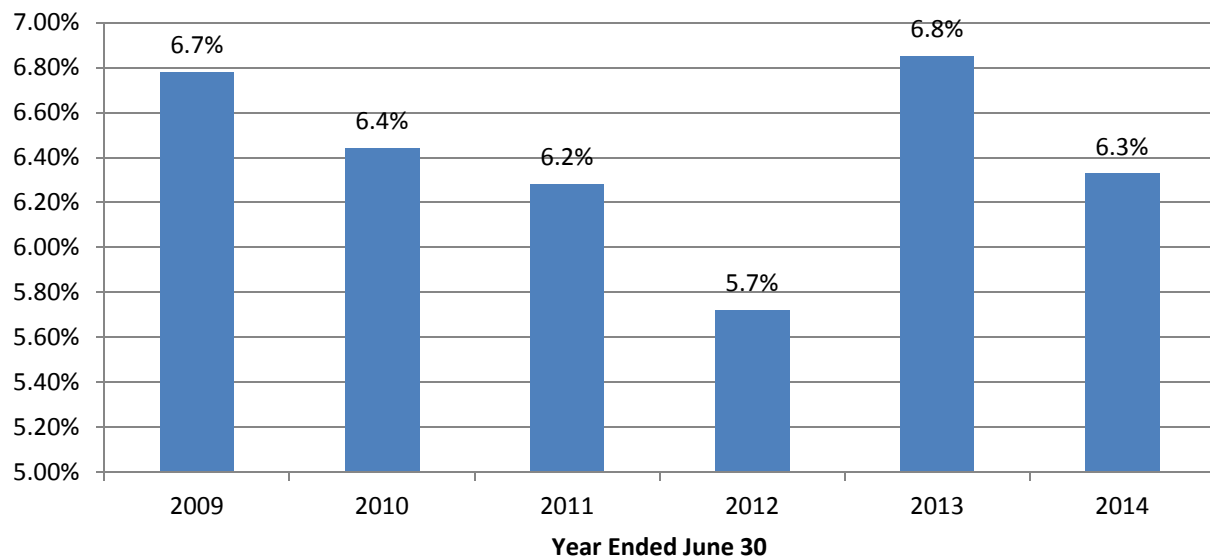
<sup>4</sup> Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Actual detected amounts were compiled from the quarterly ETA 227 reports.

Further, data on the number of matches identified and researched, as well as the results of research, were not regularly retained and analyzed, making it difficult to determine the effectiveness of the cross-match processes California used.

### Reducing Improper Payments

California was not able to demonstrate effectiveness in reducing improper payments. The primary means ETA uses to measure whether states effectively reduce improper payments are the rates calculated through the BAM program. This program provides a statistical estimate of the rate of improper payments during a period of time. California's improper payment rates were below the target rate of 10 percent from 2009 to 2014, as depicted in Chart 3.

**Chart 3 – Estimated (BAM) Improper Payment Rates by Year<sup>5,6</sup>**



California's estimated overpayment rate was below ETA's 10 percent acceptable level from June 2009 through June 2012, ranging from 6.7 percent in 2009 to 5.7 percent in 2012.

The California Code, Section 1253, and California's BAM Manual, Section 10.03-03-03, both require work search verification. However, we found California's overpayment rate

<sup>5</sup> Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Data reflected per ETA guidance includes gross rates from 2009-2012 and net rate adjusted for recoveries in 2013-2014. Gross rates for 2013-2014 were 7.62 percent and 7.18 percent, respectively. UI integrity rates were compiled from rates published on the DOL-ETA website.

<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.

may have been understated, as the BAM audit procedures California followed did not require enforcement of work search for the “key week” under BAM audit. This resulted in the state excluding the work search cause for each period reported.

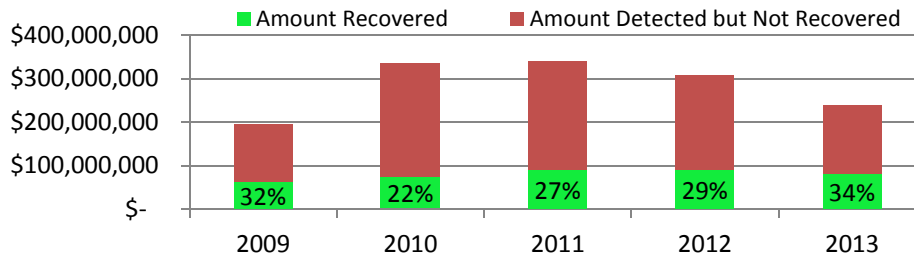
Many of the ETA strategies California implemented were aimed at detecting or recovering overpayments, rather than preventing overpayments. The effectiveness of strategies implemented by California that were aimed at preventing overpayments, such as a Cross-Functional UI Task Force, a State Quality Service Plan (SQSP)/Program Integrity Action Plan, and Claimant and Employer Messaging, cannot be adequately measured other than by the increase or reduction in California’s improper payment rate over time.

### Recovering Improper Payments

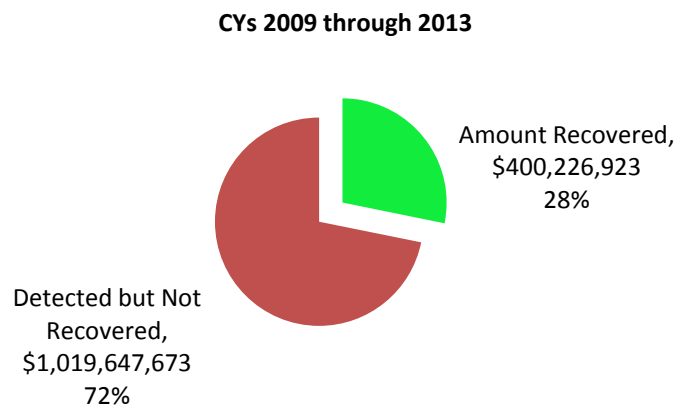
We found no significant changes in the effectiveness of California’s recovery efforts between 2009 and 2013, and recovery rates remained below 35 percent. Its rates fluctuated from 22 to 34 percent between CYs 2009 through 2013. California’s primary methods of recovery included offsets of future unemployment benefits, cash collections through voluntary repayment or repayment plan agreements, and state income tax offsets.

Although California’s recovery rates remained below 35 percent, the annual dollar amount of recoveries almost doubled between 2009 and 2013 because the population from which to detect and recover overpayments increased. Recoveries were aided by the extension of benefit weeks available to claimants as a result of legislation, since a significant portion of recoveries included offsets of future benefits. California could have further enhanced its recovery rate had it implemented TOP in a timely manner. This program has been used successfully by other states to increase their recovery rates. Charts 4 and 5 show the amount recovered compared to the amount detected by year and in total.

**Chart 4 – Amounts Recovered Compared to Amounts Detected by Calendar Year<sup>7, 8</sup>**



**Chart 5 – Total Recoveries Compared to Amounts Detected<sup>9,10</sup>**



Once an overpayment was detected and proper notice was given to the claimant, California 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 48 percent<sup>11</sup> of the total recoveries made by California. Recovery methods utilized by California were:

<sup>7</sup> Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Actual detected amounts were compiled from quarterly ETA 227 reports.

<sup>8</sup> The Overpayment Recovery Rate measure was not implemented by ETA until 2013. In prior years, there was no official “target” recovery rate.

<sup>9</sup> Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Actual detected amounts were compiled from quarterly ETA 227 reports.

<sup>10</sup> Amounts detected included approximately \$20.5 million of overpayments that were waived by CA.

<sup>11</sup> Includes State UI only. ETA does not require dollar amounts by recovery method for EUC to be reported on the 227 report; therefore, this information was not available.

**Table 1 – Recovery Methods Utilized by California**

<b>Method</b>	<b>Description</b>
Benefit offset	Reduction of future California UI benefits
TOP <sup>12</sup>	Intercept and recovery by Treasury from federal tax refunds
Voluntary repayment/billing notices/checks	Claimant voluntarily repays by check after receipt of notice
State income tax offset	Reduction of state income tax refunds
Lottery, homestead, and gambling offsets	Intercept lottery, homestead, and gaming winnings
Credit bureaus	Involuntary collection process through summary judgment and credit bureau obtains this information from public records
Wage garnishment and civil action	Collections from garnishment of claimant's wages
Skip Tracing	Tool used to track down claimant
Referral to OIG and other law enforcement agencies	Investigations may result in prosecution

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

### Reporting Improper Payments

We could not determine the effectiveness of California's reporting of overpayment and recovery activity to ETA because California could not determine the integrity of the underlying mainframe data and pass ETA's data validation requirements. ETA 227 required summary-level information on overpayment detection and recovery activity by various categories, such as detection methods and fund types. California used a combination of mainframe reports, manual reports, and Treasury Offset reports to prepare ETA 227. Therefore, although California ensured the amounts reported on ETA 227 flowed from the amounts recorded in its systems, California did not have any assurance the amounts in its systems were accurate.

ETA Handbook 361, *Unemployment Insurance Data Validation Handbook* (November 2009), established data validation requirements for ETA 227 and related data elements, which states are required to perform and pass. To complete data validation, California was required to provide ETA with individualized records (extracts) to be used to recalculate the report figures. The legacy system did not enable California to obtain the necessary extracts, and therefore California was not able to perform data validation to ensure the integrity of the underlying data reported to ETA.

California's overpayment and recovery reporting was inefficient, prone to error, and time consuming until it implemented automated reporting supported by data validation in 2012. California is in the process of developing a program that will allow it to add an additional field to historical data that is specific to Recovery Act UI payments.

<sup>12</sup> Implemented subsequent to our audit period

**California implemented eight of nine ETA National Strategies, but was not able to demonstrate these strategies were effective.**

Although California implemented eight of the nine ETA National Strategies, it 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 manner that allowed one to evaluate the effectiveness of the strategy. Additionally, an analysis of the changes associated with the improper payment rates, detection rates, and recovery rates, showed no significant improvement in these rates and could not be linked to these strategies' effectiveness.

**ETA's Nine National Strategies**

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











- **Cross-Functional Task Forces** – These are cross-functional teams that include a combination of management, front-line workers, and state subject matter experts who 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.
- **SQSP/Program Integrity Action Plan** – As part of the submission of the SQSP (beginning in 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 plan format.
- **Mandatory Use of 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.

- **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.
- **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.
- **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.
- **Employment Services (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.
- **TOP** – TOP permits states to recover certain unemployment compensation debts from federal income tax refunds. This strategy is required for those states that received FY 2013 supplemental budget requests.
- **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.

California does not know when it will implement NDNH due to ongoing resource and programming issues. It implemented SIDES in June 2015. Table 2 illustrates the status of California's implementation of these strategies as of December 2014.

**Table 2 - Status of Implementation of ETA National Strategies**

Strategy	Status
Cross-Functional Task Force	
SQSP/Strategic Plan Development	
NDNH	
SIDES	
Claimant Messaging	
Employer Messaging	
ES Registration/Work Search	
State-Specific Strategies	
TOP	
 - Implemented prior to December 2012  - Fully implemented subsequent to December 2012  - Not implemented	

Source: Auditor analysis of California’s implementation

**Recommendations**

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

1. Implement the NDNH core strategy.
2. Enhance the UI claims system to capture activities related to temporary UI funding that will allow the state in the future to produce reports of all UI overpayments, underpayments and recoveries.
3. Reactivate the Integrity Task Force and have it reevaluate the data and resources needed to effectively monitor and implement strategies.
4. Review current Employer Quarterly Wage and SDNH cross-match staffing and processes to identify a way to streamline this process and to make the process more efficient so that backlogs are less likely to occur.



## ETA'S RESPONSE

The Assistant Secretary for Employment and Training generally agreed with our recommendations. In its response, ETA stated it will monitor California's progress in implementing NDNH cross-match and provide any technical assistance that the state may require. ETA also stated it will work closely with states in the event of future enactment of temporary unemployment compensation programs to ensure that state UI systems have the capability to produce necessary reports to monitor state UI overpayments. Furthermore, ETA stated it will work with and monitor California to ensure its Integrity Task Force activities are reactivated and current cross-match processes and staffing are streamlined. ETA's response to our draft report is included in its entirety in Appendix D.

*Moss Adams LLP*

Albuquerque, New Mexico  
October 30, 2015

## **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 California 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 California used to detect, reduce, recover, and report UI improper payments between February 2009 and December 2012. Our audit work was performed at the California Employment Development Department in Sacramento, CA; and ETA's National Office in Washington, DC. Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

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 ETA's 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 California from the ETA National Office and the ETA Regional Office (Region 6). We also interviewed officials at the California Employment Development Department in Sacramento, CA, reviewed California 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 California's internal controls considered significant to the audit objective. The testing of California's controls was not determined to be significant to our audit objective. We considered California'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 California'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

**Acronyms and Abbreviations**

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BAM	Benefit Accuracy Measurement
CY	Calendar Year
DOL	U.S. Department of Labor
EB	Extended Benefits
ES	Employment Services
ETA	Employment and Training Administration
ETA 227	ETA <i>Overpayment, Detection, and Recovery Activities</i> report
EUC	Emergency Unemployment Compensation
FAC	Federal Additional Compensation
FY	Fiscal Year
NDNH	National Directory of New Hires
OIG	Office of Inspector General
Recovery Act	American Recovery and Reinvestment Act of 2009
ROP	Recommended Operating Procedures
SDNH	State Directory of New Hires
SIDES	State Information Data Exchange System
SQSP	State Quality Service Plan
SSN	Social Security Number
TOP	Treasury Offset Program
Treasury	U.S. Department of the Treasury
UC	Unemployment Compensation
UI	Unemployment Insurance program

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## 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. California law allows weekly benefit offsets based on claimants financial needs in cases of non-fraud 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.

**SDNH** – The process of cross matching social security numbers (SSN) maintained in the SDNH database against the SSNs 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

Appendix D

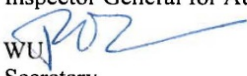
U.S. Department of Labor

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



OCT 02 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. 18-15-004-03-315 – Recovery Act: Effectiveness of  
California 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 California to address your recommendations and improve the integrity of its UI program.

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

As noted in your report, ETA has identified a number of national strategies for state implementation designed to address major root causes of UI improper payments as part of a comprehensive strategic plan. ETA continues to actively work with all states to identify and implement new and innovative strategies to improve program integrity and bring down the improper payment rate.

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

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

Attachment

**Employment and Training Administration (ETA) Response To  
Office of the Inspector General (OIG) Report No. 18-15-004-03-315 – Recovery Act:  
Effectiveness of California in Detecting and Reducing Unemployment Insurance Improper  
Payments and Implementation of Employment and Training Administration National  
Strategies**

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

**Recommendations**

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

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

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

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

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

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

ETA will work with California to ensure that its Integrity Task Force activities are reactivated and actions associated with the task force activities are outlined in its FY 2016 SQSP submission. Additionally, ETA will monitor the progress and the continued use of the state's Integrity Task Force in the development and implementation of strategies for preventing, reducing and recovering improper payments.

**4. ETA should work with and encourage California to review current Employer Quarterly cross-match staffing and processes to identify a way to streamline this process and to make the process more efficient so that backlogs are less likely to occur.**

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

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