U.S. Department of Labor

Office of Inspector General—Office of Audit

RECOVERY ACT: EFFECTIVENESS OF Iowa 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.

Elliot P. Lewis

Assistant Inspector General for Audit

Date Issued: October 30, 2015
Report Number: 18-16-002-03-315

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

BRIEFLY…

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 Iowa's efforts to detect, reduce, recover, and report UI improper payments from the February 2009 inception of the Recovery Act through December 2012. The state paid $3.6 billion in EUC, FAC, and state-funded UI benefits during that period. There were no EB payments.

WHY OIG CONDUCTED THE AUDIT

Our audit objective was to answer the following question:

> How effective was Iowa 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/2016/18-16-002-03-315.pdf.

October 2015

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

WHAT OIG FOUND

We found Iowa did not effectively detect, reduce, or recover improper payments, and the integrity of the data Iowa reported to ETA could not be determined. With the exception of 2012, during our audit period Iowa's detection rates remained well short of its target of 50 percent, and its improper payment rates remained 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 Iowa's capacity and strained its resources.

Iowa implemented eight of the nine ETA National Strategies, but was not able to demonstrate their effectiveness.

WHAT OIG RECOMMENDED

We made several recommendations for ETA to work with Iowa 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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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 Iowa Workforce Development (Iowa) 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 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 Iowa at detecting, reducing, recovering, and reporting UI improper payments and at implementing Employment Training and Administration (ETA) National Strategies to reduce improper payments?

Iowa did not fully meet established targets for detecting improper payments; and reported data could not be validated. Furthermore, while Iowa fully implemented eight of nine ETA National Strategies for reducing improper payments, as well as partially implementing the ninth, Iowa could not demonstrate these strategies 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, Iowa did not have a mechanism in place to identify overpayments and recoveries related to Recovery Act funds. As a result, we were not able to separately report on or determine the

effectiveness of Iowa'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 (DOL) Office of Inspector General (OIG), audited Iowa'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, Iowa paid $3.6 billion in EUC, FAC, and state-funded UI benefits. There were no EB payments.

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

> *Iowa did not fully meet established targets for detecting improper payments; reported data could not be validated; and it could not demonstrate that implemented strategies were effective.*

Iowa did not effectively detect, reduce, or recover improper payments, and the integrity of the data Iowa reported to ETA could not be determined. Except for 2012, Iowa's detection rates remained well short of its target of 50 percent between 2009 and 2013, while its recovery rates ranged from 48 percent to 66 percent for the same period. Iowa's improper payment rates fell short of the target rate of 10 percent between 2009 and 2013, due in part to the state experiencing a significant increase in volume of UI claims. A lack of state funding, combined with the increased complexity of the EUC program, overloaded Iowa's capacity and strained its resources. Additionally, Iowa state law requires that face-to-face fact finding interviews be conducted, and claimants are allowed at least three-days notice to prepare their defense to the potential conflict identified before future benefits can be withheld. This greatly limited Iowa's ability to stop future payments to claimants with identified potential conflicts.

Iowa implemented eight of ETA's nine National Strategies aimed at reducing, detecting, and recovering improper payments. However, Iowa could not demonstrate the effectiveness of these strategies. The ninth strategy, Cross Functional Employment Integrity Task Force, was initially implemented in Fiscal Year (FY) 2011, but task force meetings were not held in 2012 and 2013.

Iowa did not fully meet established targets for detecting improper payments; and reported data could not be validated.

Detecting Improper Payments

Although some of the ETA National Strategies that Iowa implemented helped to increase the dollar value of overpayments it detected, the strategies did not significantly alter detection rates. Due to budget cuts, the amount of state funding Iowa received for

operational support decreased significantly. With the lack of resources and investigators, backlogs of cases to be investigated grew and existing overpayments went undetected. Also, the state-specific law requiring face-to-face interviews limited Iowa's ability to utilize the State Information Data Exchange System (SIDES), one of the 9 ETA strategies.

Iowa remained below its detection rate target of 50 percent between 2009 and 2013, which decreased from 40 percent in 2009, to 25 percent in 2011. This was caused by a cut in funding, as well as retirement of personnel, which resulted in a lack of investigators to review potential overpayments detected by the state's software. Although total estimated overpayments decreased from 2010 to 2012, Iowa was able to increase the amount detected from approximately $15.7 million to $19.2 million between 2011 and 2012. This, coupled with the decrease in total UI benefits paid, caused Iowa's detection rate to rebound to 46 percent by the end of 2012, although it then decreased to 41 percent during 2013. 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[1,2]


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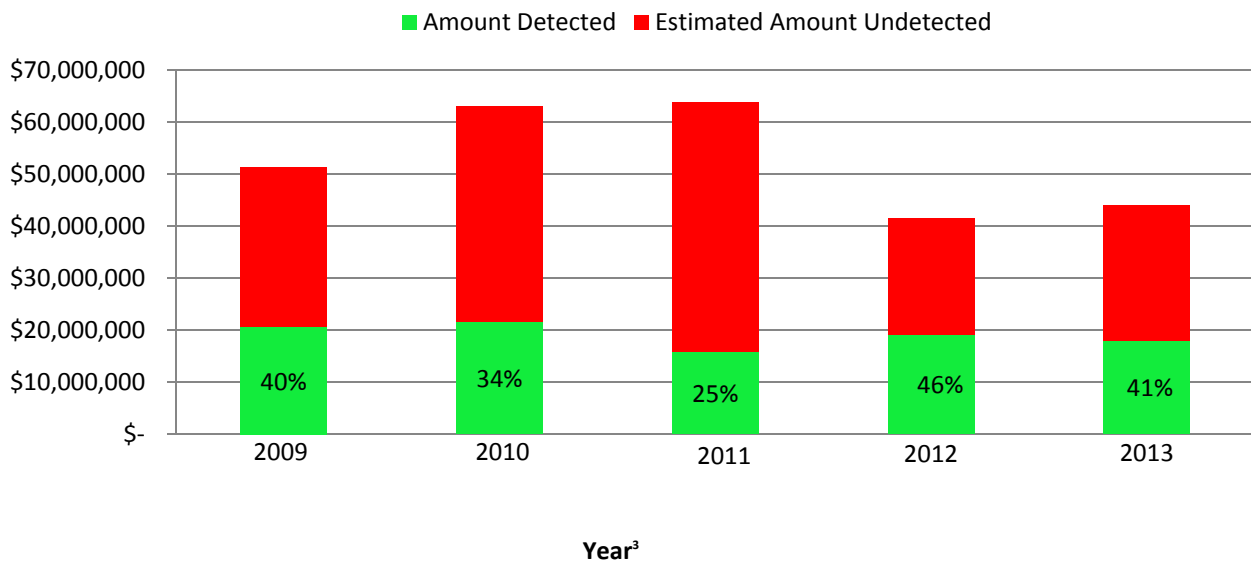
[1] Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.
[2] The denominator for the Detection of Overpayments ratio is estimated from the sample-based Benefit Accuracy Measurement (BAM) program. Actual detected amounts were compiled from the quarterly *Overpayment Detection and Recovery Activities* reports (ETA 227).
[3] 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.

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 and establish for recovery 50 percent of the detectable, recoverable overpayments. As depicted in Chart 2, from Calendar Years (CY) 2009 through 2013, Iowa detected an average of 36 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[4]
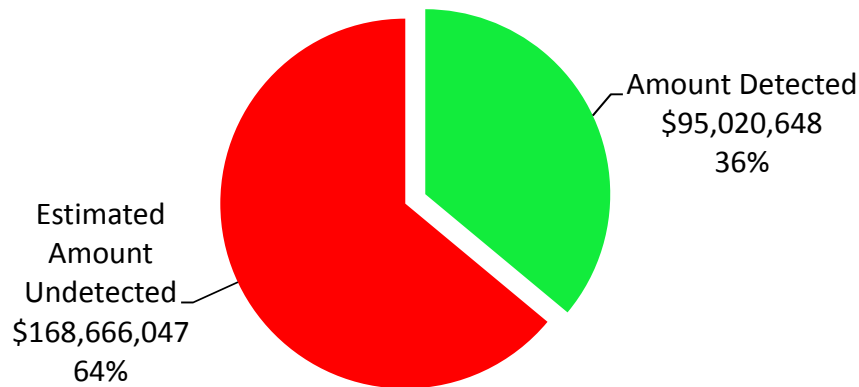
The ETA National Strategies Iowa implemented to detect improper payments included the National Directory of New Hires (NDNH), State Directory of New Hires (SDNH), and several state-specific strategies, including other types of cross matches. The cross-match process included using computer-assisted analysis of Iowa UI information from various state 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 can be difficult, and limited staffing resources hampered the state's ability to research the identified matches. As a result, backlogs of matches requiring research developed.

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[4] 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.

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. Iowa established Designated Overpayments Teams, a state-specific strategy, to help reduce the backlog of potential overpayments. According to Iowa, the Designated Overpayments Teams helped detect overpayments and fraud. However, no quantifiable data existed to determine its cost-benefit or effectiveness.

Reducing Improper Payments

Iowa 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. Iowa's improper payment rates were above the target rate of 10 percent from 2009 to 2013, as depicted in Chart 3.

Chart 3 - Improper Payment Rates by Year[5, 6]
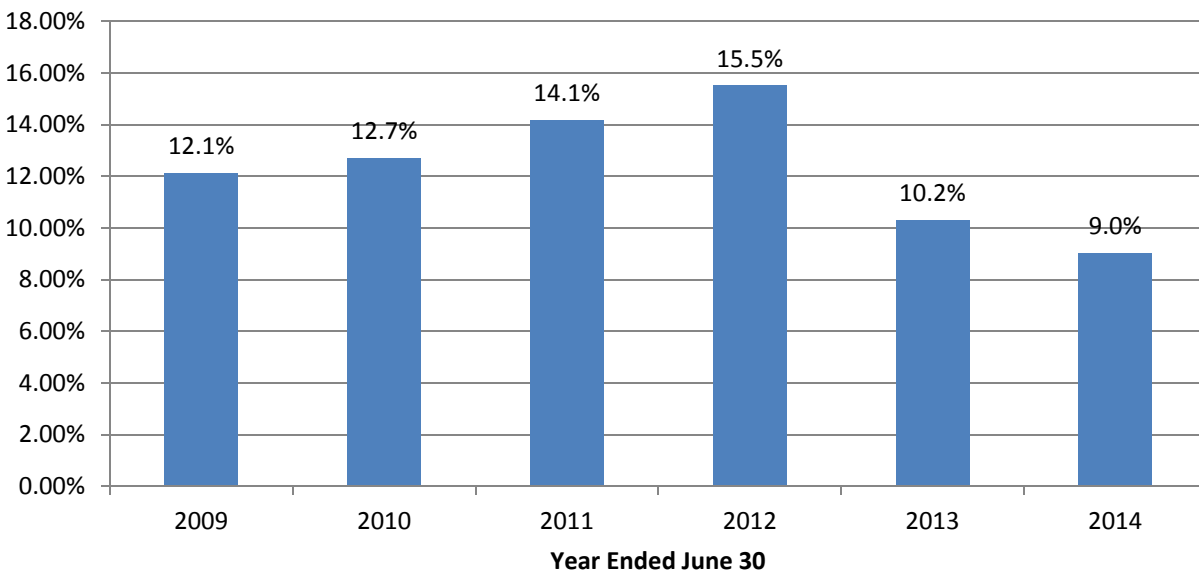
The growth during 2009 to 2012 is attributable to decreased operational funding from the state coupled with state-specific laws. Iowa state law required face-to-face fact finding interviews to be conducted and claimants to be allowed at least three-days

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[5] 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 12 percent and 11.17 percent, respectively. UI integrity rates were compiled from rates provided on the DOL-ETA website.

[6] 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.

notice to prepare their defense to the potential overpayment identified before future benefits can be withheld. This greatly limited Iowa's ability to stop future payments to claimants with identified potential overpayments. Only a portion of the SIDES product had been implemented and was being used on a limited number of employers during our audit period.

Many of the ETA strategies Iowa implemented were aimed at detecting or recovering overpayments, rather than preventing overpayments. The effectiveness of strategies Iowa implemented that were aimed at preventing overpayments, such as a Cross-Functional UI Task Force, a SQSP/Program Integrity 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

Except for 2012 when the rate declined to 48 percent, Iowa's annual recovery rate remained above 50[7] percent each year from CYs 2009 through 2013. Other than the implementation of the Treasury Offset Program (TOP) in 2013, there were no significant changes in recovery methods. 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[8]**

■ Amount Recovered ■ Amount Detected but Not Recovered

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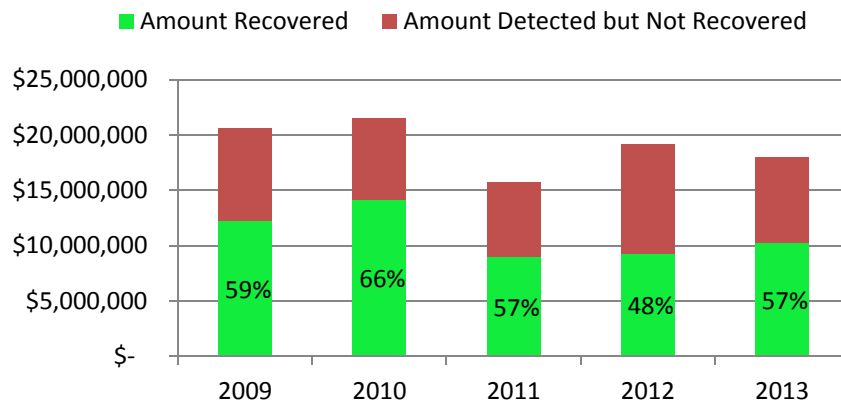
[7] The Overpayment Recovery Rate measure was not implemented by ETA until 2013. In prior years, there was no official "target" recovery rate.
[8] Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis. Actual detected amounts were compiled from quarterly ETA 227 reports.

**Chart 5 - Total Recoveries Compared to
Amounts Detected[9, 10]
CYs 2009 through 2013**
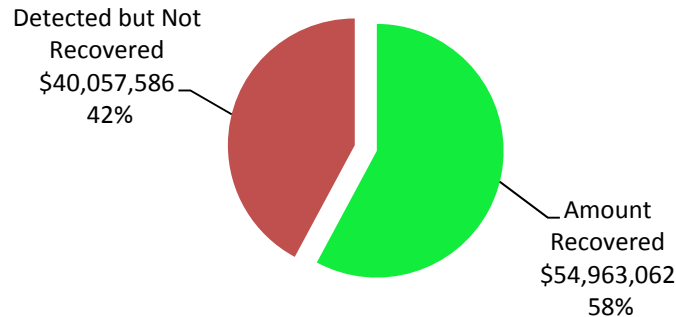
Once an overpayment was detected and proper notice was given to the claimant, Iowa employed several types of recovery methods, which varied based on the nature of the overpayment (such as whether there was fraud or fault on behalf of the claimant). We found that benefit offset accounted for, on average, from 2009 to 2012, approximately 61 percent[11] of the total recoveries made by Iowa. Recovery methods utilized by Iowa are shown in Table 1.

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[9] 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 Overpayment Detection and Recovery and ETA 227 reports.

[10] Amounts detected included approximately $399,911 of overpayments that were waived by Iowa.

[11] 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 Iowa

Method	Description
Benefit Offset	Reduction of future Iowa UI benefits
TOP	Intercept and recovery by Treasury from federal tax refunds
State income or other tax offset	Reduction of state income tax refunds and similar distributions
Repayment plans	Claimant enters into a repayment plan with the state
Interstate recovery	Iowa recovers from another state (which participates in the Interstate Reciprocal Coverage Arrangement) by offsetting UI benefits to claimant
Estates/probate/ bankruptcy	Iowa recovers from estate of deceased claimant if estate is $5,000 or greater. Iowa receives notice of bankruptcy and, if there are assets to be distributed, files a proof of claim
Amnesty	A one-time program used by claimant to allow for repayment of a certain portion of debt with the remaining portion being waived
Lottery, homestead, and gambling offsets	Reduction of lottery winnings and other similar winnings
Voluntary repayment/billing notices/checks	Claimant voluntary repays by check after receipt of notice
Liens	Iowa records liens on claimants' property to recover funds in the event of a sale

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

During late 2013, Iowa implemented TOP, whereby certain overpayments were submitted to Treasury to intercept federal income tax refunds. The implementation occurred shortly before the audit, and no quantifiable information existed to measure its effectiveness.

Reporting Improper Payments

We could not determine the effectiveness of Iowa's reporting of overpayment and recovery activity to ETA because Iowa did not consistently retain support for its reports and mainframe data was inaccurate or Iowa could not produce the information necessary for reporting.

Iowa fully implemented eight of nine ETA National Strategies and partially implemented the remaining strategy, but was not able to demonstrate these strategies were effective.

Although Iowa implemented eight of the nine ETA National Strategies, Iowa 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 or retained 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, could not be linked to these strategies' effectiveness.

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 Development** – 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** – 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 recommended operating procedures have been developed to provide states with information about best practices in conducting this match. The 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.

- **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 claimant's failure to register with 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.

Iowa did not fully implement the Cross-Functional Unemployment Integrity Task Force. It had been implemented in 2011 in accordance with ETA requirements, but then was not used, and no meetings were held during most of 2012 and 2013. These cross-functional teams include a combination of management, front-line workers, and state subject matter experts who 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. Table 2 illustrates the status of Iowa's implementation of these strategies as of June 2013, when we performed our fieldwork.

Table 2 - Status of Implementation of ETA National Strategies

Strategy	Status
Cross-Functional Task Force	✔
SQSP	✅
NDNH	✅
SIDES	✅
Claimant Messaging	✅
Employer Messaging	✅
ES Registration/Work Search	✅
State-Specific Strategies	✅
TOP	✅
✅ - Implemented ✔ - Partially implemented	

Source: Auditor analysis of Iowa's implementation

RECOMMENDATIONS

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

1. Enhance the UI claims system to capture activities of temporary UI funding that will allow the state in the future to produce reports of all UI Recovery Act overpayments, underpayments, and recoveries.

2. Continue the use of the Integrity Task Force to develop and implement state-specific integrity strategies and reevaluate the data and resources needed to effectively monitor and implement strategies.

ETA'S RESPONSE

The Assistant Secretary for Employment and Training generally agreed with our recommendations. In its response, ETA stated it will work closely with states in the event of future enactments of temporary unemployment compensation programs to ensure UI systems have the capability to produce necessary reports to monitor state UI overpayments, underpayments, and recoveries. ETA will also work with Iowa to ensure its Integrity Task Force is fully engaged and will monitor its continued use and progress in the development and implementation of strategies for preventing, reducing, and recovering improper payments. 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

Objective

We conducted an audit to answer the following question:

> How effective was Iowa 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 Iowa 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 Iowa
Labor & Industry's main office for UI activities located in Des Moines, IA; 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 Iowa from the ETA
National Office and the ETA Regional Office (Region 2). We also interviewed officials at
the Iowa Department of Labor and Industry in Des Moines, IA, reviewed Iowa's 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 Iowa's internal
controls considered significant to the audit objective. The testing of Iowa's controls was
not determined to be significant to our audit objective. We considered Iowa'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 Iowa'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	U.S. Department of Labor
EB	Extended Benefits
ES	Employment services
ETA	Employment and Training Administration
ETA 227	ETA *Overpayment, Detection, and Recovery Activities* 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
SDNH	State Directory of New Hires
SIDES	State Information Data Exchange System
SQSP	State Quality Service Plan
TOP	Treasury Offset Program
Treasury	U.S. Department of the Treasury
UI	Unemployment Insurance

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Appendix C

Glossary

Cash – Checks or money orders

Claimant Benefit Offsets – Deductions of claimants' weekly benefit payments that are applied toward their overpayment balances. Iowa law allows 30 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 the Department of Labor. 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 maintained in the SDNH 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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Appendix D

ETA's Response to Draft Report

U.S. Department of Labor

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

OCT 0 5 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. 18-15-007-03-315 – Recovery Act: Effectiveness of Iowa 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 Iowa 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 Iowa, 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 Iowa, 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 Iowa 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 Rose Zibert, Acting Regional Administrator for the Chicago Office, at zibert.rosaura@dol.gov.

Attachment

2

**Employment and Training Administration (ETA) Response To
Office of the Inspector General (OIG) Report No. 18-15-007-03-315 – Recovery Act:
Effectiveness of Iowa 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.

<u>Recommendations</u>

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

   ETA believes that implementing this recommendation will require commitment of critical state Information Technology resources and may not be particularly 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 enactments 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.

2. **ETA should work with and encourage Iowa use the Integrity Task Force to develop and implement state specific integrity strategies and reevaluate the data and resources needed to effectively monitor and implement strategies.**

   ETA will work with Iowa to ensure that its Integrity Task Force is fully engaged and actions associated with the task force activities are reflected 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.

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