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**EMPLOYMENT AND TRAINING
ADMINISTRATION**



**LACK OF CONTINGENCY PLANS CONTRIBUTED TO
MORE THAN \$100 MILLION IN POTENTIAL
OVERPAYMENTS OF HURRICANE-RELATED
UNEMPLOYMENT BENEFITS**

**Report Number: 06-08-001-03-315
Date Issued: June 12, 2008**

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

BRIEFLY...

**Highlights of Report Number: 06-08-001-03-315,
to the Employment and Training Administration.**

WHY READ THE REPORT

Hurricanes Katrina and Rita devastated the Gulf Coast Region on August 29, 2005, and September 24, 2005, respectively. Among their impacts, numerous local employers were forced out of business and, as a result, an unprecedented number of workers became instantly unemployed. These workers could then potentially claim benefits under State Unemployment Insurance (UI), or Disaster Unemployment Assistance (DUA), funded by the Federal Emergency Management Agency (FEMA).

Despite the enormous challenges in providing benefits, we estimate the affected States paid \$1.3 billion in combined UI and DUA benefits to claimants following the hurricanes; however, we estimate the states collectively paid more than \$100 million in potentially erroneous or fraudulent claims.

WHY OIG DID THE WORK

The Office of Inspector General initiated review work of Hurricane-related payments made under the two programs. Our work was conducted to answer the following question:

- Were internal controls over states' claims initiation, payment processes, and fraud detection effective?

We are issuing this report to provide a complete picture of the OIG's results regarding hurricane-related unemployment benefit overpayments.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full agency response, go to:
<http://www.oig.dol.gov/public/reports/oa/2008/06-08-001-03-315.pdf>

June 2008

LACK OF CONTINGENCY PLANS CONTRIBUTED TO MORE THAN \$100 MILLION IN POTENTIAL OVERPAYMENTS OF HURRICANE-RELATED UNEMPLOYMENT BENEFITS

WHAT OIG FOUND

The OIG found that certain controls over claims initiation, payment processes, and fraud detection were ineffective. These conditions occurred in part because the states did not have operational contingency plans in place to permit rapid processing of claims and at the same time ensure payments were made only to eligible claimants.

WHAT OIG RECOMMENDED

We recommend that the Assistant Secretary for Employment and Training:

1. Develop nationally coordinated contingency plans that provide alternatives for individual states to adopt in processing DUA and UI when normal processing is disrupted by disasters or other reasons. Such plans should specifically include compensating controls for instances when States suspend eligibility and benefit payment controls;
2. Require States to suspend DUA and UI payments after a reasonable, but limited, period of time for claimants who cannot provide proof of employment, or whose alternative documentation does not support initial claimant eligibility;
3. Promote data sharing among states to minimize invalid duplicate payments.

In its response to our draft report, ETA committed to continue to coordinate contingency planning for state unemployment insurance operations when normal processing is disrupted by disasters; issue guidance to remind states of the DUA eligibility requirements, including the requirement to suspend and deny payment, and establish appropriate overpayments, when timely documentation is not provided; and to continue to actively promote the use of data matching tools to reduce improper payments.

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Executive Summary

Hurricanes Katrina and Rita devastated the Gulf Coast Region on August 29, 2005, and September 24, 2005, respectively. Among their impacts, numerous local employers were forced out of business and, as a result, an unprecedented number of workers became instantly unemployed.

Individuals unemployed as a result of Hurricanes Katrina and Rita could claim benefits under one of two unemployment compensation programs delivered by the states in partnership with the U.S. Department of Labor (DOL):

1. State Unemployment Insurance (UI), or
2. Disaster Unemployment Assistance (DUA), funded by the Federal Emergency Management Agency (FEMA).

On October 13, 2005, the Office of Management and Budget (OMB) provided implementation policy intended to “ensure a citizen-centered approach in a cost-effective manner that prevents fraud and abuse.” While OMB called on Federal agencies to relax – and even waive, if allowable – enrollment criteria and documentation requirements, OMB stated that such measures should be time-limited. OMB also stated that Federal agencies and their state and local partners should require compensating controls to ensure that benefits would go only to eligible individuals.

Since the hurricanes affected both the infrastructure and staffing of the affected State Workforce Agencies (SWAs), other states stepped up to act as agents for the affected states for the processing of claims. Another challenge was that many of the victims and employers lost records that would, for example, substantiate claimants’ eligibility for assistance. Despite these enormous challenges, we estimate the affected States paid more than \$1.3 billion in combined UI and DUA benefits to claimants following the hurricanes.

To determine if unemployment benefits reached eligible recipients as intended, the OIG initiated reviews of Hurricane-related payments made under the two programs. Our work was conducted to answer the following question:

- Were internal controls over states’ claims initiation, payment processes, and fraud detection effective?

The OIG has communicated our interim results through a series of Management Letters regarding UI and DUA overpayments. We also issued a separate audit report on potential overpayments that occurred in Louisiana because the State did not verify claimants’ Social Security Numbers (SSNs). These reports are summarized in

Exhibit B. We are issuing this report to provide a complete picture of the OIG's review results regarding hurricane-related unemployment benefit overpayments. As such, this report summarizes issues previously disclosed as well as the results of subsequent review work. Specifically, we found that:

- Louisiana and Mississippi relaxed or waived existing controls without putting compensating controls in place.
- Louisiana and Mississippi suspended controls over DUA initial eligibility procedures, which resulted in possible overpayments exceeding \$100 million;
- Although it was within his authority to do so, the Governor of Mississippi issued an Executive Order that required payment of the maximum weekly benefit amount without regard to the claimant's prior earnings, which resulted in the State paying at least \$7.7 million more than it would have otherwise paid in Federally-funded DUA benefits;
- Louisiana used a new, untested benefit delivery method, which lacked proper controls and created opportunities for fraud;
- Louisiana did not have procedures in place to utilize available tools to verify claimants' identities and detect claimants who continued to draw benefits despite obtaining employment;
- States did not identify claimants receiving benefits under both UI and DUA;
- States did not determine if claimants had obtained subsidized employment funded by DOL's National Emergency Grants (NEGs) to the affected States while receiving DUA or UI; and
- Louisiana had insufficient accountability over federal funds.

These conditions occurred in part because the states did not have operational contingency plans in place to permit rapid processing of claims and at the same time ensure payments were made only to eligible claimants. As a result, we estimate the states collectively paid more than \$100 million in potentially erroneous or fraudulent claims, or roughly 7 percent of the \$1.3 billion in benefits paid.

Recommendations

Through our previously issued management letters and report, we made a number of recommendations to the Assistant Secretary for Employment and Training to: improve overpayment prevention and detection; oversee states' efforts to recover erroneous payments; and ensure states take appropriate actions against claimants found to have obtained benefits fraudulently.

In this report, we are further recommending that the Assistant Secretary for Employment and Training:

1. Develop nationally coordinated contingency plans that provide alternatives for individual states to adopt in processing DUA and UI when normal processing is disrupted by disasters or other reasons. Such plans should specifically include compensating controls for instances when States suspend eligibility and benefit payment controls;
2. Require States to suspend DUA and UI payments after a reasonable, but limited, period of time for claimants who cannot provide proof of employment, or whose alternative documentation does not support initial claimant eligibility;
3. Promote data sharing among states to minimize invalid duplicate payments.

Agency Response

ETA generally agreed with our recommendations. They have been working with states to coordinate contingency planning for state unemployment insurance operations when normal processing is disrupted by disasters. They plan to post on their website the National Unemployment Insurance Disaster Preparedness Planning Effort, which outlines lessons learned and contains a set of recommendations concerning disaster preparedness planning. Additionally, they have convened a federal-state workgroup to develop guidance and procedures for states to include in their individual state continuity of operations plans.

Concerning claimant DUA and UI eligibility, ETA plans to issue an Unemployment Insurance Program Letter in the near future to remind states of the DUA eligibility requirements, including the requirement to suspend and deny payment, and establish appropriate overpayments, when timely documentation is not provided.

ETA has been actively engaged in promoting the use of data matching and other tools in order to minimize invalid, duplicate or fraudulent payments. In addition, they have promoted the use of the National Directory of New Hires data to access information on claimants who have returned to work.

OIG Conclusions

Based on ETA's response and actions related to all three recommendations, we consider all three recommendations resolved.

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U.S. Department of Labor

Office of Inspector General
Washington, DC 20210



June 12, 2008

Assistant Inspector General's Report

Mr. Brent R. Orrell
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and Training
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Following the devastating impact Hurricanes Katrina and Rita had on the Gulf Coast Region, the OIG began oversight of key Federal programs to identify and assist DOL and its grantees in minimizing waste, fraud, and abuse. Our oversight efforts focused on the Unemployment Insurance (UI) and Disaster Unemployment Assistance (DUA) programs because of their magnitude and high risk for claimant fraud and abuse.

Specifically, the OIG initiated work to answer the following question:

- Were internal controls over states' claims initiation, payment processes, and fraud detection effective?

The OIG has communicated our interim results through a series of Management Letters regarding UI and DUA overpayments. We also issued a separate audit report on potential overpayments that occurred in Louisiana because the State did not verify claimants' Social Security Numbers (SSNs). These reports are summarized in Exhibit B. We are issuing this report to provide a complete picture of the OIG's review results regarding hurricane-related unemployment benefit overpayments. As such, this report summarizes issues previously disclosed as well as the results of subsequent review work.

Our objectives, scope, methodology and criteria are detailed in Appendix B.

Findings and Recommendations

Objective: Were internal controls over states' claims initiation, payment processes, and fraud detection effective?

Certain controls over claims initiation, payment processes, and fraud detection were ineffective.

In accordance with guidance issued by the Office of Management and Budget, Louisiana and Mississippi suspended regular DUA eligibility documentation requirements. However, Louisiana was unsuccessful in subsequently reestablishing processing controls as required, which resulted in unsubstantiated claims continuing to be paid. Also, Louisiana implemented the use of debit cards to quickly deliver benefits, but did not have adequate controls to ensure the debit cards reached only eligible claimants or that funds in unactivated debit card accounts were recovered. Furthermore, Louisiana did not use available tools and processes – including verifying claimants' Social Security Numbers and conducting data crossmatches – to detect claimants who were improperly or fraudulently receiving benefits, or were improperly receiving services and benefits under multiple programs.

These conditions occurred in part because there were no nationally coordinated operational contingency plans in place to permit rapid processing of claims and at the same time ensure payments were made only to eligible claimants. As a result, we estimate Louisiana and Mississippi collectively paid more than \$100 million in potentially erroneous or fraudulent claims. Following the 2005 hurricanes, ETA, the National Association of State Workforce Agencies, and individual State Workforce Agencies developed the draft National Unemployment Insurance Disaster Preparedness Plan (NUIDPP) using lessons learned from recent disasters, including Hurricanes Katrina and Rita. The NUIDPP has not been published; however, ETA has acted on some recommendations in the plan. One action ETA has taken is to establish an Interstate Disaster Preparedness Planning Workgroup, whose goal is to develop guidance for states in the event of another mass unemployment event.

I. The suspension of controls over initial eligibility procedures resulted in possible overpayments exceeding \$100 million.

A. DUA claims were established without evidence to determine proof of employment.

Mississippi suspended basic eligibility review controls to expedite the handling of DUA claims. ETA instructed officials in Louisiana and Mississippi to extend the timeframe for DUA claimants to provide proof of eligibility from 21 to 90 days. While these actions were intended to streamline claimants' access to benefits, the suspension of critical controls resulted in substantial overpayments of DUA benefits.

We analyzed DUA proof of employment (POE) eligibility at the Louisiana Department of Labor (LDOL) and Mississippi Department of Employment Security (MDES). We found that benefits were paid to claimants who never provided any documentation to substantiate their claim, even a year after the hurricanes hit. Other claimants supplied documentation that was inadequate to evidence their eligibility to benefits.

We found Louisiana paid total benefits of \$192.6 million of which:

- at least \$62.1 million went to claimants who never provided documentation to support their claim.¹
- \$38,780 went to claimants who did not provide adequate documentation to support their claim.²

We found Mississippi paid total benefits of \$37.6 million of which:

- at least \$3.3 million went to claimants who never provided documentation to support their claim.³
- at least \$18.5 million went to claimants who did not provide adequate documentation to support their claim.⁴

According to 20 Code of Federal Regulations (CFR) 625.6, for documents to be considered valid POE, they must show that an individual was working, or was scheduled to commence working, at the date of the disaster. In both states, we found that 145 claimants provided only 2004 tax documents, which did not show an individual's employment at the time of Hurricane Katrina (August 2005) or Hurricane Rita (September 2005). Claimants also provided other documents that did not substantiate their employment status at the date of the disaster, including outdated documents such as 2002 or 2003 tax documents, pay stubs dated months before or after the hurricane, and business licenses with no other supporting documents. We did not consider these documents adequate since they did not show an individual's employment status at the date of the disaster.

The overpayments in Louisiana occurred in part because the State did not reestablish effective claims processing and eligibility controls following the disaster, contrary to OMB guidance. On October 13, 2005, OMB issued a memorandum providing guidance

¹ Estimate is based on 60 (41 percent) of 147 claimants, paid \$111,132, we determined did not provide documentation to prove eligibility for their claim. Based on this sample result, we estimate, with 95 percent confidence that between \$62,128,466 and \$101,329,658 was paid to claimants who did not provide documentation to support their claim. The point estimate of the dollar value of such unsubstantiated claims is \$81,729,062.

² The number of occurrences (10 of 147 claimants) was limited and therefore not projected.

³ Estimate is based on 85 (23 percent) of 364 claimants, paid \$159,782, we determined did not provide documentation to prove eligibility for their claim. Based on this sample result, we estimate, with 95 percent confidence that between \$3,300,617 and \$5,945,637 was paid to claimants who did not provide documentation to support their claim. The point estimate of the dollar value of such unsubstantiated claims is \$4,623,127.

⁴ Estimate is based on 176 (48 percent) of 364 claimants, paid \$702,408, we determined did not provide adequate documentation to prove eligibility for their claim. Based on this sample result, we estimate, with 95 percent confidence that between \$18,520,512 and \$22,126,478 was paid to claimants who did not provide adequate documentation to support their claim. The point estimate of the dollar value of such unsubstantiated claims is \$20,323,495.

to Federal agencies regarding implementation of the President's pledge to provide hurricane victims access to streamlined registration and enrollment in Federal benefit programs for which they qualified. The OMB memorandum recommended waiving some documentation requirements, but also included guidelines for ensuring that benefits were only provided to individuals who needed and qualified for assistance. The OMB guidance for the suspension of normal processing controls mandated that States resume normal procedures within 30-90 days to ensure the validity of claims. Consistent with the OMB guidance, Louisiana attempted to reestablish processing controls. However, due to inadequate staff resources and lack of communication with claimants, they were unable to adjudicate claims in a timely manner. As a result, unsubstantiated claims continued to be paid.

Officials in each state indicated that they did not initially have sufficient staff and funding to process DUA and UI at the drastically increased level after the hurricanes. For this reason, certain other states provided assistance in processing claims for the affected states. These experiences illustrated the need to formalize UI disaster response planning at the national level to assure a rapid, effective response to future disasters from all risks. Officials in the affected states confirmed that they were hampered by not having contingency agreements in place with other states in advance of the hurricanes that could have been immediately activated to share resources and distribute the claims processing load. Following the hurricanes, ETA did assist the affected states in preparing and implementing resource-sharing agreements with other states. However, because of differences in State regulations for the DUA and UI programs, staff in the other states had to be trained on the affected states' program requirements.

Subsequently, ETA, the National Association of State Workforce Agencies, and individual State Workforce Agencies developed the September 2006 draft National Unemployment Insurance Disaster Preparedness Plan (NUIDPP) using lessons learned from recent disasters, including Hurricanes Katrina and Rita.

B. Mississippi DUA claims were paid at the maximum weekly benefit amount (WBA) without determining their normal entitlement.

The amount of DUA a claimant receives each week is called the weekly benefit amount (WBA), and 20 CFR 625.6 requires the DUA WBA be computed using the claimant's base period wages, which would be income earned in the year prior to the disaster. For claimants affected by Hurricane Katrina, their WBA would normally have been computed using their 2004 earnings. This requirement was superseded for Mississippi claimants when the Governor of Mississippi acted within his authority to issue Executive Order 940, which required the State to pay all claimants the maximum WBA of \$210 without regard to the amount of prior year earnings. As a result, Mississippi paid at least \$7.7 million more than it would have using normal DUA entitlement calculations.⁵

⁵ In order to determine the impact of paying the maximum WBA, we calculated the WBA for claimants who provided 2004 tax documents and compared our results to what MDES actually paid the claimants. Only 159 claimants or 44 percent of our sample of 364 provided 2004 tax documents. Therefore, this projection is based on only 44 percent (+ or - 5 percent) of our universe of 10,532 claimants.

II. The lack of proper controls over the new debit card payment process in Louisiana created opportunities for fraud and Mismanagement.

Section 303(a)(1) of the SSA requires States to “provide for such methods of administration as will reasonably ensure the prompt and full payment of unemployment benefits to eligible claimants, ... with the greatest accuracy feasible.”

To expedite the delivery of DUA and UI benefits to hurricane-affected claimants in Louisiana, the State developed and implemented a new payment method using debit cards. JPMorgan Chase was awarded the contract to establish debit card accounts for claimants in Louisiana. We audited the processes the State and JPMorgan Chase used to distribute and manage the debit cards at the Louisiana Department of Labor (LDOL). We reviewed and identified numerous control weaknesses that created opportunities for someone other than the intended claimant to obtain benefits via the debit cards. The breakdown in controls included:

1. Louisiana maintained insufficient controls to properly handle and account for debit cards returned to its offices. This created an opportunity for employees who had access to the State claims system, which contained claimants' SSNs and birthdates, to take possession of the debit cards and activate them, thus illegally gaining access to UI benefits.
2. JPMorgan's Customer Service Representatives (CSRs) were authorized to change, or reveal the birth date on the account to callers having problems activating an account. Because the birth date was used to confirm that the person in possession of a debit card was the authorized claimant, allowing CSRs to reveal this key data to callers compromised the effectiveness of this security control.
3. CSRs were given access to key security data needed to activate the debit cards, including claimants' full SSN and birth date. This, coupled with the CSRs' ability to manipulate the address where cards were sent, created an opportunity for these individuals to redirect debit cards to a location where they could take possession. They could then activate the card using the security data accessible from their banking system, enabling the CSR to obtain DUA and UI benefits belonging to someone else.

Although we did not identify any instances in which unauthorized individuals obtained benefits paid on debit cards, the ineffective controls in place over this process created a substantial risk that such fraudulent access to benefits would occur.

In addition to the above weaknesses in controls over debit card authorization, we found Louisiana paid, and had not retrieved, almost \$1.2 million in Hurricanes Katrina- and Rita-related DUA and UI benefits on 1,570 debit card accounts that were never activated by the claimants. Louisiana's Debit Card Business Rules, February 2006,

1. Debit Card Issue, require that funds paid on debit card accounts with no activity within 60 days be returned to the State. Of the nearly \$1.2 million, \$354,070 was paid from Federal funds provided under the DUA grants. Since the DUA grants awarded to Louisiana have been closed out, it is imperative that funds paid on inactive debit card accounts be retrieved so that any unused DUA funds can be returned to ETA and made available for other regions affected by a disaster.

III. Louisiana did not have procedures in place to fully utilize available tools to verify claimants' identities and detect claimants who continued to draw benefits despite obtaining employment.

For both DUA and UI claims, states are required to use tools that are available to ensure that claims are valid, and that claimants maintain their eligibility for benefits. Louisiana did not effectively use two major tools that were available to the states.

A. DUA and UI claims were established using invalid SSNs.

As a control to combat fraud and abuse in the UI program, information is available from the Social Security Administration (SSA) and the U.S. Department of Commerce (USDOC) that allows SWAs to confirm the validity of claims. ETA has established a memorandum of understanding (MOU) with SSA enabling SWAs real-time access to SSA's database to check for discrepancies in a claimant's name, SSN, and birth date when claims are initiated. The USDOC allows access to the Death Master File, which SWAs can use to verify whether claims are processed using information that belongs to someone who reportedly has died.

At LDOL, we found that information from these databases was not effectively used as a tool to identify potentially fabricated claims. As a result, Louisiana may have paid at least \$3.7 million in hurricane-related unemployment claims based on claims filed using invalid SSNs.

- Benefits totaling \$314,913 were paid on 186 DUA and UI claims that were processed with SSNs the SSA never issued.
- Benefits in the amount of \$661,293 were paid on 317 DUA and UI claims that were processed with SSNs that belonged to deceased persons.
 - \$642,250 was paid on 307 claims using SSNs belonging to persons reported to have died prior to Hurricane Katrina hitting the Gulf Coast Region on August 29, 2005.
 - \$19,043 was paid on 10 claims for weeks of unemployment that occurred after the claimant's death. These claimants were reported to have died after Hurricane Katrina hit the Gulf Coast Region on August 29, 2005.

Hurricane Benefits Paid on Claims that used the SSN of a Deceased Person				
	Deceased prior to August 29, 2005		Deceased on or after August 29, 2005	
	Claims	Benefits	Claims	Benefits
Claimants' name did not agree with the name reported in the Master Death File.	299	\$621,338	3	\$7,154
Claimants' name did match the name reported in the Master Death File.	8	20,912	7	11,889

- We estimate that at least \$2,738,380⁶ was paid on DUA and UI claims with SSNs that did not match the names of the individuals assigned those numbers.

Had Louisiana used real-time information from SSA's database and the Master Death File, it could have avoided paying \$3.7 million on claims that are possibly fraudulent.

B. Claimants continued to receive DUA and UI benefits despite indicators that they were no longer eligible.

In order to continue to receive weekly DUA and UI benefits, ETA Federal Register Notice, volume 65, Number 229, page 3, requires that claimants maintain their eligibility. States can monitor their claimants' compliance with the eligibility guidelines by reviewing data from wage and employment records to determine if an individual has returned to work. Since many Louisiana claimants had moved to other states, the Louisiana State Directory of New Hires was not an effective tool in identifying their possible re-employment. The State therefore used the National Directory of New Hires (NDNH) as an indicator of changes in its claimants' employment status.

We reviewed LDOL's match of hurricane-related claims against NDNH as of December 15, 2005, which revealed numerous claimants who had reportedly obtained employment while simultaneously receiving benefits. However, Louisiana did not have the resources to conduct timely and thorough investigations on the suspected claims. We estimate that, had the State used the results from this match more timely, it could have avoided paying \$13,409,575, in potentially fraudulent overpayments. We identified 11,723 claimants who reportedly obtained employment during the disaster period, on or before December 15, 2005, but continued to receive benefits for weeks beginning in February 2006 and later. We chose February 2006 to estimate the impact of Louisiana's delayed processing because we believed that would have been a sufficient period to determine the match results if adequate resources and procedures had been available.

⁶ Our estimate is based on 51 (16.1 percent) (M.3.3, Combined Workpaper, line 333) claims, paid \$99,892, (M.3.3, Combined Workpaper, line 333), we confirmed that in fact used a SSN/name combination that did not match the names of the individuals to whom SSA assigned the SSNs. Based on this sample result, we estimate, with 95 percent confidence (M.3.42, page 1), that between \$2,738,380 and \$5,134,873 (M.3.42, page 1) was paid to between 1,632 and 2,713 (M.4.14, line 17) claimants where the SSN used in the claims was assigned to someone other than the claimant. The point estimate of the dollar value of such payments is \$3,963,626 (M.3.42, page 13).

Benefits Paid on or after February 1, 2006 to Individuals Reportedly Hired on/before December 15, 2005		
Program	Claims	Benefits
Hurricane Katrina DUA	5,556	\$8,607,444
Hurricane Katrina UI	5,949	4,526,678
Hurricane Rita DUA	91	132,699
Hurricane Rita UI	127	142,754
Total	11,723	\$13,409,575

To update the information from NDNH, we worked with the State to re-match its hurricane-related claims against NDNH as of June 30, 2006. The results from this new match showed the number of claimants who received DUA and UI benefits after reportedly obtaining employment increased to 30,770 and benefits paid to these persons was calculated at \$51,180,655.

Benefits Paid After Claimants Reportedly Obtained New Employment		
	Claims	Benefits
Benefits paid on or before 11/19/2005	18,388	\$15,596,394
Benefits paid after 11/19/2005	25,735	35,584,261
Total	44,123⁷	\$51,180,655

From August 28, through November 19, 2005, the State waived requirements for its claimants to use its “Easy Call” system to claim weekly benefits by updating their employment status and earnings. Instead, the State automatically paid (“Autopay”) benefits to claimants during this period. The significance of distinguishing payments made during and after “Autopay” reflects the claimant’s intention to defraud Louisiana. Although many claimants may not have been entitled to the benefits paid during Autopay, Louisiana has decided not to charge these individuals with fraud. However, claimants will need to repay the State for any ineligible benefits they received.

After Autopay was terminated on November 19, 2005, claimants returned to using Easy Call to update their employment status and earnings with Louisiana. Persons who intentionally misrepresented their status are considered to have committed fraud if it is determined that those individuals did, in fact, falsely report no wages earned while simultaneously receiving benefits.

⁷ The total number of claimants identified in the June 30, 2006 match was 30,770: 18,388 received benefits during “Autopay”, whereas 25,735 received benefits after “Autopay”. The total (30,770) accounts for each claimant once; however, many claimants received benefits during and after “Autopay” and are reflected in both sub-categories (during and after “Autopay”).

IV. Some DUA and UI claims were duplicated among states and other grant funded programs.

The lack of information sharing between programs and states resulted in claimants obtaining multiple, duplicative benefits. According to ST Handbook No. 356, claimants can not receive benefits under both DUA and UI. Some claimants received DUA or UI from multiple states, or while being paid for work on Public Service Employment (PSE) projects.

A. States did not identify claimants receiving benefits under both DUA and UI.

Our comparison of the 323,775 unemployment claims in Louisiana and 140,208 unemployment claims in Mississippi identified 300 instances where individuals filed hurricane-related claims in both States.

- Louisiana and Mississippi paid \$240,014 of DUA to 190 individuals while they also received State UI from the other State.

At the time we previously issued management letters with more specific details, the two States had recovered 36 claims (2 of the 36 claims were a partial recovery), but \$205,028 remained to be collected for 156 claimants.

- Louisiana and Mississippi paid \$167,132 of DUA to 106 individuals.

Subsequently, Louisiana recovered \$7,252 payments for 7 claims and Mississippi recovered \$3,430 payments for 4 claims (1 of the 4 claims was a partial recovery). At the time our prior management letters were issued, \$156,450 remained to be collected for 96 claimants.

B. States did not identify claimants who received unemployment benefits after they had obtained subsidized public service employment (PSE).

We analyzed DUA and UI claims for individuals who were simultaneously enrolled in PSE at local workforce boards of the Alabama Department of Industrial Relations, LDOL, MDES, and TWC. Through a comparison of 2,483 claims in Alabama, Louisiana, Mississippi, and Texas identified as PSE enrollees with DUA and UI payment data, we identified 357 instances of DUA and UI beneficiaries simultaneously receiving unemployment benefits while receiving wages for working on PSE projects. According to the ET Handbook No. 356, claimants were not eligible to receive unemployment benefits while also receiving PSE wages.

The duplicated payments from the two programs were attributable to a lack of information sharing between programs and States, not due to attempted misuse by claimants. A lack of resources in the affected States also hampered their ability to identify and stop the duplicated payments.

Since individuals could be enrolled without actually having yet worked on a PSE project, we identified all those enrolled in PSE in the affected states. In order to quantify the overpayments we obtained payroll records from local workforce investment areas (LWIAs) for those individuals, and then compared the payrolls to DUA and UI payment records. In Louisiana and Texas, we did not compare all PSE records, but analyzed a sampling from several local boards.

We found that individuals had been paid PSE while receiving DUA or UI in the same or another state. The total amount of DUA and UI overpaid for the 357 individuals for whom we obtained PSE payroll records was approximately \$295,000.

V. Insufficient accountability resulted in mismanagement of Federal funds.

A. Louisiana drew down from the Hurricanes Katrina and Rita DUA grants \$2.7 million more than what it actually paid claimants.

Our review of Louisiana's debit cards revealed that, as of October 23, 2006, the State had drawn down \$2,622,229 and \$118,496 more from the DUA grants for Hurricanes Katrina- and Rita- related claims, respectively, than it had evidence to support in its claims system. At the time of our review, we also identified a discrepancy in the DUA totals between Louisiana's accounting and claims systems. State officials stated that this difference was the result of back-logged transactions they estimated would be completed and entered into their systems within a year.

B. Louisiana did not make timely re-determinations of UI eligibility for DUA beneficiaries.

Grant regulations provide that DUA is to be paid to affected individuals only when they do not qualify for UI. Officials in Louisiana disclosed that claimants were paid DUA for Hurricane Katrina-related claims that were initially ineligible for UI, using their second calendar quarter 2004 through first calendar quarter 2005 base period wages.

Although the initial DUA determination was appropriate, if claimants were still unemployed after October 1, 2005, as a result of the disaster, the State had a responsibility to re-determine the UI claims based on wages in an updated base period. The new UI base period was the third calendar quarter of 2004 through the second calendar quarter of 2005 (July 1, 2004, through June 30, 2005). If claimants had sufficient wages for UI eligibility in this new base period, the State would normally have terminated the DUA claim, effective the week ending October 8, 2005, and established a UI claim.

Louisiana was unable to make timely re-determinations to ensure payment of proper DUA benefit amounts, or program entitlement, when wages in quarters subsequent to the initial base period were sufficient to qualify the claimant for UI benefits. Many claims needed to be transferred from DUA to UI based on the lag quarter wages, i.e. second calendar quarter 2005, but were not done timely.

As a result of the workload and delay in compiling a wage record file, based on employer's tax and wage reports, no claims were re-determined based on the second calendar quarter until sometime in December 2005, according to State officials. Any affected DUA claimants who qualified for UI after October 1, 2005, required the State to make accounting adjustments to transfer the DUA payments to the UI program for weeks ending after October 8, 2005, until the UI claimants exhausted their Maximum Benefit Amount.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Develop a nationally coordinated contingency plan that provide alternatives for individual states to adopt in processing DUA and UI when normal processing is disrupted by disasters or other reasons, including compensating controls for instances when States suspend eligibility and benefit payment controls. If finalized and adopted by ETA and all States, the September 2006 draft NUIDPP would address the issues identified in the course of our work;
2. Require States to suspend DUA and UI payments after a reasonable, but limited, period of time for claimants who cannot provide proof of employment, or whose alternative documentation does not support initial claimant eligibility; and
3. Promote data sharing among states to minimize invalid duplicate payments.

Agency Response

ETA generally agreed with our recommendations. They have been working with states to coordinate contingency planning for state unemployment insurance operations when normal processing is disrupted by disasters. They plan to post on their website the National Unemployment Insurance Disaster Preparedness Planning Effort, which outlines lessons learned and contains a set of recommendations concerning disaster preparedness planning. Additionally, they have convened a federal-state workgroup to develop guidance and procedures for states to include in their individual state continuity of operations plans.

Concerning claimant DUA and UI eligibility, ETA plans to issue an Unemployment Insurance Program Letter in the near future to remind states of the DUA eligibility requirements, including the requirement to suspend and deny payment, and establish appropriate overpayments, when timely documentation is not provided.

ETA has been actively engaged in promoting the use of data matching and other tools in order to minimize invalid, duplicate or fraudulent payments. In addition, they have promoted the use of the National Directory of New Hires data to access information on claimants who have returned to work.

OIG Conclusions

Based on ETA's response and actions related to all three recommendations, we consider all three recommendations resolved.



Elliot P. Lewis

Exhibits

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EXHIBIT A

DUA Funding, Disbursements, and Review Populations

State DUA Funding as of 6/12/07		
State	Benefits	Administration
LA	\$302,811,747	\$17,549,288
LA(Rita)	10,829,988	955,500
MS **	85,000,000	3,450,000
Total	\$398,641,735	\$21,954,788

State DUA Disbursements as of 6/12/07		
State	Benefits	Administration
LA	\$301,262,296	\$11,620,962
LA(Rita)	10,516,666	955,500
MS **	83,800,000	3,080,926
Total	\$395,578,962	\$15,657,388

Population Examined			
State	Programs	Benefits Paid	As of Date
LA	Katrina DUA	\$299,323,656 ⁸	10/23/06
LA	Katrina UI	568,918,851	10/23/06
LA	Rita DUA	10,489,667	10/23/06
LA	Rita UI	24,165,293	10/23/06
MS	Katrina DUA	37,598,080	6/09/06
	Total	\$940,495,547	

⁸ The Louisiana benefits analyze for eligibility of DUA claimants was \$192,632,599. Other issues for Louisiana benefits were examined later, as noted in the table.

Katrina/Rita Related Audit Report/Management Letters

REPORTS ISSUED	Report #	Product/Date
1. Claimants with Unemployment Claims in Both Mississippi and Louisiana Related to Hurricane Katrina	06-06-004-03-315	Management Letter December 20, 2005
2. Items to Consider for Effective Implementation of the NEG Awarded to the Texas Workforce Commission for Hurricanes Katrina and Rita Relief	06-06-001-03-390	Management Letter December 20, 2005
3. Grant Implementation Issues NEG No. EM-15067-05-60 Issued to the Louisiana DOL for Hurricane Katrina Relief	06-06-003-03-390	Management Letter December 20, 2005
4. Grant Implementation Issues NEG No. EM-15066-05-60 Issued to the Mississippi Department of Employment Security for Hurricane Katrina Relief	04-06-004-03-390	Management Letter February 27, 2006
5. Grant Implementation Issues NEG No. EM-15065-05-60 Issued to the Alabama Department of Economic and Community Affairs for Hurricane Katrina Relief	04-06-003-03-390	Management Letter February 28, 2006
6. One Individual in Possession of Multiple Hurricane Katrina Disaster Unemployment Assistance Claims in Louisiana	06-06-005-03-315	Management Letter March 3, 2006
7. Follow-up on Claimants with Unemployment Claims in Both Mississippi and Louisiana Related to Hurricane Katrina -	06-06-008-03-315	Management Letter March 20, 2006
8. Questionable Eligibility of College Students in Mississippi's NEG Training Program	04-06-008-03-390	Management Letter September 28, 2006
9. Individuals Received Unemployment Benefits in Louisiana While Receiving PSE Wages in Texas	06-06-006-03-315	Management Letter September 29, 2006
10. Individuals Received Unemployment Benefits in Louisiana While Receiving PSE Wages in Louisiana	06-06-007-03-315	Management Letter September 29, 2006
11. Individuals Received DUA in Louisiana While Receiving UI in Mississippi	06-06-009-03-315	Management Letter September 29, 2006
12. Individuals Received DUA in Both Louisiana and Mississippi	06-06-010-03-315	Management Letter September 29, 2006
13. Texas and Mississippi Overpaid Unemployment Benefits to Some Texas PSE Participants	06-06-011-03-315	Management Letter September 29, 2006
14. Louisiana May Have Paid at Least \$3.7 Million in Hurricane-related Unemployment Claims Based on Claimants Using Invalid Social Security Numbers	06-07-001-03-315	Audit Report March 6, 2007
15. Mississippi's Suspension of Controls Resulted in the Payment of at Least \$25 Million in Disaster Unemployment Assistance to Claimants Whose Eligibility was Unsubstantiated	06-07-004-03-315	Management Letter August 28, 2007
16. Louisiana's Suspension of Controls Resulted in the Payment of at Least \$62.1 Million in Disaster Unemployment Assistance to Claimants Whose Eligibility was Unsubstantiated	06-07-005-03-315	Management Letter August 28, 2007
17. Insufficient Controls Over Hurricane-issued Debit Cards Created Opportunities for Fraud	06-07-002-03-315	Management Letter August 28, 2007
18. The Louisiana Department of Labor Paid \$51 Million in Hurricane-related Unemployment Benefits on Questionable Claims (NDNH)	06-07-003-03-315	Management Letter August 28, 2007

EXHIBIT C

**Internal Control Issues Identified
(By State)**

State(s)	Issue/ Report Number	Period of Benefit Payments Examined
Louisiana	UC Payment System Needs Real-time Connection to SSA Rpt.# 06-07-001-03-315 (issued 3/6/07)	9/10/05- 6/3/06 ⁹
Louisiana	Validity of Claimant SSNs Rpt.# 06-07-001-03-315 (issued 3/6/07)	9/10/05- 6/3/06
Louisiana	Initial Claimant Eligibility Rpt.# 06-07-005-03-315 (issued 9/28/07)	9/10/05- 6/24/06
Mississippi	Initial Claimant Eligibility Rpt.# 06-07-004-03-315 (issued 9/28/07)	9/10/05- 6/3/06
Louisiana	Affect of Louisiana Auto Pay- No weekly wage reporting- to Nov. 19 th Rpt.# 06-07-003-03-315 (issued 9/28/07)	9/10/05- 11/19/05
Louisiana	Use of Data from National Directory of New Hires Rpt# 06-07-003-03-315 (issued 9/28/07)	9/10/05- 10/23/06
Alabama, Louisiana, Mississippi, and Texas	PSE Duplicated with DUA and UC Rpt.# 06-06-006-03-315 (issued 9/29/06) Rpt.# 06-06-007-03-315 (issued 9/29/06) Rpt.# 06-06-011-03-315 (issued 9/29/06)	9/05- 12/05
Louisiana and Mississippi	Duplicated DUA and or UC Rpt# 06-06-008-03-315 (issued 3/20/06) Rpt# 06-06-009-03-315 (issued 9/13/06) Rpt.# 06-06-010-03-315 (issued 9/29/06)	LA- 9/10/05- 11/5/05 MS- 9/10/05- 10/15/05
Mississippi	Impact of Paying Maximum Week Benefit Amount Rpt.# 06-07-004-03-315 (issued 9/28/07)	9/4/05- 6/9/06
Louisiana	Failure to Timely Re-determine DUA Claimants' Eligibility for UC Rpt.# - None	N/A
Louisiana	Accounting Control Improvements Needed for Debit Card Payments Rpt.# 06-07-002-03-315 (issued 9/28/07)	9/10/05- 10/23/06
Louisiana	DUA Drawdowns Exceeded Recorded Payments Rpt.# 06-07-002-03-315 (issued 9/28/07)	9/10/05- 10/23/06

⁹ Hurricane Katrina benefits were payable through the week ending June 3, 2006. Hurricane Rita benefits were payable through the week ending June 24, 2006.

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Appendices

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APPENDIX A

BACKGROUND

Hurricanes Katrina and Rita devastated the Gulf Coast Region on August 29, 2005, and September 24, 2005, respectively. Among their impacts, numerous local employers were forced out of business and, as a result, an unprecedented number of workers became instantly unemployed.

Those unemployed as a result of Hurricanes Katrina and Rita were eligible for one of two benefit programs. The first, State UI, provides benefits to eligible workers who are unemployed through no fault of their own, and meet eligibility requirements established by their State. UI benefits are state funded except for some groups of former federal employees whose cost are reimbursed by their former federal agency, etc. The second, Disaster Unemployment Assistance (DUA), provides financial assistance to individuals whose employment or self-employment has been lost or interrupted as a direct result of a major disaster declared by the President of the United States. Before an individual can be determined eligible for DUA, it must be established that the individual is not eligible for regular UI benefits.

States affected by the hurricanes were faced with an unprecedented number of unemployed workers who turned to the Federal-State Unemployment Compensation program as a temporary source of income. This program offers the first economic line of defense against the ripple effects of unemployment, while ensuring payments made directly to eligible, unemployed workers are available for a significant proportion of life's necessities, most notably food, shelter, and clothing.

DUA is entirely federally funded by FEMA through transfer of funds to ETA which oversees amounts allocated to State Workforce Agencies (SWAs).

To speed the delivery of services, the President pledged to provide hurricane victims access to streamlined registration and enrollment in Federal benefit programs for which they qualified. On October 13, 2005, the Office of Management and Budget (OMB) provided implementation policy intended to "ensure a citizen-centered approach in a cost-effective manner that prevents fraud and abuse." While OMB called on Federal agencies to relax – and even waive, if allowable – enrollment criteria and documentation requirements, OMB stated that such measures should be time-limited. OMB also stated that Federal agencies and their state and local partners should require compensating controls, such as post-payment verification, to ensure that benefits would go only to eligible individuals.

The affected State's were tasked with providing unemployment benefits to the hurricane victims under the most challenging of circumstances. The hurricanes affected both the infrastructure and staffing of the State UI agencies charged with determining eligibility and delivering benefits. Other states stepped up to act as agents for, or loan staff to, the affected states for the processing of claims. Another challenge was that many of

the claimants and employers lost records that would, for example, substantiate claimants' eligibility for DUA. Despite these enormous challenges, we estimate the affected States paid nearly \$1.3 billion in combined UI and DUA benefits to claimants following the hurricanes.

To determine if benefits reached eligible recipients as intended, the OIG initiated an audit of payments made under the two programs. Our initial objectives were to identify DOL programs initiating projects related to disaster relief, collect information on program initiatives, identify vulnerabilities in the projects initiated, and determine areas where oversight may be beneficial in preventing fraud, waste, or abuse. We provided a series of special reports to the Department to communicate our results. This report summarizes our previously reported findings and recommendations, and makes new recommendations aimed at reducing and detecting UI and DUA overpayments.

Debit Cards Issued in Louisiana

To expedite the delivery of benefits, LDOL implemented a new payment method using debit cards. LDOL contracted with JPMorgan Chase to establish debit card accounts for claimants, and transferred pertinent information to the company--name, address, full social security number (SSN), and birth date. JPMorgan Chase contracted with Oberthur Card Services (Oberthur) to produce and distribute these debit cards.

Debit cards were sent to claimants based on addresses provided when they initiated their claims. Because so many claimants subsequently relocated, debit cards were returned undelivered to LDOL, as well as Oberthur.

APPENDIX B

OBJECTIVE, SCOPE, METHODOLOGY, AND CRITERIA

Objective

Specifically, the OIG initiated work to answer the following question:

- Were internal controls over states' claims initiation, payment processes, and fraud detection effective?

Scope

This report summarizes our coverage of UI and DUA benefits paid as a result of Hurricanes Katrina and Rita. The objective of our work was to look at various control issues concerning UI and DUA payments in the affected States including:

- Duplicated payments
- Initial claimant eligibility in Mississippi and Louisiana.
- Continued claimant eligibility in Louisiana
- Benefit disbursements using debit cards in Louisiana
- Validity of claimant Social Security Numbers (SSNs) in Louisiana
- The opportunity for States to implement a real-time connection with the Social Security Administration to determine the validity of SSNs during the claims taking process.

Based on available staff, and time and amount of unemployment benefits paid, we examined selected issues related to the states' administration of the UI and DUA benefits for hurricane victims. As a result, some internal control issues were analyzed in Louisiana and/or Mississippi, but not in the other affected States. While specific findings may apply to only one State, the results can be used to facilitate a review of current policy and procedures as part of the planning process for administering UI and DUA in future catastrophic circumstances.

Our review period covered benefits paid for the weeks ending September 10, 2005, through the period of benefit payments examined as shown in the table at Exhibit C. Our work was completed at the respective State Workforce Agency and selected local workforce boards and our Dallas and Denver Offices. Our period of fieldwork varied, based on the individual issue identified on Exhibit C; but extended through July 12, 2007.

Methodology

In preparing this summary report we have incorporated issues and findings identified in a related audit report and management letters. Additionally, we:

- Visited three of the affected States and obtained their perspective on any additional issues concerning UI and DUA claims processing;
- Met with ETA regional staff;
- Met with ETA National office staff; and
- Reviewed the National Unemployment Insurance Disaster Preparedness Plan.

The specific methodologies used in the respective audit report and management letters can be found in the documents, previously issued, and identified in Exhibit B.

Criteria

- FEMA, Notice of Presidential Declaration of a Major Disaster, FEMA-1603-DR
- OMB Memorandum, dated October 13, 2005; Eligibility Verification Requirements for Delivery of Benefits to Victims of Hurricanes Katrina and Rita
- 20 CFR 625.6, DUA Eligibility Verification Requirement
- SSA, Section 303(a)(1), Debit Cards – Prompt Payment of UI
- Louisiana’s Debit Card Business Rules, February 2006, 1. Debit Card Issue
- ETA Federal Register Notice, Volume 65, Number 229 – Maintaining Eligibility
- Employment and Training Handbook No. 356, UI, DUA Handbook
- Assistant Secretary for Employment and Training Memorandum, dated September 16, 2005, DUA – Extension of Period for Submitting Documentation
- State of Mississippi, Office of the Governor, Executive Order No. 940, Relating to UI Benefit Claims
- UI Program Letter No. 22-06, NDNH – Use for UI Program Integrity
- UI Program Letter No. 04-01, Payment of Compensation and Timeliness of Determinations during a Continued Claims Series
- UI Program Letter No. 19-04, Additional Information for SWAs to Implement Data Sharing with the SSA via the Interstate Connection Network

APPENDIX C

ACRONYMS AND ABBREVIATIONS

CSR	Customer Service Representative
DUA	Disaster Unemployment Assistance
ETA	Employment and Training Administration
FEMA	Federal Emergency Management Agency
ITSC	Information Technology Support Center
LDOL	Louisiana Department of Labor
NASWA	National Association of State Workforce Agencies
NDNH	National Directory of New Hires
NUIDPP	National Unemployment Insurance Disaster Preparedness Plan
OLRFI	Office of Labor Racketeering and Fraud Investigations
OMB	Office of Management and Budget
PSE	Public Service Employment
SSA	Social Security Administration
SSN	Social Security Number
SWA	State Workforce Agency
UC	Unemployment Compensation
UI	Unemployment Insurance
USDOC	U.S. Department of Commerce
USDOL	U.S. Department of Labor
WBA	Weekly Benefit Amount

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APPENDIX D

AGENCY RESPONSE

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, DC 20330

MAR 31 2003

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

FROM: BRENT R. ORRELL *Brent R. Orrell*
Acting Assistant Secretary for Employment and Training

SUBJECT: Lack of Contingency Plans Contributed to More Than \$100
Million in Potential Overpayments of Hurricane Related
Unemployment Benefits
Draft Audit Report No. 06-08-001-03-315

Thank you for the opportunity to review and comment on the subject report which summarizes the findings from a series of management letters to which we have responded previously. Please be assured that the Employment and Training Administration (ETA) continues to work with Louisiana and Mississippi to improve overpayment prevention and detection, oversees efforts to recover erroneous payments, and ensure that appropriate actions are taken against those found to have received benefits fraudulently. We agree, in general, with your three new recommendations, and our comments on those are provided below.

We agree with your new recommendation that ETA coordinate contingency planning for state unemployment insurance operations when normal processing is disrupted by disasters, and we have been working with states for some time in this effort. A report entitled, National Unemployment Insurance Disaster Preparedness Planning Effort, was the result of a study commissioned by the Department after Hurricanes Katrina and Rita devastated the Gulf Coast, and we plan to post it on our Web site. The report outlines lessons learned and contains a set of recommendations concerning disaster preparedness planning. While some of the recommendations are not feasible at this time due to resource constraints, the Department has moved forward on one key recommendation which involves the convening of a federal-state workgroup to develop guidance and procedures for states to include in their individual state continuity of operations plans. This guidance is intended to position the Unemployment Insurance (UI) system nationwide to be better prepared to respond in the event of another disaster the magnitude of the 2005 Gulf Coast disasters.

You also recommended that ETA advise states to suspend UI and Disaster Unemployment Assistance (DUA) payments when certain documentation is not provided by beneficiaries. An UI Program Letter will be issued in the near future to

remind states of the DUA eligibility requirements, including the requirement to suspend and deny payment, and establish appropriate overpayments, when timely documentation is not provided.

In general, suspension of UI payments must follow state law and policy; however, the Department will continue to work with states to ensure they maintain program integrity in times following a disaster(s). A workshop addressing UI program integrity after a disaster will be conducted at the National UI Integrity Conference in April 2008. Other conference workshops and plenary sessions will highlight best practices and information sharing, including use of effective data matching tools.

We are actively engaged in activities that support your recommendation to promote data matching. States have multiple tools available to them to cross match data in order to minimize invalid, duplicate or fraudulent payments. A number of states match data against their state Department of Motor Vehicles to help prevent identity theft and use the UI Interstate Benefits Inquiry system to check for wages or claims in other states. States also have access to the Social Security Administration (SSA) data to verify identity and receipt of SSA benefits and the Systematic Alien Verification for Entitlements data to verify citizenship and immigration status. In addition, the Department has been strongly promoting use of the National Directory of New Hires data to access information on claimants who have returned to work. Many states use all of these tools, and most states use one or more in addition to other data matching within each state. FTA will continue to actively support the use of these and other tools to reduce improper payments.

The FTA appreciates the collaborative approach taken by your office in identifying potential improper payments that occurred in large part because Mississippi and Louisiana did not have operational plans in place to process the unprecedented increase in claims following the Gulf Coast Hurricanes in 2005.