

U.S. Department of Labor

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

SEP 28 2007

MEMORANDUM FOR ELLIOT P. LEWIS

FROM: EMILY STOVER DeROCCO *Emily Stover DeRocco*

SUBJECT: Insufficient Controls Over Hurricane-Issued Debit Cards
Created Opportunities for Fraud
Draft Management Letter No. 06-07-002-03-315

This response addresses recommendations for the Employment and Training Administration (ETA) contained in the Office of Inspector General (OIG), Draft Management Letter No. 06-07-002-03-315. During an audit, in response to the 2005 Gulf Coast Hurricanes, the OIG determined that there were insufficient controls in place by the Louisiana Department of Labor (LDOL) to safeguard Unemployment Compensation (UC) and Disaster Unemployment Assistance (DUA) paid to its claimants by debit cards.

Our response to each recommendation is provided below:

Work with the LDOL to ensure adequate controls are in place, internally as well as with contracted service organizations, to safeguard debit cards and protect confidential information belonging to claimants. These procedures should be evaluated to ensure the intended objectives are achieved and effective in mitigating the risk of fraud.

LDOL negotiated a new contract with JP Morgan Chase to safeguard debit cards and protect confidential information belonging to claimants. The new contract will provide that no funds will be deposited into an account until the debit card is activated, and the bank will provide LDOL a daily list of inactive cards. We believe that the State has taken appropriate action to establish sufficient controls in its procedures to administer debit cards. We also believe that Louisiana is actively recovering improper payments and inactive accounts. The ETA Regional Office will continue to monitor these efforts.

Ensure that LDOL takes action to adequately address the results of its Audit Division's internal review.

LDOL has completed an investigation of all findings reported by its Audit Division. An overpayment has been established for each state employee who was investigated and found to have received improper UC benefits. Collection of the overpayments has been referred to the Louisiana Attorney General.

Work with LDOL to retrieve approximately \$1.2 million from JPMorgan Chase for UC and DUA benefits paid on inactive debit card accounts. In addition, \$354,070 of this amount should immediately be returned to ETA for benefits paid under the DUA grants.

LDOL has retrieved approximately \$38-40 million from JP Morgan Chase for UC and DUA benefits paid on inactive debit card accounts. ETA Regional staff will ensure that the DUA portion of these funds is returned to the proper DUA grant when each grant is closed.

Monitor LDOL's processing of its backlogged claims to facilitate the reconciliation of discrepancies between its accounting and claims systems. Upon completion, collect any funds LDOL has drawn down in excess of claims paid.

ETA Regional staff will monitor LDOL's reconciliation of discrepancies between its accounting and claims systems. Upon completion, the ETA Regional Office will ensure that all funds drawn in excess of claims paid are posted to the proper UC and DUA accounts and ensure the DUA funds are not retained by LDOL.