Improved Quality Control Practices

Within the

Benefit Accuracy Measurement System

Could Save the

Unemployment Insurance Trust Fund

Approximately $400 Million Annually

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ACRONYMS and ABBREVIATIONS

BAM	Benefit Accuracy Measurement
BPC	Benefit Payment Control
CAP	Corrective Action Plan
CIP	Continuous Improvement Plan
CY	Calendar Year
DC	District of Columbia
DCI	Data Collection Instrument
DOL	Department of Labor
ETA	Employment and Training Administration
FTE	Full Time Equivalent
GAO	General Accounting Office
OIG	Office of Inspector General
OWS	Office of Workforce Security
QC	Quality Control
SWAs	State Workforce Agencies
SQSP	State Quality Service Plan
UI	Unemployment Insurance
UIPL	Unemployment Insurance Program Letter
UTF	Unemployment Trust Fund

Executive Summary

In response to its concerns about the accuracy of paid unemployment insurance (UI) claims, in 1987 the Employment and Training Administration (ETA) implemented the Benefit Accuracy Measurement (BAM) program to monitor the accuracy of UI payments made to claimants and statistically project the amount of claimant overpayments throughout the country. BAM estimated UI benefit overpayments of $2.5 billion for CY 2001 and $3.7 billion for CY 2002. The OIG audited ETA's use of BAM data to oversee UI overpayments. Specifically, we wanted to determine whether:

- BAM accurately detected and reported overpayments
- ETA used BAM information to prevent overpayments
- Program improvements (Best Practices) could reduce overpayments

While BAM accurately detected and reported overpayments, ETA did not use BAM data to prevent overpayments. Using ETA's BAM overpayment projections and data mining techniques, we identified a best practice that once implemented, could reduce UI claimant overpayments by an estimated $428 million annually.

As designed, BAM accurately detected and reported overpayments; however, improvements could be made. State BAM investigations were performed with an exceptionally high degree of accuracy (over 99 percent), and the results were correctly reported to ETA's national office. The national office used sound and reliable methods to statistically project the results of state investigations. This audit validated that BAM results were reliable. However, state BAM investigators could detect more "unreported earnings" related overpayments if a 180-day followup process was initiated (section I).

ETA did not use BAM information to prevent overpayments. ETA did not use BAM information to strengthen and institute effective internal controls to prevent overpayments throughout the country. ETA's current system of controls did not accomplish its intended result of preventing overpayments, as evidenced by stagnant overpayment rates. We concluded that changes must be made to policies and procedures that will make overpayment oversight a top priority (section II).

Program improvements (Best Practices) could reduce overpayments. Based on our Best Practices analysis of state UI operations, we concluded that expediting the implementation of New Hire database connectivity at 10 states and increasing its usage at another 8 states could save the Unemployment Trust Fund (UTF) an estimated $428 million annually (section III).

This report makes nine recommendations for program improvement that, once implemented, should heighten awareness of the current overpayment problem and reduce overpayments by an estimated $428 million annually. The recommendations are summarized below for each of the three audit objectives. We recommend the Assistant Secretary for Employment and Training ensure the Administrator, Office of Workforce Security:

- Modify the system used to project overpayments related to unreported earnings issues by devising a followup process for paid claims and creating a formula for reporting the information learned from the followup process.

- Make overpayment oversight a top priority by making BAM payment accuracy a TIER I measure, including overpayment analysis in the State Quality Service Plan, using Unemployment Insurance Program Letters to communicate the importance of the overpayment problem, using BAM data to perform more comparative analyses between states, and requiring Regional BAM Monitors to fulfill their program leadership duties.

- Expedite the implementation of New Hire database connectivity in 10 states, and require 8 other states to perform cross match procedures (to their states' New Hire database) at least weekly.

ETA agreed in principle to the report's findings and recommendations and emphasized that reducing UI overpayments is an ETA priority, and that ETA believes it has made significant progress toward creating a system that promotes overpayment reduction. Specifically, management stated, "We agree with the overarching audit findings. . . . However, we do not agree with the audit's estimates of potential savings. . . . The OIG estimate is substantially higher than the ETA estimate of $139 million maximum potential savings. . . . In the audit report, the OIG made nine recommendations designed to 'heighten awareness of the current overpayment problem and reduce overpayments.' You will find from our responses (attached) that these recommendations or the underlying purposes of the recommendations have largely been addressed." ETA's response is included in its entirety as Exhibit 2.

Management actions taken during the course of the audit affirmed ETA's commitment to make overpayment reduction a top priority, and based on recently issued Unemployment Insurance Program Letters (UIPLs) Recommendation 6 is closed. However, the Agency Response did not fully address its planned actions for recommendations 1, 2, 3, 4, 5, and 9. These recommendations are unresolved pending the receipt and review of management's corrective action plan. Additionally, the Agency Response to Recommendations 7 and 8 were not sufficiently discussed to determine whether management agreed to take the suggested action; these recommendations are also unresolved.

In addition, ETA disagreed with OIG concerning the amount of savings the UTF could accrue once all states are connected to their State Directory of New Hires and perform a cross match at least weekly; however, ETA agrees that our proposed recommendation will save the UTF over $100 million annually. The most practical means to determine the actual savings that accrue from our recommendations is to monitor the change in Unemployment Insurance overpayment rates estimated by the Benefit Accuracy Measurement System once the recommendations have been implemented.

Section I

As Designed, BAM Accurately Detected and Reported Overpayments; However, Improvements Could Be Made

State BAM investigations were performed with an exceptionally high degree of accuracy (99 percent), and the results were correctly reported to the national office. In addition, we found the national office used sound and reliable methods to statistically project the results of state investigations. However, state BAM investigators could detect more “unreported earnings” related overpayments if a 180-day followup process were initiated.

Using statistical sampling protocols, state agencies select between 360 and 480 UI paid claims annually for examination. Each week, a federally funded state investigative unit thoroughly reviews assigned cases to determine whether the payment made to a claimant was accurate. Key information about the case under review, as well as payment errors are documented (referred to as the coding process), including the cause of any detected errors. BAM audit results are reported to the national office. Each year over 20,000 investigations are performed, and the results of every investigation performed since program inception (1987) is stored and available in the ETA database located in Washington, DC. The Office of Workforce Security (OWS) uses BAM data to scientifically project overpayment rates for each state, and the cumulative result from each state yields a national overpayment projection.

We randomly selected and tested a total of 389 CY 2001 investigative cases from eight states. The case files selected were reviewed for both completeness and accuracy with regard to the previously performed BAM investigation. The procedures performed in each state were designed to assess the reliability of the data produced by the BAM units during their investigations.

State BAM Investigations Were Performed Correctly

State BAM investigations were performed with an exceptionally high degree of accuracy (99 percent), and the results were correctly reported to the national office. To reach this conclusion, we validated that State BAM Investigative Units complied with organization, authority, and written procedures called for in the BAM State Operations Handbook (Employment and Training Handbook No. 395), and investigations were performed correctly with the results reported to the national office.

Organization, Authority and Written Procedures. We determined that ETA Handbook No. 395 requirements related to organization, authority and—with the exception of New Jersey—written procedures were met in the eight states we visited. The BAM units in each state were organizationally independent of the activities that had made the initial UI calculations, essential organization and authority requirements set forth by ETA. Although the State of New Jersey did not have a written procedures manual, State officials required BAM personnel to follow ETA handbook requirements.

Accuracy of Calculations. BAM investigations were performed with a high degree of accuracy. Our sample contained 389 cases with payments totaling $91,802. Case files contained appropriate data that supported investigator's results, and these results were correctly reported on Data Collection Instruments. We reperformed the calculations of BAM investigators, using only file information previously gathered by the investigators. Of the 389 CY 2001 BAM investigations reperformed, we identified 5 errors - 2 overpayments totaling $31 and 3 underpayments totaling $18. The $31 in overpayments equates to an error rate of .4 percent, or an estimate of $10 million when applied to CY 2001 payments of approximately $30 billion, an amount that does not materially impact national office projections using BAM data.

State Investigation Results Were Statistically Projected Correctly

The BAM system uses a statistically reliable methodology to project annual overpayment rates from state investigations. Using judgmentally selected data fields from the BAM database of CY2001 investigations (also referred to as the "Frozen Database"), OIG validated definitions, terms, and data values and found them to be consistent and reliable. In addition, we analyzed the two major BAM formulas (overpayment ratios and conversion to dollars), and concluded they were sound and reliable.

More "Unreported Earnings" Related Overpayments Could Be Identified

BAM investigations did not always detect when claimants were drawing benefits while their earnings exceeded authorized limits, e.g., started another job while continuing to draw benefits. The current BAM system relies, in large part, on claimants and former employers to disclose any unreported earnings. Unreported earnings can be detected through BAM investigator's contact with known employers, work search contacts, or third parties. However, unless the claimant volunteers employment information, overpayments are generally not discovered through BAM investigations because investigators may not have access to current employer wage data at the time they perform their reviews. Employer wage information may not be available for up to 6 months after an employee is hired. Therefore, a BAM investigator would not know if a claimant had already obtained employment at the time of the investigation. In addition, the BAM investigator would have no means to determine if a claimant obtained employment after the investigation was completed.

The reason BAM does not always identify these types of overpayments relates to the original system design. ETA officials intentionally designed a BAM system to respond quickly and provide an expedited result from state investigations. When BAM began in 1987, there was concern state investigations would drag on, and produce untimely and potentially unuseful data. Safeguards were implemented to require at least 95 percent of all results to be completed and recorded in the national database within 90 days after a case was assigned. This practice makes it more difficult for an investigator to detect the type of overpayments identified in the OIG audit, but this was considered a trade-off for expedited data.

Two audit tests were performed to determine whether the BAM overpayment projection concerning unreported earnings was understated, and whether a change to the system design was warranted. The first test involved a random selection of 580 CY 2001 BAM investigations to determine whether BAM's projection of claimant overpayments resulting from unreported earnings errors was accurate. The second test used linear regression to determine whether state BAM projections of unreported earnings overpayments were potentially understated.

Statistical Sample of 580 BAM Investigations. From our sample of 580 investigations at 6 states (see Exhibit 1), we identified instances where wage information appeared in the same CY quarters when UI benefits were paid. We were able to identify these wages because sufficient time had elapsed (6 months or more) for wage information to be properly captured in state UI systems. All wage matches were documented and provided to the respective state BAM investigative units to perform followup validation with employers to verify when wages were earned. Following the same procedures investigators routinely use, state BAM personnel then made a determination whether an overpayment had occurred.

We statistically projected overpayments disclosed through audit testing for the six states sampled. Our projection was made using the 580 randomly selected CY 2001 BAM investigations. We then compared our CY 2001 unreported earnings overpayment projections with BAM results. BAM projected unreported earnings overpayments at $92 million in the six states we visited and our statistical projection was $112 million. The $20 million difference (22 percent) represents an opportunity to improve the BAM system.

Linear Regression Analysis. To corroborate our opinion that state BAM investigators could detect more "unreported earnings," we used the data mining technique of linear regression analysis. We performed linear regression analysis of BAM unreported earnings overpayment projections for CY 2001. Our analysis disclosed that one state, New York, should have had a BAM unreported earnings overpayment projection of $43 million. However, ETA had projected an overpayment of only $1 million. Although we did not perform a review of New York overpayment transactions as in the case of the six states we visited, the variance that occurred in New York provides additional concern that the BAM projections may be understated. Although a deviation in one state is generally detected through regression analysis and would not necessarily be uncommon, the magnitude of this deviation is significant. Combine this $42 million deviation with the 22 percent difference between the BAM unreported earning projections and our statistical projections (noted in the paragraph above), and we concluded the BAM estimation process could be improved.

Conclusion

State BAM investigations were performed correctly and BAM statistical projections are reliable. The CY 2001 $2.5 billion overpayment estimated by BAM is an accurate projection based on BAM's current design. However, state BAM investigators could detect more "unreported earnings" related overpayments if a 180-day followup process were initiated. In June 2002, the Deputy Secretary of Labor testified before Congress about the nature and extent of UI overpayments. This testimony stressed BAM CY 2001 overpayment projections were categorized into three groups: Detectable and recoverable, which includes overpayments due to unreported earnings, using Benefit Payment Control (BPC) methods ($1.235 billion); recoverable but not likely to be detected using BPC ($.566 billion); and non-recoverable and outside the scope of BPC ($.484 billion). The category of detectable and recoverable through BPC is a good candidate to target for increased efficiency. Based on our audit, we believe the $1.235 billion most recently reported to Congress was understated because, as currently designed, BAM cannot always detect overpayments related to "unreported earnings."

Recommendations

We recommend the Assistant Secretary for Employment and Training ensure the Administrator, OWS, modify the system used to project overpayments. To accomplish this:

1) Amend ETA Handbook 395, Benefit Accuracy Measurement-State Operations, to prescribe a mandatory followup review for state BAM investigations to determine whether "unreported earnings," related overpayments occurred. The followup process should match state wage information with paid UI benefits and determine whether an overpayment (not previously detectable from the BAM investigation) occurred. We suggest the review occur 180 days after the week ending date of the payment originally investigated, so accurate wage information will be available. However, states connected to their New Hire database could choose to perform the followup earlier, provided reliable wage information was available.

2) Develop specific reporting and oversight procedures for all 180-day and/or New Hire database followup reviews. These procedures should address all state, regional, and national responsibilities.

3) Create a new formula for reporting overpayment information. The new formula should use existing BAM overpayment projections derived from initial investigations plus overpayment information obtained using a state's followup review procedure to validate "unreported earnings."

Agency Response

We agree conceptually with the recommendation that adding a process for a wage record or New Hires follow-up cross match as part of BAM investigations would produce a better estimate of total overpayments. As indicated in the OIG report, including a wage record cross match was considered during the implementation of the predecessor to BAM. However, the cross match segment was ultimately not included in the process out of concern that the cross match would delay completing the investigations too long.

We propose to pilot test cross matches of BAM cases with wage record and New Hires data in several states. The pilot would allow us to determine the magnitude by which estimates would be improved compared with the costs associated with the change in the process including the additional effort in the investigations, updating the BAM handbooks and reprogramming the BAM software at both the state and Federal levels. If the pilot finds that national implementation is cost-beneficial, we will develop a procedure for incorporating the cross match into the BAM program. The pilot test is contingent upon the availability of funding and a sufficient number of states volunteering to participate in the pilot.

We think this effort responds to recommendations one, two and three.

OIG Conclusion

We agree with ETA's alternative approach to this problem. Management's proposed plan-of-action satisfies the intent of the OIG finding and recommendations. However, pending receipt and review of a corrective action plan with estimated time frames for completion, these recommendations are **unresolved**.

Section II

ETA Did Not Use BAM Information to Prevent Overpayments

Preventing UI overpayments was not a priority under the UI PERFORMS performance management system. Over a 12-year period (1989-2001), BAM reported national overpayment rates ran flat at about 8.5 percent. Based on observations, interviews, and other audit tests performed at ETA's national and regional offices, and our review of management controls used in the ETA's quality control process, we determined no corrective actions were taken during this period.

To comply with the Code of Federal Regulations' requirement to institute quality control over UI benefit payments, ETA instituted UI PERFORMS, and BAM is a key element (additional background information is provided on pages 20-23). Using state investigations to identify and code detected errors, BAM projections to infer the magnitude of detected problems, and regional monitoring to authenticate data accuracy, the Federal system to implement the detection element of quality control is well conceived and accomplishes its intent. The OIG has determined that although overpayments have been identified through the detection element of quality control, the prevention element of this quality control model (UI PERFORMS) is not effective.

Five factors contributed to the fact that for more than 12 years BAM national overpayments rates ran flat at about 8.5 percent. These factors are listed below.

- State overpayment data were considered a secondary, or Tier II performance measure. Therefore, states were not required to achieve minimum levels of performance and received little oversight compared to Tier I measures;

- Overpayment issues are not identified in State Quality Service Plan (SQSP) documents;

- Unemployment Insurance Program Letters did not address overpayments;

- State-to-State overpayment comparisons were not performed; and

- Regional BAM Monitor responsibilities focused on detection (monitoring) and did not address prevention (program leadership).

State overpayment data were categorized as Tier II information.

The first major component within UI PERFORMS is the Continuous Improvement Cycle. The cycle identifies priorities, then collects and monitors data to measure performance. UIPL 37-99 identifies 72 measures, 10 are UI PERFORMS Tier I measures and 62 are Tier II. Payment accuracy (overpayment) information is categorized as Tier II. To illustrate the difference between the two groups, Tier I measures have an ETA approved definition, source of data, and an established criteria. Also, all Tier I measures have floor criteria. This is the lowest acceptable level of performance a state must accomplish without triggering internal controls such as a Corrective Action Plan (CAP) and Federal involvement. In contrast, paid claim accuracy (the only BAM related overpayment Tier II measure) has no minimum level of performance and no defined criteria.

ETA's perspective of the importance of timely paid claims is demonstrated in its Tier I measures. In CY 2001, there were 10 ETA Tier I measures; 7 addressed timeliness issues, and none assessed overpayments. In addition, the Department's FY 2001 Government Performance and Results Act goals also excluded overpayments.

State UI officials feel compelled to address Tier I problems before Tier II problems are addressed, because this is how they perceive the Department assesses their performance. UI PERFORMS requires both Federal and state managers to monitor Tier I data. Significant problems require explanation, verification, inclusion in the SQSP, and overall attention at both the Federal and state level. In addition, TIER I problems, if egregious, could result in the Secretary withholding administrative funds to operate the state's UI program. Conversely, errors related to Tier II are considered important, but not until all Tier I issues are resolved. Management attention given to a Tier I versus Tier II measure is significant. If, for example, a state could not meet the designated performance level for Tier I, a CAP must be prepared explaining how and when the state will achieve the minimum level of acceptable performance.

In contrast, poor performance within Tier II does not require a CAP unless performance is considered egregious. ET Handbook No. 336 defines egregious poor performance as "conspicuously bad performance identified by an analysis of TIER II measures." Using a 5-year analysis of about 26,000 overpayment errors segregated by cause code, we identified 94 specific cause code related errors covering 41 states that were twice the national average. Regional monitors were asked what they considered egregious performance relating to overpayments. Monitors did not consider this a decision they could make, and have never determined a state they monitored to have an overpayment issue that was considered egregious. As a result, none of the SQSPs we reviewed identified an overpayment issue as egregious.

In summary, paid claim accuracy (overpayments) was designated as a Tier II measure. When you combine this designation with the fact that GPRA goals were not established for overpayments, it impacted the level of oversight and management attention overpayments received.

Overpayment issues are not identified in SQSP documents

All states must submit their SQSPs to their ETA regional offices for review and approval. Much like a business plan, states identify the issues and programs where improvement is needed to ensure strong program performance. Specific improvements are generally identified as CAP and Continuous Improvement Plan (CIP) action items. These not only identify the areas to be improved, but also have written objectives with milestones to achieve improvements. State quality plans must include a CAP if a TIER I standard was not achieved. In contrast, a CIP is usually reserved for TIER II measures. However, Federal monitors must negotiate including a CIP for a TIER II measure into a SQSP. The state makes the final decision whether a CIP is included.

We reviewed 338 CAP and CIP entries into CY 2001 SQSPs. About 98 percent of all action and improvement plans addressed management concerns other than overpayments. Regional BAM Monitors indicated they had not considered negotiating overpayment issues in the SQSP process. They believed that overpayment issues would be TIER I if ETA wanted them in these plans. Since overpayment information is TIER II, regions did not perceive a responsibility to evaluate overpayment issues during the SQSP review and approval process.

We concluded that overpayment issues were rarely identified in SQSP documents. Furthermore, the omission of overpayment information has become institutionalized and its appearance in an SQSP would be considered an exception.

Unemployment Insurance Program Letters (UIPL) did not address overpayments

For the CY periods 1999, 2000 and 2001, ETA issued 107 UIPLs, and with 2 exceptions, overpayment issues were not addressed. UIPL 35-99, Office of Inspector General Audit of Benefit Payment Control Wage/Benefit Cross Match and Employers Who Fail to Respond, distributed a copy of the OIG audit that identified problems with existing cross match procedures and addressed some undetected overpayments. However, ETA's only defined purpose of the UIPL was to distribute copies of the audit report. The following year UIPL 36-00 was issued encouraging states to use their New Hire database.

State-to-State overpayment comparisons were not performed

When quality control legislation was first initiated in 1987, states were required to publish BAM results. This was a method of ensuring accountability though public and voter awareness. This practice was discontinued in 1996. Although ETA's UI PERFORMS annual report gives information for every state, ETA national office staff does not perform state-to-state comparisons. In addition, we concluded (based on 23 interviews) Regional BAM Monitors do not perform state-to-state comparisons. ETA officials believe differences in state Unemployment Insurance laws makes state-to-state comparisons ineffective. OIG believes comparisons are necessary to improve current overpayment prevention efforts.

For example, when we compared states using a best practices approach (see section III), we concluded efficiencies of over $1 million a day could be achieved by applying the techniques used by the best states. The only way we could identify these types of efficiencies was to determine which states were doing it best by comparing their performance. Moreover, since Tier II measures such as paid claim accuracy do not have established criteria, we concluded state-to-state comparisons were the only viable method to measure performance.

Regional BAM Monitor responsibilities focused on detection (monitoring) and did not address prevention (program leadership)

ET Handbook No. 396, Unemployment Insurance Benefit Accuracy Measurement Quality Control Monitoring, defines three distinct regional responsibilities in Quality Control as program leadership, technical support, and monitoring. Based on our interviews with 23 current and former Regional BAM Monitors, we concluded responsibilities such as reviewing quality control data to identify factors adversely affecting payments, recommending program improvement studies, and performing data extraction and analysis to identify areas of problems within states, were not aspects of monitors' duties.

Using a 5-year analysis of overpayment errors, we identified 94 instances where a state had overpayment rates (by cause code) that were twice the national average. We discussed our analysis with Regional BAM Monitors in all 10 regional offices. Monitors were not aware of these trends in overpayments, and considered the type analysis we performed as outside the scope of their duties. In general, monitors did not use UI PERFORMS data to analyze their states, did not possess retrieval skills necessary to extract BAM data from the national office database, and had not performed program or process improvement studies related to overpayments at the states they monitored. In summary, monitors do not perform the type of program leadership duties addressed in the ET Handbook.

We then analyzed and documented the level of human resource expenditure (through discussions, reconstruction of site visits, etc.) to determine how much of a workday monitors dedicated to BAM duties. We concluded that although about 20 monitors work in ETA regions, their total Full Time Equivalent (FTE) working BAM issues was approximately 4 FTE, or about 20 percent of their time. Their current duties do not include analysis to prevent overpayments. Monitors' duties were primarily BAM case review and validating the accuracy of investigators' coding for completed cases. We concluded Regional BAM Monitors are not involved in preventing overpayments throughout the country.

Conclusion

ETA does not have effective quality controls in place to prevent overpayments. Even though controls established within UI PERFORMS were designed to monitor and improve performance throughout the UI Federal-State system, these controls did not accomplish their intended result. Specifically, control triggers designed to correct poor performance, such as CAPs, did not work because overpayment data was designated Tier II, thereby excluding overpayment issues from the control triggers. Poor performance was not identified due to a lack of state-to-state comparisons. National policies (UIPLs) addressing overpayments were not established. Correspondingly, ETA Regional BAM Monitors' duties were not focused on prevention. As a result of the aforementioned problems, states did not make overpayments a top priority as evidenced by SQSPs that did not address ways to monitor and prevent overpayments.

Through data mining activities of BAM information, and examination of existing management controls, we concluded best practices exist that can reduce overpayments. A best practice to expedite implementation of the state New Hire database is discussed in detail at Section III to this report. It is our opinion other best practices will surface once improved quality control practices are implemented.

Recommendations

The Assistant Secretary for Employment and Training should ensure the Administrator, OWS, require national office and regional BAM personnel afford overpayment oversight a top priority. To accomplish this:

4) Change ETA policy to make BAM overpayment information a TIER I measure in ETA's UI PERFORMS performance management system.

5) Include BAM overpayment analysis in the annual SQSP process. Monitors should negotiate overpayment issues with states to ensure these problems are addressed in SQSPs.

6) Utilize Unemployment Insurance Program Letters to communicate to the state partners the significance of the policy shift to overpayment prevention, and routinely make them aware of ongoing DOL initiatives to identify and prevent overpayments.

7) Utilize the BAM historical database to perform comparative (state-to-state) analyses, both at the national and regional levels.

8) Require Regional BAM Monitors to fulfill their program leadership duties and responsibilities. Specifically, require monitors to analyze BAM data for the states they monitor and identify trends of overpayments; work with assigned states to investigate overpayments identified by the national office; and, lead or facilitate process improvement initiatives designed to prevent overpayments in their assigned states.

Agency Response

The purpose of recommendations four through eight is to "make overpayment oversight a top priority." ETA agrees that overpayment oversight should be a top priority and has made significant efforts in this area. However, we propose to address overpayment oversight in a slightly different way than the methods suggested in the audit report.

Differences among states' laws, regulations, and policies regarding claimant eligibility influence the potential for error. States with strict and complex laws and policies tend to have higher improper payments. Therefore, comparing states' BAM overpayment rates can be misleading and the Department has consistently cautioned against making state-to-state overpayment rate comparisons.

However, during 2002, ETA used BAM data to develop a GPRA overpayment detection measure. The GPRA measure uses BAM data to compute an "operational overpayment rate" that includes the recoverable overpayments that states are most likely to detect through state operations. The operational overpayment rate is more comparable among states than the BAM annual overpayment rate because it excludes some of the elements that have the greatest variability among states (such as work search and employment service registration requirements). The GPRA measure compares the operational overpayment rate data with the amount of overpayments actually established for recovery to give a more comprehensive picture of states' efforts to prevent and detect overpayments. The GPRA overpayment detection measure is discussed in detail in UIPL 15-03.

As part of an overall review of the UI performance management system, discussions are underway to include the GPRA overpayment detection measure as a "core measure" under UI PERFORMS. (UI PERFORMS is undergoing revision. The term "core measure" has been recommended as a substitute for the term "Tier 1." Core measures will be equivalent to Tier 1 measures.) As a core measure, the overpayment detection measure will be subject to the same level of oversight as current Tier 1 measures, including being subject to corrective action for unacceptable performance.

GPRA measures, including the overpayment detection measure, are addressed in the SQSP process. State and regional office staff negotiate the substance of the SQSP, including the performance of the GPRA measures which are Federal Emphasis areas. (See UIPL 28-03.) We acknowledge that regional office staff do not conduct the analyses recommended in the BAM handbook. We think that it is more efficient for national office staff to continue to provide states and regional offices with analyses about overpayment rates and causes than for the regional offices to engage in overpayment analyses at this level. The regional offices will provide overpayment oversight through the SQSP process.

We think the purpose of recommendations four through eight—to make overpayment oversight a top priority—has been accomplished through the efforts described above.

OIG Conclusion

As management stated, recommendations 4-8 focus on making overpayment oversight a top priority. Moreover, management's actions such as using BAM data to develop a GPRA overpayment detection measure clearly illustrate ETA's intent to make overpayments a priority. However, these recommendations were designed to address the effectiveness of ETA's established quality control process.

The report states "ETA does not have effective quality controls in place to prevent overpayments." A detailed analysis of the Agency Response to recommendations 4 through 8 follows.

Recommendation 4. Management's proposed plan-of-action (to include GPRA overpayment detection as a Tier 1 measure) satisfies the intent of the OIG recommendation. However, pending receipt and review of a corrective action plan with estimated time frames for completion, this recommendation is **unresolved**.

Recommendation 5. ETA's GPRA overpayment detection measure will impact states SQSP process. Pending receipt of a corrective action plan that defines the actions Regional Monitors will take to incorporate BAM overpayment analysis and subsequent issues into the annual SQSP process, this recommendation is **unresolved**.

Recommendation 6. ETA issued several UIPLs addressing overpayment issues in FY 2003. Using UIPLs, ETA communicated to its state partners ongoing DOL initiatives to address overpayment issues; therefore, this recommendation is **closed**.

Recommendation 7. OIG does not consider the Agency Response to fully address the recommended action. The response indicates claimant eligibility from state-to-state is difficult to compare because state laws, regulations, and policies often differ. We agree state-to-state comparisons are challenging; however, examining similar overpayment causes among states can produce useful comparisons. Moreover, ETA established a GPRA measure using BAM data to compute an "operational overpayment rate" that includes the recoverable overpayments that states are most likely to detect through state operations. While acknowledging the difficulty of management's task, we are convinced that state-to-state comparisons represent a best practice technique to prevent overpayments. This recommendation is **unresolved**.

Recommendation 8. OIG does not consider the Agency Response to fully address the recommended action. ETA agrees with OIG's finding that regional office staff does not conduct the analyses recommended in the BAM handbook. ETA thinks that it is more efficient for national office staff to continue to provide states and regional offices with analyses about overpayment rates and causes than for the regional offices to engage in overpayment analyses at their level. Although BAM overpayment data were available to analyze, we could not identify any instances where Regional Monitors worked with states to identify problems and prevent future occurrences. Therefore, while ETA's response explains the efficiency of its actions, it does not take into account the effectiveness or lack thereof. And as our report points out, the UI overpayment rate has remained relatively stagnant over the past 12 years.

Overpayment information is published each year in the Annual UI PERFORMS report, but the overpayment rate does not improve. ETA guidelines require active program leadership duties from its Regional BAM Monitors. OIG continues to believe that the ETA Regional BAM Monitors understand the best and worst practices within all the different states they monitor. Skilled program leadership duties have the potential to reduce or prevent overpayments. Although ETA can execute part of the analysis at the National level, Regional BAM Monitors are the only resource that can effectively promote and oversee overpayment prevention. This recommendation is **unresolved** pending receipt of an action plan with approved milestones that describes how ETA will accomplish the recommended action.

Section III

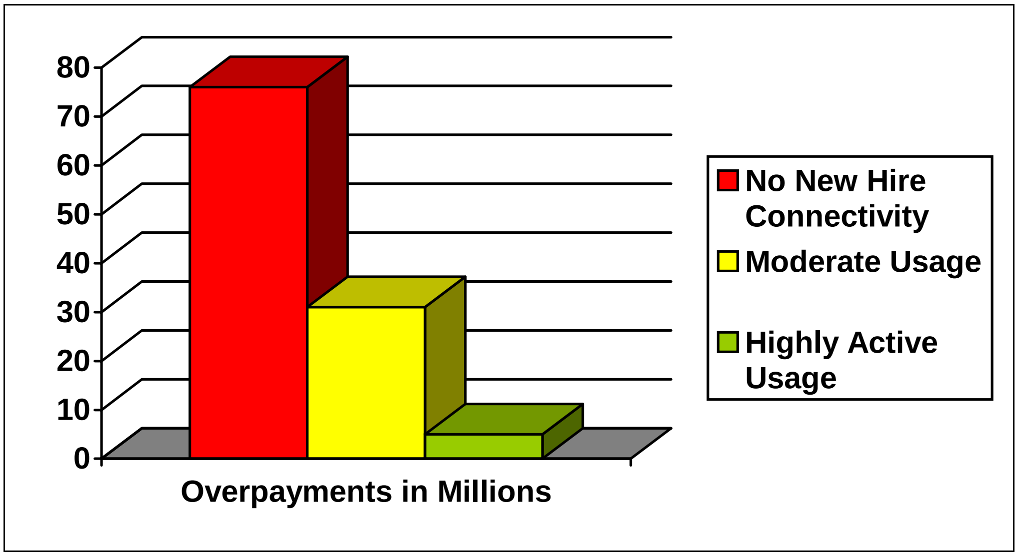
Program Improvements (Best Practices) Could Reduce Overpayments

Expediting the implementation of New Hire database connectivity and developing a more active usage of a cross match between the New Hire database and benefits paid could save the UTF $428 million annually. We performed a detailed Best Practices study of UI operations in six states to determine whether some states had fewer overpayments than other states and determine why.

The United States General Accounting Office (GAO) defines best practices as the processes, practices, and systems identified in organizations that performed exceptionally well and are widely recognized as improving that organization's performance and efficiency in specific areas. Successfully identifying and applying best practices can reduce an agency's expenses and improve organizational efficiency.

Our analysis of 580 BAM investigations at 6 states disclosed instances where claimants continued to receive unauthorized benefits after they obtained employment. Our statistical projection of CY 2001 overpayments was $112 million for the six states, but the overpayments for each state varied widely—ranging from none to $76 million. We analyzed the business practices that were related to each state's connectivity to their respective State Directory of New Hires (hereafter referred to as the New Hire database). This analysis disclosed three distinct business practices (attributes) that impacted overpayment projections: not connected to the New Hire database; connected and moderately performed the cross match; and connected and actively performed the cross match one or more times per week.

Our sample of six states contained examples of all three business practices. Michigan was not connected to its New Hire database and their overpayment projection was $76 million (shown in red below). Tennessee and Missouri were connected and moderately performed the cross match. The combined overpayment projection for these two states totaled $31 million (shown in yellow below). Oklahoma, Ohio, and Washington actively performed the cross match and their combined overpayments were projected at $5 million (shown in green below). The following chart illustrates the distribution of overpayments we projected in CY 2001 for the six states in our sample. These projections represent overpayments that occur when a claimant's earnings exceed state established limits but they continue to draw unauthorized benefits. The red bar contains overpayments for one state, the yellow bar for two states, and the green bar for three states.



After averaging the results and weighting each state based on UI benefit payment volume, we concluded a state that does not have connectivity to their New Hire database could have 25 times more overpayments resulting from claimants receiving unauthorized benefits (when the claimant was already employed), than a state using a highly active New Hire cross match process. In addition to Michigan, nine other states were not connected to their New Hire database as of February 2003. We estimate the UTF could save about $343 million a year based on CY2001 data, if these 10 states were connected to their respective New Hire database and demonstrated a highly active cross match process.

Our best practices review also disclosed some states are connected to their New Hire database, but do not frequently perform a cross match to their benefit payments. The combined overpayments in Tennessee and Missouri were projected to be $31 million in CY 2001. As of February 2003, Tennessee had changed to a highly active cross match process. However, Missouri and seven other states continue to reflect the same attribute of a moderate New Hire cross match process. If all eight

states coded in yellow on the map achieved a highly active cross match process using their New Hire database, we estimate the UI Trust Fund could save $85 million a year.

We did not visit enough states to definitively explain why some states are not connected to their New Hire database, while others actively performed a cross match to their database one or more times per week. However, we were able to discern that the cost necessary to achieve the cross match is minimal because the database already resides within each state. If ETA can facilitate an expedited implementation of New Hire database connectivity throughout the country, these actions could save the UTF an estimated $428 million annually.

The Intent of BAM--Overpayment Prevention versus Collection

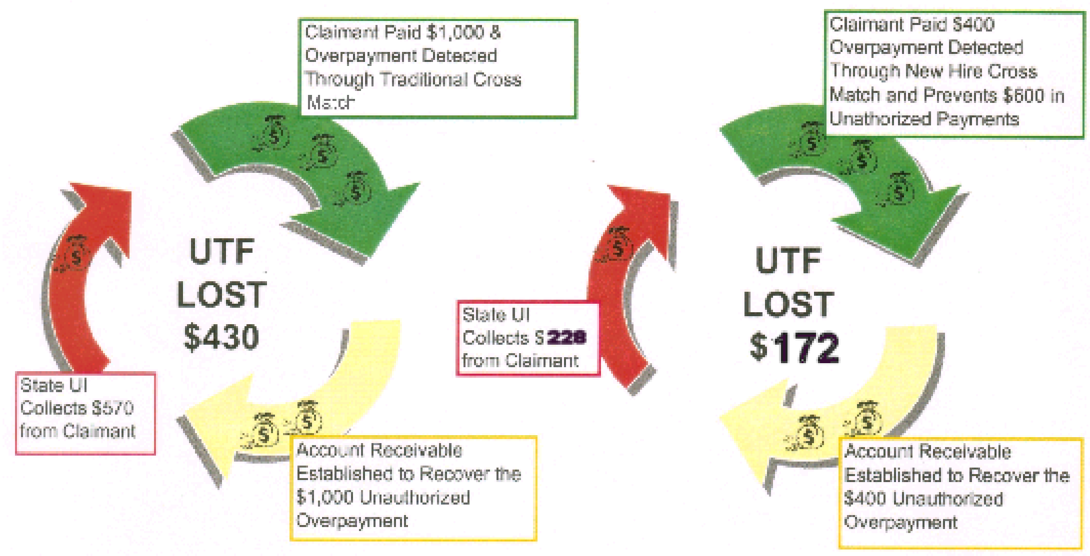
We believe the best practice discussed in this audit is an example of the regulatory intent behind authorizing and funding BAM— to identify errors in claims, analyze causes, and support the initiation of corrective action. This best practice focuses on overpayment prevention. Expedited implementation of New Hire cross match procedures could impact the financial health of the UTF for two reasons. Specifically, better New Hire connectivity and usage will prevent some overpayments from occurring, and overpayment recovery rates should increase.

Overpayment Prevention. The most significant financial impact occurs through prevention. An estimated $428 million in overpayments could be eliminated each year if all states implement highly active cross match procedures to their New Hire database. Specifically, New Hire cross match can detect overpayments early. If, for example, this cross match detected an overpayment after the claimant had received four weekly checks, the detection action has the potential to prevent improper payments for up to 22 more weeks.

Statistics to separate traditional versus New Hire cross match accounts receivables were kept for the first time in CY 2002 by DOL. States with a highly active cross match process established receivables that were 60 percent smaller than receivables established via traditional cross match methods. For example, Massachusetts' average accounts receivable using traditional cross match methods was $3,283 per person. Conversely, Massachusetts' average receivable using New Hire was $586. The difference between the two methods represents prevention. In the case of Massachusetts, the $2,697 difference per claimant (traditional versus New Hire) represents potential overpayments that were not disbursed from the UTF.

Overpayment Recovery Rates (Collection). Our suggested best practice will also impact the UTF because overpayments detected through a New Hire cross match have a better chance of collection. Traditional cross match detections lead to accounts receivables 2.5 times larger than a New Hire cross match detection because the overpayments are caught much quicker using the New Hire cross match. The fact that the amount owed is smaller and identified sooner under the New Hire process makes collection more probable. Consequently, expedited implementation of New Hire cross match will strengthen the solvency of the Trust Fund. In CY 2001, accounts receivables totaled $653 million for overpayments detected by the states. The collection rate was 57 percent. These collections were deposited back into the fund. To illustrate the impact on a state UTF, we offer the following visual display of two claimants drawing up to $1,000 each of improper benefit payments. Claimant X overpayment was detected through traditional cross match procedures and Claimant Y overpayment was detected through New Hire cross match. Using the New Hire cross match is more than twice as efficient than using the traditional cross match ($172 versus $430).

Traditional Cross Match **X to Receive** **$1,000**	**New Hire Cross Match** **Y to Receive** **$1,000**



In this illustration, the UTF benefited by preventing the overpayment. The difference between the $1,000 and $400 accounts receivables correlates to the 2.5 to 1 ratio between a traditional cross match receivable and a New Hire cross match receivable, a difference that represents the value of prevention. While we used a 57 percent collection rate in the example, we believe that the collection rate for accounts receivable would also increase because the amounts of overpayments would be smaller and detected much earlier, making collection more likely.

Conclusion

Highly active cross match procedures using a state New Hire database is a Best Practice that can make a tremendous difference to the solvency of state UTFs. In 2002 fund solvency has reached a low point. Congress approved the distribution of Reed Act funds totaling $8 billion to help state Trust Funds maintain their solvency. However, Congress, the President (through his Management Agenda), and senior leadership at DOL expect every element of "good stewardship" to be constantly demonstrated to protect the solvency of the Fund. By expediting the implementation of New Hire cross match procedures, and aggressively requiring a highly active cross match, we estimate the UI Trust Fund can save over $1 million a day by preventing overpayments.

ETA personnel examined their CY 2002 account receivables for New Hire versus tradition cross match detection, and concluded optimum use of New Hire cross match could save the UTF between $55 and $139 million annually. Although we believe significantly more savings can be realized, both OIG and ETA recognize the importance of New Hire cross match procedures.

Recommendations

We recommend that the Assistant Secretary for Employment and Training ensure the Administrator, OWS:

9) Develop a process improvement initiative to implement New Hire database connectivity in the 10 states not currently connected and ensure all 50 states, the District of Columbia, and Puerto Rico perform cross match procedures at least weekly. The process improvement initiative should be modeled after the CAP requirements set forth in ET Handbook 363, except the CAP should describe a federal initiative rather than a state initiative.

Agency Response

We generally agree that increased use of New Hires information has the potential to produce savings for the Unemployment Trust Fund (UTF) and have promoted state use of New Hires data. This year, ETA provided funding to 26 states to connect to state New Hires databases or enhance existing New Hires cross match systems. In addition, we have promoted the use of New Hires data through workshops at the National Integrity Conference held in April. ETA will continue to encourage the use of New Hires data to reduce overpayments; however, rather than requiring specific state practices such as the use of New Hires data, we intend to set a performance goal for states with respect to overpayment prevention/detection and require states to determine which specific procedures they use to achieve the goal. We believe that all will use New Hires data because it is effective.

In addition, we think that access to the National Directory of New Hires would be a particularly beneficial tool for producing savings to the UTF and will continue to seek ways to give states that access.

OIG Conclusion

OIG considers the Agency Response to have addressed the intent of our recommended action. We acknowledge ETA's recognition that the State Directory of New Hires cross match process could reduce overpayments, and their efforts to assist states in funding improved connectivity. The OIG recommendation hoped to achieve a formalized process to monitor states not connected to their State Directory of New Hires because, as the finding points out, unconnected states cost the UTF millions of dollars. Rather than require specific state practices such as the use of New Hires data, ETA intends to set a performance goal for states with respect to overpayment prevention/detection and require states to determine which specific procedures they use to achieve the goal.

These actions generally meet the intent of the OIG recommendation; however, it is important to formalize these actions into a process improvement initiative or corrective action plan. In either instance, the ultimate goal should be to aid and assist those states not connected to their State Directory of New Hires. We accept management's alternative corrective action stated in the Agency Response provided management monitors all states not currently connected. This recommendation is **unresolved** pending receipt of ETA's corrective action plan with time frames to start and complete a process improvement initiative.

Background

The Employment and Training Administration (ETA) is required by the Code of Federal Regulations to implement a quality control program as a major tool to assess the accuracy of paid UI claims, and use this information to support the initiation of corrective actions to prevent future overpayments. ETA established the BAM system for this purpose. ETA personnel randomly select about 20,000 paid claims throughout the country each year and assign these cases to State BAM investigators who verify pertinent claim information and recompute payments made to claimants. When a recomputed payment identifies instances where a claimant was inaccurately paid, investigators are required to code the reason for the overpayment on a Data Collection Instrument and forward the results to ETA's National Office. State BAM results are then used to statistically project the accuracy of UI payments for each state and for the nation.

Within DOL, overpayments in the UI program have continued to be a significant concern. As part of our audit of DOL FY 2001 financial statements, the BAM overpayment projection of $2.5 billion was addressed. In addition, the audit identified that overpayment rates projected by BAM have remained relatively flat at approximately 8.5 percent over the past 12 years. BAM is ETA's only program designed to measure UI overpayments and provide management with key information about the nature of the overpayments to help prevent their reoccurrence.

The President's Management Agenda (PMA) established a clear Presidential policy to combat the fraudulent and unauthorized disbursement of government funds (also referred to as overpayments). The Improper Payments Information Act of 2002 requires agency identification of programs and activities that may be susceptible to significant improper payments, and requires agencies to submit estimates of their improper payments to OMB by March 31st each year. Agencies that estimate improper payments totaling over $10 million are also required to discuss their measures to correct the problem. ETA's UI program estimated overpayments to be $2.5 billion in CY 2001 and just under $4 billion in CY 2002. Accordingly, the President's Management Agenda and Improper Payments Information Act of 2002 apply to the UI program. Therefore, ETA needs accurate BAM data to comply with the President's Management Agenda to combat fraudulent and unauthorized disbursement of government funds within the UI program.

The estimated overpayment amounts are provided by the Department's Benefit Accuracy Measurement System, also referred to as BAM. The system was established under 20 CFR 602.1 in 1987 with the intent of measuring the accuracy of paid UI claims, and using this valuable information to decrease such overpayments in the future. BAM uses an elaborate measurement process involving: 50 states, DC, and Puerto Rico; ETA regions; and ETA's national office in Washington, DC. Paid claims are randomly selected weekly by each state. The week ending date of the selected payment is referred to as a key week, because results from the selected claims are used in statistical projections. States then assign each case to a BAM investigator and each payment receives an independent determination to authenticate the accuracy of the paid claim. Investigation results are recorded on coding sheets for entry into the state database and transmission to the national office. The national office uses this data to statistically project overpayment rates for each state and nationally. ETA Handbook 395, Unemployment Insurance Benefit Accuracy Measurement State Operations, is the principal criteria each state uses to perform BAM investigations.

ETA has spent an estimated $500 million on its BAM program since its implementation in 1987. In addition to funding national and regional level operations, the program also pays for approximately six staff per state to manage and perform investigations. Currently, there are about 20,000 investigations performed each year throughout the country, and these investigations are the basis for statistically projecting UI overpayments.

UI PERFORMS is ETA's continuous improvement process (quality control) of which BAM is a measurement component. Using scientific estimating techniques, BAM can provide managers throughout the Federal-State UI program partnership critical information about overpayment trends.

Title 20 CFR 602.1 directs the Unemployment Insurance (UI) system to implement a Quality Control (QC) program. The law states "QC will be a major tool to assess the timeliness and accuracy of State administration of the UI program. It is designed to identify errors in claims processes . . . analyze causes, and support the initiation of corrective action."

DOL initiatives to monitor UI benefit payment quality and accuracy began in 1979 when the National Commission on Unemployment Compensation studied the accuracy of paid benefits in six metropolitan cities. The study validated the need to monitor payment accuracy, and in 1981, the Department initiated the Random Audit Program. In 1987, BAM was implemented, and became a component of the Department's overall Quality Control program with the intent to use BAM data to learn from past problems and support policies to reduce future erroneous payments.

In August 1995, ETA issued Unemployment Insurance Policy letter (UIPL) No. 41-95 establishing UI PERFORMS as the UI program's performance management system, a system of controls and processes designed to promote continuous improvement (quality) throughout the UI program. UI

PERFORMS is a comprehensive management performance system based on the following:

- A significantly improved data collection infrastructure that provides more management information more frequently;
- Performance measures that include national core criterion measures (Tier I) and a menu of non-criterion measures (Tier II) for State Workforce Agencies (SWAs) to utilize in measuring and improving their program performance;
- A dynamic planning process that is state focused; and
- A goal of continuous improvement with shared responsibility by both SWAs and Federal partners.

The four (4) major components of UI PERFORMS designed to improve performance are:

1. The Continuous Improvement Cycle - Commonly known as the "Plan-Do-Check-Act" cycle. It incorporates a strategic planning process of identifying priorities, collecting and monitoring data to measure performance, and identifying areas for improvement.

2. The Performance Measurement System - The system is the source of most performance data. The two components providing information on claimant overpayments are BPC and BAM. Overpayment recovery is the primary responsibility of any BPC activity, and a secondary outcome is prevention of overpayments through deterrence. BAM is a diagnostic tool used to identify payment errors, and measure the effect of previously initiated corrective actions. ET Handbook 395 states "The Unemployment Insurance BAM System is a diagnostic tool for the use of Federal and SWA staff in identifying errors and their causes and in correcting and tracking solutions to these problems. On the basis of the errors identified and information gathered, States will be able to develop plans and implement corrective actions. The four major objectives of BAM are:

- Assess the impact of State and Federal laws and requirements on the system's accuracy and integrity.
- Achieve improvements in program accuracy and integrity.
- Encourage more efficient administration.
- Improve program quality and solvency through error reduction from both paid and denied claims."

3. The Planning Process - UI PERFORMS emphasizes joint responsibility between SWAs and ETA for setting priorities and responding to performance information both annually and on an ongoing basis. The relationship between the SWAs and ETA will include the following shared responsibilities:

- Tracking and analyzing performance data;
- Identifying Federal and priorities;
- Developing planning directions (e.g., SQSP);
- Negotiating (e.g., a CIP) to determine improvement levels; and
- Developing and implementing strategies for continuous improvement (e.g., CAP).

4. The SQSP - A restructured plan of service is at the heart of the UI PERFORMS continuous improvement cycle. The State Plan is intended to be a dynamic document SWAs can utilize as a management tool - much like a business plan - not only to ensure strong program performance, but also to guide key management decisions, such as where to focus resources. It should focus the SWA's efforts to ensure well-balanced performance across the range of UI activities. The State Plan also is designed to be flexible to accommodate, among other things, multi-year planning and significant changes in circumstances during the planning cycle. Although it will be developed in cooperation with the Federal partner, the State Plan is the SWAs focus. The Federal role in the process is designed to be constructive and supportive.

New Hire Data System. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires a State Directory of New Hires, also referred to as the New Hire Data System. Employers are required to report all new hires within 20 days. Each state maintains a database with new hire employment information for the purpose of locating noncustodial parents who owe child support payments. The database is the property of the state, and may be used for other purposes such as verifying employment information. Conversely, the Social Security Administration maintains the National Database of New Hires with information from all states. However, access to this database is limited, and it is not currently available nation-wide to authenticate unreported earnings problems.

Objectives, Scope, and Methodology

In response to concerns about continued overpayment problems in the UI program, the OIG audited the Department's oversight role regarding UI benefit overpayments. This is one of two ongoing OIG audits examining overpayment issues. In addition to the BAM audit, the Chicago Regional Inspector General's Office is following up on previous audit work related to Benefit Payment Control Wage/Benefit Cross Match and exploring the potential cost efficiencies of states using the National New Hire database maintained by the Social Security Administration.

This audit report's focus is on ETA's BAM system, which was developed as a management tool to estimate payment accuracy, and in turn identifies overpayments. Our audit objective was to evaluate ETA's oversight role regarding UI overpayments by using BAM program data. To accomplish this objective, we attempted to answer the following questions:

Did BAM accurately detect and report overpayments?

Did ETA use BAM information to prevent overpayments?

Can program improvements (Best Practices) reduce overpayments?

BAM Accuracy to Detect and Report Overpayments

Overpayment detection and reporting required us to examine State BAM Investigations to determine whether entitlement calculations made by investigators were correct, and whether these results were reported accurately to the national office. We randomly selected 400 CY 2001 BAM investigations from a universe of over 20,000 cases and performed recomputations using ETA Handbook No. 395, Unemployment Insurance Benefit Accuracy Measurement State Operations. Eleven cases were omitted from review because the key week did not start in calendar 2001, leaving 389 cases in the sample. Recomputations were performed at 8 states (see exhibit 1) with a random selection of 50 cases per state. These 8 states were judgmentally selected using a 5-year analysis of overpayment errors that occurred at all 50 states, the District of Columbia, and Puerto Rico. The analysis arrayed all 52 entities based on BAM overpayment errors. From this analysis, 3 of the 13 states considered to have the least reported errors (defined as a state in the top 25 percent) and 5 of the 13 states with the most errors (defined as a state in the bottom 25 percent) were selected. Another judgmental consideration was our intention to select states covering as many ETA regions as possible, and the eight states represent five of the six different regions.

The principal basis for our assessment of the reliability of BAM data was each state's compliance with ET Handbook No. 395: *Unemployment Insurance Benefit Accuracy Measurement State Operations*. The portions of the Handbook pertaining to BAM methodology, collectively termed Required Procedures, focus on the organization, authority and written procedures of the BAM units. Additionally, the Handbook addresses the processing of BAM data, record keeping and specific investigative procedures. In each state, we determined whether the functions carried out by BAM investigators were inclusive of the Required Procedures by examining state procedures manuals and other guidelines and by our review of a sample of case files. The organizational structure in each SWA was assessed through the use of observation and inquiry. We reviewed organizational charts, job descriptions and conducted interviews with key state and BAM personnel in order to make a determination about the organizational integrity of the SWAs as they related to the BAM units. The primary consideration of this assessment was whether or not the BAM units were organizationally independent of all units subject to their evaluations.

Our reperformance of BAM investigations included the determination of whether the data were accurate and if it had been reported correctly to DOL. For the reperformance of the calculations, we first reviewed the calculation formulas used by the BAM investigators. This review was designed to assess the calculations' adequacy and completeness in accordance with Federal regulations, as well as the Unemployment compensation laws of each state. Once a determination was made about the formulaic adequacy and completeness of the calculations, each case file was reviewed in order to ensure that the data necessary and appropriate to conduct the investigation were included in the files. Following our determination of the adequacy of the information included in the case files, we reperformed the entitlement calculations, compared them to the original calculations made by the BAM investigator and investigated any differences noted. The determination that data were reported correctly was accomplished by comparing the individual amounts calculated by the BAM investigator on the Data Collection Instrument to the individual amounts per a database of reported values maintained by DOL.

BAM overpayment projections made by the national office were reviewed. We examined and tested the BAM mathematical formulas used by ETA to project overpayments. Using selected data fields from the 2001 Frozen BAM Database, definitions, terms, and data values were validated. In addition, we authenticated the reliability of the BAM formula to ensure statistical projections worked as designed. With the assistance of the OIG statistician, we computed the 2001 overpayment projection rate and compared our computed rate with the actual BAM projected rate.

In addition, we designed tests to determine whether overpayments occurred that BAM could not identify. Specifically, 580 BAM cases were randomly selected from 6 of the states we visited. State wage information was researched for all cases, and those cases where wages occurred in the quarter in which an UI benefit was paid were further researched with the assistance of BAM investigators. State BAM personnel made actual overpayment determinations, and where applicable, statistical projections were made to estimate the magnitude of the overpayments. Our statistical projections in these six states were compared to the BAM projection within the category of unreported earnings.

We also used linear regression to examine CY 2001 BAM estimations of unreported earnings in 49 states, and determine whether any states had significant variances that may indicate projections were understated. Lastly, we reviewed 10 significant documented system complaints presented in the 1988 Westat Incorporated study to determine whether management addressed these previously reported system concerns. This study was an independent evaluation of BAM to validate that the system could accurately project overpayment rates for the country.

BAM Information to Prevent Overpayments

Quality Control was reviewed to determine whether the Federal system used detected overpayment information to address and correct known problems.

Using our 5-year analysis of overpayment errors, we interviewed 23 current and former Regional BAM Monitors to determine how improper payment issues detected through BAM were handled. In addition to the interviews, we examined the ETA database of State Service Quality Plans CAP and CIP entries. We reviewed entries from 47 states to determine whether overpayment issues were identified within the plans. We also assessed the policies and practices of the national office to determine their involvement in preventing overpayments. Specifically, we analyzed the impact of the UI PERFORMS designation of overpayment information as a Tier II measure on the nation's overpayment problem. In addition, we reviewed all UIPLs for the years 1999-2001 to determine the breadth and scope of national policies impacting overpayments.

Program Improvements (Best Practices) to Reduce Overpayments

We performed a **Best Practices** analysis at state UI operations to determine whether some state practices led to fewer overpayments. Using an attribute analysis, overpayment projections were compared to the business practice of New Hire database connectivity and usage. The estimation was made by taking statistically projected outcomes for the six states where audit tests were performed and developing a mathematical overpayment factor to represent the attribute prevalent at the time of the audit. The overpayment factor was computed by dividing the overpayment point estimate into the states total paid benefits for that year (CY2001). This factor was then averaged by the number of states demonstrating the same attribute. Attributes were grouped by red (not connected to their New Hire database), yellow (connected with moderate usage), and green (connected with highly active usage) factors. We then contacted all of the remaining states and DC (this work was not performed for Puerto Rico) to determine whether they were connected to their New Hire systems, and whether their usage was considered moderate or highly active. We then analyzed this business practice in all 50 states and DC to estimate the financial impact if states changed their business practice to mirror the states in the audit with the best performance.

We evaluated **Management Controls and Compliance with Laws and Regulations** specific to the objectives of this audit. This included controls necessary to comply with BAM requirements such as case selection, case review, quality assurance and accuracy of reporting. The objective of our audit was not to provide assurance on all of ETA's management controls or compliance with all laws and regulations; accordingly, no such assurance or opinion is given.

This audit was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. The primary time period of documentation used to perform this audit was CY 1997 to CY 2001 for BAM data, UIPLs, and State Service Quality Plans. The audit was designed to focus on CY 2001 BAM data, however, New Hire database connectivity and usage information covered CYs 2001 and 2003. Audit fieldwork was performed from March 2002 to March 2003.

Exhibit 1

States Visited and Audit Tests Performed

	Number of Cases Reviewed	
Location	(Reperformance Test)	(Wage Match Test)
California	50	0
Michigan	50	94
Missouri	50	99
New Jersey	46	0
Ohio	47	97
Oklahoma	48	97
Tennessee	48	97
Washington	50	96
Totals	389	580

U.S. Department of Labor

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

EXHIBIT 2

SEP 25 2003

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

FROM: EMILY STOVER DeROCCO Emily Stover DeRocco

SUBJECT: Audit of Benefit Accuracy Measurement System
Draft Report 22-03-009-03-315

Thank you for the opportunity to review and comment on the draft audit, "Improved Quality Control Practices Within the Benefit Accuracy Measurement System Could Save the Unemployment Insurance Trust Fund Approximately $400 Million Annually."

We agree with the overarching audit findings that (1) incorporating a cross match of wage records or data from State Directories of New Hires (New Hires) into Benefit Accuracy Measurement (BAM) investigations would improve estimates of overpayment amounts caused by individuals continuing to claim unemployment insurance (UI) benefits after returning to work, and (2) operational use of New Hires information is useful in reducing this type of overpayment.

However, we do not agree with the audit's estimates of potential savings because the audit lacks sufficient explanation of the methodologies used by the Office of Inspector General (OIG) to develop its estimates. For example, the audit claims that $428 million in overpayments could be saved by "expediting the implementation of New Hire database connectivity at 10 states and increasing its usage at another 8 states." The OIG estimate is substantially higher than the Employment and Training Administration (ETA) estimate of $139 million maximum potential savings. We have been unable to replicate the OIG estimates based on the documentation provided.

Reducing UI overpayments is an ETA priority, and we have made significant progress toward creating a system that promotes overpayment reduction. As you know, we developed a work plan for reducing overpayments in response, in part, to OIG findings from an audit of the Department's Consolidated Principal Financial Statements. Among the completed activities on the work plan are:

- Development of an overpayment detection measure as a Government Performance and Results Act goal;
- Award of funds to 26 states to implement or enhance cross match systems with their State Directories of New Hires;

9/30

- Issuance of an advisory that summarized numerous analyses on UI overpayments, including the causes of overpayments and the costs-benefits of various overpayment detection efforts (See Unemployment Insurance Program Letter 23-03 or visit the Office of Workforce Security Web site at http://www.workforcesecurity.doleta.gov); and

- A successful national conference on benefit payment integrity ETA sponsored in conjunction with the National Association of State Workforce Agencies that provided a forum for disseminating successful practices for preventing, detecting, and collecting UI overpayments.

In the audit report, the OIG made nine recommendations designed to "heighten awareness of the current overpayment problem and reduce overpayments." You will find from our responses (attached) that these recommendations or the underlying purposes of the recommendations have largely been addressed. Also attached are our suggestions for technical corrections to the audit report.

If you would like additional information, please contact me at 693-2700 or Ms. Cheryl Atkinson at 693-3200.

ETA Responses to Audit Recommendations
Audit of Benefit Accuracy Measurement System
Draft Report 22-03-009-03-315

Following are ETA's responses to the nine recommendations made in the audit report. The recommendations are quoted from the audit and appear in the order and format in which they appear in the report.

Recommendations

1) Amend ETA Handbook 395, Benefit Accuracy Measurement-State Operations, to prescribe a mandatory followup review for state BAM investigations to determine whether "unreported earnings," related overpayments occurred. The followup process should match state wage information with paid UI benefits and determine whether an overpayment (not previously detectable from the BAM investigation) occurred. We suggest the review occur 180 days after the week ending date of the payment originally investigated, so accurate wage information will be available. However, states connected to their New Hire database could choose to perform the followup earlier, provided reliable wage information was available.

2) Develop specific reporting and oversight procedures for all 180-day and/or New Hire database followup reviews. These procedures should address all state, regional, and national responsibilities.

3) Create a new formula for reporting overpayment information. The new formula should use existing BAM overpayment projections derived from initial investigations plus overpayment information obtained using a state's followup review procedure to validate "unreported earnings."

Agency Response

We agree conceptually with the recommendation that adding a process for a wage record or New Hires follow-up cross match as part of BAM investigations would produce a better estimate of total overpayments. As indicated in the OIG report, including a wage record cross match was considered during the implementation of the predecessor to BAM. However, the cross match segment was ultimately not included in the process out of concern that the cross match would delay completing the investigations too long.

We propose to pilot test cross matches of BAM cases with wage record and New Hires data in several states. The pilot would allow us to determine the magnitude by which estimates would be improved compared with the costs associated with the change in the process including the additional effort in the investigations, updating the BAM handbooks and reprogramming the BAM software at both the state and Federal levels. If the pilot finds that national implementation is cost-beneficial, we will develop a procedure for incorporating the cross match into the BAM program. The pilot test is contingent upon the availability of funding and a sufficient number of states volunteering to participate in the pilot.

We think this effort responds to recommendations one, two and three.

Recommendations

4) Change ETA policy to make BAM overpayment information a TIER I measure in ETA's UI PERFORMS performance management system.

5) Include BAM overpayment analysis in the annual SQSP process. Monitors should negotiate overpayment issues with states to ensure these problems are addressed in SQSPs.

6) Utilize Unemployment Insurance Program Letters to communicate to the state partners the significance of the policy shift to overpayment prevention, and routinely make them aware of ongoing DOL initiatives to identify and prevent overpayments.

7) Utilize the BAM historical database to perform comparative (state-to-state) analyses, both at the national and regional levels.

8) Require Regional BAM Monitors to fulfill their program leadership duties and responsibilities. Specifically, require monitors to analyze BAM data for the states they monitor and identify trends of overpayments; work with assigned states to investigate overpayments identified by the national office; and, lead or facilitate process improvement initiatives designed to prevent overpayments in their assigned states.

Agency Response

The purpose of recommendations four through eight is to "make overpayment oversight a top priority." ETA agrees that overpayment oversight should be a top priority and has made significant efforts in this area. However, we propose to address overpayment oversight in a slightly different way than the methods suggested in the audit report.

Differences among states' laws, regulations, and policies regarding claimant eligibility influence the potential for error. States with strict and complex laws and policies tend to have higher improper payments. Therefore, comparing states' BAM overpayment rates can be misleading and the Department has consistently cautioned against making state-to-state overpayment rate comparisons.

However, during 2002, ETA used BAM data to develop a GPRA overpayment detection measure. The GPRA measure uses BAM data to compute an "operational overpayment rate" that includes the recoverable overpayments that states are most likely to detect through state operations. The operational overpayment rate is more comparable among states than the BAM annual overpayment rate because it excludes some of the elements that have the greatest variability among states (such as work search and employment service registration requirements). The GPRA measure compares the operational overpayment rate data with the amount of overpayments actually established for recovery to give a more comprehensive picture of states' efforts to prevent and detect overpayments. The GPRA overpayment detection measure is discussed in detail in UIPL 15-03.

As part of an overall review of the UI performance management system, discussions are underway to include the GPRA overpayment detection measure as a "core measure" under UI PERFORMS. (UI PERFORMS is undergoing revision. The term "core measure" has been recommended as a substitute for the term "Tier 1." Core measures will be equivalent to Tier 1 measures.) As a core measure, the overpayment detection measure will be subject to the same level of oversight as current Tier 1 measures, including being subject to corrective action for unacceptable performance.

GPRA measures, including the overpayment detection measure, are addressed in the SQSP process. State and regional office staff negotiate the substance of the SQSP, including the performance of the GPRA measures which are Federal Emphasis areas. (See UIPL 28-03.) We acknowledge that regional office staff do not conduct the analyses recommended in the BAM handbook. We think that it is more efficient for national office staff to continue to provide states and regional offices with analyses about overpayment rates and causes than for the regional offices to engage in overpayment analyses at this level. The regional offices will provide overpayment oversight through the SQSP process.

We think the purpose of recommendations four through eight—to make overpayment oversight a top priority—has been accomplished through the efforts described above.

Recommendations

9) Develop a process improvement initiative to implement New Hire database connectivity in the 10 states not currently connected and ensure all 50 states and the District of Columbia (DC) perform cross match procedures at least weekly. The process improvement initiative should be modeled after the CAP requirements set forth in ET Handbook 363, except the CAP should describe a federal initiative rather than a state initiative.

Agency Response

We generally agree that increased use of New Hires information has the potential to produce savings for the Unemployment Trust Fund (UTF) and have promoted state use of

New Hires data. This year, ETA provided funding to 26 states to connect to state New Hires databases or enhance existing New Hires cross match systems. In addition, we have promoted the use of New Hires data through workshops at the National Integrity Conference held in April. ETA will continue to encourage the use of New Hires data to reduce overpayments; however, rather than requiring specific state practices such as the use of New Hires data, we intend to set a performance goal for states with respect to overpayment prevention/detection and require states to determine which specific procedures they use to achieve the goal. We believe that all will use New Hires data because it is effective.

In addition, we think that access to the National Directory of New Hires would be a particularly beneficial tool for producing savings to the UTF and will continue to seek ways to give states that access.

Attachment II

ETA Comments To Audit of Benefit Accuracy Measurement System
Draft Report 22-03-009-03-315

Executive Summary

Page 1, paragraph 1: "BAM estimated UI benefit overpayments of $2.5 billion for CY 2001 and $3.7 billion for CY 2002."

Comment: The overpayment amounts noted in the report are correct; however, the report should also note that the increase in overpayments was attributable to the increase in UI benefit amounts paid from $29.9 billion in CY 2001 to $40.4 billion in CY 2002.

Section 1

Page 4, third full paragraph, last sentence: "In addition, the BAM investigator would have no means to determine if a claimant obtained employment after the investigation was completed."

Comment: This is true; however, the report should note that this has no impact on the validity of the BAM estimates.

Page 5, first full sentence: "Safeguards were implemented to require at least 95 percent of all results to be completed . . . within 90 days after a case was assigned."

Comment: Include in the report that the primary reason for this was to ensure that investigators make timely contacts while respondents' memories are fresh.

Page 5, fourth paragraph: "BAM projected unreported earnings overpayments at $92 million in the six states we visited and our statistical projection was $112 million."

Comment: We cannot replicate the OIG findings. Additional information is needed to support the OIG $112 million projection. As written, the report leaves many unanswered questions. For example, the report does not state what proportion of these overpayments occurred in weeks other than the compensated (key) week that BAM sampled. In projecting to the population, if the overpayment occurred outside the BAM key week, to what population did the OIG project? Is it a claimant-based projection or a key week-based projection?

Also, the $92 million BAM number used by the OIG includes only the BAM cause coded for unreported benefit year earnings (code 110). However, the BAM estimate also includes misreported earnings (code 120) and "other" causes related to the reporting or recording of BY earnings (code 150). For the states in question, these totaled $128 million in CY 2001. It is likely that a portion of the BAM errors excluded by the OIG will be picked up through the cross match (for example, wages initially reported or recorded in the wrong amount or in the wrong week). This suggests that the OIG's exclusion of theses errors may inflate the difference between what BAM finds and the OIG findings.

Page 5, fifth paragraph: "Linear Regression Analysis," entire paragraph.

Comment: The linear regression analysis cites an unreported earnings overpayment amount of $43 million for New York, versus $1 million from BAM. Here, again, we cannot replicate the OIG findings because no detail is provided on the regression model that was used or the results for the other states. The lack of detail raises a number of questions. In how many states does the BAM amount exceed the amount estimated by the model? What were the independent variables in the model? Were the model results statistically significant?

Page 6, first full paragraph, fifth sentence: "This testimony stressed BAM CY 2001 overpayment projections were categorized into three groups. . . .'

Comment: Change statement to "The testimony categorized BAM CY 2001 overpayments into three groups."

Section II

Page 8, first sentence: "Preventing UI overpayments was not a priority under the UI PERFORMS quality control process."

Comment: UI PERFORMS is a performance management system that encompasses all aspects of performance and is not limited to quality control.

Page 8, third paragraph, first bullet: "Therefore, states were not required to achieve minimum levels of performance and received little oversight compared to Tier 1 measures;"

Comment: Because overpayment rates are not comparable among states, minimum levels of performance cannot be set on a system-wide basis. In addition, requiring states to meet specific BAM overpayment rates is in conflict with §602.43 of the Code of Federal Regulations.

Page 9, first paragraph, sentences six and seven: "To illustrate . . . Tier 1 measures have an ETA approved definition, source of data, and an established goal. Also, all Tier 1 measures have floor criteria."

Comment: Tier 1 measures do have criteria, but do not have "goals."

Page 9, first paragraph, eighth sentence: "In contrast, paid claims accuracy (the only BAM related overpayment Tier II measure) has no minimum level of performance and no defined criteria."

Comment: The report should note that denied claims accuracy was included in BAM in August 2001. Also, for purposes of UI PERFORMS, minimum levels of performance equate to "defined criteria."

Page 9, second paragraph: Entire paragraph.

Comment: As written, the paragraph is technically correct, but omits two important pieces of information. First, although no Tier 1 measures assess overpayment per se, there is a Tier 1 measure that assesses the quality of nonmonetary eligibility decisions. Second, the report should note that an overpayment detection measure was established as a FY 2002 GPRA goal.

Page 9, third paragraph, fifth sentence: "Conversely, errors related to Tier II problems are considered important, but not until all Tier I issues are resolved."

Comment: This statement is misleading. States, in fact, may simultaneously pursue Tier I corrective action plans and Tier II continuous improvement plans.

Page 10, second full paragraph, third from last sentence: In contrast, a CIP is usually reserved for TIER II standards."

Comment: There are no "standards" for Tier II measures. We suggest that "performance" be substituted for "standards" in this sentence.

Page 11, first paragraph: "Unemployment Insurance Program Letters (UIPL) did not address overpayments," entire paragraph.

Comment: The first sentence of the paragraph states: "For the CY period 1999, 2000, and 2001, ETA issued 107 UIPLs, and with 2 exceptions, overpayment issues were not addressed."

UIPLs are an advisory series for the purpose of disseminating wide-ranging information to the states pertaining to all UI matters, not just to those matters pertaining to UI overpayments. The report infers that some percentage of these advisories should address overpayments. In addition, the assertion that only two pertained to overpayments is erroneous. The two UIPLs cited pertained specifically to implementing the New Hires systems in states in order to prevent and detect overpayments. However, these were not the only advisories pertaining to overpayments. The following are offered as examples of other UIPLs addressing the propriety of payments in the UI system:

- ✓ UIPL 07-99 – UI PERFORMS – Benefit Payment Control Measures

- ✓ UIPL 33-99 – Overpayment Recovery Technical Assistance Guide
- ✓ UIPL 01-2000 – Reporting New Hire Information on the ETA-227 Report
- ✓ UIPL 04-01 – Payment of Compensation and Timeliness of Determinations during a Continued Claims Series
- ✓ UIPL 15-01 – Obtaining Information Necessary to Determine Eligibility for Unemployment Compensation
- ✓ UIPL 19-01 – Unemployment Insurance Integrity Professional Development Conference

The third sentence of the paragraph states: "ETA's only defined purpose of the UIPL [35-99] was to distribute copies of the audit report." In fact, UIPL 35-99, in item 1, the "Purpose" states: "To distribute copies … and to make recommendations for State Employment Security Agencies (SESAs) to take appropriate action in areas of weakness." In addition, the recommendations of the OIG are summarized in item 4.

Further, item 5 includes "UIS Recommendations" and states: "The UIS agrees with the OIG assessment regarding the potential for the New Hire system. UIS encourages SESAs to realize this potential by implementing the New Hire system as the primary tool for the detection of overpayments. . . ."

Item 6, "Action Required" states: "SESA Administrators are requested to:

a. Review the attached report from the OIG.

b. Consider the recommendations offered by the OIG to improve the crossmatch system, and where necessary, take corrective action. (See section 4b above.)

c. If not already instituted, consider using the State New Hire system as the primary tool for the detection of overpayments. . . ."

<u>Section III</u>

Page 14: Entire section.

Comment: As stated previously, we agree that increased use of New Hires data will reduce overpayments. ETA analyses estimated that states saved $55 million in CY 2002 by using New Hires data. We projected potential savings of $69 million if all states used New Hires data and savings of $139 million if all states used New Hires data <u>and</u> established a number of overpayments equal to 2 percent of their first payments (the level achieved by the best performing states). The OIG-estimated savings of $428 million is substantially greater than our estimates. Because of the substantial difference between the OIG estimate, and the lack of adequate details that would allow us to replicate the OIG findings, we cannot accept the OIG savings estimate.

Background

Page 21, third sentence: "The week ending date of the selected payment is referred to as a key week, because results from the selected claims are used in statistical projections."

Comment: To be accurate, the following should be substituted for the above sentence. "The selected payment is for a given week of compensated unemployment, identified by the week ending date. It is called the key week because results from the selected claims are used to make statistical projections for all those weeks of payments."

Page 21, second and third paragraphs: Entire paragraphs.

Comment: Taken together, these two paragraphs suggest that UI PERFORMS was established pursuant to Title 20 CFR. In fact, Title 20 CFR establishes a quality control program (Benefits Quality Control which was renamed BAM). UI PERFORMS is a performance management system that includes quality control findings as part of its measurements rather than a quality control program; therefore, Title 20 CFR does not apply to UI PERFORMS as a whole.

Also, the reference to "law" should be changed to "regulation."