
U.S. Department of Labor Office of Inspector General

Audit of the Unemployment Insurance Data Validation Pilot Program

U.S. Department of Labor
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Acronyms

ADP	Automatic Data Processing
BAM	Benefits Accuracy Measurement
BTQ	Benefits Timeliness and Quality
CAP	Corrective Action Plan
DOL	Department of Labor
ESC	Employment Service Center
GAO	General Accounting Office
GPRA	Government Performance and Results Act
MIS	Management Information System
OIG	Office of Inspector General
OMB	Office of Management and Budget
OWS	Office of Workforce Security
SESA	State Employment Security Agency
SQSP	State Quality Service Plan
SSA	Social Security Administration
SSN	Social Security Number
UI	Unemployment Insurance
UIDV	Unemployment Insurance Data Validation
UIRR	Unemployment Insurance Required Reports
WV	Workload Validation

Executive Summary

In response to increasing demands for more accurate and meaningful program performance information, as well as past OIG concerns, the Office of Workforce Security (OWS) developed the Unemployment Insurance Data Validation (UIDV) program. This program, planned for implementation at the State Employment Security Agency (SESA) level, will strive to provide reasonable assurance Unemployment Insurance (UI) program performance data provided by the 53 reporting entities (50 United States, District of Columbia, Puerto Rico, and the Virgin Islands) are reliable. Since policy and decision makers throughout the Department as well as Congress use performance data as a management tool, data reliability is quintessential.

Our audit objective was to determine whether the management controls had been designed at the OWS National Office and at the state level (for the three pilot study states) to provide reasonable assurance that performance data are complete, recorded in the proper period, and valued appropriately.

We assessed UIDV program management controls over management assertions of completeness, occurrence, and valuation of reported program performance. We determined that management controls had been designed within the UIDV program to provide reasonable assurance that reported program performance data meet management assertions of completeness, occurrence, and valuation, as it relates to the performance data contained in the 53 reporting entities Management Information Systems (MIS). Also, tests of the UIDV methodology performed at the Minnesota SESA disclosed that Minnesota performance data used by the OWS National Office for reporting of GPRA Goal 2.2 “Unemployed workers receive fair Unemployment Insurance benefits eligibility determinations and timely benefit payments” were properly reported to OWS.

We noted opportunities to improve the UIDV program. Three findings, pertaining to written procedures, data validation frequency, and documentation retention requirements, are discussed in the Audit Findings section to this report.

In summary, our report recommends that OWS:

- C establish written procedures concerning the completeness of performance reports;
- C validate UI program performance data annually, rather than the current 3-year cycle; and

C require reporting entities to retain complete audit trails.

Management agreed with all findings and recommendations in this report. The recommendations are resolved and open pending receipt of documentation that corrective action has been implemented.

Our audit also identified two “Best Practices” with respect to State-level UI validation practices. Specifically, Minnesota’s use of Social Security Administration (SSA) Death Match and Validation Query procedures were noteworthy. They performed these verifications in conjunction with the UI claim adjudication process, and in doing so, reduced their vulnerability to processing fraudulent transactions. In addition, North Carolina had streamlined data extraction procedures to obtain detailed State UI Program Performance Data from their State Management Information System. We identify these practices in greater detail within the Best Practices section of this report in hopes executive management can share them with other UI end-users.

Background

The Government Performance and Results Act of 1993 (GPRA) is intended to, among other things, (1) improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results; and (2) improve congressional decision-making by providing more objective information on achieving statutory objectives, and the relative effectiveness and efficiency of Federal programs and spending.

In order to allocate resources and oversee program effectiveness, Congress requires sufficient, complete, accurate and consistent program performance reporting. Congress understands a balance must be struck between providing adequate and reliable program performance information and costs necessary to obtain that information. As a result, agencies must strive to implement the most cost-effective means to provide Congress and other stakeholders with accurate and reliable program performance information.

GPRA requires Federal agencies to describe in their annual program performance plans how they will obtain and validate critical performance data. The Office of Workforce Security (OWS) developed the UI PERFORMS system to meet this requirement. Through UI PERFORMS, OWS can validate data used in their strategic planning process.

UI PERFORMS is an “umbrella” performance measurement system designed to continuously monitor the performance of Unemployment Insurance (UI) program activities as reported by the states. Through UI PERFORMS, OWS seeks to establish clear program performance priorities, and introduce information-based planning for improved program performance. A key to the effectiveness of the UI PERFORMS system is the validity of the data obtained from the 53 reporting entities. This data is used to assess program performance.

Under the UI PERFORMS system, reporting entities submit UI program data to OWS on a monthly and quarterly basis through a series of Unemployment Insurance Required Reports (UIRR). The submitted data consists of approximately 2,400 UI program performance data elements contained in 47 reports. The UI program performance data submitted via the UIRR captures an array of performance information. Examples of how reported data is used for “output product purposes” include economic statistics, allocating UI administrative funding to states based on workload, measuring state claimant eligibility criteria and performance in providing benefits, and accounting for UI trust fund utilization. Additionally, the UI program performance data provided by the states is used in the compilation of UI program performance measures under GPRA, specifically, Department of Labor (DOL) performance goal 2.2A (*Unemployed workers receive fair Unemployment Insurance benefit eligibility determinations and timely benefit payments*).

Initially, OWS utilized its existing Workload Validation (WV) program as the means to satisfy data validation and verification requirements, mandatory GPRA components. The Workload Validation program was designed to validate workload data used to formulate and allocate the UI administrative budget among the states. To accomplish this, the WV program validated 29 UI program performance data elements on four UIRR reports. This process reviewed about one percent of the 2,400 data elements reported by State Employment Security Agencies (SESAs) into the UIRR process.

The extent to which the Workload Validation program provided a satisfactory level of validation over individual UI program performance data elements and UIRR report coverage was challenged in OIG Report Number 03-93-034-03-315, dated September 29, 1993. We recommended the Office of Workforce Security: (1) include data elements associated with each of the existing and proposed performance measures in its data validation effort; (2) review validation methods for all other data elements contained on UIRR reports; and (3) increase the validation period from one month for quantity and one quarter for quality to an entire year.

In response to our recommendations, OWS developed the Unem-

ployment Insurance Data Validation (UIDV) program. UIDV increases the number of UI program performance data elements that are validated. Specifically, UIDV was designed to validate 1,216 of the 2,400 data elements (51 percent) contained in 20 of the 47 UIRR reports (43 percent) submitted by the 53 reporting entities. This compares with the validation of 29 UI program performance data elements (1 percent) contained in 4 UIRR reports (9 percent) as was accomplished under the Workload Validation program.

In November 1997, OWS began a pilot study at three SESAs - Massachusetts, Minnesota and North Carolina. The pilot study was performed to assess the UIDV validation methodology in an operating-level (SESA) environment. The OWS pilot study report stated *"Pilot States reported that the system is valid, accurate, efficient and more comprehensive than prior validation systems they have used."*

In December 2001, OWS received OMB final clearance for its proposed data collection activities necessary to administer its UIDV program. This clearance is a statutory requirement under the Paperwork Reduction Act of 1995, and OMB approved the UIDV program, and established an implementation period not to exceed December 31, 2004. OWS plans full UIDV implementation in all state workforce agencies during FY 2003.

Objective and Scope

Our audit objective was to determine whether management controls had been designed at the OWS National Office and at the state level (for the three pilot study states) to provide reasonable assurance that performance data are complete, recorded in the proper period, and valued appropriately.

UIDV is designed to determine whether state level data was "reported correctly," and is not intended to assess source data accuracy. Accordingly, we did not review the accuracy of state level source data.

While the UIDV program methodology provides for the validation of UI benefits and UI tax administration data, our audit excluded the tax administration component of the UIDV methodology.

Our audit of OWS' proposed UIDV program was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. The audit was performed during the period April 25, 2001 through October 5, 2001, and covered calendar years 1997-2001 UIDV documentation.

Our fieldwork primarily consisted of conducting interviews with OWS management and staff, and reviewing documentation relating to OWS' accounting for UIRR reports submitted by the 53 reporting

Audit Methodology

entities.

We interviewed National and state key personnel and assessed UIDV program management controls over management assertions of completeness, occurrence, and valuation of reported program performance data. Through these interviews and observations, we identified control techniques used to achieve each management control objective.

We conducted site visits at two of the three SESAs that participated in the 1997-1998 UIDV pilot validation (North Carolina and Minnesota), and conducted telephone interviews with the third SESA (Massachusetts). Our fieldwork at the North Carolina and Minnesota SESAs was conducted during the period April 30 through June 15, 2001, and primarily consisted of conducting interviews with management and staff, and reviewing available documentation supporting the 1997-1998 pilot validation. At the Minnesota SESA, we also tested the UIDV validation methodology using March 2001 performance data. This data, used in UIRR National Office reporting, were examined to determine whether Minnesota's input for GPRA goal 2.2 was reliable. We conducted a telephone interview with Massachusetts SESA management and staff on August 14, 2001.

Tests of the UIDV methodology were performed at the Minnesota SESA to determine whether performance data used by the OWS National Office for reporting of GPRA Goal 2.2 "Unemployed workers receive fair Unemployment Insurance benefits eligibility determinations and timely benefit payments" were properly reported based on data contained in the Minnesota MIS.

Additionally, we performed fieldwork at the Raleigh, North Carolina, Employment Service Center (ESC), and St. Cloud, Minnesota, Data Center. Our fieldwork at the Raleigh ESC and St. Cloud Data Center consisted of conducting interviews with management and staff, and was conducted during the period April 30 through June 15, 2001.

We assessed UIDV program management controls over management assertions of completeness, occurrence, and valuation of reported program performance data. We determined that management controls had been designed within the UIDV program to provide reasonable assurance that reported program performance data meet management assertions of completeness, occurrence, and valuation as it relates to the performance data contained in the 53 reporting entities MIS. Also, tests of the UIDV methodology performed at the Minnesota SESA disclosed that Minnesota performance data used by the OWS National Office for reporting of GPRA

Audit Results

Goal 2.2 “Unemployed workers receive fair Unemployment Insurance benefits eligibility determinations and timely benefit payments” were properly reported to OWS.

We noted opportunities to improve the UIDV program. Three findings, pertaining to written procedures, data validation frequency, and documentation retention requirements, are discussed in the Audit Findings section to this report.

Completeness

Control Objective 1:

To ensure that each UIRR report from the 53 reporting entities is obtained monthly or quarterly (depending on the nature of the report) by OWS.

Control Techniques:

The states must submit the various required reports to OWS monthly or quarterly depending on the type of reports. OWS, National Office, Data Analysis and Validation team runs delinquency reports the first business day of each month. A listing of delinquent reports, including any of the 24 required reports, is generated on a regional basis and provided to each Regional Office.

The Regional Offices are responsible for monitoring the states’ activities and reporting and following up with the states on delinquency issues raised by OWS. The Regional Office serves as the first contact regarding delinquent reports. However, OWS provides additional enforcement pertaining to the delinquent reports.

If a state has been delinquent, the National Office follows up with the state in an attempt to resolve the problems. If a state is chronically delinquent in providing its data, OWS’ State Quality Service Plan (SQSP) policy requires the state to complete and submit Corrective Action Plans (CAPs) for reporting deficiencies. Reporting deficiencies are consistent failures to timely or accurately submit any Federally-required reports. Once the states submit CAPs, both the Regional Offices and National Office review the CAPs to ensure proposed actions will resolve reporting deficiencies identified.

Control Objective 2:

To ensure that the summarization of data reported by the states to OWS contained in National Office performance reports is materially complete.

Control Techniques:

The National Office uploads the States’ data to the National Office’s UI database via the SUN system. States’ data are retrieved from

the database based on various queries and pre-written extracts. The National Office's performance reports are generated based on the queries. The National Office uses the performance data to generate the "State Performance Ranking in UI System" Report which serves as a management tool to inform management and decision makers of the status of the states' performance. If a state's data are unavailable, the performance report would indicate the unavailability of the data with the code INA (information not available).

Before generating the National Office performance reports, OWS reviews the data for consistency and reasonableness and follows up if data seem to be "out of range." The nature of the measure determines the materiality of any state's omission. For example, when reviewing the national percentage of first payment timeliness, Puerto Rico and the Virgin Islands could be considered immaterial because they account for a small percentage of UI workload. However, if the measure is the number of states meeting the Secretary's Standard of 87 percent of first payments within 14/21 days, the absence of three states' data would be material, because with this measure all states are equal. Therefore, failure to report is treated by OWS as failure to attain the standard.

Occurrence

Control Objective 3:

To ensure that only data reported by the states as having occurred during the reporting period is contained in National Office performance reports.

Control Techniques:

Every transaction record in the UI database has a "rptdate" field, which is the date that the transaction actually occurred. This field is used for selecting records from the database for the appropriate reporting period. For example, to select data corresponding to the calendar year 2000, OWS would select a range of "rpt. dates" between January 1, 2000 and December 31, 2000, in the UI database.

Control Objective 4:

To ensure the statistics reported to OWS represent transactions that occurred during the current reporting period.

Control Techniques:

Each transaction record contains a field for the date of entry and the compensable week ending date. The staff extract data transactions by entering the corresponding dates for the reports. Only transactions processed during requested dates are reported in the reports.

Valuation

Control Objective 5:

To ensure that the UI data reported to OWS agrees with the state's UI database.

Control Techniques:

To ensure that the states' UI data are accurately and consistently summarized in the various UIRR reports, OWS' contractor, Mathematica, provides the states' ADP staff with spreadsheets and instructions for proper classification and reporting of transactions for validation via the UIDV process. Once the ADP staff completes the data extract program file and provides the validator with various population extractions, the validator performs a report count validation and an individual transaction validation. In the report count validation, the UIDV provides an independent count of the report cells. The states compare the UIDV counts/results to the reported counts from the UIRR previously submitted to OWS. The reports pass the validation if the differences, if applicable, are less than the 2 percent tolerance rate. However, if the differences exceed the tolerance rate, the state must complete a CAP detailing the procedures the State will take to correct the problem. To verify the accuracy of individual UI data transactions, the validator performs an individual transaction validation by obtaining a sample of the specified transactions reported as an aggregate count.

The UIDV process verifies the edit checks used for the reports generated by the states' MIS. In addition, the UIDV process provides additional edit checks to test the reasonableness of the counts reported on the UIRR. During the transmission of states' UI data to the National Office's UI database via the SUN system, the data are subject to a series of edit checks before transmission is completed. There are three types of edit checks: fatal, error and warning. The fatal and error edit checks prevent the completion of the data transmission. The warning edit checks warns the operator of a possible mistake but does not prevent the transmission of the data. The ADP staff reviews the edit checks prior to downloading the states' UI data to the National Office's UI database.

In Minnesota, the Research and Statistics Unit provides additional assurance that the UI data is accurate. The unit has a statistical system that provides detailed information on the individual transactions. The system allows the Statistics unit to categorize the UI information for other state reporting purposes such as to gain the overall state unemployment rate. The team leader performs a reconciliation between the state UI database and the statistical system to verify the accuracy of the information.

The UI data collected in Minnesota's MIS is subject to a series of edit checks for accuracy and reasonableness. The edit checks include check digit, reasonableness test and verifying the claimants' social security numbers. New claims are entered into the state's UI database on a daily basis. These transactions are written to tape. The transactions are compiled on a weekly and monthly basis. An interface exists between the state's UI database and the statistical system. The interface carries the transactions to the statistical system. The team leader crosschecks the system to ensure that the interface had transferred the transactions correctly. The system is used to crosscheck the information as to what should be reported to OWS.

Minnesota's Research and Statistics Unit first prepares required reports manually. After two levels of supervisory review are completed, the reports are transmitted to OWS. The team leader reviews a copy of the transmitted report to ensure that no keying errors occurred. The unit also has report instructions to ensure the correct information is placed in the correct reporting cells.

1. Lack of Written Procedures Concerning Completeness of Data

Audit Findings

Management controls should be designed and placed in operation to provide reasonable assurance that program performance data are complete, accurate and consistent. OWS' reporting processes do not meet certain management controls standards established by the Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control, revised June 21, 1995. The circular defines management controls as "the organization, policies and procedures used by agencies to reasonably ensure that reliable and timely information is obtained, maintained, reported and used for decision making." Specific management controls standards for recording and documenting includes "documentation for transactions, management controls and other significant events must be clear and readily available for examination."

Specifically, written policies and procedures related to compilation of reports and summarization of data used for reporting UI performance measures did not exist at the National Office. For example, OWS does not have a written procedure to determine if the data used in the performance reporting were materially complete. The agency planned to make subjective judgments regarding the materiality of the omission of states' data. Therefore, there was no assurance that such judgment would be consistently and accurately applied.

Conversely, the UIDV methodology and validation procedures prepared by the National Office for each reporting entity to follow are well documented. Documentation of policy and procedures would enhance the overall success of the UIDV program and ensure compliance with OMB Circular A-123 .

Recommendation:

We recommend that the Assistant Secretary for Employment and Training require OWS to establish written procedures concerning completeness of performance reports. The procedures should detail how to determine if reported data is not materially complete and what to do in those circumstances.

Management's Response:

ETA accepts the OIG recommendations that it establish written procedures to help ensure completeness of performance reports. ETA will devise and document a cost-effective mechanism to (1) identify incomplete data used in performance measures and (2) inform primary report users of report incompleteness. These steps will be guided by the Circular A-123 management control principle that resources be used consistent with agency mission.

OIG's Conclusion:

This recommendation is **resolved and open**. To close, ETA should provide documentation that procedures have been established and implemented.

2. Frequency of Validation Under the UIDV Program

Through its implementation of GPRA, Congress has identified the need to receive timely, complete, and accurate program performance information to help guide its decision-making process with regard to the allocation of resources and oversight of program activities.

The proposed UIDV validation schedule (also referred to as the 3-year cycle) requires, with some exceptions, that states perform a validation of UI program performance data once every 3 years. This frequency of validation will not ensure that UI program performance data used in the compilation of DOL performance goals is validated each year that it is reported. DOL performance goals, specifically performance goal 2.2A (*Unemployed workers receive fair Unemployment Insurance benefit eligibility determinations and timely benefit payments*), are reported to Congress and other interested

stakeholders of DOL in the Annual Accountability Report.

By requiring states to annually validate UI program performance data that support DOL's annual performance goals, in this instance performance goal 2.2A, OWS management would be providing validated program performance data to Congress annually.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training require OWS to validate UI program performance data, which directly supports DOL performance goals (e.g., performance goal 2.2A), annually rather than every 3 years as currently required under the UIDV protocol.

Management's Response:

ETA accepts the OIG recommendation to validate the UI program performance data that directly support DOL performance goals for UI (Goal 2.2a) annually instead of every three years. However, we would note that although ETA can require the states to validate the data used for key GPRA measures annually, we do not expect to see this occur nationwide until about FY 2005, because of our expectation of the speed with which UIDV will be implemented. UIPL #14-02, issued on 02/22/02, requires state workforce agencies to implement UIDV fully by July 31, 2003. A full validation would involve complete validation of both benefits and tax performance data. We believe that some state agencies will meet this deadline while others will still be in the process of implementing the new validation program. Some state agencies will not pass all validation items initially and may require additional time to correct programming problems in FY 2004.

We also note that the Department's UI GPRA goals have changed since the UIDV audit was performed. Of particular relevance to UIDV, the goal of making fair unemployment insurance benefit eligibility determinations has been replaced with setting up UI tax accounts timely. Therefore, data for the timeliness of new status determinations will be validated annually, along with the timeliness of first payments. There are two other UI goals; the measures are now under development.

Both measures will be based on the Benefit Accuracy Measurement system, which has its own validation mechanism separate from UIDV.

OIG's Conclusion:

This recommendation is **resolved and open**. To close, ETA should provide documentation that a significant number of state workforce agencies have implemented UIDV and are performing annual

validation of UI program performance data that support DOL performance goals.

3. Retention of UIDV Audit Trails by Reporting Entities

During our audit of the UIDV program, we found that the three participating pilot states had retained various components of the validation audit trail, however, none had retained complete audit trails documenting the pilot validation.

The UIDV audit trail consists of: (1) detailed data extracts of the populations subject to validation under UIDV (either electronic record or hard copy); (2) validation worksheets documenting the actual validation process as performed by state validators; and (3) summary spreadsheets provided to the states by OWS for the purpose of summarizing and quantifying the validation results.

While retention of an audit trail was not a condition of the 1997-1998 pilot, the lack of a complete audit trail hindered our ability to assess controls in place over the validations conducted by the pilot study states. Once UIDV is implemented, complete audit trails will be necessary to perform internal (OWS) and external (OIG/GAO) evaluations of the effectiveness of the UIDV validation program.

Recommendation:

We recommend that the Assistant Secretary for Employment and Training ensure OWS requires reporting entities to retain complete UIDV audit trails for not less than 3 years following the end of the calendar year in which the validation was performed.

Management's Response:

During the three-state-pilot UIDV program, DOL was testing the methodology for validation; thus no significant audit trail was required beyond the submission of final reports for the contractor. We realize that in operating the UIDV program an audit trail will be necessary to ensure proper validation procedures. We concur with the OIG recommendation to require state agencies to maintain validation audit trails for a minimum of three years following the end of the calendar year in which such validation are conducted.

OIG's Conclusion:

This recommendation is **resolved and open**. To close, ETA should provide documentation of the requirement to retain complete UIDV audit trails.

Best Practices

In performing our audit of UIDV, we identified activities at the state level which can be classified as “Best Practices” due to the added value they represent in terms of administering the UIDV program, or the UI program in general. The two “Best Practices” we identified follow.

1. Social Security Administration (SSA) Death Match and Validity Check

During our site visit to the Minnesota SESA we found that, in the normal course of the UI claims adjudication process, an SSA death match and an SSN validation check are run against each applicant. This significantly reduces the likelihood that fraudulent UI claims are made through the use of unissued SSNs or by using the SSNs of deceased persons.

By encouraging all states to incorporate a similar death match and validity check in their UI claims adjudication process, the number of UI over payments could be significantly decreased.

2. Detailed Data Extracts of State UI Program Performance Data

In performing the detailed data extraction of state UI program performance data in conjunction with UIDV, each reporting entity must create a detailed data record extraction file program. This program identifies and extracts the 14 populations and their corresponding sub-populations of UI data subject to validation.

At the North Carolina SESA, State MIS staff created the detailed record extraction file containing the 14 populations individually along with their corresponding sub-populations. This method of data extraction facilitated the retrieval of a specific population and its corresponding sub-populations “on demand.”

In comparison, the data extraction process utilized by the Minnesota SESA consisted of compiling the 14 populations in the aggregate. Consequently, in order to retrieve a specific population, the validator must identify a beginning and ending “observation number” assigned to each population by the MIS staff. The randomly accessible series of populations available to the North Carolina SESA resulted in a more streamlined validation process when compared to Minnesota.

APPENDIX A

UIDV Overview

Each of the 53 reporting entities may employ a different methodology to prepare the various UIRR reports which are submitted to OWS for the purpose of communicating UI program performance data. However, the validation methodology employed under the UIDV program is consistent across each of the reporting entities. States compare UI program performance data per the respective UIRR reports submitted to OWS against reconstructed cell counts from state management information systems (MIS). This is done regardless of whether UIRR reports are produced directly from a state benefit database, a database extract or statistical file, or from a combination of these sources. The UIDV methodology reconstructs, for each UIRR item to be validated, the count of transactions reported during a specific period.

The UIDV program includes three principal benefit payment components: (1) Report Item Validation [Module 1]; (2) Individual Transaction Validation [Module 2]; and (3) state Specific Transaction Validation Instructions [Module 3]

Report Item Validation – [Module 1] consists of three parts: (1) *Cell Count Reconstruction*; (2) *Duplicate Detection*, and; (3) *Time Lapse Count*.

Cell Count Reconstruction [Module 1.1] - The purpose of this phase of the UIDV is to validate the accuracy of the counts reported in the respective UIRR reports. Validators compare the counts in each UIRR report cell with the count of its corresponding sub-populations from the state data extract. The Detailed Record Extraction relies upon each state's MIS component to identify and extract the respective populations and sub-populations of UI program performance data from each state's UI database that is subject to validation under the UIDV methodology.

Duplicate Detection [Module 1.2] - The purpose of this phase of the validation is to detect duplicate entries of transactions in the reconstructed counts per the state data extract.

Time Lapse Count [Module 1.3] - The purpose of this phase of the validation is to ensure that time lapse for certain UI program activities is reflected accurately (i.e., timely first payments).

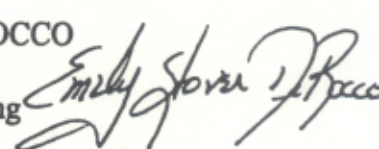
Individual Transaction Validation – [Module 2] the state MIS staff creates a validation worksheet according to *Report Validation Specifications* (found in Appendix A of the UIDV Handbook. The validation worksheet references the specific validation procedures identified in Module 3 (State Specific Validation Instructions).

State Specific Validation Instructions - [Module 3] provides detailed, state specific validation procedures for the *Individual Transaction Validation* phase of the UIDV program.



MAR 29 2002

MEMORANDUM FOR: ELLIOTT P. LEWIS
Acting Deputy Inspector General for Audit

FROM: EMILY STOVER DeROCCO
Assistant Secretary for
Employment and Training 

SUBJECT: Response to Audit of the Unemployment
Insurance Data Validation Pilot Program
Draft Audit Report No. 22-02-005-03-315

We have reviewed the OIG findings of the above-referenced audit and provide the following responses.

1. *Establish written procedures concerning the completeness of performance reports.*

The Employment and Training Administration (ETA) accepts the OIG recommendation that it establish written procedures to help ensure completeness of performance reports. ETA will devise and document a cost-effective mechanism to (1) identify incomplete data used in performance measures and (2) inform primary report users of report incompleteness. These steps will be guided by the Circular A-123 management control principle that resources be used consistent with agency mission.

2. *Validate UI program performance data annually, instead of on the current 3-year cycle.*

ETA accepts the OIG recommendation to validate the Unemployment Insurance (UI) program performance data that directly support Department of Labor performance goals for UI (Goal 2.2a) annually instead of every three years. However, we would note that although ETA can require the states to validate the data used for key Government Performance and Results Act (GPRA) measures annually, we do not expect to see this occur nationwide until about FY 2005, because of our expectation of the speed with which UI Data Validation (DV) will be implemented. Unemployment Insurance Program Letter (UIPL) #14-02, issued on 02/22/02, requires state workforce agencies to implement UI DV fully by July 31, 2003. A full validation would involve complete validation of both benefits and tax performance data. We believe that some state agencies will meet this deadline while others will still be in the process of implementing the new validation program. Some state agencies will not pass all validation items initially and may require additional time to correct programming problems in FY 2004.



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We also note that the Department's UI GPRA goals have changed since the UI DV audit was performed. Of particular relevance to UI DV, the goal of making fair unemployment insurance benefit eligibility determinations has been replaced with the goal of setting up UI tax accounts in a timely manner. Therefore, data for the timeliness of new status determinations will be validated annually, along with the timeliness of first payments. There are two other UI goals; the measures are now under development. Both measures will be based on the Benefit Accuracy Measurement system, which has its own validation mechanism separate from UI DV.

3. Require reporting entities to retain complete audit trails.

During the three-state-pilot UI DV program, DOL was testing the methodology for validation; thus no significant audit trail was required beyond the submission of final reports for the contractor. We realize that in operating the UI DV program an audit trail will be necessary to ensure proper validation procedures. We concur with the OIG recommendation to require state agencies to maintain validation audit trails for a minimum of three years following the end of the calendar year in which such validations are conducted.

In addition to our responses to the three OIG findings, we have two additional comments on the OIG audit report: (1) The statement on page 4, second paragraph, last sentence should be corrected to read: "OWS plans full UI DV implementation in all state workforce agencies during FY 2003." (2) On page 8, under Control Techniques, the report refers to a "2 percent tolerable rate;" it should refer to a "2 percent tolerance rate."