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Employment and Training
Administration



Unemployment Insurance Benefit Payment Control

New Hire Detection Is A Better Method
For Establishing UI Overpayments
Than The Wage/UI Benefit Crossmatch

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EXECUTIVE SUMMARY

The New Hire detection system is more effective and efficient than the Wage/UI Benefit crossmatch system in identifying unemployment insurance (UI) overpayments that occur when UI claimants fail to report earnings while simultaneously working and claiming benefits. The use of New Hire detection identifies overpayments earlier, reduces overpayment dollars, and increases the chance of overpayment recovery.

We conducted a performance audit of the implementation of the New Hire detection method, which is a recent addition to the Benefit Payment Control (BPC) methodologies for detecting UI overpayments. Our objectives were to determine: (1) if New Hire detection being used by 41 of 53 state UI programs is proving to be more effective and efficient than the traditional Wage/UI Benefit crossmatch, and (2) what obstacles are preventing 12 states from embracing this detection method?

Results

In response to our questionnaire sent to all 53 state UI programs, 38 of the 41 states (93%) that use New Hire detection indicated that the New Hire detection method is better at detecting UI overpayments earlier than the Wage/UI Benefit crossmatch. This was verified during our fieldwork at seven state UI programs that use New Hire detection. Although we did not audit the data, the state UI programs reported data (ETA Form 227) that further supports the state UI programs' responses that the New Hire method detects overpayments earlier. In 2002, the seven UI programs we audited that were using New Hire detection identified 41,404 overpayments valued at \$14.7 million, compared to their Wage/UI Benefit crossmatch that identified 29,872 overpayments valued at \$34.9 million. More overpayments were identified through New Hire detection, but the dollar amount was less because overpayments were detected earlier.

The overpayments for Wage/UI Benefit crossmatch were higher because it took longer to detect and stop overpayments. New Hire detection can identify overpayments in approximately one month, compared to the several months it may take to identify overpayments through the Wage/UI Benefit crossmatch. As a result, New Hire detection prevented additional overpayments that may have occurred if detected through the use of the Wage/UI Benefit crossmatch.

Despite the benefits of New Hire detection, 12 states, for a variety of reasons, have not yet implemented this detection method. In addition, more detailed employer reporting and new legislation providing access to the National Directory of New Hires (NDNH) would further improve the effectiveness and efficiency of New Hire detection. Improving employer compliance for New Hire reporting and

assisting states to analyze BPC resources would further enhance New Hire detection capabilities.

Recommendations

We recommended that the Assistant Secretary for Employment and Training:

1. continue to provide technical assistance and resources to the state UI programs not using the New Hire detection method to initiate and/or complete plans for implementation as soon as possible;
2. work with DHHS to communicate to Congress the need for amending the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA), or introducing new legislation, to require employers to report a new hire's first day of earnings and provide a clear, consistent, nationwide definition for this date;
3. encourage state UI programs to access the NDNH and coordinate efforts with the U. S. Department of Health and Human Services (DHHS) and the state UI programs to accomplish this;
4. work with DHHS, the lead department, to encourage state agencies compiling the State Directory of New Hires (SDNH) to expand monitoring and outreach programs that will improve employer compliance and seek enforcement through penalties for employers who repeatedly fail to report new hires; and
5. assist the state UI programs in analyzing resources to determine the best detection methods, how to best allocate resources, and frequency of New Hire crossmatches.

ETA agreed with our recommendations, and its response is attached as Appendix D. Findings 1 and 3 are resolved but not closed. Findings 2, 4, and 5 are unresolved pending the receipt of specific implementation plans.

U.S. Department of Labor

Office of Inspector General
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Assistant Inspector General's Report

Emily Stover DeRocco
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The Department of Labor (DOL) requires state Unemployment Insurance (UI) programs to take steps to prevent payment errors, detect erroneous payments, and collect UI overpayments. States carry out a variety of benefit payment control (BPC) activities to detect overpayments. The most common of these, the Wage/UI Benefit crossmatch, compares a state's UI claims database against employers' quarterly wage reports. More recently, state UI programs have had access to New Hire data in their states, reported by employers not later than 20 days after the date the employer hires the employee, in accordance with the 1996 welfare reform legislation, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). While the primary purpose for requiring the reporting of new hires is to locate individuals with child support obligations, PRWORA allows state UI programs access to this data to match against their UI claims.

We conducted a performance audit to determine the effectiveness and efficiency of the New Hire detection method and identify obstacles to its implementation. We analyzed the responses to a questionnaire that we sent to all 53 state UI programs (50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands). Based on the responses, we visited seven states that had implemented New Hire detection and two states that had not.

We conducted the audit in accordance with *Government Auditing Standards* for performance audits. Our audit scope, methodology, and criteria are detailed in Appendix B.

FINDINGS AND RECOMMENDATIONS

Our objectives were to determine whether New Hire detection is proving to be more effective and efficient than the traditional Wage/UI Benefit crossmatch, and if so, what obstacles are preventing some of the states from embracing this detection method?

Chapter I of this report compares the results of New Hire detection versus the Wage/UI Benefit crossmatch in detecting and limiting overpayments. The chapter also discusses the time and cost efficiencies of New Hire detection over the Wage/UI Benefit crossmatch.

At the time of our audit work, 12 states were not using New Hire detection. **Chapter II** identifies the various reasons and obstacles cited by these states for non-use, and presents their future plans for implementation.

Although New Hire detection currently provides better results than other detection methods, new legislation and other procedural improvements could further enhance the effectiveness and efficiency of this method. **Chapter III** discusses current recent legislative changes and procedural shortcomings.

Chapter I – Is New Hire Detection More Effective and Efficient Than the Traditional Wage/UI Benefit Crossmatch?

The New Hire detection system is more effective and efficient than the Wage/UI Benefit crossmatch system in identifying unemployment insurance (UI) overpayments that occur when UI claimants fail to report earnings while simultaneously working and claiming benefits. The use of New Hire detection identifies overpayments earlier, reduces overpayment dollars, and increases the chance of overpayment recovery. It also makes more efficient use of both employer and state resources.

A. New Hire Detection Identifies Overpayments Earlier, Resulting in Smaller Overpayments.

New Hire detection identifies UI overpayments earlier, resulting in smaller overpayments, because the data needed for New Hire detection is available months before the data needed for the Wage/UI Benefit crossmatch. Further, smaller overpayments make recovery more likely. Ninety-three percent of the states that use New Hire detection (38 of 41) reported that this method detects UI overpayments earlier than the Wage/UI Benefit crossmatch (see Exhibit A). This was verified during our fieldwork at seven state UI programs that use New Hire detection. Although we did not audit the data, the state UI programs reported data (ETA Form 227) that further supports the state UI programs' responses that the New Hire method detects overpayments earlier. In 2002, the seven UI programs we audited that were using New Hire detection identified 41,404 overpayments valued at \$14.7 million, compared to their Wage/UI Benefit crossmatch that identified 29,872 overpayments valued at \$34.9 million. More overpayments were identified through New Hire detection, but the dollar amount was less because overpayments were detected earlier.

PRWORA mandates that non-Federal employers¹ report new hires to designated state agencies:

...not later than 20 days after the date the employer hires the employee; or in the case of an employer transmitting reports magnetically or electronically, by 2 monthly transmissions (if necessary) not less than 12 days nor more than 16 days apart.

PRWORA requires states to enter the reported New Hire data into the respective State Directory of New Hires (SDNH) within five business days of receipt from an employer. While the primary purpose for requiring the reporting of new hires is to locate individuals with child support obligations, PRWORA allows state UI programs access to this data to match against their UI claims.

As a result, state BPC programs can crossmatch the reported New Hire data against their UI Claims database within approximately one month of hiring. In contrast, the Wage/UI Benefit crossmatch takes place several months after employers submit their quarterly wage reports, when overpayments may have occurred for a significant number of weeks. In some cases, the Wage/UI Benefit crossmatch would not detect an overpayment until after the claimant's entire benefit eligibility period had elapsed and a maximum overpayment had occurred. Therefore, overpayments established by the Wage/UI Benefit crossmatch are much larger than those detected using New Hire detection. This is demonstrated for the seven states we visited that use New Hire detection in the following table:

¹ Federal employers do not report to a SDNH, but report directly to the NDNH. See Page 10 for a discussion of problems associated with this reporting requirement.

**Calendar Year 2002 ETA Form 227 Data
Detection Results for the Seven States Visited**

States Visited Detection Methods	Total Overpayments		
	Cases	Amount Detected	Avg.
Florida			
Wage/UI Benefit	749	\$998,900	\$1,334
New Hire	5,215	2,344,291	450
Illinois			
Wage/UI Benefit	18,397	22,077,587	1,200
New Hire	27,041	7,332,726	271
Louisiana			
Wage/UI Benefit	729	1,204,178	1,652
New Hire	2,092	840,686	402
Nevada			
Wage/UI Benefit	N/A	N/A	N/A
New Hire	1,222	651,808	533
Oklahoma			
Wage/UI Benefit	3,208	2,015,479	628
New Hire	436	190,284	436
Texas			
Wage/UI Benefit	3,144	6,000,375	1,909
New Hire	5,329	3,322,708	624
Wisconsin			
Wage/UI Benefit	3,645	2,571,970	706
New Hire	69	19,324	280
Total			
Wage/UI Benefit	29,872	\$34,868,489	\$1,167
New Hire	41,404	\$14,701,827	\$355

In these seven states, New Hire detection identified 41,404 overpayments valued at \$14.7 million, compared to the Wage/UI Benefit crossmatch that identified 29,872 overpayments valued at \$34.9 million. The reported data excludes Nevada's Wage/UI Benefit crossmatch statistics because Nevada did not carry out a Wage/UI Benefit crossmatch in 2002. Further, Wisconsin's New Hire reported data is limited because the state had just implemented New Hire detection. Overall, more overpayments were identified through New Hire detection, but the dollar amount was less because overpayments were detected earlier. The overpayments for Wage/UI Benefit crossmatch were higher because it took longer to detect and stop overpayments. New Hire detection prevented additional overpayments that may have occurred if detected through the use of the Wage/UI Benefit crossmatch. The average overpayment identified through New Hire detection (\$355) was 30 percent of the average overpayment identified through Wage/UI Benefit crossmatch (\$1,167). The average overpayment identified through New Hire detection was also less in the states not visited (see Exhibit B).

By detecting overpayments before a claimant's eligibility has been exhausted, states can also prevent overpayments. For example, Florida places a "hold" on additional benefit payments while investigating potential overpayments identified through New Hire detection. This practice resulted in preventing overpayments for 20,813 benefit weeks between January 2002 and June 2003, at a savings of \$4.5 million. If the overpayments had gone undetected until the claimants had received UI benefits for all available weeks, the overpayments would have equaled \$21 million during the same period.

B. Time, Cost, or Other Efficiencies Have Resulted From the Use of New Hire Data Compared to the Traditional Wage/UI Benefit Crossmatch.

The states we visited could not provide analytical evidence of efficiencies from using New Hire detection over the traditional Wage/UI Benefit crossmatch. However, states responded during our visits or in their questionnaires that they believe that New Hire detection is more efficient. Examples of these opinions are provided below:

- The employer response rate to the wage verification request resulting from the New Hire detection system is higher than the response rate for the Wage/UI Benefit crossmatch system. This is probably due to the fact that employers are more likely to have wage records readily available to allow them to respond to New Hire wage verification requests since the employee is more likely to still be working for the employer and more current information is requested. (Hawaii, Louisiana, South Carolina, and Virginia)
- New Hire detection uses fewer resources because it is a simpler process than the Wage/UI Benefit crossmatch. Overhead costs are lower and the administrative complexity is less. There is no Benefit Audit, Reporting, and Tracking System to maintain and reconcile as there is with Wage/UI Benefit. In addition, the on-going programming costs of New Hire detection are lower. (Nevada)
- The appealed New Hire overpayment cases are 30 percent of the appealed Wage/UI Benefit overpayment cases, resulting in substantial administrative savings. To illustrate, in 2001, only 201 of 9,195 (2.2 percent) total New Hire cases were appealed while 624 of 8,515 (7.3 percent) total Wage/UI benefit cases were appealed. Also, the rate of overpayment collections for the two methods varied significantly. Only 12 percent of the UI overpayments detected by the Wage/UI Benefit crossmatch were recovered in full within 90 days, while 44 percent of the UI overpayments identified by New Hire detection were recovered in full within 90 days. (Washington)

- New Hire detection makes UI overpayment collection easier because the claimant's recent work location is known. (Wisconsin)
- With New Hire detection, investigators are assigned fewer Wage/UI Benefit cases (Virginia), the more current UI data aids criminal prosecutions (West Virginia), and cases take less time to investigate. (Louisiana)

Chapter II – What Obstacles Are Preventing State UI Programs From Implementing New Hire Detection?

Competing priorities, including the need to address time-critical Y2K issues, and lack of funding has prevented some states from implementing the New Hire detection method. Twelve state UI programs were not using the New Hire detection method at the time of our audit, in spite of ETA's efforts to encourage its use. Seven of these states had plans for future implementation. ETA should continue to encourage and provide incentives to state UI programs to fully implement New Hire detection as soon as possible.

The 12 state UI programs not using the New Hire detection method at the time of our audit were:

- California
- Colorado
- Delaware
- District of Columbia
- Kentucky
- Michigan
- New Jersey
- New Mexico
- Puerto Rico
- Vermont
- Virgin Islands
- Wyoming

These states gave the following reasons or obstacles why they have not adopted New Hire detection:

- Competing information technology priorities that resulted in the Department of Human Services and the Department of Labor not establishing a linkage for the UI program to use the New Hire data. (Colorado)
- Computer system concerns during Y2K that could have possibly affected electrical systems and local area networks. (California and New Jersey)
- The SDNH does not capture the claimant's date of hire as a required reporting element. Therefore, the New Hire detection system would not be efficient or effective in detecting overpayments and/or fraud. (Delaware)

- Lack of available funds and personnel resources to implement an efficient and effective automated New Hire detection program. (New Jersey, Wyoming and U.S. Virgin Islands)

ETA has encouraged the use of the New Hire detection method. For example:

- In July 2003, ETA awarded \$4.8 million in UI Integrity System Grants to 41 states to implement or enhance systems to prevent, detect, and collect erroneous payments of UI benefits. Some of these states used a portion of these funds to implement or enhance New Hire detection.
- ETA has provided guidance and oversight on New Hire detection through program letters and field memorandums, reviews of state UI BPC programs, interaction with the State UI BPC programs, and annual integrity workshops.
- ETA issued Unemployment Insurance Program Letter (UIPL) No. 36-00, dated October 10, 2000, that encouraged state UI programs to take advantage of the New Hire system to prevent and detect overpayments.

At the time of our audit, seven of these 12 state UI programs had plans to implement New Hire Detection.

- California
- District of Columbia
- Kentucky
- New Jersey
- New Mexico
- Puerto Rico
- Vermont

Examples of some of these states' plans are:

- New Jersey Department of Labor (NJDOL) began its New Hire detection development and programming in October 2003. NJDOL plans to have an operational detection system in place in June 2004. The investigation of New Hire crossmatch results will reduce investigations for other BPC detection activities including the Wage/UI Benefit crossmatch, per NJDOL officials.
- California plans to develop its New Hire detection program in April 2005 and implement it in 2007.
- The District of Columbia is developing and reviewing new software that matches New Hire data against the UI Benefit file to assess the efficiency and effectiveness in detecting New Hire overpayments and/or fraud.

ETA should continue to encourage state UI programs to implement New Hire detection by (1) showcasing best practices, (2) promoting exchange programs

among states, where staff from states using New Hire detection would temporarily assist another state with implementation, and (3) providing additional funding for implementation.

Recommendation 1:

We recommend that the Assistant Secretary for Employment and Training continue to provide technical assistance and resources to the state UI programs not using the New Hire detection method to initiate and/or complete plans for implementation as soon as possible.

Response:

ETA agrees with this recommendation. ETA has demonstrated its commitment to assisting states in implementing and/or improving systems to reduce UI overpayments and promoting the use of New Hire detection systems. In addition, it has awarded approximately \$4.6 million in fiscal year 2003 to states to implement or enhance New Hire detection systems. In fiscal year 2004, \$2.3 million will be provided for benefit payment control crossmatches, including New Hire detection systems.

Auditor's Conclusion:

We consider this recommendation resolved.

Chapter III – What Changes Would Enhance the Effectiveness and Efficiency of New Hire Detection?

Although 41 state UI programs are using New Hire detection and this method provides better results than other controllable detection methods, recent legislative changes and other procedural improvements could further enhance its effectiveness and efficiency.

Specifically, the following changes would benefit New Hire detection:

- Require employer to report of the first day of earnings for all new hires;
- Encourage state UI programs to access the National Directory of New Hires (NDNH);
- Improve employer outreach, monitoring, and enforcement; and
- Encourage state UI programs to analyze resources effectively for maximum results in detecting overpayments.

These changes will address the inherent weaknesses of current New Hire detection activities.

A. Require Employers to Report the First Day of Earnings for All New Hires.

Current reporting requirements do not provide the data needed for New Hire detection to precisely identify UI overpayments. As a result, the method identifies a significant number of cases that, upon further investigation, do not involve payment of ineligible benefits. Defining and requiring employers to report the specific date that new hires begin earning wages would increase the screening accuracy of New Hire detection, thus reducing the resources expended on identifying and investigating “false hits”.² The state UI programs that use New Hire detection most often cited the need for defining and reporting this information as the way to improve New Hire detection.

New Hire detection currently identifies potential overpayment cases by matching periods of employment with periods in which an individual received UI benefits. However, completing an accurate analysis requires obtaining precise information from employers on the date a new hire began earning wages. “First day of work” or “date of hire” are the two terms most frequently used to describe this date. While PRWORA requires employers to report new hires within 20 days, it does not define the “date of hire” or require that employers report the date. As a result, individual states, at their own discretion, have established terminology and reporting options, which vary among states.

The definition of “first day of work” in one state may be similar to the definition of “date of hire” in another state. Other states have not defined these terms. As a result, employers provide differing information including the date the employer offered the job, the date training began, the date of a physical examination, or the date of the first paycheck. If an employer does not report a date, some states use a default date to estimate the start of wages. Examples include the date the employer’s report is postmarked or the date of entry into the SDNH. In one state, if the employer opts not to report a “date of hire,” the new hire is excluded from the analysis and possible investigation.

The following table summarizes the variety of reporting provisions of the first date of earnings for the nine states we visited:

² Matches between a new hire and a UI claim that do not result in an overpayment after investigation.

State	Date Reported and Definition	Reporting Required By State?
California	Start-of-work date – first day services were performed for wages	Yes
Florida	Date of Hire – first day of work for which the employee is owed income	Yes
Illinois	Date of Hire – first day of work for pay	No
Louisiana	Date of Hire (not defined)	No
New Jersey	Date of Hire (not defined)	No
Nevada	Date of Hire (not defined)	No
Oklahoma	Date of Hire – first day services performed by an employee	Yes
Texas	Date of Hire – first day services are performed for wages by an individual	No
Wisconsin	Date of Hire – first day the employee performs wage earning services	Yes

At the time of our audit 24 states required that employers report the “first day of work” or the “date of hire” or both. Seventeen states made reporting one or both of these items optional, while 12 states required neither of these data elements to be reported (See Exhibit C).

The absence of a uniform terminology with a clear, consistent, nationwide definition and reporting requirement causes incomplete and inconsistent data within SDNHs and the NDNH. This, in turn, reduces the effectiveness of using the New Hire database to detect cases for investigation that do not involve actual UI overpayments and not identifying some cases in which UI overpayments may have occurred.

Having employers report the first day of earnings would increase the effectiveness of New Hire detection. Since PRWORA defines the current reporting requirements, legislative action is needed to define and establish a new reporting requirement for the first day of earnings. ETA should work with DHHS, the lead Federal Agency responsible for oversight of the PRWORA, and communicate to Congress the need for, and benefits of, such a change. ETA could also encourage the state UI programs to work with child support enforcement agencies on New Hire reporting requirements.

B. Encourage State UI Programs to Access the National Directory of New Hires (NDNH).

During our audit period, reporting provisions in PRWORA did not permit state UI programs access to the NDNH. As a result, states could not obtain information on a nationwide basis on all new hires that might have been receiving UI payments. Therefore, UI overpayments could go undetected. State UI programs

believed that access to the NDNH would significantly improve the results of New Hire detection. In response to our questionnaire, 33 of 41 states using New Hire detection expressed an interest in obtaining access to the NDNH (see Exhibit D).

PRWORA requires the reporting of information on new hires for the purpose of establishing parentage and/or establishing and enforcing child support obligations. The system, while providing information that could also be useful in detecting UI overpayments, had limitations. In most cases, employers reported new hire information to a SDNH. In turn, the state forwarded this data to the NDNH. However, exceptions to this reporting structure include (1) allowing employers located in multiple states to report all new hires to one designated state, and (2) permitting the Federal Government to report new hire information directly to the NDNH.

PRWORA allows an employer with locations in multiple states the option of reporting all its new hires to one state of its choosing. For example, if Company X has factories in Alabama, Michigan, and Colorado, it can elect to report information on all new hires, regardless of location, to Michigan's SDNH. In this instance, neither Alabama nor Colorado's state UI programs would receive information on employees hired by Company X in their respective state. As a result, Alabama and Colorado could not identify UI overpayments to these individuals through New Hire detection.

The Federal Government is not required to report new hires to SDNHs. Instead, recently hired Federal employees are reported directly to the NDNH. As a result, no state or the District of Columbia could identify UI overpayments made to individuals hired by the Federal Government through New Hire detection. The Federal Government hires 300,000 new employees each year who are reported directly to the NDNH, bypassing SDNHs.

Further, individual states could not detect a new hire who was receiving UI benefits in one state while earning wages in a neighboring state. We found no state that was sharing the information in its SDNH with neighboring states. Because New Hire detection was limited to information in its own SDNH, a state could not identify a person receiving UI benefits while earning wages in a neighboring state. For instance, New Hire detection in Illinois would not capture an Illinois UI claimant earning wages in Indiana.

Since the NDNH consolidates new hire information from all sources, providing state UI programs access to the NDNH will overcome these reporting obstacles and increase the effectiveness of New Hire detection. While access to the NDNH would likely identify a larger number of potential UI overpayment cases, the available BPC resources in some states could limit the beneficial effect. For example, Nevada UI officials explained that their BPC staff cannot investigate all of the potential UI overpayments currently identified through New Hire detection. Therefore, identifying more potential cases through access to the NDNH would

not improve their overall effectiveness unless additional BPC resources were available. Resources will be discussed further in Section III-D (page 14).

The SUTA Dumping Prevention Act of 2004, P.L. 108-295, signed by the President on August 9, 2004, allows the state UI programs access to the NDNH. This access addresses the limitations we identified during our audit. ETA should work with the state UI programs and DHHS in coordinating efforts to provide access to the UI programs.

C. Improve Employer Outreach, Monitoring, and Enforcement.

The states' employer compliance rates for New Hire reporting show opportunity for improvement. Nineteen of 53 states do not monitor employer compliance. Eighteen of the 34 states that monitor compliance could not estimate the employer compliance rate. Of those that did estimate a compliance rate in their questionnaire, only four states estimated it at 80 percent or higher (see Exhibit E). When employers fail to report new hires, or fail to report timely, the SDNH is incomplete and less effective in identifying UI overpayments through New Hire detection. Better state outreach, monitoring, and enforcement efforts would raise the level of reporting compliance.

Outreach

State outreach efforts both educate and remind employers about New Hire reporting requirements. All nine states we audited conduct limited outreach activities in an effort to increase employer participation in reporting new hires to the SDNH. Examples include mailing New Hire reporting information to employers and new businesses, establishing websites for information and reporting, making presentations at employer conferences, and including information on New Hire requirements with routine quarterly UI information (i.e. tax statements and newsletters).

New Jersey's multi-layered effort is an example of outreach to employers. The New Jersey Department of Human Services (NJDHS) and its contractor, Northrop Grumman, Inc. (NGI):

- mailed information to all New Jersey employers to inform them of New Hire reporting requirements,
- included New Hire reporting information in three issues of New Jersey Business magazine,
- made New Hire presentations to business and retailer interest groups,
- utilized the New Jersey Department of Treasury, Division of Revenue Business Registration booklet to inform new employers of their new hire reporting responsibilities,
- developed brochures and sent New Hire letters to agencies that target seasonal employers, and

- maintained a website that contains New Hire reporting information for New Jersey employers.

Monitoring

Monitoring employer compliance measures the degree to which data is being captured by the SDNH and potentially identifies specific employers who are not reporting New Hire information. Nineteen of the 53 states (36 percent) do not monitor employer compliance with New Hire reporting.

Of the nine states visited, California, Illinois, Nevada, and Oklahoma perform no monitoring of employer compliance with New Hire reporting requirements. Florida, Louisiana, New Jersey, Texas, and Wisconsin perform limited monitoring of employer compliance. The monitoring performed in these five states focuses on identifying and contacting potentially non-compliant employers.

For example, Louisiana sends compliance letters to employers that have 50 or more potential new hires in a calendar quarter that are not reported to the SDNH. Those employers with fewer than 50 new hires in a quarter are not contacted. As time permits, New Jersey contacts the 500 employers with the largest number of apparent new hires on the quarterly wage report that are not reported in the SDNH. The remaining employers are not contacted.

Enforcement

An enforcement program acts as a deterrent to non-reporting of New Hire information. An effective enforcement program allows states to assess financial penalties against those employers who repeatedly fail to report new hires. PRWORA allows the states to set a civil penalty for non-compliant employers.

Most states (37) have established penalties for employer non-compliance with New Hire reporting requirements (see Exhibit F). However, the penalties are generally not being enforced. Without enforcement, employers will not always report new hires accurately and timely, because there are no consequences for repeated and/or egregious non-compliance.

Without on-site monitoring to identify specific violators, unreported new hires cannot be identified for penalty assessment. PRWORA does not require states to perform on-site monitoring to identify violators. The states indicated they cannot enforce the penalties because:

- they do not want to alienate employers,
- they cannot direct multistate employers that do not report in their state,
- procedures and forms for imposing fines are incomplete, or
- resources are not available for enforcement activities.

Seven of the nine states visited include penalties within state law for failure to report new hires to the SDNH. Only Florida and Oklahoma do not have penalties. The state laws generally call for penalties of \$15 to \$25 per instance for not reporting a new hire, and a penalty of up to \$500 for conspiracy between the employer and employee not to report. We suggest penalties be assessed only after employers have been informed of New Hire reporting requirements through comprehensive employer outreach efforts.

ETA has no direct oversight responsibility over SDNH activities in the states, including the states where the SDNH is maintained by the state UI agency; this is the responsibility of DHHS. However, because of the potential benefits of higher employer reporting compliance, ETA should work with, and influence, DHHS to encourage the states to improve outreach, monitoring, and enforcement activities because of potential benefits of higher employer reporting compliance. ETA should point out that improvements in employer reporting to SDNHs will benefit other state programs (e.g. child support enforcement), in addition to UI programs, and may provide a basis for encouraging improvements.

D. Encourage State UI Programs' Analysis of Resources.

ETA encouraged state UI programs to take full advantage of New Hire detection to prevent and detect overpayments. While states have attempted to comply with this directive, they have not evaluated how best to accomplish their mission with limited resources. Without analyzing available resources and evaluating detection results, UI officials cannot make informed decisions that will benefit their state and detect UI overpayments effectively and efficiently. ETA should consider incentives to encourage states to analyze their BPC operations.

As reported earlier, 41 states have decided to use New Hire detection as a detection method. Several other BPC methods are available to the states for detecting UI overpayments. The Wage/UI Benefit crossmatch was the traditional method used until the enactment of PRWORA. Other BPC detection methods include the interstate benefit crossmatch, fictitious employer detection system, and low earnings verification. The states should analyze all detection methods it uses to determine what method, or combination of methods, should receive maximum resources to achieve optimum results. For example, currently there are limitations that exist with the SDNH system. Until state UI programs have access to the NDNH and the compliance rate for reporting new hires increases significantly, the states will continue to benefit from the Wage/UI Benefit crossmatch.

The frequency of New Hire detection crossmatches varies among the states:

- 10 state UI programs crossmatch daily to the SDNH,
- 2 states crossmatch more than once a week,
- 21 states crossmatch weekly,

- 6 states crossmatch monthly, and
- 2 states crossmatch quarterly.

More frequent crossmatches result in timely investigations, smaller overpayments, and a better chance of overpayment recovery. A September 2003 OIG report, entitled “Improved Quality Control Practices Within the Benefit Accuracy Measurement System Could Save the Unemployment Trust Fund Approximately \$400 Million Annually” (Report No. 22-03-009-03-315) demonstrated the potential financial benefits of more frequent crossmatches. In deciding how often to crossmatch, states must balance these benefits with the additional resources, such as staff and computer time, required to perform the crossmatches and investigate the hits.

All state UI programs should perform an analysis of BPC resources and results to determine how to best utilize limited resources in the detection and prevention of UI overpayments. Examples of decisions that should be considered by the state UI agencies include:

- What are the best methods for detecting UI overpayments?
- How often should the New Hire crossmatch be conducted?
- How can BPC resources be best allocated to detection activities?

Considering the identified changes (presented in Parts A, B, and C above) that are needed to make New Hire detection more effective and efficient, states might be reluctant to analyze their BPC function and make changes immediately. While New Hire detection should provide maximum benefit when these changes are in place, beginning an analysis of BPC operations earlier will benefit long-term strategic planning of resources.

ETA should assist the state UI programs in performing an analysis of the operations of the BPC function to determine the best use of their limited resources. Examples of assistance could include additional one-time funding, a seminar on how to conduct the analysis, or an ETA task force to lead the analysis in each state.

Recommendations:

Our draft report had 4 recommendations to address conditions described in this finding. The recommendations, ETA’s response to each recommendation, and the Auditor’s conclusion for each recommendation follow.

Recommendation 2

We recommend that the Assistant Secretary for Employment and Training work with DHHS to communicate to Congress the need for amending the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA), or

introducing new legislation, to require employers to report a new hire's first day of earnings and provide a clear, consistent, nationwide definition for this date.

Response

ETA agrees with this recommendation. ETA stated that in the course of its discussions with DHHS concerning states' access to the NDNH, ETA officials will explore with DHHS the potential and implications of amending PRWORA to require employers to report a date of first earnings for new hires.

Auditor's Conclusion

ETA plans to explore the issue of requiring employers to report a date of first earnings for new hires with DHHS. This recommendation is unresolved pending the receipt of a specific plan detailing when discussions with DHHS will be conducted.

Recommendation 3

We recommend that the Assistant Secretary for Employment and Training encourage state UI programs to access the NDNH and coordinate efforts with the U. S. Department of Health and Human Services (DHHS) and the state UI programs to accomplish this.

Response

ETA agrees with this recommendation. ETA officials have begun initial discussions with DHHS about how to provide states access to the NDNH and future discussions will include state agencies.

Auditor's Conclusion

We consider this recommendation resolved because ETA officials have begun discussions with DHHS. Once the states have access to the NDNH, ETA will need to provide evidence of encouraging the states to use this detection method in order for the recommendation to be closed.

Recommendation 4

We recommend that the Assistant Secretary for Employment and Training work with DHHS, the lead department, to encourage state agencies compiling the State Directory of New Hires (SDNH) to expand monitoring and outreach programs that will improve employer compliance and seek enforcement through penalties for employers who repeatedly fail to report new hires.

Response

ETA agrees with this recommendation. ETA stated that during discussions with DHHS, ETA officials will ask DHHS to encourage those state agencies responsible for compiling the SDNH to expand monitoring and outreach programs that will improve employer compliance. ETA will also work with DHHS to assess the idea of seeking statutory or regulatory authority to initiate enforcement through penalties for employers who repeatedly fail to report new hires. In addition, ETA will discuss with DHHS whether additional resources may be provided to the states to implement such enforcement efforts.

Auditor's Conclusion

This recommendation is unresolved pending the receipt of a specific plan detailing when discussions with DHHS will be conducted.

Recommendation 5

We recommend that the Assistant Secretary for Employment and Training assist the state UI programs in analyzing resources to determine: the best detection methods, how to best allocate resources, and frequency of New Hire crossmatches.

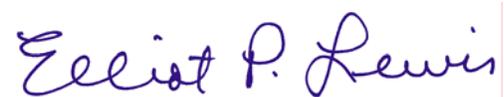
Response

ETA agrees with this recommendation. ETA will continue to provide ongoing technical assistance to states in analyzing performance data and in disseminating information about practices through program directives, meetings, and conferences.

ETA also responded that it supports the states' continued use of a variety of methods to detect overpayments, in addition to the New Hire detection system. ETA believes there are limitations that exist with the NDNH and SDNH system (i.e. with the SDNH, multi-state employers report new hires to only one state). Therefore, until states actually have access to the NDNH, and employer compliance in reporting new hires increases significantly, states will continue to benefit from operating the UI Benefit/Wage crossmatch system to detect unreported wages.

Auditor's Conclusion

ETA states it will continue ongoing technical assistance to the states. The response does not specifically address how ETA will assist states in analyzing resources. This recommendation is unresolved pending the receipt of a specific action plan.



Elliot P. Lewis
September 5, 2003

EXHIBITS

Exhibit A

New Hire Detection Identifies Overpayments Earlier

In response to our question, “Is the New Hire detection process better at detecting UI overpayments earlier (or preventing an overpayment in some cases) than the Wage/UI Benefit crossmatch?” the 41 states that use New Hire detection gave the following responses:

State	Response
Alabama	Yes
Alaska	Yes
Arizona	Yes
Arkansas	Yes
Connecticut	Yes
Florida	Yes
Georgia	Yes
Hawaii	Yes
Idaho	Yes
Illinois	Yes
Indiana	Yes
Iowa	Yes
Kansas	Yes
Louisiana	Yes
Maine	Yes
Maryland	Yes
Massachusetts	Yes
Minnesota	Unknown ³
Mississippi	Yes
Missouri	Yes
Montana	Yes

State	Response
Nebraska	Yes
Nevada	Yes
New Hampshire	Yes
New York	Yes
North Carolina	Yes
North Dakota	No
Ohio	Yes
Oklahoma	Yes
Oregon	Yes
Pennsylvania	Yes
Rhode Island	Yes
South Carolina	Yes
South Dakota	Unknown ³
Tennessee	Yes
Texas	Yes
Utah	Yes
Virginia	Yes
Washington	Yes
West Virginia	Yes
Wisconsin	Yes

Summary

38 of 41 states (93 percent) that use New Hire detection indicate that the New Hire detection process is better at detecting UI overpayments earlier than the Wage/UI Benefit crossmatch.

³ The state’s response was that they were unable to provide an opinion.

Exhibit B

**ETA-227 Report Totals⁴ and Detection Results for the Period
January 1, 2002 through September 30, 2002 for the 34 States Not Visited
That Use New Hire Detection**

Controllable Methods	Total Overpayments		
	Cases	Amount	Avg.
Wage/UI Benefit	70,017	\$51,869,824	\$741
New Hire System	60,997	\$31,167,077	\$511

Of the 34 states not visited during our audit that use New Hire detection:

- 30 states conducted New Hire detection for part or all of the period from January 1 through September 30, 2002. Comparative data for those states is summarized in the table above.
- Two states (AZ and ME) began using New Hire detection in September 2002 and did not report New Hire data through September 30, 2002 within ETA-227. Data for these two states are not included in the table.
- New York did not report New Hire detection data in the New Hire line item of ETA-227 (through September 30, 2002). The date that New Hire detection began was not provided. New York is not included in the table.
- Idaho did not provide ETA-227 data. Idaho is not included in the table.

⁴ These statistics were provided by the state UI program and were not subjected to audit verification.

Exhibit C

States’ New Hire Reporting Date Requirements⁵

In response to our questionnaire and audit results, we compiled the following data:

State	Reporting Date	State	Reporting Date
Alabama	First Day of Work (FDW) required	Nebraska	None
Alaska	Date of Hire optional	Nevada	Date of Hire optional
Arizona	None	New Hampshire	FDW required
Arkansas	None	New Jersey	Date of Hire optional
California	FDW required	New Mexico	FDW required
Colorado	None	New York	Date of Hire optional
Connecticut	Date of Hire required	North Carolina	FDW required
Delaware	None	North Dakota	Date of Hire optional
DC	Date of Hire optional	Ohio	Date of Hire required
Florida	FDW required	Oklahoma	FDW required
Georgia	FDW required	Oregon	FDW optional
Hawaii	None	Pennsylvania	FDW required
Idaho	None	Puerto Rico	None
Illinois	FDW optional	Rhode Island	Date of Hire optional
Indiana	FDW required	South Carolina	Date of Hire optional
Iowa	FDW required	South Dakota	Date of Hire optional
Kansas	None	Tennessee	FDW required
Kentucky	Date of Hire optional	Texas	FDW optional
Louisiana	Date of Hire optional	Utah	Date of Hire optional
Maine	FDW required	Vermont	FDW required
Maryland	FDW required	Virginia	None
Massachusetts	FDW required	Virgin Islands	FDW required
Michigan	Date of Hire optional	Washington	None
Minnesota	Date of Hire optional	West Virginia	Date of Hire required
Mississippi	FDW required	Wisconsin	FDW required
Missouri	FDW required	Wyoming	None
Montana	FDW required		

Summary

First Day of Work Required -	21 states
Date of Hire Required -	03 states
First Day of Work Optional -	03 states
Date of Hire Optional -	14 states
No Date Reported -	<u>12 states</u>
Total	53 states

⁵ We requested that the states indicate whether the first day of work (FDW) was a required reporting element and to provide all “other” required and optional reporting elements beyond the elements captured on a new hire’s W-4. In some cases, the states indicated that both the date of hire and first day of work were required. In those cases, we included only the FDW.

Exhibit D

Access to the National Directory of New Hires (NDNH)

In response to our questionnaire, “Would access to the NDNH have a major impact on improving the results of your state’s New Hire detection of UI overpayments?” 41 states’ that use New Hire detection replied as follows:

State	Improve New Hire Results?	Remarks
Alabama	Yes	Locate new hires with outstanding overpayments working in other states, find interstate claimants working in another state while drawing UI benefits
Alaska	Yes	Assist detecting new hires in other states, and recovery
Arizona	Yes	Would expand the potential employer base
Arkansas	No	Workload would increase significantly, negative impact
Connecticut	Yes	Increase fraud overpayments that occur in neighboring states
Florida	Yes	Would be able to find more new hires through hires residing in Florida but reported to another state
Georgia	Yes	Enhance ability to detect overpayments through access of a larger pool of employers
Hawaii	Yes	Greatly improve detection capabilities because of new hires reported to other states by multistate employers
Idaho	No	Probably not a major impact
Illinois	Yes	While an increase in detection would be expected, unknown whether this increase could be defined as major
Indiana	Yes	Increase chances of matching/preventing overpayments by accessing multistate employer new hires reported to another state, uncertain as to how major it would be
Iowa	Yes	Should impact results favorably, unknown major impact
Kansas	Yes	Access to new hires reported by multistate employers
Louisiana	Yes	Access to out-of-state new hires, especially border states, impact may not be major, but more thorough detection
Maine	Yes	More information would result in more detections
Maryland	Unanswered	Unsure at this time
Massachusetts	Unanswered	Not familiar with NDNH and its possible benefits
Minnesota	Unanswered	Unknown, it may have major impact
Mississippi	Yes	Unsure as to how much of an impact, would help with detecting out-of-state claimants
Missouri	Yes	Increase ability to detect, key to prevention and recovery
Montana	Yes	Problems when claimants move out-of-state for detecting and collecting overpayments
Nebraska	Yes	Access to new hires reported out-of-state by large employers, beneficial collections impact, need resources
Nevada	No	Access improves detection in border states, need resources
New Hampshire	Yes	Many claimants work out-of-state, will detect fraud committed outside of New Hampshire, will assist collection efforts
New York	Unanswered	Positively impact efforts to identify and stop UI fraud
North Carolina	Yes	Large NC employers report out-of-state, major problem

Exhibit D (Continued)

State	Improve New Hire Results?	Remarks
North Dakota	Yes	Enhance ability to detect overpayments sooner through access of Minnesota new hires (two population areas in east)
Ohio	Yes	Able to detect individuals collecting Ohio benefits while working in other states, Interstate crossmatch is only wage-based
Oklahoma	Yes	Impact all states since society is mobile
Oregon	Yes	Match claims of new hires reported to another state and access to Federal hires, also useful for recovery efforts
Pennsylvania	Yes	Enhance detection abilities for new hires reported to another state and access to Federal New Hire data
Rhode Island	Yes	Include law requiring return of New Hire information, improve employer performance on providing data
South Carolina	Yes	Assist in identifying the state reporting the New Hire versus having to send a request to each state for hire date
South Dakota	Yes	Access to employers reporting to other states, decrease the number of Wage Record audits sent to employers
Tennessee	Yes	Overpayments resulting from interstate claims could be detected earlier, benefit from multistate employer data
Texas	Yes	Detect possible unreported earnings from claimants working in other states earlier than Interstate Benefit crossmatch
Utah	Yes	Find overpayments and penalties faster, potentially establish less overpayment dollar amounts
Virginia	Yes	Reduce the size of Interstate Benefit overpayments due to earlier detection
Washington	Yes	Have access to 16,000 employer's data reporting out-of-state, State does not have staff/budget to work all "hits" now
West Virginia	No	Maybe – would be a greater aide in recovering than detecting overpayments, could assist in detection
Wisconsin	Yes	Will find out-of-state employment not reported to us

Summary

Yes -	33
No -	4
Unanswered -	<u>4</u>
Total	41 state UI programs using New Hire detection

Exhibit E

Employer Monitoring

In response to our questionnaire, “Are employers monitored for compliance with New Hire reporting?” and “From this monitoring, what appears to be the compliance rate of employers?” the 53 states’ comments are summarized below:

State	Are Employers Monitored for Compliance?	Estimated Employer Compliance Rate
Alabama	No	Not applicable
Alaska	No	Not applicable
Arizona	Yes	51 percent
Arkansas	Yes	Unknown
California	No	Not applicable
Colorado	Yes	80 percent
Connecticut	No	Not applicable
Delaware	Yes	Unknown
District of Columbia	No	Not applicable
Florida	Yes	60 percent
Georgia	Yes	33 percent
Hawaii	Yes	Not available
Idaho	Yes	99 percent
Illinois	No	Not applicable
Indiana	Yes	Not available
Iowa	Yes	Unknown
Kansas	No	Not applicable
Kentucky	No	Not applicable
Louisiana	Yes	Unknown
Maine	No	Not applicable
Maryland	Yes	Not available
Massachusetts	Yes	Unknown
Michigan	No	Not applicable
Minnesota	Yes	53 percent
Mississippi	No	Not applicable
Missouri	No	Not applicable
Montana	No	Not applicable
Nebraska	No	Not applicable
Nevada	No	Not applicable
New Hampshire	Yes	99 percent
New Jersey	Yes	70 to 75 percent
New Mexico	Yes	Unknown
New York	Yes	Not available

Exhibit E (Continued)

State	Are Employers Monitored for Compliance?	Estimated Employer Compliance Rate
North Carolina	No	Not applicable
North Dakota	Yes	Unknown
Ohio	Yes	Not available
Oklahoma	No ⁶	Not applicable
Oregon	No	Not applicable
Pennsylvania	Yes	35 to 40 percent
Puerto Rico	Yes	Unknown
Rhode Island	Yes	Unknown
South Carolina	Yes	Not available
South Dakota	Yes	Not available
Tennessee	Yes	70 percent
Texas	Yes	36 percent
Utah	Yes	85 percent
Vermont	Yes	79 percent
Virgin Islands	No	Not applicable
Virginia	Yes	Not available
Washington	Yes	48 percent
West Virginia	Yes	Not available
Wisconsin	Yes	60 to 80 percent
Wyoming	Yes	26 percent

Summary

States that do not monitor New Hire reporting -	19
States that monitor New Hire reporting (see below) -	<u>34</u>
Total	53

Estimated Compliance Rate breakdown for 34 states that monitor

Not available or unknown -	18
Less than 80 percent -	12
80 percent or greater -	<u>4</u>
Total	34

⁶ Per audit

Exhibit F

Employer Penalties

In response to our questionnaire, “Are there penalties for employers not reporting New Hires?” and responses for enforcement of penalties, the 53 states’ comments are summarized below:

State	Penalty?	Enforced?	State	Penalty?	Enforced?
Alabama	Yes	No	Nebraska	Yes	Unknown
Alaska	Yes	Unknown	Nevada (per audit)	Yes	No
Arizona	No	No	New Hampshire	Yes	Unknown
Arkansas	Yes	Unknown	New Jersey	Yes	No
California	Yes	No	New Mexico	No	No
Colorado	No	No	New York	Yes	Unknown
Connecticut	No	No	North Carolina	No	No
Delaware	Yes	Unknown	North Dakota	Yes	Unknown
DC	No	No	Ohio	Yes	Unknown
Florida	No	No	Oklahoma	No	No
Georgia	No	No	Oregon	No	No
Hawaii	Yes	Unknown	Pennsylvania	Yes	Unknown
Idaho	No	No	Puerto Rico	Yes	No
Illinois	Yes	No	Rhode Island	Yes	Unknown
Indiana	Yes	Unknown	South Carolina	Yes	Unknown
Iowa	Yes	Unknown	South Dakota	Yes	Unknown
Kansas	No	No	Tennessee	Yes	Unknown
Kentucky	Yes	Unknown	Texas	Yes	No
Louisiana	Yes	No	Utah	Yes	Unknown
Maine	Yes	Unknown	Vermont	No	No
Maryland	Yes	Unknown	Virgin Islands	Yes	Unknown
Massachusetts	Yes	Unknown	Virginia	Yes	Unknown
Michigan	No	No	Washington	Yes	Unknown
Minnesota	Yes	Unknown	West Virginia	Yes	Unknown
Mississippi	Yes	Unknown	Wisconsin (per audit)	Yes	No
Missouri	Yes	Unknown	Wyoming	No	No
Montana	No	No			

37 of 53 states have penalties for employers not reporting new hires.

Exhibit G

State UI Agency’s Role in Compiling and/or Maintaining the SDNH

In response to our question, “Is the State UI agency responsible for compiling/maintaining the SDNH?” the 53 states’ comments are summarized below:

State	Is the State UI Agency Responsible for Compiling the SDNH?	Is the State UI Agency Responsible for Maintaining the SDNH?	Are the SDNH Compiled and/or Maintained by a Contractor? If Yes, Contractor Name Is Included.
Alabama	Yes	Yes	No
Alaska	No	No	No
Arizona	Yes	Yes	No
Arkansas	Yes	Yes	Policy Studies, Inc. (PSI) is involved
California	Yes	Yes	No
Colorado	No	No	Affiliated Computer Services assists in SDNH compilation (data entry)
Connecticut	Yes	Yes	Saztec International Inc. assists in SDNH compilation (data entry)
Delaware	No	No	No
District of Columbia	No	No	Northrop Grumman, Inc. (NGI) is involved
Florida	No	No	PSI compiles the SDNH
Georgia	No	No	PSI is involved
Hawaii	No	No	No
Idaho	Yes	Yes	No
Illinois	Yes	Yes	Bank One Corporation assists in SDNH compilation
Indiana	No	No	PSI is involved
Iowa	No	No	No
Kansas	Yes	Yes	No
Kentucky	No	No	NGI is involved
Louisiana	No	No	No
Maine	No	No	No
Maryland	No	No	PSI is involved
Massachusetts	No	No	No
Michigan	No	No	NGI compiles the SDNH
Minnesota	No	No	PSI is involved
Mississippi	No	No	NGI is involved
Missouri	No	No	No

Exhibit G (Continued)

State	Is the State UI Agency Responsible for Compiling the SDNH?	Is the State UI Agency Responsible for Maintaining the SDNH?	Are the SDNH Compiled and/or Maintained by a Contractor? If Yes, Contractor Name Is Included.
Montana	No	No	No
Nebraska	No	No	Maximus is involved
Nevada	Yes	Yes	No
New Hampshire	Yes	No	No
New Jersey	No	No	NGI compiles and maintains SDNH
New Mexico	No	No	PSI is involved
New York	No	No	ACS compiles SDNH
North Carolina	No	No	SC Data performs data entry
North Dakota	No	No	No
Ohio	Yes	Yes	PSI is involved
Oklahoma	Yes	No	No
Oregon	No	No	No
Pennsylvania	Yes	Yes	Deloitte Consulting compiles SDNH
Puerto Rico	Yes	Yes	No
Rhode Island	No	No	Maximus is involved
South Carolina	No	No	No
South Dakota	Yes	Yes	No
Tennessee	No	No	Maximus compiles the SDNH
Texas	No	No	NGI compiles and maintains SDNH
Utah	Yes	Yes	No
Vermont	Yes	No	No
Virgin Islands	Yes	Yes	No
Virginia	No	No	PSI compiles the SDNH
Washington	No	No	No
West Virginia	No	No	PSI is involved in compilation
Wisconsin	Yes	Yes	NGI is involved
Wyoming	No	No	PSI is involved

Summary

For the 53 UI programs listed above:

- 19 State UI Agencies compile the SDNH.
- 16 State UI Agencies compile and maintain the SDNH.
- 37 other state agencies compile or maintain the SDNH (See Exhibit H).
- 27 contractors data entry service providers, consulting firms, and other state agencies are involved in compiling and maintaining the SDNH.

Exhibit H

Other State Agencies Compiling and/or Maintaining the SDNH

In response to our questionnaire, 37 states' comments concerning the responsible state agency for compiling or maintaining the SDNH when the state UI agency is not responsible for compilation and maintenance are summarized below:

State	What Agency is Responsible for Compiling the SDNH?	What Agency is Responsible for Maintaining the SDNH?
Alaska	Department (Dept.) of Revenue, Child Support Enforcement	Department of Revenue, Child Support Enforcement
Colorado	Dept. of Human Services, Division of Child Support Enforcement	Dept. of Human Services, Division of Child Support Enforcement
Delaware	Dept. of Health & Social Services, Division of Child Support	Dept. of Health & Social Services, Division of Child Support
DC	Office of the Corporation Counsel	Office of the Corporation Counsel
Florida	Dept. of Revenue, Division of Child Support Enforcement	Dept. of Revenue, Division of Child Support Enforcement
Georgia	Dept. of Human Resources	Dept. of Human Resources
Hawaii	Dept. of Attorney General, Child Support Enforcement Agency	Dept. of Attorney General, Child Support Enforcement Agency
Indiana	Family Social Services Agency	Family Social Services Agency
Iowa	Dept. of Human Services, Bureau of Collections	Dept. of Human Services, Bureau of Collections
Kentucky	Cabinet for Families & Children, Division of Child Support	Cabinet for Families & Children, Division of Child Support
Louisiana	Social Services, Office of Family Support, Child Support Enforcement Services	Social Services, Office of Administration and Finance, Information Services
Maine	Dept. of Human Services	Dept. of Human Services
Maryland	Dept. of Human Resources	Dept. of Human Resources
Massachusetts	Dept. of Revenue, Child Support Enforcement	Dept. of Revenue, Child Support Enforcement
Michigan	Dept. of Treasury	Family Independence Agency Child Support
Minnesota	Dept. of Human Services, Child Support Enforcement Division	Dept. of Human Services, Child Support Enforcement Division
Mississippi	Dept. of Human Services, Child Support Enforcement	Dept. of Human Services, Child Support Enforcement
Missouri	Dept. of Social Services, Division of Child Support Enforcement	Dept. of Social Services, Division of Child Support Enforcement
Montana	Public Health and Human Services, Child Support Enforcement	Public Health and Human Services, Child Support Enforcement

Exhibit H (Continued)

State	What Agency is Responsible for Compiling the SDNH?	What Agency is Responsible for Maintaining the SDNH?
Nebraska	Dept. of Health & Human Services, Child Support Enforcement	Dept. of Health & Human Services, Child Support Enforcement
New Hampshire	State UI Agency	Dept. of Health and Human Services
New Jersey	Dept. of Human Services, Division of Family Development, Office of Child Support Enforcement	Dept. of Human Services, Division of Family Development, Office of Child Support Enforcement
New Mexico	Human Services Dept., Division of Child Support Enforcement	Human Services Dept., Division of Child Support Enforcement
New York	Dept. of Taxation and Finance	Dept. of Taxation and Finance
North Carolina	Dept. of Health and Human Services	Dept. of Health and Human Services
North Dakota	Dept. of Human Services, Child Support Enforcement Agency	Dept. of Human Services, Child Support Enforcement Agency
Oklahoma	State UI Agency	Dept. of Human Services, Child Support Enforcement Division
Oregon	Dept. of Justice, Division of Child Support	Dept. of Justice, Division of Child Support
Rhode Island	Dept. of Administration, Division of Taxation, Child Support Enforcement	Department of Administration, Division of Taxation, Child Support Enforcement
South Carolina	Dept. of Social Services, Child Support Enforcement Division	Dept. of Social Services, Child Support Enforcement Division
Tennessee	Dept. of Human Services	Dept. of Human Services
Texas	Office of Attorney General, Child Support Division	Office of Attorney General, Child Support Division
Vermont	State UI Agency	Agency of Human Services, Office of Child Support
Virginia	Dept. of Social Services, Division of Child Support Enforcement	Dept. of Social Services, Division of Child Support Enforcement
Washington	Dept. of Social and Health Services	Dept. of Social and Health Services
West Virginia	Dept. of Health and Human Resources	Dept. of Health and Human Resources
Wyoming	Dept. of Family Services, Child Support Enforcement	Dept. of Family Services, Child Support Enforcement

APPENDICES

BACKGROUND

Each state UI program is required to operate a BPC program for preventing, detecting, and recovering UI overpayments. The legal basis for prevention, detection, and recovery of overpayments emanates from provisions of the Social Security Act and Internal Revenue Code. The Secretary of Labor has interpreted those Federal Law provisions to require that a State's law include provisions for such methods of UI administration as are, within reason, calculated to:

- Prevent errors and/or abuse by claimants, employers, and others;
- Detect benefits paid through error by the agency, or through willful misrepresentation or error by the claimant or others; and
- Recover benefits overpaid.

PRWORA requires employers to report new hires. The major purpose for requiring the reporting of new hires is to locate individuals with child support obligations. However, PRWORA allows state UI programs access to New Hire information in the SDNH to help administer the UI programs. New Hire information can help detect UI overpayments early and prevent future overpayments from occurring. New Hire detection is an excellent method of detecting and preventing improper UI payments caused when claimants return to work, but fail to report their earnings. PRWORA requires employers to report new hires within a specified period, no longer than 20 days from the date of hire. The new hire information is crossmatched against UI benefit claim records to determine if a claimant was reported as a new hire and failed to report earnings while receiving UI benefits.

The New Hire detection method, because of more current information, enables UI overpayments to be detected, in most cases, in the early weeks of a claim, compared to the traditional Wage/UI Benefit crossmatch and other detection methods. This results in smaller overpayments being established and prevents additional weeks of overpayments that would occur if the overpayments were detected using the Wage/UI Benefit crossmatch or another detection method. Furthermore, early detection results in a greater chance of recovery of claimant overpayments. The effective use of New Hire detection by the state UI programs can have a major impact on protecting UI program integrity.

Of the \$30 billion in UI benefits paid in calendar year 2001, the DOL Benefit Accuracy Measurement (BAM) System estimates that \$2.4 billion in UI overpayments occurred. Approximately \$765 million of the \$2.4 billion were the result of benefit year earnings errors, which is the type of overpayment detected through New Hire detection. Also, overpayment rates projected by BAM have

remained flat at approximately 8.5 percent from 1992 through 2001. This raises a concern that the effort to reduce overpayments needs improvement.

Effective New Hire detection programs by the states provide early intervention in detecting UI overpayments, reducing the dollar amount of individual overpayments and increasing overpayment recovery.

Over the years, the OIG has identified weaknesses and vulnerabilities relative to overpayment detection, recovery and reduction of overpayments. For example, in March 1999, we issued a report entitled “Audit of Benefit Payment Controls: Examination of UI Benefit/Wage Crossmatch and Analysis of Employers Who Fail to Respond to the States’ Requests For Weekly Wage Data.” This report discussed the impact of the New Hire reporting requirements of PRWORA, and indicated the use of new hire information to detect UI overpayments had the potential to be a more effective detection method than the Wage/UI Benefit crossmatch. At the time of our audit work, the impact of the new hire requirements was just beginning and most states had not implemented or refined their New Hire detection procedures. The report also presented obstacles to using New Hire detection, such as not having access to the NDNH. State UI programs access to the NDNH would provide new hires working in other states, new hires in their state reported by multistate employers to another state selected for reporting, and Federal Government new hires reported directly to the NDNH.

In September 2003, we issued a report entitled “Improved Quality Control Practices Within the Benefit Accuracy Measurement System Could Save the Unemployment Trust Fund Approximately \$400 Million Annually.” This report discussed the implementation of the New Hire database connectivity in the states not using New Hire detection as well as recommending the New Hire crossmatch to occur at least weekly.

OBJECTIVES, SCOPE, METHODOLOGY, AND CRITERIA

Audit Objectives:

Our objectives were to determine whether New Hire detection is proving to be more effective and efficient than the traditional Wage/UI Benefit crossmatch, and if so, what obstacles are preventing some of the states from embracing this detection method?

Sub-objectives include:

- Which states are using new hire data to detect UI overpayments, and which are not?
- For the states using new hire data to detect overpayments:
 - i. What specific procedures are being utilized?
 - ii. What impact has New Hire detection had in terms of the number and amount of overpayments prevented, detected, and recovered?
 - iii. What time, cost, or other efficiencies have resulted from the use of new hire data compared to the Wage/UI Benefit crossmatch?

Scope:

We conducted a performance audit of the implementation of the New Hire detection method, which is a recent addition to the BPC methodologies for detecting UI overpayments.

Our audit covered ETA national office operations, results of questionnaires sent to all 53 state UI programs, and fieldwork in nine states (California, Florida, Illinois, Louisiana, Nevada, New Jersey, Oklahoma, Texas and Wisconsin). Our fieldwork began December 2002 and ended August 2003.

Methodology:

Our preliminary fieldwork at ETA headquarters involved interviewing UI BPC program staff, reviewing information as it related to our audit objectives, gathering preliminary information, and obtaining ETA officials' insights on New Hire detection.

We reviewed ETA-227 reports provided to us through the ETA National Office for the period January 1 through September 30, 2002. We compared the ETA-227

data provided for analysis between detection methods. However, the ETA-227 data, prepared by the state UI programs, was not subjected to audit verification. We did not verify the information and detection results provided to us.

We sent questionnaires to all 53 state UI programs to obtain information on New Hire detection. All 53 responded to our questionnaire along with other state agencies if the SDNH was not compiled or maintained by the UI agency. The questionnaires provided us useful information and were the basis for selecting our sample of nine state UI programs.

We judgmentally selected our sample of nine state UI programs to audit based on analyzing information we obtained from the New Hire questionnaires completed by the state UI programs and/or other state agencies. Our analysis resulted in selecting a mix of state UI programs deemed to have good, average, weak, or no New Hire detection program. The sample represents 17 percent of the state UI programs. The selected state UI programs represent a good cross section of state UI programs and include five of the largest UI programs. The states selected were California, Florida, Illinois, Louisiana, Nevada, New Jersey, Oklahoma, Texas and Wisconsin. We chose a judgmental sample and the results cannot be projected to all the state UI programs.

For the nine state UI programs selected for the audit, we conducted interviews to gain an understanding of how the SDNH is compiled and maintained. When necessary, we also interviewed contractor personnel compiling and/or maintaining the SDNH. We also conducted interviews with state UI officials to determine how New Hire detection procedures are carried out (seven states) or why New Hire detection is not used (two states). We also obtained and updated ETA-227 data through December 31, 2002. The data was not subject to audit verification.

We attempted to gain access to the NDNH through ETA and OCSE officials, so one of the states in our sample could match its UI claims database against the NDNH to identify potential overpayments not captured through the state's New Hire detection crossmatch. Our intent was to assess the impact of current SDNH data limitations by determining the number of matches from the NDNH that result from (1) employers located in multiple states reporting all new hires to one designated state, and (2) Federal Government reporting of new hires directly to the NDNH. However, OCSE officials denied us access to the NDNH because the law does not specify access by state UI programs or us. The denial did not have a material effect on our audit objectives.

Our audit was performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Criteria:

Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)

PRWORA requires each state to operate a SDNH. Employers are to report newly hired employees' names, addresses, and Social Security Numbers and the employer's name, address, and Federal Employee Identification Number to the SDNH not later than 20 days after the date the employer hires the employee. PRWORA also requires the establishment of a NDNH, which is maintained by the U.S. Department of Health and Human Services. SDNH data is to be submitted to the NDNH within three days of entry into the SDNH. State UI programs have access to the SDNH, not the NDNH.

BPC Criteria

The legal basis for prevention, detection, and recovery of overpayments emanates from provisions of the Social Security Act and Internal Revenue Code. The Secretary of Labor has interpreted those Federal Law provisions to require that a State's law include provisions for such methods of administration as are within reason calculated to:

- Prevent errors and/or abuse by claimants, employers and others;
- Detect benefits paid through error by the agency; or through willful misrepresentation; or error by the claimant, or others; and
- Recover benefits overpaid.

UIPL No. 36-00

ETA issued this policy letter to encourage state UI programs to take full advantage of the New Hire system to prevent and detect overpayments attributable to UI claimants that have returned to work but continue to claim UI benefits. This UIPL, dated October 10, 2000, also provided comparison information between the New Hire detection method and Wage/UI Benefit crossmatch. New Hire detection has the ability to identify potential UI overpayments sooner in the UI claims series. New Hire reporting by employers is continuous throughout the quarter because employers are required to report within specified times. Since the New Hire data is available quickly, often relatively soon after overpayments occur and before claimants have claimed several weeks of benefits, overpayments can be established and benefits stopped before subsequent weeks have been overpaid. Conversely, the Wage/UI Benefit crossmatch has built-in delays that include receiving and posting quarterly wage record information from employers. Quarterly wage records are not available for crossmatch purposes until the second quarter after the reported wage record quarter due to the delays.

ACRONYMS AND ABBREVIATIONS

BAM	Benefit Accuracy Measurement
BPC	Benefit Payment Control
Dept.	Department
DOL	U. S. Department of Labor
DHHS	U. S. Department of Health and Human Services
ETA	Employment and Training Administration
FDW	First Day of Work
NDNH	National Directory of New Hires
NGI	Northrop Grumman, Inc.
NJDOL	New Jersey Department of Labor
OCSE	U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Support Enforcement
PRIDE Act	Personal Responsibility and Individual Development for Everyone Act
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
PSI	Policy Studies, Inc.
SDNH	State Directory of New Hires
UI	Unemployment Insurance
UIPL	Unemployment Insurance Program Letter

RESPONSE TO DRAFT REPORT

U.S. Department of Labor

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



SEP 29 2004

MEMORANDUM FOR: ELLIOTT P. LEWIS
Assistant Inspector General
for Audit

FROM: EMILY STOVER DeROCCO 
Assistant Secretary
for Employment and Training

SUBJECT: New Hire Detection is a Better Method for Establishing UI
Overpayments than the Wage UI/Benefit Crossmatch -
Draft Audit Report No. 05-04-002-03-315

Thank you for the opportunity to comment on the subject draft audit report. We agree with the five recommendations in the report. We also agree the New Hires Detection system is the best method for detecting UI overpayments that result from unreported earnings when unemployment insurance claimants are working and collecting benefits at the same time.

We found the report to be very informative and offer the attached comments.

Again, thank you for the opportunity to comment.

Attachment

Attachment

OIG Recommendations – Draft Audit Report No. 05-04-002-03-315

Recommendation #1

“continue to provide technical assistance and resources to the state UI programs not using the New Hire detection method to initiate and/or complete plans for implementation as soon as possible”

ETA Comment:

ETA agrees with the above recommendation. ETA is committed to assisting states in implementing and/or improving systems to reduce UI overpayments and promoting the use of New Hire detection systems. During fiscal year 2003, a total of \$10 million was awarded to states for UI integrity related projects. Of the \$10 million, approximately \$4.6 million was awarded to states to implement or enhance New Hire Detection systems. During fiscal year 2004, a total of about \$8 million will again be awarded to state UI agencies for integrity related projects. Of this amount, \$2.3 million will be provided for benefit payment control crossmatches, including New Hire Detection systems.

Recommendation #2

“work with DHHS to communicate to Congress the need for amending the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA), or introducing new legislation, to require employers to report a new hire’s first day of earnings and provide a clear, consistent, nationwide definition for this date”

ETA Comment:

ETA agrees with the above recommendation. We have already begun initial discussions with the Department of Health and Human Services (DHHS) concerning states’ access to the National Directory of New Hires (NDNH). In the course of these discussions, we will explore with DHHS the potential and implications of amending PRWORA to require employers to report a date of first earnings for new hires.

Recommendation #3

“encourage state UI programs to access the NDNH and coordinate efforts with the U.S. Department of Health and Human Services (DHHS) and the state UI programs to accomplish this”

ETA Comment:

ETA agrees with the above recommendation. As previously indicated, discussions between USDOL and DHHS about how to provide states access to the NDNH have already begun and future discussions will include state agencies.

Recommendation #4

“work with DHHS, the lead department, to encourage state agencies compiling the State Directory of New Hires (SDNH) to expand monitoring and outreach programs that will improve employer compliance and seek enforcement through penalties for employers who repeatedly fail to report new hires”

ETA Comment:

ETA agrees with the above recommendation. As part of our discussion regarding access to the NDNH, we will ask DHHS to encourage those state agencies that are responsible for compiling the State Directory of New Hires (SDNH) to expand monitoring and outreach programs that will improve employer compliance. We will also work with the DHHS to assess the idea of seeking statutory or regulatory authority to initiate enforcement through penalties for employers who repeatedly fail to report new hires. Finally, we will also discuss with DHHS whether additional resources may be provided to the states to implement such enforcement efforts.

Recommendation #5

“assist the state UI programs in analyzing resources to determine the best detection methods, how to best allocate resources, and frequency of New Hire Crossmatches”

ETA Comment:

ETA agrees with the above recommendation. We will continue to provide ongoing technical assistance to states in analyzing performance data and in disseminating information about successful practices through program directives, meetings, and conferences.

As noted in the draft audit report, states use a number of methods to detect overpayments. We support the states continued use of a variety of methods to detect overpayments in addition to the New Hire detection system(s). There are limitations that exist with the NDNH and SDNH system (with the SDNH, for example, multi-state employers report new hires to only one state). Therefore, until states actually have access to the NDNH, and employer compliance in reporting new hires increases significantly, states will continue to benefit from operating the UI Benefit/Wage crossmatch system to detect unreported wages.