

3. Improper Payments Information Act Reporting Details

I. Risk Assessment

The Department's risk assessment for FY 2006 was developed by establishing criteria for determining levels of risk and evaluating all major programs against these criteria. Different methodologies were necessary for assessing the risks of improper payments for benefit and grant programs because of the differences in their administration and the availability of data.

Benefit Programs

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

1. Programs with outlays less than \$200 million

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

2. Programs with outlays greater than \$200 million

The Department sampled FY 2006 data in order to determine an improper payment rate. The sampling details, including sampling methodology and sampling selection, are provided in the next section. The Department sampled Federal Employees Compensation Act (FECA), Unemployment Insurance (UI), Black Lung Disability Trust Fund, and Energy Employees Occupational Illness Compensation Program. The Department applied the improper payment rate determined through sampling to the program outlays for FY 2006 in order to determine whether the amount of potential improper payments for these programs exceeded the \$10 million threshold. UI was the only program deemed to be susceptible to risk as a result of this approach. Per the Office of Management and Budget's (OMB) guidelines, the Department is reporting FECA's improper payment rate.

Grant Programs

The Department used a separate methodology to assess the risk of improper payments in grant programs because these are administered differently than benefit programs.

Since the Department provides grants to states, cities, counties, private non-profits, and other organizations to operate programs, it relies significantly on single audits (as required by the Single Audit Act of 1996) to monitor funding to all grant recipients. Therefore, the Department analyzed these single audit reports² in order to determine the improper payment rate for all grant programs.

The Department reviewed all FY 2004 single audit reports with Department of Labor-related findings from the Federal Audit Clearinghouse and identified all questioned costs. FY 2004 reports were the most recent single audit reports available for review. Based on a review of the definition of questioned costs in OMB Circular A-133 and OMB's IPIA implementation guidance, we determined that questioned costs can be used as a proxy for improper payments.

² The Single Audit Act of 1996 provides for consolidated financial and single audits of state, local, non-profit entities, and Indian tribes administering programs with Federal funds. Since 1997, all non-Federal entities that expend over \$300,000 (\$500,000 for fiscal years after December 31, 2003) or more of Federal awards in a year are subject to a consolidated financial single audit; any non-Federal entities that do not meet this threshold are not required to have a single audit. All non-Federal entities are required to submit all single audit reports to a Federal Audit Clearinghouse (Clearinghouse) that is administered by the Census Bureau.

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

For the other non-WIA grant programs, the Department determined an overall improper payment rate by dividing the projection of the non-WIA questioned costs by the total non-WIA outlays.³ No grant programs were determined to be susceptible to risk as a result of this approach. However, like FECA, the Department is reporting on WIA’s improper payment rate as required by OMB guidelines, although its improper payment rate is well below the 2.5 percent threshold.

Results

Based on the risk assessment methods applied to benefit programs and grant programs, only one program, UI, was determined to be high risk. Two other programs, FECA and WIA, were classified as high risk because each of the program’s payments exceeds \$2 billion, although their risk assessments do not support such a high risk designation. The Department plans to continue to identify corrective actions to reduce improper payments in these programs and has established improper payment reduction and overpayment recovery targets in accordance with IPIA and associated OMB guidance.

Table 2: Department of Labor’s High Risk Programs

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

The Department also sampled the following programs in FY 2006 despite their low risk status in FY 2004 and FY 2005. A listing of programs that were sampled is presented below in Table 3.

Table 3: Additional programs that were sampled

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

II. Statistical Sampling

The Department’s risk assessment identified only the UI program as being risk susceptible based on the OMB guidance threshold. However, as noted, two additional programs, WIA and FECA, were added to this list as required by OMB guidelines. In addition, the Department sampled several other programs that did not qualify as risk-susceptible programs.

Unemployment Insurance (UI)

Sampling Methodology: Improper payment rates are obtained from the Benefit Accuracy Measurement (BAM) program. It is designed to determine the accuracy of paid and denied claims in the three largest permanently authorized unemployment compensation (UC) programs: State Unemployment Insurance (State UI), Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX).

³ A review of the FY 2003 single audit reports revealed questioned costs for only some of the grant programs. Even for those programs that had questioned costs, there were not enough samples to make a valid projection. Therefore, an aggregate projection of questioned costs was made for all non-WIA grant programs and an overall estimated improper payment rate was calculated by dividing this projection by the total non-WIA outlays identified in the Clearinghouse. This estimated improper payment rate was then applied to the specific grant program outlay to calculate the estimated amount of improper payments.

BAM provides two rates of improper payments. The first, the Annual Report Overpayment Rate, includes estimates of nearly every divergence from what state law and policy dictate the payment should have been. The second rate, the Operational Overpayment Rate, includes only recoverable overpayments states are most likely to detect through ordinary overpayment detection and recovery procedures, known as Benefit Payment Control (BPC) procedures. Operational overpayments are the most likely to be detected and established for eventual recovery and return to the Trust Fund.

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

In reconstructing each sampled payment, the BAM program retroactively investigates the accuracy of the UI claim's monetary and separation determination as well as all information relevant to determining weekly eligibility for the sampled payment, including the claimant's efforts to find suitable work, ability and availability for work, and earnings from casual employment or other income sources, such as pensions. By 2008, all BAM investigations will incorporate a crossmatch with New Hire data to improve the ability to detect overpayments due to beneficiaries who claim benefits after returning to work, the largest single cause of UI overpayments.

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

Sample Selection: The universe (population) is the payments and denials under the State UI, UCFE, and UCX programs. State UI, UCFE and UCX account for approximately 95% of UC programs activity in an average year. Data on overpayment and underpayment rates for FY 2006 shown in the Improper Payment Reduction Outlook Table are for the period July 1, 2005, to June 30, 2006. Data are shown for this period rather than the Fiscal Year because they are more complete and thus more precise. Based on historical data, those BAM cases requiring the most time to complete are more likely to have payment errors. The BAM program standard is to complete 95% of the cases within 90 days. Over 99.5% of the BAM cases for the period shown are complete, versus about 92% of the cases for the fiscal year. The paid claim accuracy completed sample consisted of 23,711 payments. For Denied Claims Accuracy (DCA), states sample 150 cases for each of the monetary, separation, and non-separation denials; the allocated sample for each type is 7,800 cases per test per year. A total of 46,379 items were selected and investigated for both the BAM and DCA samples for the period July 1, 2005, to June 30, 2006.

Federal Employees' Compensation Act (FECA)

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

Sample Selection: The universe of the population is for both the compensation and medical payments paid out of the FECA program in the testing period, October 1, 2005, to June 30, 2006. The population was stratified in compensation payments and medical payments from thirteen district offices. Samples of 102 items from compensation payments and of 108 items from medical payments were selected. A total of 210 items were selected and tested for the FY 2006 FECA sample.

Black Lung Disability Fund

Sampling Methodology: A stratified sampling approach was applied to estimate improper payments for both medical bill payments and benefit payments. The population was stratified into medical payments and benefit payments. The medical bill payment sampling was designed to test payment issues such as duplicate payments, eligibility at date of

service, procedure covered by program, and appropriate receipts and paperwork. The compensation payment sampling was designed to test issues such as eligibility requirements, calculations of compensation amounts, and calculations of compensation offsets due to dependants.

Sample Selection: The universe of the population is for medical payments made at Computer Sciences Corporation (CSC) and for all benefit payments paid out of the Black Lung program in the testing period, October 1, 2005, to June 30, 2006. The universe of the population is also medical payments made at Affiliated Computer Services (ACS) in the testing period, October 1, 2005, to June 30, 2006. The sample consisted of 45 benefit payments and 45 medical bill payments. A total of 90 items were selected and tested for the FY 2006 Black Lung sample.

Energy Employees Occupational Illness Fund

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

Sample Selection: The universe of the population consisted of compensation payments and medical bill payments made under EEOICP in the testing period, October 1, 2005, to June 30, 2006. The sample consisted of 45 compensation payments and 46 medical bill payments.

Department of Labor Salaries

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

Sample Selection: The universe of the population of Department salaries is comprised of the payroll transactions in the testing period, October 1, 2005, to June 30, 2006. A sample of 66 items from the Department's payroll transactions was selected for testing.

Department of Labor Expenses

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

Sample Selection: The universe of the population of expenses is comprised of DOL expense payments in the testing period, October 1, 2005, to June 30, 2005. A total of 50 items were selected and tested.

III. Corrective Actions

Unemployment Insurance

Despite implementing new initiatives that will reduce its improper payments, the UI program's estimated improper payment error rate increased to 10.0%. The underpayment rate—the percentage of dollars paid made that was smaller than they should have been—was 0.67%, a rate that has remained steady for several years.

Two factors appear to account for most of the increase in the overpayment rate from 9.3% a year earlier as the table below shows:

- Several major hurricanes in 2005 had a devastating impact on Louisiana and Mississippi, and less severe impacts on Alabama, Florida, and Texas. Overpayments in these states increased significantly during the year, largely because of confusion about reinstated eligibility requirements that had been temporarily suspended due to disruption of the economy. We estimate that the increases in the Gulf States raised the aggregate Annual Report rate by a third of a percentage point and the operational rate by 0.13 percentage points.
- In its aggressive emphasis on payment integrity over the past few years, the Department has developed a new core performance measure for overpayment detection and has begun to improve the Benefit Accuracy Measurement (BAM) program's ability to detect individuals who are working and claiming UI benefits concurrently, the single largest cause of overpayment errors. This increased attention has heightened states' overall awareness of the problem of UI benefit overpayments and led to improved--and higher--BAM estimates. For the year ending 06/30/06, eighteen states voluntarily crossmatched BAM cases with the State Directory of New Hires (SDNH) or National Directory of New Hires (NDNH). We estimate that this voluntary use of the new hire directories raised the measured overpayment rates by nearly a fifth of a point during FY 2006.

	Total Rate	Operational Rate*
Year Ending 6/30/2005 Rates	9.32%**	4.98%**
FY 2006 Targets	9.3%	4.75%
Unadjusted YE 6/30/2006 Estimates	10.0%	5.63%
New Hire Cross match	-0.18%	-0.18%
Hurricane - affected States	-0.35%	-0.13%
Adjusted Rates	9.47%	5.32%

The Department has obtained authority to require states to use the NDNH to improve their BAM estimates of overpayments due to workers who return to work but continue claiming benefits. When this NDNH crossmatch requirement becomes mandatory in January 2008, we estimate that it will raise the measured BAM annual report and operational rates by 0.5 to 0.75 percentage points.

Without the effects of these two elements, we estimate that the Annual Report rate would have been about 9.5% instead of 10.0%, and the operational rate 5.3% instead of 5.6%. Because both estimates are sample-based, they are subject to the usual sampling variation. The 95% confidence intervals are 10.0% +/- 0.54 percentage points for the Annual Report rate and 5.63% +/- 0.44 percentage points for the operational rate.

The Department's analytical studies indicate that earlier detection of recoverable overpayments is the most cost-effective way to address improper payments. Early detection allows agencies to stop payments before a claimant who has returned to work can exhaust benefits and to recover these overpayments more readily. The Department estimates that the forty-five states that crossmatch UI beneficiaries with the SDNH or the NDNH instead of UI wage records prevented approximately \$75 million of overpayments in each of the past two fiscal years. Last year, three states participated in a pilot study initiated by the Office of the Chief Financial Officer and the UI program to determine whether a cross-match using the NDNH is more effective than the SDNH in identifying individuals no longer eligible to receive UI benefits. The results of this pilot showed that because the NDNH includes records for out-of-state employers, Federal agencies, and multi-state employers that report all of their new hires to a single state, it detects improper payments more effectively than the SDNH. The Department has provided states with funds to implement these NDNH cross-matches; as of 10/30/06, twenty-two states have implemented the NDNH crossmatch, twelve states have signed the computer-matching agreement with HHS that is the prelude to connecting with the NDNH, and seventeen are in the planning process. Seven States were awarded special FY 2006 supplemental funds to implement NDNH.

In FY 2005, the Department began providing States funds to conduct Reemployment and Eligibility Assessment (REAs) with UI beneficiaries. These assessments reduce improper payments both by speeding claimants' return to work and by detecting and preventing eligibility violations. Twenty states received funds to continue REAs during FY 2006; these REAs are estimated to return about \$66 million to the UI trust fund. An impact evaluation of nine states' REA programs is scheduled for March 2007.

Federal Employees' Compensation Act

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

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

- Medical bill processing performance is reviewed as a routine function of FECA National Office oversight of the central bill processing contract and is used to score against performance requirements specified in the contract.
- Samples of medical payments are audited monthly by FECA district office staff for both financial and procedural errors.
- Compensation payment performance is reviewed by FECA district office managers, line supervisors, and fiscal operations staff; frequency of review varies according to need (e.g., supervisors and fiscal staff look at performance almost on a per-transaction basis; whereas, summary performance is reviewed daily, weekly, or quarterly by supervisors and managers). Results are monitored in the National Office and used to design procedural revisions or corrective action plans for the District Offices. The National Office also conducts formal biennial accountability reviews to rate each District Office for quality and accuracy. System reports used to analyze payment information include the Report on Receivables Due from the Public (Schedule 9), Accounts Receivable Aging Schedule and Performance reports. Regular matching of death records is done to reduce improper payments.
- Case management techniques are used to monitor ongoing entitlement to benefits and payment accuracy. For example, FECA's Periodic Roll Management (PRM) units monitor cases receiving long-term disability benefits. Changes in medical condition or ability to return to work are identified by regular ongoing PRM review of the cases, and compensation benefits may be reduced or terminated. Benefit reductions also result from new information reported about changes in status, such as the death of a claimant. The key outcome measure for PRM is the annual amount of benefit savings generated from these case actions. Benefits savings can also be compared directly to PRM administrative costs.
- Improvements continue in documentation quality and faster transmission of notice of injury and claims for compensation from the agencies to OWCP. Progress in submitting these forms more quickly yields faster and more accurate adjudication and payment and fewer customer service problems. More than a quarter of new claims are now received via Electronic Data Interchange from the Departments of Labor, Defense, Treasury, Transportation, Veterans Affairs, and Homeland Security. That percentage is expected to grow in the future.

Workforce Investment Act

Ensuring proper fund stewardship is of primary importance to the WIA program. ETA currently uses a multi-step approach to ensure proper administration and effective program performance of WIA grants. First, ETA starts its review/oversight process by conducting a structured risk assessment of all new grants and grantees. Risk assessments are periodically revised as new information about a grant and grantee becomes available through desk reviews, onsite reviews or other sources of information. Second, ETA Federal Project Officers (FPOs) conduct quarterly desk reviews of the financial and program performance of each grant. The results of these activities are contained in the Grants e-Management Solution (GEMS), an electronic tracking and grant management system. This serves as an early warning system to detect

⁴ OWCP oversees the administration of four federal employee compensation programs. These programs are the Energy Employees Occupational Illness Compensation program, the Federal Employees' Compensation program, the Longshore and Harbor Workers' Compensation program, and the Coal Mine Workers' Compensation program.

potential financial management and/or programmatic performance issues and allows ETA to target technical assistance more effectively. Finally, ETA staff (FPOs, financial management and others) conduct periodic onsite reviews of grantees. ETA attempts to conduct an onsite review of each grantee at least once every two years, but actual review schedules are based on the results of the risk assessments and desk reviews. Onsite reviews are conducted using ETA's Core Monitoring Guide as well as program specific and technical guide supplements designed to provide a more detailed review of program requirements and financial activities. Results of the onsite monitoring activities are also cataloged in the GEMS system. For grantees with large numbers of sub-recipients (e.g., WIA formula grantees), the onsite review conducted using the formula program supplement to the Core Guide includes an assessment of the grantee's sub-recipient monitoring activities. In addition, ETA conducts onsite review of local areas as part of its review of the state grantee. The results of the onsite monitoring are also cataloged in the GEMS system. ETA now has the capability to review trends or issues that arise in a more comprehensive manner. Whenever deficiencies or problems are identified as a result of a desk review, onsite review, or an independent audit, ETA immediately begins working with the grantee to obtain appropriate corrective actions. Corrective actions undertaken by the grantee are tracked by ETA and follow-up technical assistance and reviews are scheduled as needed.

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

Program	FY 04 Outlays	FY 04 %	FY 04 IP \$	FY 05 Outlays	FY 05 %	FY 05 IP \$	FY 06 Outlays	FY 06 %	FY 06 IP \$	FY 07 Est. Outlays	FY 07 %	FY 07 IP \$	FY 08 Est. Outlays	FY 08 %	FY 08 IP \$
Unemployment Insurance (Operational Rate)	\$37,823	5.07%	\$1,918 overpayment	\$32,248	4.98%	\$1,606	\$30,976	5.63%	\$1,744	\$33,020	4.5%	\$1,525	\$36,240	4.25%	\$1,631
Unemployment Insurance (Annual Report Rate)	\$37,823	9.70%	\$3,669 overpayment	\$32,248	9.46%	\$3,051	\$30,976	10.00%	\$3,168	\$33,020	9.0%	\$3,049	\$36,240	8.7%	\$3,153
Unemployment Insurance Underpayment Rate	\$37,823	0.64%	\$242 underpayment	\$32,248	0.67%	\$216	\$30,976	0.67%	\$208	\$33,020	0.64%	\$217	\$36,240	0.64%	\$232
Workforce Investment Act	Not Available ⁵	Not Available	Not Available	\$3,738	0.21%	\$7.8	\$3,763	0.17%	\$6.4	\$3,606	0.19%	\$6.85	\$2,975	0.19%	\$5.65
Federal Employees' Compensation Act	\$2,471	0.25%	\$6.2	\$2,519	0.13%	\$3.3	\$2,555	0.03%	\$0.322	\$2,646	0.244%	\$6.5	\$2,726	0.24%	\$6.5

Note: the UI overpayment and underpayment rates are from the Benefit Accuracy Measurement program for the period 7/1/2005 – 6/30/2006; the outlays are FY 2006 actual.

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

V. Recovery Auditing

DOL expense transactions consist of all non-payroll program operation and administration costs. These transactions were stratified into seven groups and samples were then statistically drawn from each stratum. Sample testing focused on testing criteria such as: (1) appropriate contracts used; (2) payments supported with invoices; (3) invoices correct; and (4) the purchase was allowable under program costs. The universe of the population of expenses is comprised of DOL expense payments in the testing period, October 1, 2005, to June 30, 2006. A total of 50 items were selected and tested, and no improper payments were noted; as such, recovery audit efforts for FY 2006 were not necessary.

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

VI. Management Accountability

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

VII. Information Systems and Infrastructure

Unemployment Insurance

ETA believes that in most cases the states have the information systems and infrastructure they need for improper payment reduction. States are implementing systems to exchange data with the Social Security Administration (SSA) and interface with their SDNH. Four fifths of the states are now using the SDNH and 18 began using the NDNH during FY 2006. Fourteen additional states have signed the computer-matching agreement with HHS that is the prelude to connecting with the NDNH, and nineteen others are in the planning stage for NDNH. More states plan to access the SDNH during FY 2007.

Federal Employees' Compensation Act

The Office of Worker's Compensation Programs (OWCP) has deployed an integrated management information and compensation benefit system that will enhance both compensation payment accuracy and medical bill processing accuracy. Resources are included in the FY 2007 budget request for this system.

Workforce Investment Act

ETA currently has multiple technology projects underway in an effort to improve grants management. The WIA program utilizes these tools to execute the risk management process to assess and monitor grantees. They include the web-based EBSS (Enterprise Business Support System), with its GEMS (Grants e-Management Solution) and EMILE (ETA Management Information and Longitudinal Evaluation) modules. EBSS is the Enterprise Business Support System, a web-based solution used to track and manage grants. A component of the EBSS is the automated grant cost reporting system that captures grant costs and obligations, which improves fiscal integrity. This system will feed data into GEMS. The combination of the two will be part of the cradle-to-grave E-grants solution for the entire Department. Roll out is expected to begin in October of 2006. The GEMS system, mentioned also in Section III of this appendix is an online grants management tool meant to provide web accessible, customizable, role based context access to grant related information from multiple sources. The utilization of the GEMS system by the Federal Project Officers and program management and financial staff allows ETA a more coordinated and comprehensive repository of grant specific information. A GEMS technology project has recently been undertaken to provide for a report writing module and the cataloging of the Core Monitoring Guide and supplements. This will allow ETA staff to customize and target their oversight efforts.

VIII. Statutory or Regulatory BarriersUnemployment Insurance

The UI program has several statutory barriers to reducing improper payments. First, States administer the UI program and set operational priorities. The Department has limited authority to ensure they pursue improper payment reduction activities. Second, the “immediate deposit” requirement (Sec. 3304(a)(3), Federal Unemployment Tax Act (FUTA) and Sec 303(a)(4), Social Security Act (SSA)) and the “withdrawal standard” (Sec. 3304(a)(4), FUTA and Sec 303(a)(5), SSA) preclude the use of recovery auditing techniques and affect recovery efforts.

The “immediate deposit” requirement dictates that all employer contributions (unemployment taxes) must be paid immediately into the trust fund and the “withdrawal standard” says that money in the trust fund can only be used for UI benefits. There are certain exceptions to the “immediate deposit” requirement, but they do not apply to recouped benefit overpayments. These requirements preclude State UI agencies from using funds recovered from overpayments to be used for administrative or operational efforts to improve prevention, detection, and recovery efforts. In addition, Title IV-D of the SSA, which established the state and national directories of new hires for the purposes of locating individuals who were delinquent in paying child support, does not require employers to report the date of hire. Having this date greatly increases the efficiency of using crossmatches with the SDNH or NDNH to detect UI beneficiaries who continue to claim benefits despite having returned to work.

Elements of the Unemployment Compensation Integrity Act, transmitted to Congress in May 2006, would relax the barriers posed by the “immediate deposit” requirement and the “withdrawal standard” to provide additional funding for recovery and other integrity activities. It would permit states (a) to use up to 5% of all recovered overpayments to augment Benefit Payment Control (BPC) activities (b) to use up to 25% of fraud overpayments recovered or delinquent contributions collected by a collection agency to be retained by that agency, and (c) to use up to 5% of certain tax collections to implement provisions of the law relating to employer fraud or tax evasion, such as the SUTA Dumping Prevention Act of 2004. It would also amend the SSA to require states to impose a penalty of at least 15% on fraudulent overpayments, and use the penalties to fund BPC activities. The Integrity Act would also prohibit states from non-charging employer accounts if the agency determined the employer’s “fault”—e.g., a late or missing response--caused an overpayment, and would allow the recovery of benefit overpayments, delinquent taxes, and unpaid penalties and interest by intercept of Federal income tax refunds. Finally, it would mandate that states require all employers to report the date of first earnings or “start work” date to the SDNH, and that the state transmit this information to the NDNH.

Federal Employees' Compensation Act

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

Workforce Investment Act

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

IX. Additional Comments

The Department continues to consider the most appropriate ways to define reportable UI overpayments. The Operational Overpayment rate, in use since 2002, was defined to measure recoverable overpayments readily detected by normal agency operations for establishment and recovery. Although the total or "Annual Report," rate used in this report, has the virtue of measuring the value of all payments that exceed what State law and policy prescribe, it may be excessively broad. It includes many "technical" overpayments (e.g., that may not involve any conscious act or omission on the part of claimants or employers), or whose causes may have a weak, if any, relationship to achievement of other goals of the UI program such as swift return to suitable work. Overpayments due to failure to register with the Employment Service (approximately 1 percent of UI payments and 10 percent of all overpayments in YE 6/30/06) are a good example. About one-fourth of all UI overpayments are also not subject to recovery, a typical criterion in other public programs. Two other integrity rates that the Department regularly monitors is total fraud and nonfraud recoverable overpayments (7.59% of UI benefits paid in YE 6/30/06), and the fraud rate (2.71% of UI benefits paid in YE 6/30/06).