

September 29, 2006

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



FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Individuals Received Unemployment Benefits
in Louisiana While Receiving Public Service
Employment Wages in Louisiana
Management Letter No. 06-06-007-03-315

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 and Labor Racketeering and Fraud Investigations (OLRFI), and the Louisiana Department of Labor 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.

In response to Hurricane Katrina, on September 3, 2005, the U.S. Department of Labor announced a National Emergency Grant (NEG) of up to \$62.1 million to provide approximately 10,000 temporary public service employment (PSE) jobs for dislocated workers to help in recovery and clean-up efforts underway in Louisiana. The NEG was later modified to allow that the temporary PSE jobs could also be used for temporary jobs in the public sector that were not directly related to the disaster and to provide the same services to individuals affected by Hurricane Rita.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine if:

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

We obtained the State's Hurricanes Katrina- and Rita-related UC and DUA databases for the weeks ending September 10, 2005, through December 10, 2005. We also obtained a State data file that identified 5,094 individuals enrolled in NEG PSE activities between September 10, 2005, and January 27, 2006.

We compared the two data bases and identified 2,087¹ individuals receiving DUA or UC payments who were also being reported as working under NEG PSE projects in the State on or after the date they began receiving DUA or UC payments. These 2,087 participants included 1,291 participants who reported they were unemployed the week of November 19, 2005--the last week Louisiana

¹ Subsequent data mining efforts increased this number to 2,098 claimants; however the additional 11 files were not included in the universe from which the sample covered in this report was selected.

automatically paid benefits without claimants having to weekly certify their continuing eligibility--and subsequent weeks.

Four² of 17 local workforce investment areas (LWIAs) employed 699, or 54 percent, of these 1,291 participants. We randomly selected a sample of 30 PSE participants from each of these four LWIAs in order to concentrate on participants who would have had to certify unemployment for weeks after November 19, 2005. We restricted our sampling to those participants who received benefits after the week ending November 19, 2005, because, even though the other participants may have been overpaid, these overpayments may have occurred because of the State's automatic pay system.

We obtained updated benefit payment records for the sampled claimants through the week ending January 28, 2006. Consequently, our audit period was September 10, 2005, through January 28, 2006. We compared these records to 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.

We will be providing, under separate cover, our data mining results for all 2,098 participants (minus the 120 sampled) to the State of Louisiana for its review. We have also provided to the State the details of the results of our audit of the 120 randomly selected cases.

In addition, we provided to the OIG's OLRFI the details for those claimants from our sample who received both PSE wages and unemployment benefits for weeks after 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 107³ individuals UC or DUA for the same weeks it reported these individuals were enrolled in PSE.

From a sample of 120 of the 699 claimants reported as employed by the four selected LWIAs, we determined:

² The four LWIAs are: City of Shreveport, East Baton Rouge Parish, Lafayette Parish, and Second Planning District Consortium.

³ One of these claimants was overpaid weeks of both UC and DUA; consequently, the number of participants receiving UC (70) and DUA (38) adds to 108, not 107.

- The State overpaid \$105,170 (38 DUA, \$24,500; 70 UC, \$80,670) to 107 of the 120 claimants (89 percent), including \$18,617 after the State eliminated its automatic pay system after the week ending November 19, 2005.
- The State still showed 115 of these 120 claimants as enrolled in the PSE program even though:
 - 13 (11 percent) never worked in the program, and
 - 63 (55 percent) no longer work in the program.

Louisiana’s MIS did not accurately reflect PSE participants’ status.

The State’s MIS data files we were provided identified that only 5 of the 120 sampled participants’ PSE program participation had ended. For the 115 participants the State’s MIS showed as still enrolled in PSE, 76 participants (66 percent) were not enrolled:

- 13 claimants never worked under the PSE program.
- 63 claimants were no longer working under the PSE program. These claimants received \$65,107 in benefits (19 DUA,- \$8,722; 44 UC - \$56,385) after they terminated from the PSE program.

We have not questioned as overpayments any of the DUA or UC payments made to these 63 claimants after they left PSE employment. However, if any of these claimants accepted other employment, they would be ineligible for DUA or UC benefits while working. Although a UC claimant could restart an existing UC claim if the claimant became subsequently unemployed for just cause, a DUA claimant could not restart the DUA claim because the subsequent unemployment would not be attributable to the disaster.

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training:

- Direct the State to:
 1. Establish and collect the 38 overpayments identified in the DUA sampled files.
 2. Determine any additional overpayments through the latest week DUA payments were made to these claimants.
 3. Adjudicate the 19 DUA claims for which claimants terminated from PSE, but continued to draw DUA benefits, and establish and collect the overpayments.

4. Update the State's NEG participant data to properly reflect PSE participants' termination status, where necessary, based on the OIG's and LWIAs' audits (see recommendation 7).
- Work with the State to:
 5. Establish and collect the 70 overpayments identified in the UC sampled files.
 6. Determine any additional overpayments through the latest week UC payments were made to these claimants.
 7. Have the LWIAs perform payroll audits for their NEG PSE programs based on the computer data file details we will provide on the universe (2,098 – 120) of potentially overpaid PSE participants.
 8. Establish the overpayments identified by the LWIAs' payroll audits.
 9. Adjudicate the 44 UC claims for which claimants terminated from PSE but continued to draw UC benefits and establish and collect.

AGENCY RESPONSE

In response to the draft Management Letter, the Assistant Secretary for Employment and Training stated that ETA is monitoring the State's actions as it establishes and collects overpayments resulting from the improperly paid benefits. ETA's Regional Office will continue to work with the State 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 State's 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.