

U.S. Department of Labor

Office of Inspector General—Office of Audit

EMPLOYMENT AND TRAINING ADMINISTRATION



**LOUISIANA MAY HAVE PAID AT LEAST \$3.7 MILLION IN
HURRICANE-RELATED UNEMPLOYMENT CLAIMS BASED
ON CLAIMANTS USING INVALID SOCIAL SECURITY
NUMBERS**

Date Issued: March 6, 2007

Report Number: 06-07-001-03-315

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

BRIEFLY...

Highlights of Report Number: 06-07-001-03-315, to the Employment and Training Administration.

WHY READ THE REPORT

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.

Because of the emergency nature of the Hurricanes, Louisiana suspended controls over authenticating DUA claimants' identities when processing claims. This report discusses the impact of Louisiana's decision to suspend these controls.

WHY OIG DID THE AUDIT

The Office of Inspector General (OIG) conducted this audit to answer two questions: (1) What financial impact did claimants using invalid Social Security Numbers (SSNs) for Hurricanes Katrina and Rita-related claims have on DUA and UC in the State of Louisiana; and (2) What lessons were learned following the hurricanes that would assist Louisiana and other State Workforce Agencies (SWAs) to effectively and efficiently distribute benefits during a catastrophic event?

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/2007/06-07-001-03-315>

March 2007

LOUISIANA MAY HAVE PAID AT LEAST \$3.7 MILLION IN HURRICANE-RELATED UNEMPLOYMENT CLAIMS BASED ON CLAIMANTS USING INVALID SOCIAL SECURITY NUMBERS

WHAT OIG FOUND

The OIG found the LDOL paid benefits (amounts rounded) on DUA and UC claims processed with SSNs that:

- Were never issued - \$315,000
- Belonged to deceased persons - \$661,000
- Did not match the names of the individuals assigned those numbers - \$3.1 to \$6.9 million

In its response to our draft report, LDOL agreed to commit itself to continuing investigations to identify persons responsible for fraudulently obtaining DUA and UC benefits and to seek recovery of overpayments. Additionally, LDOL agreed to work with the Employment and Training Administration (ETA) to develop data sharing agreements to begin utilizing the Death Master File, and to implement a real-time connection with the Social Security Administration (SSA).

WHAT OIG RECOMMENDED

We recommend that the Assistant Secretary for Employment and Training:

1. Ensure the Louisiana Department of Labor (LDOL) continues investigations to identify persons who fraudulently obtained DUA and UC benefits.
2. Work with LDOL to periodically obtain the Death Master File to ensure benefits are not paid on claims containing SSNs assigned to deceased individuals.
3. Ensure LDOL implements a real-time connection with SSA to mitigate the risks of identity theft.
4. Promote the use of the real time connection with SSA by SWAs not currently participating under the Memorandum of Understanding between the ETA and SSA.

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Executive Summary

Following Hurricanes Katrina and Rita, controls normally used to verify the identity of persons filing for unemployment benefits were temporarily suspended to expedite the delivery of assistance to qualified individuals. Due to the massive evacuation of people from Louisiana, individuals applying for Katrina- and Rita-related unemployment benefits did so in person, by phone, and by Internet from all across the country. Consequently, the Louisiana Department of Labor (LDOL) had no means of confirming that persons seeking benefits were who they claimed to be.

Objectives

We conducted a performance audit to answer the following questions:

1. What financial impact did claimants using invalid Social Security Numbers (SSNs) for Hurricanes Katrina- and Rita-related claims have on Disaster Unemployment Assistance (DUA) and Unemployment Compensation (UC) in the State of Louisiana?
2. What lessons were learned following Hurricanes Katrina and Rita that would assist LDOL and other State Workforce Agencies (SWAs) to effectively and efficiently distribute benefits during a catastrophic event?

Results

Louisiana paid DUA and UC benefits against SSNs that (1) the Social Security Administration (SSA) never issued; (2) belonged to deceased individuals; or (3) did not match the name of the person to whom the SSA assigned that number. We estimate, with 95 percent confidence, that benefits paid on these claims total between \$3.7 and \$6.1 million. This estimate includes \$1,076,098 of actual overpayments to 554 individuals specifically identified as a result of our procedures, and a scientific estimate of \$2.7 to \$5.1 million based on a random sample of 317 individuals from a population of 13,495 for which SSA indicated a name/SSN mismatch with LDOL's claims records.

Although a real-time connection to SSA's database is available to SWAs as a tool to confirm the validity of information claimants provide before claims are established, LDOL elected not to implement this process in its claims system. We believe that, had this process been in place, it would have been an effective compensating control in identifying for further investigation claims processed with invalid SSNs.

Auditee Response

In response to our draft report, LDOL committed itself to continuing investigations to identify persons responsible for fraudulently obtaining DUA and UC benefits and to seek recovery of overpayments. Additionally, LDOL agreed to work with the Employment

Louisiana May Have Paid at Least \$3.7 Million in Hurricane-Related Unemployment Claims Based on Claimants Using Invalid SSNs

and Training Administration (ETA) to develop data sharing agreements to begin utilizing the Death Master File and to implement a real-time connection with SSA. LDOL's entire response is included in Appendix D.

OIG Conclusion

Based on LDOL's response, we consider its intention to be sufficient and will close these issues once our follow-up procedures confirm that these corrective actions have been appropriately implemented, subject to Grant Officer concurrence.

Our findings remain the same as presented in the draft report. However, revisions have been made throughout the report to clarify that a real time connection with SSA will identify claims with invalid SSNs for further investigation. We have also clarified that further investigation is needed for claims we identified with invalid SSNs in order to make an actual determination of fraud or the amount of overpayments that need to be recovered.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Ensure that LDOL continues investigations to identify persons who fraudulently obtained DUA and UC benefits. The State should conduct investigations to determine whether \$1,076,098 of benefits paid to 554 claimants specifically identified as a result of our procedures should be recovered, and work with the Office of Inspector General's (OIG) Office of Labor Racketeering and Fraud Investigations (OLRFI) to prosecute those found to be in violation of state or Federal laws.
2. Work with LDOL to periodically obtain the Death Master File from the U.S. Department of Commerce (USDOC) to ensure unemployment benefits are not paid on claims containing SSNs assigned to deceased individuals.
3. Ensure LDOL takes steps to safeguard its UC program, as well as comply with sections 303(a)(1) and 1137(a)(1) of the Social Security Act, to minimize overpayments, fraud, and abuse through the implementation of a real-time connection with SSA. This process will also mitigate the risks of identity theft and problems with fabricated documents during normal operations, as well as during catastrophic events.
4. Promote the use of the real time connection with SSA by SWAs not currently participating under the MOU between ETA and SSA.

U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



Assistant Inspector General's Report

Ms. Emily Stover DeRocco
Assistant Secretary for
Employment and Training

Following the devastating impact Hurricanes Katrina and Rita had on the Gulf Coast Region, the OIG began oversight of key Federal programs to identify and assist the U.S. Department of Labor (USDOL), along with its grantees, in minimizing waste, fraud, and abuse.

Because of the massive evacuation of people from Louisiana, individuals applying for Katrina- and Rita-related unemployment benefits did so in person, by phone, and by Internet from all across the country. Therefore, an area of concern to OIG was the potential for identity theft for the purposes of receiving unemployment benefits.

We conducted a performance audit to answer the following questions:

1. What financial impact did claimants using invalid SSNs for Hurricanes Katrina- and Rita-related claims have on DUA and UC in the State of Louisiana?
2. What lessons were learned following Hurricanes Katrina and Rita that would assist the LDOL and other SWAs to effectively and efficiently distribute benefits during a catastrophic event?

We conducted this audit in accordance with Generally Accepted Government Auditing Standards for performance audits. Our audit objectives, scope, methodology, and criteria are detailed in Appendix B.

Findings and Recommendations

Objective 1 What financial impact did claimants using invalid SSNs for Hurricanes Katrina- and Rita-related claims have on DUA and UC in the State of Louisiana?

We designed our audit procedures to provide reasonable assurance of detecting illegal acts; however we cannot provide any assurance that all potentially fraudulent claims have been identified. Our results indicate that between September 10, 2005, and June 3, 2006, LDOL paid an estimated \$3.7 million to \$6.1 million on 1,632 to 2,713 DUA and UC claims that were processed with invalid SSNs. This estimate includes \$1,076,098 of benefits paid to 554 individuals whom we have referred to OLRFI (see findings 1A, 1B, and 1C), and a scientific estimate of \$2.7 to \$5.1 million, based on a random sample of claims where the name and SSN used in claims did not agree (see finding 1C). A summary of hurricane-related claims identified as containing invalid SSNs can be found in Exhibit A. Each of these claims warrants further investigation for fraud and has been referred to LDOL and OLRFI.

Fraudulently using another person's SSN is a criminal violation that could result in fines and/or imprisonment. The *Identity Theft and Assumption Deterrence Act* (Public Law 105-318) has made it a federal crime when anyone:

... knowingly transfers or uses, without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of Federal law, or that constitutes a felony under any applicable State or local law.

In accordance with Code of Federal Regulations, Title 20, Section 625.14(a), which specifically addresses a state's responsibility in regards to payments made to those not entitled to DUA benefits, LDOL has an obligation to identify those responsible for these crimes and recover funds:

If the State agency of the applicable State finds that an individual has received a payment of DUA to which the individual was not entitled under the Act and this part, whether or not the payment was due to the individual's fault or misrepresentation, the individual shall be liable to repay to the applicable State the total sum of the payment to which the individual was not entitled, and the State agency shall take all reasonable measures authorized under any State law or Federal law to recover for the account of the United States the total sum of the payment to which the individual was not entitled.

LDOL paid benefits on DUA and UC claims processed with SSNs that: SSA never issued; belonged to deceased persons; or did not match the names of the individuals to whom SSA assigned the numbers.

Our procedures indicated that \$1,076,098 of DUA and UC benefits were paid to 554 individuals who used an invalid SSN to obtain assistance.

A. LDOL paid \$314,913 on 186 DUA and UC claims processed with SSNs the SSA never issued.

We worked with LDOL's Information Technology (IT) Division to have claims resulting from Hurricanes Katrina and Rita sent to the SSA to verify claims information. As a result, 186 claims, with benefits totaling \$314,913 as of June 3, 2006, were identified as having a SSN never issued by SSA.

B. LDOL paid \$661,293 on 317 DUA and UC claims processed with SSNs that belonged to deceased persons.

Using the Death Master Files maintained by USDOC, which is a compilation of vital statistics on deceased persons reported to the SSA, we matched this data against Louisiana's hurricane-related DUA and UC claims and found that:

- \$642,250 was paid on 307 claims using SSNs belonging to persons reported to have died **prior to** Hurricane Katrina hitting the Gulf Coast Region on August 29, 2005.
 - \$621,338 was paid on 299 claims where the claimant's name did not agree with the name reported in the Master Death File.
 - \$20,912 was paid on 8 claims where the names did match.
- \$19,043 was paid on 10 claims for weeks of unemployment that occurred after the claimant's death. These claimants were reported to have died after Hurricane Katrina hit the Gulf Coast Region on August 29, 2005.
 - \$11,889 was paid on 7 claims where the claimant's name agreed with the name in the Master Death File.
 - \$7,154 was paid on 3 claims where the names did not agree.

LDOL has never used the Master Death File to ensure their UC benefits were paid to legitimate claimants. Our cost to obtain this file was \$1,730, which is a minimal expense when compared to the savings that could have resulted if the above overpayments were timely detected.

C. LDOL paid an estimated \$3.1 to \$6.9 million on DUA and UC claims with SSNs that did not match the names of the individuals assigned those numbers.

Of the claims LDOL sent to SSA to confirm the validity of the claims' information, \$32,741,485 of benefits was paid to 13,495 claimants identified as having an SSN and name combination that did not agree with SSA's records. We asked SSA to provide us the names assigned to those SSNs, but they were unable to do so due to privacy restrictions and technical barriers. Therefore, we had to apply alternative procedures to understand why so many claims had a name/SSN combination that did not match according to SSA's records.

From a universe of the 13,495 claimants, we randomly selected 317 individuals using a confidence level of 95 percent, an expected error rate of zero percent, and a precision interval of (+/-) 5 percent.

We provided the SSNs of these 317 individuals to OLRFI and received back information that enabled us to validate the SSN/name combination for 254 individuals (approximately 80 percent), as follows:

- 84 (26.5 percent) were related to name formatting problems (first and last names were not in the correct fields in LDOL's claims system).
- 65 (20.5 percent) were related to a name change (multiple surnames were identified for the claimants).
- 62 (19.6 percent) were related to claims where the name and SSN did match. (We do not know why the SSA match indicated a name/SSN mismatch.)
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- 43 (13.6 percent) were related to names that were spelled differently in LDOL's claims system.

However we confirmed that 51 (16.1 percent) claimants who were paid \$99,892 of benefits in fact used a SSN/name combination that did not match the names of the individuals to whom SSA assigned the SSNs. Based on this sample result, we estimate, with 95 percent confidence, that between **\$2,738,380 and \$5,134,873 was paid to between 1,632 and 2,713 claimants where the SSN used in the claims was assigned to someone other than the claimant.** The point estimate of the dollar value of such payments is \$3,963,626.

We were unable to validate the names assigned to the SSNs used in 12 (3.8 percent) claims with benefits that totaled \$26,520. The alternative procedures used to validate to

whom these numbers belong did not produce sufficient evidence that allows us to conclude on the legitimacy of these claims.

Based on these sample results, we estimate, with 95 percent confidence, that the amount of benefits paid on claims where we were not able to conclude on the claims' validity was between \$425,970 and \$1,758,600. The point estimate of the dollar value of such payments is \$1,092,285. Because we could not obtain sufficient data to confirm the validity of these claims, we did not include the estimate from the results of this sample in the amount of benefits we project LDOL paid on claims where the SSN used was assigned to someone other than the claimant.

Auditee Response

In response to our draft report, LDOL committed itself to continuing investigations to identify persons responsible for fraudulently obtaining DUA and UC benefits and to seek recovery of overpayments. Additionally, LDOL agreed to work ETA to develop data sharing agreements to begin utilizing the USDOC Death Master File. LDOL's entire response is included in Appendix D.

OIG Conclusion

Based on LDOL's response, we consider its intention to be sufficient and will close these issues once our follow-up procedures confirm that these corrective actions have been appropriately implemented, subject to Grant Officer concurrence.

Our findings remain the same as presented in the draft report. However, revisions have been made throughout the report to clarify that further investigation is needed for claims we identified with invalid SSNs in order to make an actual determination of fraud or the amount of overpayments that need to be recovered.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Ensure that LDOL continues investigations to identify persons who fraudulently obtained DUA and UC benefits. The State should conduct investigations to determine whether the \$1,076,098 of benefits paid to 554 claimants specifically identified as a result of our procedures should be recovered, and work with the OIG's OLRFI to prosecute those found to be in violation of state or Federal laws.
2. Work with LDOL to periodically obtain the Death Master File from USDOC to ensure unemployment benefits are not paid on claims containing SSNs assigned to deceased individuals.

Objective 2 What lessons were learned following Hurricanes Katrina and Rita that would assist LDOL and other SWAs to effectively and efficiently distribute benefits during a catastrophic event?

A real-time connection to SSA's database is an effective tool in identifying for further investigation claims processed with invalid SSNs, during normal operations and following catastrophic events.

LDOL's procedures are not effective in confirming that persons filing for benefits are who they claim to be and preventing benefits from being paid on claims using false information, particularly following catastrophic events such as Hurricanes Katrina and Rita. Although controls requiring claimants to present documentation as proof of their identity were temporarily suspended following the hurricanes, LDOL still had an obligation to ensure UC and DUA benefits were paid to valid claimants.

Under normal circumstances, it would be reasonable to expect LDOL to have some means of confirming the identity of its claimants. Reviewing documentation from claimants as the sole means of confirming their identity is not sufficient in preventing or detecting possible instances of fraud, and does not comply with sections 303(a)(1)¹ and 1137(a)(1)² of the Social Security Act (the Act). ETA issued a program letter in June 1995 interpreting these sections of the Act to mean that states must have a system to reasonably ensure the names and SSNs used to establish eligibility for unemployment benefits belong to the individual filing for benefits. Therefore, it is essential that LDOL, along with other SWAs, utilizes the real-time connection with SSA as a compensating control in confirming that persons receiving benefits are who they claim to be.

To combat fraud and abuse in the UC program, ETA has established a memorandum of understanding (MOU) with SSA that allows SWAs real-time access to SSA's database to confirm the validity of information used to file for benefits. Through the Interstate Connection Network system, information in participating states' claims is checked against SSA's database, which identifies discrepancies when claims are initiated. Fifteen SWAs have embedded this real-time connection in their claims system and noted how effective it has been in preventing fraud. The first two states to do so, Utah

¹ "Such methods of administration . . . as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due."

² "The State shall require, as a condition of eligibility for benefits under any program listed in subsection (b), that each applicant for or recipient of benefits under that program furnish to the State his social security account number (or numbers, if he has more than one such number), and the State shall utilize such account numbers in the administration of that program so as to enable the association of the records pertaining to the applicant or recipient with his account number."

and Wisconsin, reported the implementation cost to be around \$50,000 in 2002, according to UI Program Letter No. 29-02.

ETA has, on several occasions, made funding available to SWAs to assist in the implementation of the real-time connection with SSA. However, LDOL decided not to accept this funding because it had recently upgraded the State's claims system and felt it was too soon to add this new function. In addition, LDOL's management did not believe they had sufficient resources or the budget to adhere to SSA's specifications to ensure its system had sufficient controls to protect the data being exchanged.

Instead, LDOL has continued to use a manual process that has proven to be inefficient and ineffective in detecting erroneous SSNs. On a weekly basis, LDOL submits a batch of its claimants' information to SSA for verification. SSA verifies this data, and returns the results to LDOL in a data file. LDOL then prints the results on paper and destroys the data file. During one of our visits to LDOL's office, we found the SSA results in reports stacked approximately 5-feet high in a corner. While LDOL managers informed us they did not have the resources to adequately sort through these reports, they did indicate a scan of these documents revealed 16 claims that had SSNs never issued by SSA. This number is far less than the 186 claims we identified in our audit.

LDOL does not have the staff to adequately review hardcopy reports produced from the manual SSA verification, and identify and collect on potentially fraudulent claims. The advantage of a real-time connection with SSA is that LDOL, as well as other SWAs, are taking a proactive approach to identify and address fraud when claims are initiated. Not only will SWAs benefit from the reduction of overpayments on these fraudulent claims, but the reduction of staffing and operating costs to investigate such claims can be a significant savings. Therefore, we conclude that the cost of a real-time connection with SSA is minimal, particularly following a catastrophic event such as Hurricanes Katrina and Rita.

Auditee Response

In response to our draft report, LDOL agreed to work with ETA to implement a real-time connection with SSA. LDOL's entire response is included in Appendix D.

OIG Conclusion

Based on LDOL's response, we consider its intention to be sufficient and will close this issue once our follow-up procedures confirm that the corrective actions have been appropriately implemented, subject to Grant Officer concurrence.

Our findings remain the same as presented in the draft report. However, revisions have been made throughout the report to clarify that a real time connection with SSA will identify claims with invalid SSNs for further investigation.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

3. Ensure LDOL takes steps to safeguard its UC program, as well as comply with sections 303(a)(1) and 1137(a)(1) of the Social Security Act, to minimize overpayments, fraud, and abuse through the implementation of a real-time connection with SSA. This process will also mitigate the risks of identity theft and problems with fabricated documents during normal operations, as well as during catastrophic events.

4. Promote the use of the real time connection with SSA by SWAs not currently participating under the MOU between ETA and SSA.



Elliot P. Lewis
June 3, 2006

Exhibits

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LDOL Claimants Referred to OLRFI for Further Investigations of Fraud

	Finding No.	Number of Claimants	Benefits Paid
Claimants with SSNs never issued by SSA	1A	186	\$314,913
Claimants with SSNs belonging to deceased persons	1B	317	\$661,293
Claimants with SSNs belonging to others	1C	51	\$99,892
Totals		554	\$1,076,098

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**Summary of Statistical Projections
Mismatched Names-SSNs**

Sampling Parameters	Mismatched Names	Unable to Validate Names
Universe Size-Claimants	13,495	13,495
Sample Size-Claimants	317 ⁴	317 ²
Point Estimate	\$3,936,626	\$1,092,285
Sampling Error	\$611,350	\$339,957
Lower Limit- 95% Confidence Level	\$2,738,380	\$425,970
Upper Limit- 95% Confidence Level	\$5,134,873	\$1,758,600

⁴ We randomly selected a sample of 317 claimants, based on individual SSNs. Since many claimants received benefits from multiple programs, the projection of benefits paid is based on 368 separate claims.

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Appendices

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BACKGROUND

Hurricanes Katrina and Rita devastated the Gulf Coast Region on August 29, 2005, and September 24, 2005, respectively, resulting in numerous local employers being forced out of business. Declared a disaster area, parts of Louisiana were faced with an unprecedented number of unemployed workers who turned to the Federal-state UC program as a source of income. The UC program offers the first economic line of defense against the ripple effects of unemployment, while ensuring payments made directly to eligible, unemployed workers are available for a significant proportion of life's necessities, most notably food, shelter, and clothing.

Those unemployed as a result of Hurricanes Katrina and Rita were eligible for one of two unemployment benefits programs. The first, State UC, provides benefits to eligible workers who are unemployed through no fault of their own, and meet eligibility requirements established by their states. UC benefits are state funded. The second, DUA, provides financial assistance to individuals whose employment or self-employment has been lost or interrupted as a direct result of a major disaster declared by the President of the United States. Before an individual can be determined eligible for DUA, it must be established that the individual is not eligible for regular UC benefits. DUA is federally funded.

As of June 3, 2006, LDOL paid \$893,650,505 in DUA and UC benefits on 362,451 claims related to Hurricanes Katrina and Rita. The actual number of claimants affected by this disaster is 304,172, and differs from the number of claims because several claimants received both UC and DUA; i.e., if claimants received all of their regular UC benefits and continued to be unemployed as a result of the disaster, they could receive additional DUA benefit through June 3, 2006, for Katrina-related claims, and through June 24, 2006, for Rita-related claims.

Program	Number of Claims	Benefits Paid
Katrina DUA	140,809	\$ 297,614,222
Katrina UC	196,089	\$ 562,538,968
Rita DUA	8,468	\$ 10,050,379
Rita UC	17,085	\$ 23,446,936

Many of those affected by the hurricanes were forced to leave their homes without their personal possessions. Since most people had no documentation to verify their identity, and there was an immediate need for assistance, controls normally used to confirm the identity of those seeking UC and DUA benefits were suspended by LDOL.

Following Hurricanes Katrina and Rita, LDOL--with support from ETA and other volunteer SWAs--streamlined the enrollment process for Louisiana's unemployment

Louisiana May Have Paid at Least \$3.7 Million in Hurricane-Related Unemployment Claims Based on Claimants Using Invalid SSNs

compensation programs, expediting the delivery of benefits to those desperately in need of assistance.

Since controls used to verify the identity of claimants were temporarily suspended, LDOL had no other effective means of verifying that persons filing for benefits were who they claimed to be. Some individuals misused SSNs to acquire UC and DUA and, we now know by the arrest of a number of individuals thus far, that it took little effort to file a fictitious claim following the hurricanes. For example, one individual was able to do so, and received over \$32,000 in benefits on more than 40 claims by sequentially changing the numbers in the SSNs used to file these claims.

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

Objectives

Following Hurricanes Katrina and Rita, LDOL was unable to effectively confirm whether persons filing for benefits were who they claimed to be. In order to have some assurance that persons receiving DUA and UC benefits were legitimate claimants, as well as assist LDOL in the recovery of losses resulting from fraud, waste, and abuse, we conducted a performance audit to answer the following questions:

1. What financial impact did claimants using invalid SSNs for Hurricanes Katrina- and Rita-related claims have on DUA and UC in the State of Louisiana?
2. What lessons were learned following Hurricanes Katrina and Rita that would assist LDOL and other SWAs to effectively and efficiently distribute benefits during a catastrophic event?

Scope

This audit covers UC and DUA benefits LDOL paid as a result of Hurricanes Katrina and Rita, with our focus on the potential fraud perpetrated by persons misusing SSNs to acquire UC benefits. Our audit period was benefits paid for the weeks ending September 10, 2005, through June 3, 2006.⁴ Our work was completed at LDOL's central administrative offices in Baton Rouge, Louisiana, and through analysis of LDOL electronic claims files in our Denver Office. Our fieldwork was performed from January through June 2006.

Because of the emergency nature of the Hurricane Katrina disaster, Louisiana's controls over authenticating DUA claimants' identities were basically nonexistent. The President pledged to provide hurricane victims access to streamlined registration and enrollment in Federal benefit programs for which they qualified. Subsequently, the Office of Management and Budget (OMB) provided implementation policy intended to "ensure a citizen-centered approach in a cost-effective manner that prevents fraud and abuse." The OMB further provided that, to eliminate improper payments, "All new procedures that relax prepayment eligibility verification procedures should be time-limited." As a result, our procedures were designed to identify the impact of LDOL's suspension of internal controls for authenticating the identities of claimants.

⁴ Hurricane Katrina benefits ended the week ending June 3, 2006. Hurricane Rita benefits were payable through the week ending June 24, 2006. We only included benefits in this audit through June 3, 2006.

This work was intended to assess the effect of the absence of internal controls regarding the authentication of UC claimants' identities; accordingly, tests of internal controls were not applicable.

Methodology

We conducted the following procedures:

- Gained an understanding on how UC and DUA claims were initiated and processed in Louisiana.
- Worked with LDOL to send hurricane-related claims to SSA to confirm whether SSNs used to process 395,643 claims agreed with the names provided. Eliminating those claims that did not receive hurricane-related payments as of June 3, 2006, LDOL paid benefits to 304,172 claimants (based on the number of SSNs). SSNs for 301,765 were checked with SSA; however 2,407 were not checked since payments for these claims were processed after we completed our fieldwork. This procedure was conducted through LDOL's IT Division that, on our request, sent all hurricane-related claims information to SSA. We took steps to test the validity of the results by sending a sample of the claims directly to SSA. SSA confirmed the results from our sample were accurate; therefore, we concluded the SSN verification results for our entire population were valid.
- Analyzed information obtained from OLRFI for a sample of 317 claims to determine whether the name and SSN used to pay DUA and UC benefits agreed.
- Coordinated with OIG's statistician to project the amount of possible fraud resulting from claims with SSNs that did not agree with the name used in the claims.

Because we used probability procedures based on random selections, our sample was only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. As a result, we are 95 percent confident that the projected confidence interval in this report represents the true values of the population.

- Based our sampling plan on the following:
 - Population: 13,495 claimants (individual SSNs)
 - Confidence Level: 95 percent (2-sided)
 - Precision Interval: ± 5
 - Acceptable Error Rate: 0 percent
 - Sample Size: 317

Although the sample was selected to determine whether the claimant name and SSN was acceptable or irregular (attributes), our evaluation of the sample included estimating the benefits paid on irregular claims (variables). This resulted in the confidence interval and sampling error presented in Exhibit B.

- Obtained and reviewed USDOC's Master Death File to identify claims processed using SSNs assigned to deceased persons.

We assessed the reliability of the Master Death File obtained from USDOC by confirming that a random sample of the SSNs identified as belonging to deceased individuals were on the Social Security Death Index (SSDI). Our review showed that all SSNs selected were on the SSDI; therefore, we concluded that the data in the Master Death File were valid.

- Reviewed LDOL's payment file, as of June 3, 2006, to quantify the financial impact claims identified in the above procedures as using invalid SSNs had on Louisiana's UC and DUA programs.

We assessed the reliability of LDOL's claims data by comparing (1) the UC totals from LDOL's claims system, (2) the total recorded in LDOL's accounting records for these claims, and (3) drawdowns made on ETA DUA Grants. We identified discrepancies in these amounts, which LDOL indicated were the result of timing differences in recording journal entry adjustments in its accounting records, and updates needed to correct transactions in its claims system. Upon completion of this audit, additional procedures will be conducted to follow up on these differences.

- Obtained information from ETA on the MOU with SSA that allows SWAs access to social security data via ICON. We confirmed that the first two states, Utah and Wisconsin, to utilize the process in 2002 incurred \$50,000 each in implementation costs. In addition, ETA provided us details on the 36 SWAs provided funding for the real-time connection with SSA; however, only 15 of these SWAs were able to successfully complete the implementation.

This work was conducted in conjunction with the President's Council on Integrity and Efficiency as part of the examination of relief efforts in the aftermath of Hurricanes Katrina and Rita.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards for performance audits.

Criteria

- Identity Theft and Assumption Deterrence Act (Public Law 105-318)

Louisiana May Have Paid at Least \$3.7 Million in Hurricane-Related Unemployment Claims Based on Claimants Using Invalid SSNs

- Code of Federal Regulations, Title 20, Section 625.14(a)
- Social Security Act, Sections 206, 208, 303(a)(1), 1106, 1107, 1137(a)(1), 1631(d)(2), and 1632
- Federal Criminal Code, United States Code, Title 18, Sections 201, 205, 208, 287, 1001, 1028(d), and 1341

ACRONYMS AND ABBREVIATIONS

DUA	Disaster Unemployment Assistance
ETA	Employment and Training Administration
IT	Information Technology
LDOL	Louisiana Department of Labor
MOU	Memorandum of Understanding
OIG	Office of Inspector General
OLRFI	Office of Labor Racketeering and Fraud Investigations
SSA	Social Security Administration
SSDI	Social Security Death Index
SSN	Social Security Number
SWA	State Workforce Agency
UC	Unemployment Compensation
USDOC	U.S. Department of Commerce
USDOL	U.S. Department of Labor

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AUDITEE RESPONSE TO DRAFT REPORT



LOUISIANA WORKS
DEPARTMENT OF LABOR

Kathleen Babineaux Blanco
Governor

John Warner Smith
Secretary

January 8, 2007

OFFICE OF THE SECRETARY

Mr. Orval F. Harden, CPA
Assistant Regional Inspector General for Audit
U. S. Department of Labor
Office of Inspector General
1999 Broadway, Suite 1745
Denver, CO 80202

Dear Mr. Harden:

This is in response to your findings and recommendations regarding Louisiana's payment of hurricane-related unemployment claims. Listed below is our response:

- LDOL is committed to continuing investigations to identify persons responsible for fraudulently obtaining DUA and UC benefits. We will also seek recovery of the \$1 million in overpayments already identified and work with the Office of Inspector General's (OIG) Office of Labor Racketeering and Fraud Investigations (OLRFI) to prosecute those in violation of state and Federal laws.
- We are in communication with the Dallas Regional Office for assistance in obtaining the Death Master File from the US Department of Commerce. As soon as a data sharing agreement is in place we will begin utilizing this data to ensure that UI benefits are not paid on claims containing SSN's assigned to deceased individuals.
- We have submitted a data sharing agreement to the Social Security Administration (SSA) for their perusal. Upon return we will ratify the agreement. We are securing a contractor for an independent validation and verification (IV&V) of the system. When this is complete we will implement the real-time connection with SSA.

We are committed to protecting the integrity of the UI Trust Fund and we will continue to utilize all controls to prevent fraud and abuse in the system.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Smith", is written over a faint, dotted grid background.

John Warner Smith
Secretary of Labor
JWS:MS:ae