

U.S. Department of Labor

Office of Inspector General—Office of Audit

REPORT TO EMPLOYMENT AND TRAINING ADMINISTRATION



RECOVERY ACT: EFFECTIVENESS OF INDIANA 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.

Elisat P. Lewis

Assistant Inspector General for Audit

Date Issued: November 24, 2015
Report Number: 18-16-004-03-315

BRIEFLY...

Highlights of Report Number 18-16-004-03-315, 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 Indiana Department of Workforce Development (Indiana) 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 Indiana used 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 \$5.4 billion in EB, EUC, and FAC benefits, in addition to \$4.1 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 Indiana 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/2016/18-16-004-03-315.pdf>

November 2015

RECOVERY ACT: EFFECTIVENESS OF INDIANA IN DETECTING AND REDUCING UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS AND IMPLEMENTATION OF ETA NATIONAL STRATEGIES

WHAT OIG FOUND

We found Indiana did not meet established targets for detecting and reducing improper payments, and reported data could not be validated. Additionally, we found Indiana's recovery rates declined from 62 percent in 2009 to 43 percent in 2013.

Indiana had implemented four of ETA's nine National Strategies when we conducted our fieldwork, and subsequently reported implementing another four. Indiana was not able to demonstrate these strategies were effective. Some strategies had an indirect impact on preventing overpayments. For others, the information was not collected in a manner that allowed one to evaluate effectiveness. Additionally, an analysis of changes in improper payment, detection, and recovery rates, showed no significant changes in these rates. Indiana delayed some strategies until it implemented its new UI Modernization System.

WHAT OIG RECOMMENDED

We recommended the Assistant Secretary for Employment and Training work with and encourage Indiana to develop measures for determining the effectiveness of cross-matching and other strategies; and include in its systems modernization effort the necessary applications and processes to enable Indiana to pass ETA data validation requirements.

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

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Two Logan Square, Suite 2001
Eighteenth and Arch Streets
Philadelphia, Pennsylvania 19103-2726 USA
215 546 2140 . fax 215 546 2148
www.withum.com

Additional offices in New Jersey,
New York, Massachusetts, Florida,
Colorado and Grand Cayman

Independent Auditors' Report

November 23, 2015

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

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

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

We conducted a performance audit to answer the following question:

How effective was Indiana 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 Indiana did not meet established targets for detecting and reducing improper payments and reported data could not be validated. We found Indiana's recovery rates declined from 62 percent in 2009 to 41 percent in 2012, and 43 percent in 2013, the latter two of which were below the 50 percent target introduced by ETA in 2012. Further, while Indiana had implemented four of ETA's nine National Strategies for reducing improper payments when we conducted our fieldwork, and subsequently reported implementing another four, it could not demonstrate that these strategies were effective.

The Recovery Act provided funding from the general fund of the U.S. Treasury and extended the ending date of EUC benefits; created and funded a new program, FAC; and provided for 100 percent federal funding and extended the date of EB benefits. 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, Indiana 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 Indiana’s ability to detect, reduce, recover, and report on UI improper payments related solely to Recovery Act improper payments.

WithumSmith+Brown, under contract with the U.S. Department of Labor (DOL) Office of Inspector General (OIG), audited Indiana’s effectiveness in detecting, reducing, recovering, and reporting improper payments for the period from the inception of the Recovery Act through December 31, 2012. Between February 2009 and December 2012, Indiana paid \$5.4 billion in EB, EUC, and FAC benefits, in addition to \$4.1 billion in state-funded UI benefits. As part of our audit procedures, we also obtained and analyzed information provided by ETA regarding Indiana’s detection, recovery and reporting of improper payments in 2013, as well as updated information on Indiana’s progress in implementing ETA’s National Strategies for reducing improper payments.

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

Indiana did not meet established targets for detecting and reducing improper payments; reported data could not be validated; and Indiana could not demonstrate that implemented strategies were effective. Indiana’s recovery rates declined below the targets established by ETA in 2012.

We found that Indiana did not effectively detect or reduce improper payments, and the integrity of the data Indiana reported to ETA could not be determined. Indiana’s detection rate was 65 percent in 2009 but then dropped and remained well short of the target of 50 percent during the remainder of our audit period. Indiana’s recovery rates also declined during our audit period — exceeding 50 percent from 2009 to 2011, and then dropping below it in 2012.¹ Finally, Indiana’s improper payment rates remained well above the target rate of 10 percent, ranging from 28 percent to 60 percent. These improper payment rates were 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 strained Indiana’s resources. Additionally, the significant delays in Indiana’s implementation of its UI Modernization System, while continuing to operate its

¹ The Overpayment Recovery Rate measure was not implemented by ETA until 2012, effective for reporting years ending June 30, 2013 and 2014. In prior years, there was no official “target” recovery rate.

mainframe system, created numerous issues in the administration of benefit payments and overpayment processing and reporting, hindering Indiana's ability to detect, reduce, recover, and report improper payments.

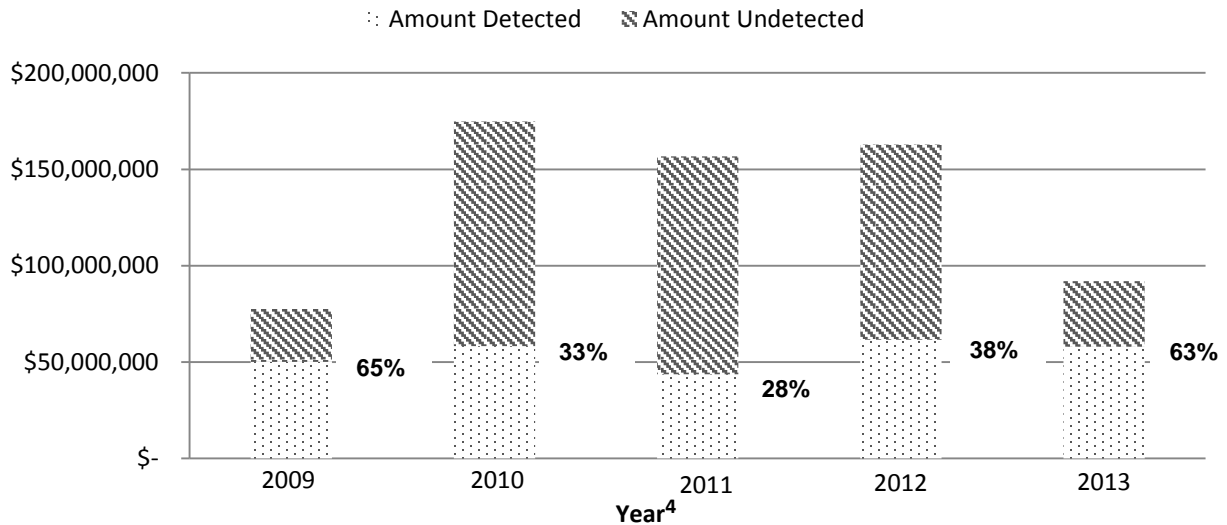
In addition, from ETA's nine National Strategies aimed at reducing, detecting, and recovering improper payments, Indiana had implemented four of the strategies when we conducted our fieldwork in October 2013, and reported implementing four additional strategies after October 2013. However, of the strategies implemented, Indiana could not demonstrate their effectiveness. The national strategies that Indiana did not implement until after October 2013 were the National Directory of New Hires (NDNH), the Cross-Functional Task Force, the Treasury Offset Program (TOP), and Employment Services (ES) Registration. Execution of these strategies was delayed because Indiana was waiting for the implementation of its new UI Modernization System.

Indiana did not meet established targets for detecting and reducing improper payments; and reported data could not be validated. Indiana's recovery rates declined below the goals established by ETA in 2012.

Detecting Improper Payments

With the exception of 2009, Indiana's detection rate remained short of its target rate of 50 percent during our audit period. Indiana's detection rate was 65 percent in 2009, but then declined and remained under 40 percent between 2010 and 2012, before rising to 63 percent in 2013. The rebound in 2013 may be attributed to the decrease in benefit payments from 2011 to 2013 by \$1.3 billion, which in turn, significantly decreased the estimated overpayments during 2013. Chart 1 below depicts the amounts detected as compared to the estimate of improper payments:

**Chart 1 - Overpayments Detected by Year
 Compared to
 Total Improper Payments Estimated^{2,3}**



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 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.

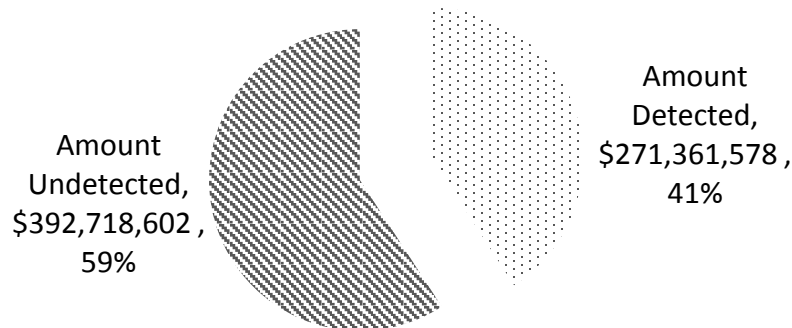
² Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

³ 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).

⁴ 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.

As depicted in Chart 2, from calendar year (CY) 2009 through CY 2013, Indiana detected 41 percent of the estimated improper payments occurring during that time.

**Chart 2 - Amount Detected Compared to Estimate of Total Improper Payments
 CY 2009 through CY 2013⁵**



Among the strategies Indiana used to detect improper payments were the State Directory of New Hires (SDNH) and the Intrastate and Interstate wage benefit cross matches. The cross-match process included using computer-assisted analysis of Indiana UI information from various state 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 that obtaining third-party corroboration for cross matches can be difficult, and limited staffing resources and manual processes hampered Indiana’s ability to research identified matches. Backlogs developed that required investigations as long as 3 years and as a result, all of the “likely” overpayments generated through the intrastate and interstate cross matches were not researched, and many potential overpayments went undetected. Further, data on the number of matches identified and researched, as well as the results of research, were not regularly maintained and analyzed, making it difficult to determine the effectiveness of the cross-match processes.

Indiana did not begin using the ETA National Strategy NDNH until January 2014. Although Indiana had the ability to utilize NDNH on all claims, it was unable to keep up with current SDNH and other cross matches due to a lack of resources. Therefore, Indiana chose not to implement NDNH until more resources became available. Indiana

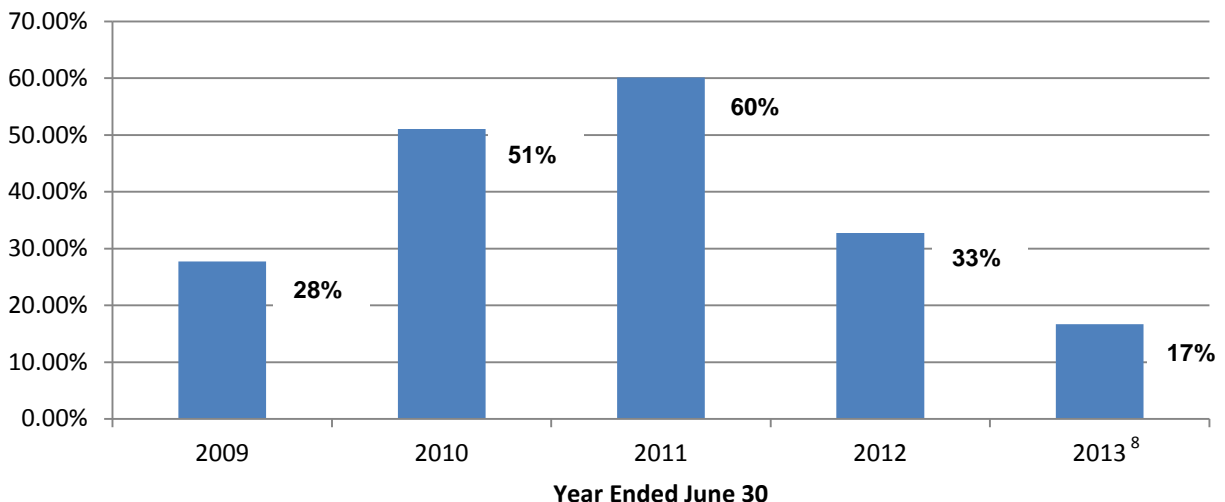
⁵ Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

continued to experience challenges in obtaining timely and accurate responses from employers when investigating cross matches.

Reducing Improper Payments

Indiana was not able to demonstrate effectiveness in reducing improper payments during our audit period. 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. Indiana’s improper payment rates remained well above the target rate of 10 percent during our audit period. As shown in Chart 3, Indiana’s improper payment rates ranged from 28 percent to 60 percent.

Chart 3 - Improper Payment Rates by Year^{6,7}



ES Registration and Work Search issues were the leading causes of improper payments in Indiana. Indiana reported a significant reduction in improper payments in 2013 due to policy changes in existing ES Registration and Work Search requirements. When Indiana launched its job matching website, Indiana Career Connect, its policy for ES Registration required claimants to upload their resume to the website. A large number of claimants did not post resumes and would have been disqualified under this

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

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

⁸ For 2013, ETA implemented a new metric to measure improper payments that takes into account the “net” effect of UI overpayment recoveries. Indiana’s rate under this measure for 2013 was 14%. We have presented the rate under the prior methodology for consistency.

new policy. Indiana subsequently removed this requirement in 2013, thus resulting in fewer improper payments measured by the BAM.

Indiana’s Work Search policies required claimants to enter three work searches each week into a computer system to maintain eligibility for benefits. However, Indiana’s UI system was configured so that only one work search was required to be entered for the weekly benefit to be paid. BAM reported high error rates when claimants did not enter all three work searches. Indiana changed its policy so first offenders, who did not indicate three work searches, received a warning letter instead of counting that payment as improper.

The effectiveness of strategies implemented by Indiana that were aimed at preventing overpayments, such as the 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 the state’s improper payment rate over time.

Indiana had an Integrity Unit in place during our audit period that focused on the security of personal identifiable information, and an informal group that met several times to develop the ES Registration and Work Search policy changes. Although both efforts served to significantly reduce Indiana’s improper payments in 2013, neither addressed the objective of the ETA National Strategy cross-functional task force — which was to bring management, frontline workers, and subject matter experts together to reduce improper payments at the root cause level. Indiana implemented the cross-functional task force in October 2013, after our fieldwork.

Recovering Improper Payments

Indiana did not alter its recovery methods during our audit period. One measure of states’ effectiveness at recovering improper payments is the rate of recoveries as a percentage of the overpayments detected and established (i.e., the recovery rate). In 2012, ETA established its first recovery rate targets for reporting years 2013 (July 1, 2012 to June 30, 2013) and 2014 (July 1, 2013 to June 30, 2014). The targets were 55 percent and 58 percent, respectively. While Indiana’s calendar year recovery rates were as high as 62 percent in 2009, they declined to 41 percent in 2012 and 43 percent in 2013, below ETA’s newly established target rates. During our audit period, Indiana’s dollar amount of recoveries decreased each year, while the dollar amount of overpayments established increased each year. Indiana’s decline in recoveries coincides with the decline in weekly benefit payments, as benefit payment offset is Indiana’s leading method of recovery. Indiana allows 100 percent benefit offset for fraud and non-fraud overpayments. We found that benefit offset accounted for 66 percent⁹ of the total recoveries made by Indiana.

⁹ Includes State UI only. ETA does not require dollar amounts by recovery method for EUC to be reported on the EUC 227 report; therefore, this information was not available.

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 Year⁹

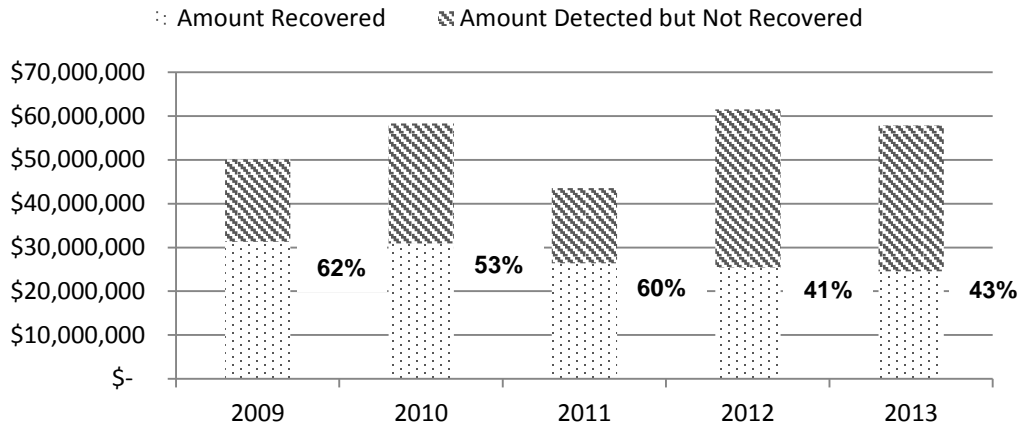
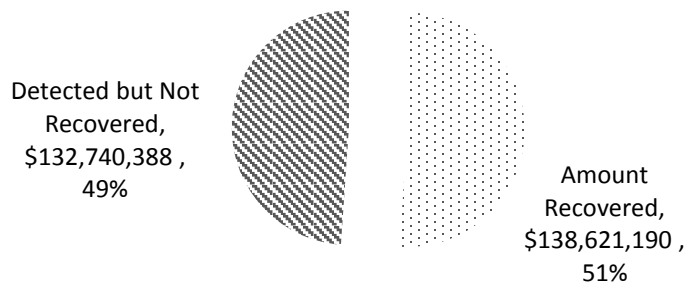


Chart 5 - Total Recoveries Compared to Amounts Detected^{10,11}
 Calendar Year 2009 to Calendar Year 2013



¹⁰ Although our audit period was through December 2012, we included subsequent period data for purposes of additional analysis.

¹¹ Amounts detected included approximately \$5.9 million of overpayments that were waived by IN.

¹² Includes State UI only. ETA does not require dollar amounts by recovery method for EUC to be reported on the EUC 227 report; therefore, this information was not available.

Once an overpayment was detected and proper notice was given to the claimant, Indiana 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). Recovery methods utilized by Indiana were as follows:

Table 1 - Recovery Methods Utilized by Indiana

Method	Description
Benefit Offset	Reductions of future Indiana UI benefit payments. Indiana allowed 100 percent offset for fault or non-fault overpayments.
State Tax Refund Offset	Intercept and recovery by Indiana Department of Revenue from State 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	Indiana recovers from another state, which participates in the Interstate Reciprocal Overpayment Recovery Arrangement
Prosecution	Indiana has a prosecutor that works solely on UI cases. Prosecution or any other judgment can extend write-off up to 20 years. Indiana considers prosecution on overpayments over \$10,000.
Third Party Collections	Indiana uses a collection agency to recover overpayments.
Bankruptcy	Indiana receives notice of bankruptcy and, if fraud overpayment they will file proof of claim.

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

As of the date of our fieldwork in October 2013, Indiana was not using the TOP, an ETA National Strategy whereby certain overpayments are submitted to the U.S. Treasury to intercept federal income tax refunds. TOP has been used successfully by other states and could have potentially increased the recovery rates and amounts for Indiana. Indiana stated that implementation of TOP was delayed until Tax Year 2014 because of resource limitations.

Reporting Improper Payments

We could not determine the effectiveness of Indiana's reporting of overpayment and recovery activity to ETA, because Indiana could not determine the integrity of the underlying mainframe data and pass ETA's data validation process. The 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 are 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.

Although Indiana ensured that the amounts reported on the ETA 227 flowed from the amounts recorded in the system, Indiana did not have any assurance that these amounts were accurate. Indiana's mainframe system did not enable Indiana to obtain the necessary extracts, and therefore Indiana was not able to perform data validation to ensure the integrity of the underlying data reported to ETA.

Crosscutting System Weaknesses

We found that Indiana's UI System Modernization Project, begun in 2002, with an original target date for completion of 2009, encountered significant problems and delays including being substantially over budget. Although the Claimant Self Service and Employer Self Service interfaces of the modernization system had been operational since 2007, the core features of the system's UI Tax and Benefit components did not launch until January 2014, well after our audit period. All Tax and Benefit activity were processed through the mainframe system, which had not passed ETA's data validation.

The delay in implementation of the modernized system reduced Indiana's ability to detect, reduce, recover, and report improper payments. This system was intended to enable Indiana to increase features and functionality and automate certain manual processes. Until the new system became operational, Indiana relied on manual, labor intensive, ad-hoc procedures and was unable to fully use technology to automate certain processes including key controls to prevent and detect improper payments.

Indiana did not receive system modernization funding pursuant to Unemployment Insurance Program Letter 26-11 as these funds required Seven Core Integrity Activities — including NDNH and the State Information Data Exchange System (SIDES) — to be implemented between September 30, 2011 and September 30, 2012. Indiana knew that it could not meet these implementation deadlines with the impending new system roll out, and therefore, did not apply for the supplemental funding.

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

Indiana had implemented four ETA National Strategies for reducing improper payments as of the date of our fieldwork in October 2013, and reported implementing four more strategies subsequent to that time. However, Indiana 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 Indiana implemented, information was not collected in a way to evaluate the effectiveness of the strategy. Additionally, an analysis of the changes in the improper payment rates, detection rates, and recovery rates, showed no significant improvement in these rates, preventing demonstration of these strategies' effectiveness.

ETA's Nine National Strategies

In 2011, 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 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.
- **SQSP/Program Integrity Action Plan** – As part of the submission of the SQSP (beginning in fiscal year (FY) 2012), states were required to develop a Program Integrity Action Plan. States were 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.
- **Mandatory Use of National Directory of New Hires and Recommended Operating Procedures (ROP)** –For several years, ETA has encouraged states to use the national directory to reduce improper payments in the UI program. New-hire directories, which were created for the purpose of child support enforcement, have allowed for improved access to wage data and data from other states regarding new hires and wages. Studies conducted about the national directory 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 require 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 the national directory by December 2011, and all states were strongly encouraged to implement procedures in line with the recommendations.
- **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.
- **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.
- **Treasury Offset Program (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.
- **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.

The Indiana unemployment system automatically transfers claimant information to Indiana’s ES Registration system. During our audit period, Indiana amended its ES Registration policy to consider the automated registration sufficient to meet ES Registration requirements. This change in policy resulted in Indiana’s ES Registration error rate to drop and remain below 3 percent subsequent to our audit period; therefore it no longer had to use the ES Registration National Strategy.

Indiana delayed the implementation of NDNH, SIDES, TOP, and the Cross-Functional Task Force because it was waiting for the implementation of the new UI Modernization System. Table 2 illustrates the status of Indiana’s implementation of these strategies as of October 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/Program Integrity Action Plan	
National Directory of New Hires	
State Information Data Exchange System	
Claimant Messaging	
Employer Messaging	
State-Specific Strategies	
Treasury Offset Program	
Employment Services Registration	
- Implemented - Implemented after our audit period - Not implemented	

Source: Auditor analysis of Indiana's implementation.

Indiana received a Supplementary Budget Request from ETA for \$614,998 in 2013, to help pay for costs associated with SIDES implementation. The original date for SIDES' implementation, as proposed by Indiana, was March, 2015. Subsequently, ETA approved an extension request from Indiana to complete the implementation of SIDES by September 30, 2015. Indiana expects to implement SIDES by December 31, 2015. Additionally, Indiana received a Supplementary Budget Request from ETA for \$396,160 in 2013 to help pay for costs associated with SDNH, NDNH, and cross-match automation.

Recommendations

We recommend that the Assistant Secretary for Employment and Training work with and encourage the Indiana Department of Workforce Development to:

1. Develop measures for determining the effectiveness of cross-matching and other strategies.
2. Include in its systems modernization effort the necessary applications and processes to enable the state to pass the ETA data validation requirements. Specific milestones for remedying data validation should be included in the Indiana Corrective Action Plan.

ETA'S RESPONSE

The Assistant Secretary for Employment and Training generally agreed with our recommendations. In its response, ETA stated it will work with Indiana to provide any technical assistance to measure the effectiveness of the state's strategies. ETA also stated it will work with Indiana to ensure that specific actions and milestones for remedying UI Data Validation are included in the corrective action plan submitted as part of its FY 2016 SQSP submission. Additionally, ETA further stated it has provided a pre-implementation planning checklist prior to states implementing new UI systems which include a requirement that the state ensure UI Data Validation requirements are met prior to implementation. ETA also proposed a technical correction which has been incorporated as appropriate into this final report. ETA's response to our draft report is included in its entirety in Appendix D.



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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 Indiana 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 Indiana used to detect, reduce, recover, and report UI improper payments between February 2009 and December 2012. Our audit work was performed at the Indiana Department of Workforce Development located in Indianapolis, Indiana; 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 Indiana from the ETA National Office and the ETA Regional Office (Region 5). We also interviewed officials at the Indiana Department of Workforce Development in Indianapolis, Indiana, reviewed Indiana 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 Indiana's internal controls considered significant to the audit objective. The testing of Indiana's controls was not determined to be significant to our audit objective. We considered Indiana'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 Indiana'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 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 (Public Law (P.L.) 107-300)
- Executive Order 13520, Reducing Improper Payments (2009)
- Improper Payments Elimination and Recovery Act of 2010 (P.L. 111-204)
- Middle Class Tax Relief and Job Creation Act of 2012

Appendix B

Acronyms and Abbreviations

BAM	Benefit Accuracy Measurement
CY	Calendar Year
DOL	Department of Labor
EB	Extended Benefits
ES	Employment 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
P.L.	Public Law
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
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. North Carolina law allows 50 percent of a claimant's weekly benefit to be offset in cases of non-fraud overpayments, and 100 percent for fraud overpayments.

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

State Directory of New Hires – The process of cross matching social security numbers (SSN) maintained in the State Directory of New Hires database against 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 Response to Draft Report


U.S. Department of Labor

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



OCT 14 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. 18-15-009-03-315 – Recovery Act: Effectiveness of
Indiana 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 Indiana to address your recommendations and improve the integrity of its UI program.

ETA appreciates the acknowledgement on page 3 of the report that Indiana 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. All states, including Indiana, 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 Indiana, 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 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 Indiana 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 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 responses to the findings and 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

**Employment and Training Administration (ETA) Response To
Office of the Inspector General (OIG) Report No. 18-15-009-03-315 – Recovery Act:
Effectiveness of Indiana 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 national strategies for the detection, prevention, and recovery of improper payments. Below are ETA’s responses to the findings and recommendations in this report.

Findings

On page 6, Reducing Improper Payments section, Chart 3 – Improper Payment Rates by Year

Comment: Indiana’s estimated improper payment rate data for 12-months ending June 30, 2013 as indicated in Chart 3 is inaccurate. Indiana’s estimated improper payment rate data for Years 2009 – 2013 is shown below for your reference.

Year ending June 30	Estimated Improper Payment Rate
2009	27.7%
2010	50.9%
2011	60.1%
2012	32.7%
2013	13.8%

During 2012, ETA developed a new metric to measure improper payments that takes into account the “net” effect of UI overpayment recoveries. This measure includes the two components that have been reported annually as part of the reporting requirements -- total overpayments plus total underpayments -- which continue to be estimated from Benefit Accuracy Measurement survey, and subtracts the amount of overpayment recoveries, which are based on actual amounts reported by the state workforce agencies on the *ETA 227 Overpayment Detection and Recovery Report*. This methodology was approved by the Office of Management and Budget for the FY 2013 reporting in the Department’s Agency Financial Report.

Recommendations

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

ETA will work with Indiana to encourage and provide any technical assistance to measure the effectiveness of the state’s strategies. We agree that it would be beneficial for the state to track the results of their integrity strategies to the extent feasible. However, we note that

many variables impact a state’s overall improper payment rate and root causes which make it particularly challenging to develop measures that accurately evaluate the effectiveness of individual strategies.

- 2. ETA should work with and encourage Indiana 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 Indiana Corrective Action Plan.**

ETA will work with Indiana to ensure that specific actions and milestones for remedying UI Data Validation (DV) are included in the corrective action plan submitted as part of its FY 2016 State Quality Service Plan (SQSP) submission.

Additionally, to support states’ system modernization efforts, 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 Information Technology 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.

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Address: Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210