



September 29, 2006

MEMORANDUM FOR: EMILY STOVER DeROCCO
Assistant Secretary for Employment
and Training

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

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Individuals Received Unemployment Benefits
in Louisiana While Receiving Public Service
Employment Wages in Texas
Management Letter No. 06-06-006-03-315

INTRODUCTION

Normally, a Management Letter is provided to be read in conjunction with an accompanying audit report. However, due to the proactive nature of our current work related to Hurricane Katrina, we will be issuing Management Letters to inform the Department, in this case, the Employment and Training Administration (ETA), of issues/problems we believe should be disclosed to help the Department's programs operate efficiently and effectively while reducing the possibility of fraud, waste, and abuse.

This Management Letter is an interim reporting mechanism and should be read with the understanding that only after the information in this Management Letter is evaluated/investigated by the OIG's Offices of Audit (OA) and Labor Racketeering and Fraud Investigations, the Louisiana Department of Labor (LDOL), and the Texas Workforce Commission (TWC) can a determination be made as to the legitimacy of the unemployment claims discussed herein.

BACKGROUND

On August 29, 2005, Hurricane Katrina hit the Louisiana, Mississippi, and Alabama coasts, resulting in a national disaster. A national emergency was declared, making disaster unemployment assistance (DUA) available to residents of the affected areas who lost their jobs, or were unable to return to their jobs as a result of Hurricane Katrina, if they did not qualify for State unemployment compensation (UC). Additionally, on September 23, 2005, Hurricane Rita hit the Texas and Louisiana coasts, resulting in another national emergency declaration on September 24, 2005.

UC provides benefits to eligible workers who are unemployed through no fault of their own and meet eligibility requirements established by their State. UC benefits are state funded. The purpose of the DUA program is to provide unemployment assistance to individuals who become unemployed or cannot commence employment as a direct result of a major disaster, but are not covered under the Federal or state UC programs. DUA is available to individuals for weeks of unemployment beginning after the date the major disaster began and for up to 39 weeks after the major disaster was declared by the President, as long as their unemployment continues to be a result of the major disaster.

On September 7, 2005, ETA awarded the State of Texas a National Emergency Grant (NEG) to assist thousands of Louisiana evacuees who were displaced by the hurricane. The \$75 million grant, administered by TWC, had an initial release of \$23.5 million. The NEG was later modified to allow for public sector temporary public service employment (PSE) jobs that were not directly related to the disaster, and to provide the same Katrina-related allowable services to individuals affected by Hurricane Rita.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine if:

1. Individuals received Louisiana unemployment benefits for the same weeks they received wages while enrolled in Texas' NEG PSE program.
2. Texas' Management Information System (MIS) properly reflected the enrollment status of its PSE participants.

We obtained LDOL's Hurricanes Katrina- and Rita-related UC and DUA databases for all benefits paid through the week ending December 10, 2005, to identify benefit recipients.

We also obtained from the State of Texas an electronic data file of information for 691 PSE participants under Texas' NEG awarded subsequent to Hurricanes Katrina as of January 12, 2006.

We compared these two files and identified 284¹ individuals who received UC or DUA payments for weeks subsequent to their TWC-reported PSE starting date. Of these 284 individuals, 240 participants received DUA/UC benefits beyond the week ending November 19, 2005, the last week Louisiana automatically paid benefits without claimants' having to weekly certify their continuing eligibility for DUA or UC benefits.

¹ Subsequent data mining efforts increased this number to 298 claimants; however, the additional 14 files were not included in the universe from which the sample covered in this Management Letter was selected.

We then determined the 240 participants identified were spread across eleven Local Workforce Investment Areas (LWIAs), with 201, or 84 percent, enrolled in four of the LWIAs: Alamo Workforce Development Board (San Antonio); North Central Texas Workforce Board (Arlington); Capitol Area Workforce Development Board including Rural Capitol Area (Austin); and South East Texas Workforce Development Agency (Beaumont/Port Arthur). We judgmentally selected these four LWIAs and reviewed all 201 participants.

We initially determined benefits paid through the week ending December 10, 2005, from the database of payments provided by LDOL. Once we identified those PSE participants who received UC/DUA benefits after they began PSE employment, we manually updated, from LDOL benefit records, all UC/DUA benefits paid these participants for the weeks ending December 17, 2005, through January 28, 2006. Consequently, our audit period was September 10, 2005, through January 28, 2006.

We compared the above database of payments from LDOL with the PSE payroll records obtained from the LWIAs, or their contractors, through the week ending January 28, 2006 (the latest week for which we had benefit payment records). We then computed questionable overpayments, separated into overpayments through the week ending November 19, 2005, and after the week ending November 19, 2005.

This work was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of the Federal Government's examination of relief efforts in the aftermath of Hurricanes Katrina and Rita. When we issue this report in final, we will forward a copy to the PCIE Homeland Security Working Group, which is coordinating Inspectors General reviews of this important subject.

RESULTS

Louisiana paid 284 individuals UC or DUA for the same weeks Texas reported these individuals were enrolled in PSE.

From a sample of 201 of these 284 participants whom Texas reported as enrolled in its NEG PSE program, we determined:

- Louisiana overpaid \$126,663 to 177² of the 201 participants (88 percent) (75 DUA, \$33,882; 105 UC, \$92,781), including \$58,868 to 78 participants after the State discontinued its automatic pay system (the week ending November 19, 2005.)

² Three of these claimants received weeks of both UC and DUA; consequently, the number of participants receiving UC (105) and DUA (75) adds to 180.

Texas' MIS did not accurately reflect PSE participants' program status.

Texas' MIS data files we were provided identified that only 21 of the 201 sample participants' PSE program participation had ended. For the 180 participants the State's MIS showed as still enrolled in PSE, 83 participants (46 percent) were not enrolled:

- 22 claimants never worked under the PSE program.
- 61 claimants were no longer working under the PSE program (i.e., they were no longer on the PSE payrolls).

We have not questioned as overpayments any of the DUA or UC payments made to these 61 claimants after they left PSE employment. However, if any of these claimants accepted other suitable employment, they would be ineligible for DUA or UC benefits while working. Although a UC claimant could restart his/her existing UC claim if the claimant became subsequently unemployed, a DUA claimant cannot because the subsequent unemployment would not be attributable to the disaster

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training:

- Direct the State of Louisiana to:
 - Establish and collect the 75 overpayments identified in the DUA sampled files, provided under separate cover, from those individuals who have activated their debit card accounts³ or received direct deposit.
 - Determine any additional overpayments through the latest week DUA payments were made to these claimants.
 - Establish any DUA overpayments determined by the Texas LWIAs' payroll audits, recommended below.
 - Adjudicate the DUA claims for which claimants terminated from PSE but continued to receive DUA benefits, and establish overpayments, where necessary.
- Work with the State of Louisiana to:
 - Establish and collect the 105 overpayments identified in the UC sampled files, provided under separate cover, from those individuals who have activated their debit card accounts or received direct deposits.
 - Determine any additional overpayments through the latest week UC payments were made to the claimants.

³ The State used debit card accounts to deposit claimants' benefit payments.

- Establish any UC overpayments determined by the Texas LWIAs payroll audits, recommended below.
 - Adjudicate the UC claims for which claimants have terminated from PSE but continued to receive UC benefits, and establish overpayments, where necessary.
- Work with the State of Texas to:
 - Follow up with the 61 participants who terminated their PSE employment to see if they obtained other suitable employment that would make them ineligible for any UC/DUA benefits they may have received after terminating from the PSE position. If so, notify Louisiana so it can adjudicate the claims and, if necessary, collect overpayments.
 - Have the LWIAs perform payroll audits for their NEG PSE programs based on the details, provided under separate cover, on the remaining 97 (298 – 201) PSE participants who were potentially overpaid UC or DUA benefits. Using the spreadsheets provided by OIG's OA, the LWIAs should complete the spread sheets and return to the State. The State should provide a copy of the completed spreadsheet to the State of Louisiana and the OIG-OA upon completion.
- Direct the State of Texas to update the State's NEG participant data to properly reflect PSE participants' termination status where necessary, based on the OIG's and LWIAs' audits, and continue to timely update its MIS for future exiters.

AGENCY RESPONSE

In response to the draft Management Letter, the Assistant Secretary for Employment and Training stated that ETA is monitoring the States' actions as they establish and collect overpayments resulting from the improperly paid benefits. ETA's Regional Offices will continue to work with the States in this regard, as well as in determining whether any other overpayments were made; and ensuring NEG payroll audits are conducted, the MIS is updated, and other recommendations are addressed, as appropriate. The Assistant Secretary's response is included in its entirety as an Attachment.

OIG CONCLUSION

Based on the Assistant Secretary's response, we consider the recommendations resolved. They will be closed upon receipt of documentation to support the States' actions to set up and recover all overpayments, conduct payroll audits, and update the MIS, as described in the response.

This final Management Letter is submitted for appropriate action. We request a response within 60 days describing actions taken in response to the recommendation.

If you have any questions concerning this Management Letter, please contact John Riggs, Regional Inspector General for Audit, in Dallas at (972) 850-4003.

Attachment

cc: Steven Law
Deputy Secretary

Phyllis Newby
ETA Audit Liaison



SEP 29 2006

MEMORANDUM FOR ELLIOT P. LEWIS

FROM: EMILY STOVER DeROCCO *Emily Stover DeRocco*

SUBJECT: Office of the Inspector General Draft Management Letters
No. 06-06-006-03-315, No. 06-06-007-03-315, and
No. 06-06-010-03-315.

This responds to the recommendations that are contained in the Office of the Inspector General's (OIG) Draft Management Letters - No. 06-06-006-03-315, No. 06-06-007-03-315, and No. 06-06-010-03-315.

Audits by the OIG found that Louisiana paid unemployment compensation (UC) or disaster unemployment assistance (DUA) to individuals who were receiving public service employment wages at the same time in Louisiana or Texas and that 43 individuals received DUA from both Louisiana and Mississippi.

We concur with your recommendations as outlined in the subject OIG Draft Management Letters. ETA is monitoring the states' actions as they establish and collect overpayments resulting from these improperly paid benefits.

ETA's Atlanta and Dallas Regional Offices will continue to work with the states to ensure overpayments are established and collection activities initiated on these claims and to determine whether any other overpayments were made. Additionally, the Regional Offices will ensure the recommended National Emergency Grant payroll audits are conducted, the management information systems are updated, and other recommendations are addressed, as appropriate.

Thank you for the opportunity to provide comments and for the work of your staff as they continue to identify fraudulent claims related to Hurricanes Katrina and Rita.