

3. Improper Payments Information Act Reporting Details

I. Risk Assessment

The Department's risk assessment for FY 2005 was developed by establishing criteria for determining levels of risk and evaluating all major programs against these criteria. Different methodologies were necessary for assessing the risks of improper payments for benefit programs and grant programs because of the differences in the administration of these programs and the availability of data.

Benefit Programs

The Department performed the risk assessment for all benefit programs according to the criteria defined below:

1. Programs with outlays less than \$200 million

The Department assumed a low risk of improper payments unless a known weakness existed in program management, based on reports issued by oversight agencies such as the Department's Office of Inspector General and/or the Government Accountability Office. Unless such weaknesses were identified, the Department made an assumption that the improper payment rate for these programs would not exceed the IPIA defined threshold of 2.5 percent. As a result of this review, no programs with outlays less than \$200 million were deemed to be susceptible to risk of improper payments.

2. Programs with outlays greater than \$200 million

The Department sampled FY 2004 data in order to determine an improper payment rate. The sampling details, including sampling methodology and sampling selection, are provided in the next section. The Department sampled Federal Employees Compensation Act (FECA), Unemployment Insurance (UI), Black Lung Disability Trust Fund, and Energy Employees Occupational Illness Compensation Program. In addition, the Department sampled the Job Corps program, a direct grant program, since data was available to conduct the sampling to determine a statistical improper payment rate. The Department applied the improper payment rate determined through sampling to the program outlays for FY 2004 in order to determine if the amount of potential improper payment for these programs exceeded the \$10 million threshold. UI was the only program deemed to be susceptible to risk as a result of this approach. However, the Department reported FECA's improper payment rate since it is required under Section 57 of the Office of Management and Budget (OMB) Circular A-11.

Grant Programs

The Department used a separate methodology to assess the risk of improper payments in grant programs because these programs are administered differently than benefit programs. However, as noted above, the Department sampled the Job Corps program, a direct grant program, since data was available to conduct the sampling to determine a statistical improper payment rate.

Since the Department provides grants to states, cities, counties, private non-profits, and other organizations to operate programs, it relies significantly on single audits (as required by the Single Audit Act of 1996) to monitor funding to all grant recipients. Therefore, the Department analyzed these single audit reports³⁶ in order to determine the improper payment rate for all grant programs.

The Department reviewed all FY 2003 single audit reports with Department of Labor-related findings from the Federal Audit Clearinghouse and identified all questioned costs. FY 2003 reports were the most recent single audit

³⁶ The Single Audit Act of 1996 provides for consolidated financial and single audits of state, local, non-profit entities, and Indian tribes administering programs with Federal funds. Since 1997, all non-Federal entities that expend over \$300,000 (\$500,000 for fiscal years after December 31, 2003) or more of Federal awards in a year are subject to a consolidated financial single audit; any non-Federal entities that do not meet this threshold are not required to have a single audit. All non-Federal entities are required to submit all single audit reports to a Federal Audit Clearinghouse (Clearinghouse) that is administered by the Census Bureau.

reports available for review. Based on a review of the definition of questioned costs in OMB Circular A-133 and OMB's IPIA implementation guidance, we determined that questioned costs can be used as a proxy for improper payments.

To determine an approximate rate of improper payments for the WIA program, the Department divided the projection of questioned costs from the FY 2003 single audit reports by the FY 2003 program outlays identified in the Federal Audit Clearinghouse. The Department applied this improper payment rate to the program outlays for FY 2004 in order to determine if the amount of potential improper payment for these programs exceeded the \$10 million threshold.

For the other non-WIA grant programs, the Department determined an overall improper payment rate by dividing the projection of the non-WIA questioned costs by the total non-WIA outlays.³⁷ No grant programs were determined to be susceptible to risk as a result of this approach. However, like FECA, the Department is reporting on WIA's improper payment rate since it is also a Section 57 designated program though its improper payment rate is well below the 2.5 percent threshold.

Results

Based on the risk assessment methods applied to benefit programs and grant programs, only one program, UI, was determined to be high risk. Two other programs, FECA and WIA, were classified as high risk because they are Section 57 programs, although their risk assessments do not support such a high risk designation. However, the Department plans to continue to identify corrective actions to reduce improper payments in these programs and established improper payment reduction and overpayment recovery targets in accordance with IPIA and associated OMB Guidance.

Table 2: Department of Labor's High Risk Programs

<i>DOL Program/Activity</i>	<i>Risk</i>	<i>Reason for High Risk Classification</i>	<i>Type of Program</i>
Unemployment Insurance (UI)	High	Exceeds OMB Threshold; also Section 57	Benefit
Federal Employees Compensation Act (FECA)	High	Section 57	Benefit
Workforce Investment Act (WIA)	High	Section 57	Grant

The Department also sampled the following programs in FY 2005 despite their low risk status in FY 2004. A listing of programs that were sampled is presented below in Table 3.

Table 3: Additional programs that were sampled

<i>DOL Program/Activity</i>	<i>Type of Program</i>	<i>Risk</i>
Job Corps	Direct Grant	Low Risk
Black Lung Benefit Payments	Benefit	Low Risk
Energy Employees Occupational Illness Compensation Program (EEOICP)	Benefit	Low Risk
DOL Salaries	Other	Low Risk
DOL Expenses	Other	Low Risk

II. Statistical Sampling

The Department's risk assessment identified only the UI program as being risk susceptible based on OMB guidance threshold. However, two additional programs, WIA and FECA, were added to this list due to their Section 57 status. In addition, the Department sampled several other programs that did not qualify as risk-susceptible programs.

³⁷ A review of the FY 2003 single audit reports revealed questioned costs for only some of the grant programs. Even for those programs that had questioned costs, there were not enough samples to make a valid projection. Therefore, an aggregate projection of questioned costs was made for all non-WIA grant programs and an overall estimated improper payment rate was calculated by dividing this projection by the total non-WIA outlays identified in the Clearinghouse. This estimated improper payment rate was then applied to the specific grant program outlay to calculate the estimated amount of improper payments.

Unemployment Insurance (UI)

Sampling Methodology: Improper payment rates are obtained from the Benefit Accuracy Measurement (BAM) program. It is designed to determine the accuracy of paid and denied claims in the three largest permanently authorized unemployment compensation (UC) programs: State Unemployment Insurance (State UI), Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX). BAM provides two rates of improper payments. The first, the Annual Report Overpayment Rate, includes estimates of nearly every divergence from what state law and policy dictate the payment should have been. The second rate, the Operational Overpayment Rate, includes only recoverable overpayments states are most likely to detect through ordinary overpayment detection and recovery procedures, known as Benefit Payment Control (BPC) procedures. Operational overpayments are the most likely to be detected and established for eventual recovery and return to the Trust Fund.

BAM reconstructs the UI claims process for randomly selected weekly samples of payments and denied claims using data verified by trained investigators. For claims that were overpaid, underpaid, or improperly denied, BAM determines the amount of benefits the claimant should have received, the cause of and the party responsible for the error, the point in the UI claims process at which the error was detected, and actions taken by the agency and employer prior to the error.

In reconstructing each sampled payment, the BAM program retroactively investigates the accuracy of the UI claim's monetary and separation determination as well as all information relevant to determining weekly eligibility for the sampled payment, including the claimant's efforts to find suitable work, ability and availability for work, and earnings from casual employment or other income sources, such as pensions.

Using the same methodology applied to paid claims, the Denied Claim Accuracy module of BAM assesses the accuracy of denial decisions made at the monetary, separation, and continuing eligibility levels of eligibility determination.

Sample Selection: The universe (population) is the payments and denials under the State UI, UCFE, and UCX programs. State UI, UCFE and UCX account for approximately 95% of UC programs activity in an average year. Data on overpayment and underpayment rates for FY 2005 shown in the Improper Payment Reduction Outlook Table are for the period July 1, 2004, to June 30, 2005. The paid claim accuracy sample selected consisted of 24,520 payments. For Denied Claims Accuracy (DCA), states sample 150 cases for each of the monetary, separation, and non-separation denials; the allocated sample for each type is 7,800 cases per test per year. A total of 47,784 items were selected and investigated for both the BAM and DCA samples for the period July 1, 2004, to June 30, 2005.

Federal Employees' Compensation Act (FECA)

Sampling Methodology: A stratified sampling approach was applied to estimate improper payments for both medical bill payments and compensation payments. For medical bill payments, sampling was designed to test payment issues, such as duplicate payments, appropriate receipts, and billing consistent with regional allowances, payment made for appropriate procedures, and eligibility at date of service. The compensation payment sampling was designed to test issues such as compensation payments consistent with identified injury, current medical evidence supporting continued compensation payments, eligibility requirements, and calculations of compensation amounts.

Sample Selection: The universe of the population is for both the compensation and medical payments paid out of the FECA program in the testing period, October 1, 2004, to April 30, 2005. The population was stratified in compensation payments and medical payments from five district offices. Samples of 183 items from compensation payments and of 264 items from medical payments were selected. A total of 447 items were selected and tested for the FY 2005 FECA sample.

Black Lung Disability Fund

Sampling Methodology: A stratified sampling approach was applied to estimate improper payments for both medical bill payments and benefit payments. The population was stratified into medical payments and benefit payments. The medical bill payment sampling was designed to test payment issues such as duplicate payments, eligibility at date of service, procedure covered by program, and appropriate receipts and paperwork. The compensation payment

sampling was designed to test issues such as eligibility requirements, calculations of compensation amounts, and calculations of compensation offsets due to dependants.

Sample Selection: The universe of the population is for medical payments made at Computer Sciences Corporation (CSC) and for all benefit payments paid out of the Black Lung program in the testing period, October 1, 2004, to February 6, 2005. The universe of the population is also medical payments made at affiliated Computer Services (ACS) in the testing period, February 7, 2004, to July 31, 2005. The sample consisted of 75 benefit payments and 78 medical bill payments. A total of 153 items were selected and tested for the FY05 Black Lung sample.

Energy Employees Occupational Illness Fund

Sampling Methodology: The sampling approach for Energy's compensation payments consisted of Monetary Unit Sampling (MUS) to estimate improper payments. The compensation payment sampling was designed to determine that the benefits paid were in accordance with specified policies and procedures, that eligibility requirements were followed, and that payments were made in the correct amount.

Statistical sampling for the Energy medical bill payment population was deemed unnecessary since total medical benefits paid for the period October 1, 2004, to April 30, 2005 were not material (less than 10% of the total benefit payments). Although no sampling was conducted this year, the Department plans to continue to scan on a periodic basis the medical payment database for unusual activity or relationships.

Sample Selection: The universe of the population consisted of the compensation payments made under EEOICP in the testing period, October 1, 2004, to April 30, 2005. Of the four district offices that process compensation payments, MUS was applied to select compensation payments from the Jacksonville and Cleveland district offices due to their high volume of claims processed. Using MUS, 113 compensation payments were selected out of the compensation population.

Job Corps

Sampling Methodology: The sampling approach consisted of a stratified sampling effort to estimate improper payments. The population was first stratified between Job Corps center operating costs and student allowances. For student allowances, the population was further stratified and a two-stage stratified cluster sampling designed was used. In the first stage, the Job Corps centers were stratified based on center costs. In the second stage, a random sample of students was selected from 12 centers for both living allowances and transition allowances.

Sample Selection: The universe of the population of Job Corps center operating costs is all of the operating expenses reported by Job Corps centers in the testing period, October 1, 2004, to March 31, 2005. The sample selected consisted of 150 payroll items and 230 non-personnel expense items. Additionally, 240 significant non-personnel expenses were sampled from 12 centers. A total of 620 items were selected and tested for FY 2005 Job Corps operating costs sample. The universe of the population of Job Corps student allowances is the entire student living and transition allowances made by Job Corps centers in the testing period, October 1, 2004, to March 31, 2005. The sample selected consisted of 320 living allowances and 355 transition allowances. A total of 675 items were selected and tested for FY 2005 Job Corps student allowance sample.

Department of Labor Salaries

Sampling Methodology: DOL Salaries consist of the department payrolls of the national office and three regional offices: Atlanta, Philadelphia, and San Francisco. To accomplish the sampling for the payroll, a stratified approach was applied. The testing criteria consisted of testing items such as employee's eligibility, earnings and leave tracked correctly, time card consistent with payment, and pay rate calculated correctly.

Sample Selection: The universe of the population of Department salaries is comprised of the payroll transactions in the testing period, October 1, 2004, to March 31, 2005. A sample of 102 items from the Department's payroll transactions was selected for testing.

Department of Labor Expenses

Sampling Methodology: DOL expenses consist of department expenses related to the operation and administration of programs' and headquarters' activities. Expense transactions were stratified into seven groups and samples were then statistically drawn from each stratum. For non-payroll costs, sample testing focused on testing criteria such as: (1) appropriate contracts used, (2) payments supported with invoices, (3) invoices correct, and (4) whether or not the purchase was allowable under program costs.

Sample Selection: The universe of the population of expenses is comprised of DOL expense payments in the testing period, October 1, 2004, to March 31, 2005. A total of 72 items were selected and tested.

III. Corrective ActionsUnemployment Insurance

For the past several years, the causes of overpayments have remained fairly constant, although total rates have improved for FY 2005. The principal cause is "Benefit Year Earnings" (BYE) - payments received by claimants who continue to claim benefits despite having returned to work. These constitute about a quarter of overpayments using the broad Employment Training Administration (ETA) Annual Report Overpayment measure and about half of the recoverable overpayments detectable by BPC that the Operational Overpayment measure includes. The next largest cause is errors associated with the reasons claimants separate from work. These errors are over a fifth of the broad definition and a quarter of the narrower definition of overpayments. Because of their prominence, ETA has devoted a significant proportion of its integrity efforts in the past few years to preventing or detecting BYE and separation-related overpayments. ETA's major integrity initiatives are as follows:

- Implementation of the Denied Claim Accuracy measurement program (DCA) to assess the accuracy of denial decisions (September 2001).
- Development of a Detection of Overpayments measure to assess how well the system is detecting and establishing overpayments for recovery to the Trust fund (first incorporated into the Strategic and Annual Performance Plans in FY 2003). This measure is based on the Operational Overpayments definition of which BYE overpayments are nearly one half.
- Continuing analyses of the causes, costs, and benefits of improper payment prevention or establishing recovery operations.³⁸
- Encourage state implementation of benefit integrity initiatives by providing funding to assist them in these endeavors. One such benefit integrity initiative is the use of data on new hires to detect and prevent BYE overpayments. States initially began to implement the State Directory of New Hires (SDNH) for this purpose, and ETA estimates suggest that savings from the use of this tool—largely, prevention of overpayments due to unreported work while in payment status—increased from approximately \$55 million in CY 2002 to \$84 million in CY 2004. During CY 2004, 42 states were using the SDNH.
- Enhancement of states' ability to detect BYE violations by UI claimants working in other states or for certain multi-state employers who may post all new hires to only one state. Based on draft legislation proposed by the Department, the President signed P.L. 108-295 on August 9, 2004, granting state UI agencies access to the National Directory of New Hires (NDNH). A three-state pilot in 2005 indicated that the NDNH should result in a substantial increase in "hits" of claimants with potential BYE violations over the SDNH. Twenty-nine states are expected to begin using NDNH cross-matches during FY 2006.
- ETA has also promoted and funded states to provide connectivity to systems to exchange data with the Social Security Administration (SSA) on a real-time basis. This will give states the ability to verify claimants' identity and will help prevent many, if not most, overpayments due to fraudulent or mistaken use of SSNs. Since 2002, the Department has worked with the states to establish electronic communications with SSA and on implementation plans. On March 5, 2004, the ETA and SSA signed a memorandum of understanding formalizing the data exchange agreement.

³⁸Posted to the ETA Web site; <http://workforcsecurity.doleta.gov/unemploy>

- The Department provided funds to states to establish cross-matches with other state governmental agencies, such as with state department of motor vehicles, to facilitate fraud and overpayment reduction.
- DOL awarded Reemployment and Eligibility Assessments (REA) grants to 21 states during FY 2005. The grants have been used to conduct in-person claimant interviews in One-Stop Career Centers to assess UI beneficiaries' need for reemployment services and their continued eligibility for benefits and to assure that beneficiaries understand that they must stop claiming benefits upon their return to work.
- The FY 2006 budget request includes both funding to continue and expand REA grants and to combat identity theft. It also includes a legislative proposal— Unemployment Compensation (UC) Integrity Act of 2005 as submitted to Congress by the Secretary on June 14th, 2005 —designed to reduce improper payments by allowing states to fund integrity activities by retaining a percentage of overpayments recovered and from penalties assessed on fraud overpayments, by using collection agencies to recover overpayments, and by recovering overpayments through a Federal Income Tax Offset.
- In FY 2005, ETA promulgated a state-level detection of overpayments performance measure (the measure used for national aggregates as a GPRA indicator), giving states an additional incentive to prevent and detect overpayments. This additional incentive to reduce overpayments will work to improve the integrity of the State Quality Service Plan system that is used to promote performance achievement. ETA also conducted a pilot test of adding a post-audit cross-match component to the BAM paid claim review. ETA is currently evaluating the benefits and costs of using data on UI wage records or new hires to supplement the BAM investigative procedure and better detect and estimate overpayments due to BYE violations.
- ETA is also working with states to ensure recovery of improperly paid benefits. The Department has established a FY 2005 target that the UI system should recover 46 percent of overpayments established. For the 12 months ending 6/30/2005, this ratio stood at 48.5 percent. The Integrity Act changes would give the states both strong incentives to establish and recover overpayments as well as the resources and systems with which to do this.

Federal Employees' Compensation Act

The FECA program continues its progress in improving medical bill processing using an outsourced bill processing service. Significant attributes of the service include the ability to better match treatments to work related injury or illness and more sophisticated bill editing techniques. The bill processing service uses automated front-end editing operations to check for provider and claimant eligibility, accepted condition and treatment type, billing form and content, and duplications. The service uses proprietary software to screen professional medical and outpatient hospital bills to check for certain improper billing practices. Furthermore, on-site process audits resulted in clearer instructions and corrective action plans. This year's implementation of in-house audits of bill samples will provide the program with additional information about bill processing performance and will also identify weaknesses.

Additional causes of improper payments for FECA include: (1) incorrect or incomplete information submitted for the claims record (such as pay rate, night differential rate, retirement plan, etc.); (2) Office of Workers' Compensation Programs (OWCP)³⁹ errors including mistakes in judgment or interpretation in making decisions; (3) miscalculations in making payments; and (4) claimant fraud or misrepresentation. OWCP's integrity initiatives to address these issues are as follows:

- Medical bill processing performance is reviewed as a routine function of FECA National Office oversight of the central bill processing contract and is used to score against performance requirements specified in the contract.
- Samples of medical payments are audited monthly by FECA district office staff for both financial and procedural errors.
- Compensation payment performance is reviewed by FECA district office managers, line supervisors, and fiscal operations staff; frequency of review varies according to need (e.g., supervisors and fiscal staff look at performance almost on a per-transaction basis; whereas, summary performance is reviewed daily, weekly, or quarterly by supervisors and managers). Results are monitored in the National Office and used to design procedural revisions or corrective action plans for the District Offices. The National Office also conducts formal biennial accountability reviews to rate each District Office for quality and accuracy. System reports used to analyze payment information include the Report on Receivables Due from the Public (Schedule 9), Accounts

³⁹ OWCP oversees the administration of four federal employee compensation programs. These programs are the Energy Employees Occupational Illness Compensation program, the Federal Employees' Compensation program, the Longshore and Harbor Workers' Compensation program, and the Coal Mine Workers' Compensation program.

Receivable Aging Schedule and Performance reports. Regular matching of death records is done to reduce improper payments.

- Case management techniques to monitor ongoing entitlement to benefits and payment accuracy. For example, FECA's Periodic Roll Management (PRM) units monitor cases receiving long-term disability benefits. Changes in medical condition or ability to return to work are identified by regular ongoing PRM review of the cases, and compensation benefits may be reduced or terminated. Benefit reductions also result from new information reported about changes in status, such as the death of a claimant. The key outcome measure for PRM is the annual amount of benefit savings generated from these case actions. Benefits savings can also be compared directly to PRM administrative costs.
- Improvements in documentation quality and encouragement of faster transmission of notice of injury and claims for compensation from the agencies to OWCP. Progress in submitting these forms more quickly yields faster and more accurate adjudication and payment and fewer customer service problems. More than a quarter of new claims are now received via Electronic Data Interchange from the Departments of Labor, Defense, Treasury, Transportation, Veterans Affairs, and Homeland Security. That percentage is expected to grow in the future.

Workforce Investment Act

Ensuring proper fund stewardship is of primary importance to the WIA program. ETA currently uses a multi-step approach to ensure proper administration and effective program performance of WIA grants. First, ETA starts its review/oversight process by conducting a structured risk assessment of all new grants and grantees. Risk assessments are periodically revised as new information about a grant and grantee becomes available. Second, ETA Federal Project Officers (FPOs) conduct quarterly desk reviews of the financial and program performance of each grant. This serves as an early warning system to detect potential financial management and/or programmatic performance issues. Finally, ETA staff (FPOs and others) conduct periodic onsite reviews of grantees. ETA attempts to conduct an onsite review at least once every two years, but actual review schedules are based on the results of the risk assessments and desk reviews. Onsite reviews are conducted using ETA's core financial and performance monitoring guide and program specific supplements. For grantees with large numbers of sub-recipients (e.g., WIA formula grantees), the onsite review will include an assessment of the grantee's sub-recipient monitoring. Whenever deficiencies or problems are identified as a result of a desk review, onsite review, or an independent audit, ETA begins working with the grantee to obtain appropriate corrective actions.

IV. Improper Payment Reduction Outlook FY 2004 – FY 2008 (in \$ millions)

Program	FY 04 Outlays	FY 04 %	FY 04 IP \$	FY 05 Outlays	FY 05 %	FY 05 IP \$	FY 06 Est. Outlays	FY 06 %	FY 06 IP \$	FY 07 Est. Outlays	FY 07 %	FY 07 IP \$	FY 08 Est. Outlays	FY 08 %	FY 08 IP \$
Unemployment Insurance (Operational Rate)	\$37,335	5.07%	\$1,893 overpayment	\$32,248	4.98%	\$1,606	\$35,080	4.75%	\$1,666	\$38,010	4.5%	\$1,710	\$39,880	4.25%	\$1,695
Unemployment Insurance (Annual Report Rate)	\$37,335	9.70%	\$3,622 overpayment	\$32,248	9.46%	\$3,051	\$35,080	9.30%	\$3,262	\$38,010	9.0%	\$3,421	\$39,880	8.7%	\$3,470
Unemployment Insurance Underpayment Rate	\$37,335	0.64%	\$239 underpayment	\$32,248	0.67%	\$216	\$35,080	0.64%	\$225	\$38,010	0.64%	\$243	\$39,880	0.64%	\$255
Workforce Investment Act	Not Available ⁵	Not Available	Not Available	\$3,743	0.21%	\$7.9	\$3,792	0.20%	\$7.6	\$3,857	0.19%	\$7.3	\$3,899	0.19%	\$7.4
Federal Employees' Compensation Act	\$2,544	0.25%	\$6.37 overpayment	\$2,519	0.13%	\$3.3	\$2,568	0.248%	\$6.4	\$2,626	0.244%	\$6.4	\$2,701	0.24%	\$6.5

⁵ WIA's baseline rate was established in FY 2005.

V. Recovery Auditing

DOL expense transactions consist of all non-payroll program operation and administration costs. These transactions were stratified into seven groups and samples were then statistically drawn from each stratum. Sample testing focused on testing criteria such as: (1) appropriate contracts used; (2) payments supported with invoices; (3) invoices correct; and (4) the purchase was allowable under program costs. The universe of the population of expenses is comprised of DOL expense payments in the testing period, October 1, 2004, to March 31, 2005. A total of 72 items were selected and tested, and no improper payments were noted; as such, recovery audit efforts for FY 2005 were not necessary.

The Department will continue to sample and estimate the level of improper payments for all non-payroll expenses to determine if there are costs that must be set up for recovery. In the event that such recoverable costs are identified, the Department will work to institute an effective recovery audit system to ensure that all contract overpayments are recovered and/or resolved. The Department will also make sure that all recovery audit actions, costs, and amounts recovered are clearly documented and reported to OMB on an annual basis.

VI. Management Accountability

Existing control processes and the implementation of the revised OMB Circular A-123 requirements will continue to ensure that the Department's internal controls over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls enhance safeguards against improper payments, fraud, waste, and abuse and better ensure that the Department's resources continue to be used effectively and efficiently to meet the intended program objectives. Furthermore, this Department-wide effort will support the Secretary of Labor's annual certification of internal controls in the PAR. As part of its A-123 implementation plan, the OCFO will continue quarterly financial management certifications and reviews with each agency in the Department. These controls began in fiscal year 2003. The primary objectives of this oversight are to obtain assurances of DOL compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Federal Financial Management Improvement Act of 1996 (FFMIA), and IPIA, to enhance the Department's internal financial controls, and to resolve financial management issues in a more efficient and timely manner. The quarterly certification process allows for an open discussion of each agency's progress in resolving internal control issues, audit findings, and improper payments, as well as establishing a formal, early warning process to identify and address other potential problem areas.

VII. Information Systems and Infrastructure

Unemployment Insurance

ETA believes that in most cases the states have the information systems and infrastructure they need for improper payment reduction. States are implementing systems to exchange data with the Social Security Administration (SSA) and interface with their SDNH. Four fifths of the states are now using the SDNH and 29 are expected to begin using the NDNH during FY 2006. More states plan to access both the SDNH and NDNH during FY 2007.

Federal Employees' Compensation Act

The Office of Worker's Compensation Programs (OWCP) is currently developing an integrated management information and compensation benefit system that will enhance both compensation payment accuracy and medical bill processing accuracy. The basic system was deployed in March 2005. Completion of the deployment is planned by March 2006. Resources are included in the FY 2006 budget request for this system.

Workforce Investment Act

ETA currently has multiple technology projects underway in an effort to improve grants management. The WIA program utilizes these tools to execute the risk management process to assess and monitor grantees. They include the web-based EIMS (Enterprise Information Management System), with its GEMS (Grants e-Management Solution)

and EMILE (ETA Management Information and Longitudinal Evaluation) modules. EIMS is the Enterprise Information Management System, a web-based solution used to track and manage grants, including the capture of grant cost reporting meant to improve fiscal integrity. This system is meant to feed data into GEMS and the combination of the two will be part of the cradle-to-grave E-grants solution for all of DOL, expected to begin rollout in January of 2006. The GEMS system is an online grants management tool meant to provide web accessible, customizable, role based context access to grant related information from multiple sources.

VIII. Statutory or Regulatory Barriers

Unemployment Insurance

The UI program has several legislative barriers to reducing improper payments. First, by statute, states administer the UI program and set operational priorities. The Department has limited ability to ensure they pursue improper payment reduction activities. Second, Sec. 3304(a)(3) of the Federal Unemployment Tax Act, which states that monies in the fund can only be used for benefit payments, precludes the use of recovery auditing techniques. Third, the “immediate deposit” requirement (Sec. 3304(a)(3) of the Federal Unemployment Tax Act (FUTA) and Sec. 303(a)(4), SSA) and the “withdrawal standard” (Sec. 3304(a)(4), FUTA and Sec. 303(a)(4), SSA) both affect recovery efforts. The immediate deposit requirement dictates that dollars for benefits must be paid immediately into the trust fund, and the withdrawal standard says that money in the trust fund can only be used for benefits. There are certain exceptions to the immediate deposit requirement, but they do not apply to recouped benefit overpayments. These requirements preclude Unemployment Insurance from using funds recovered from overpayments to be used towards administrative or operational efforts to improve prevention, detection, and recovery efforts. Elements of the Integrity Act proposal of the FY 2006 budget would relax the “withdrawal standard” barrier to provide additional funding for recovery and other integrity activities.

Federal Employees’ Compensation Act

With regard to the FECA program, legislation does not currently permit FECA to verify employment earnings with the SSA without the claimant’s written permission. Compensation benefits may be overpaid if an employee has unreported earnings and does not grant permission for the program to verify earnings with SSA.

Workforce Investment Act

No statutory or regulatory barriers exist that limit WIA’s ability to address and reduce improper payments. The WIA program has the legal authority to establish receivables and implement actions to collect those receivables.

IX. Additional Comments

To achieve IPIA compliance for susceptible grant programs, the Department faces challenges similar to those faced by many other Agencies. In numerous instances, grants are structured to provide federal funds that empower local entities to operate programs based on local need. The Federal government provides the monies to states, cities, counties, private non-profits, and other organizations to distribute these federal funds. The Federal agencies capture information related to only the first level of grantee and rely on the Single Audit Act to monitor grantees.

To investigate how the single audits might be used to meet IPIA compliance in FY05, the Department examined single audits with DOL-related findings from the Federal Audit Clearinghouse and the corresponding single audit reports returned to the Department as the cognizant agency responsible for resolving the identified findings. The Department’s review of single audits indicated a low level of risk for susceptible grant programs. While the rigorous analysis of these sources provided a measure of risk, none offered the detailed information necessary for statistical estimation. However, of the available data sources for IPIA statistical estimation, single audits offer the most efficient means to gather data from these recipients of federal funds.