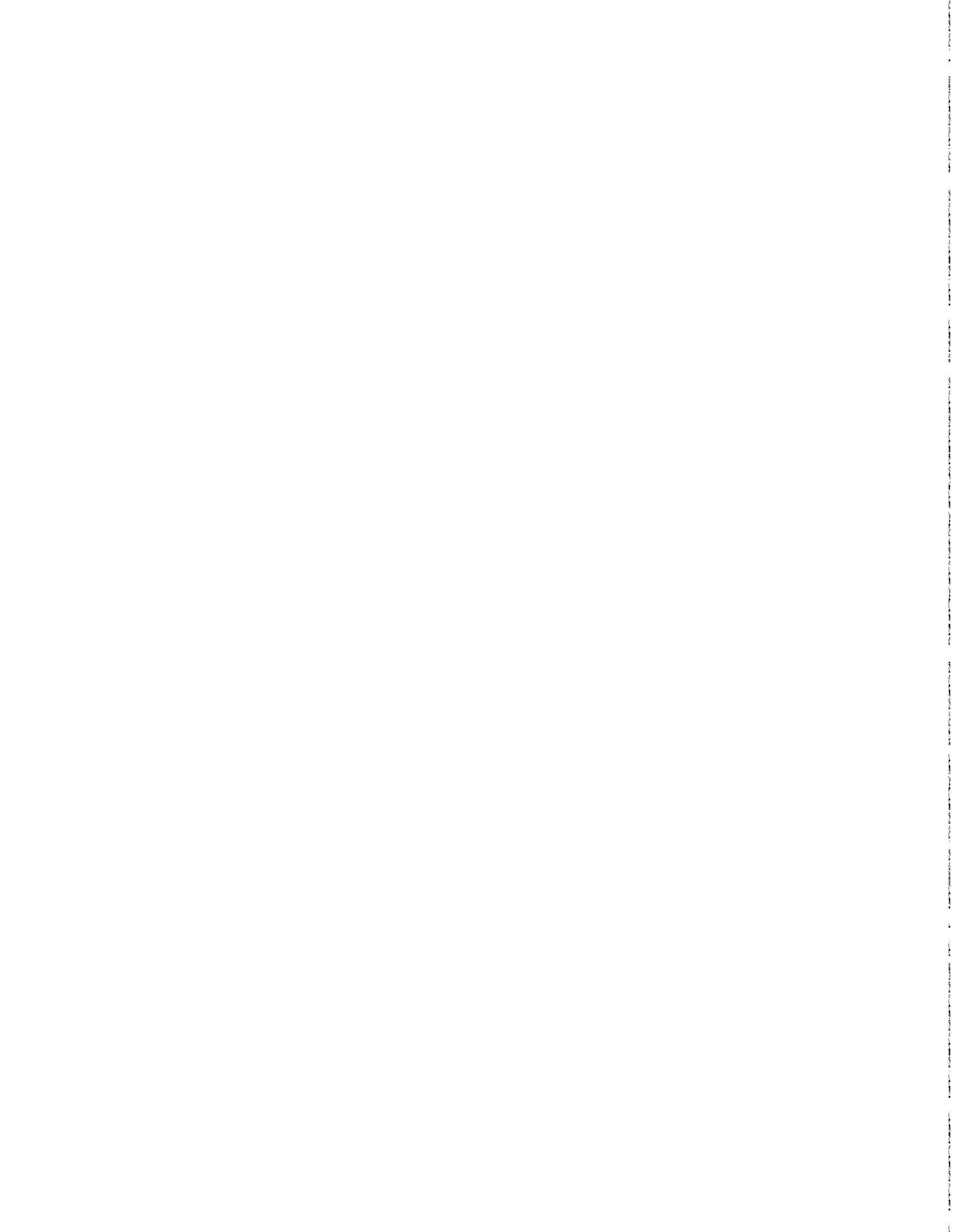


December 1986

UNEMPLOYMENT COMPENSATION

Payments to Ineligible Former Employees







United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-221637

December 19, 1986

The Honorable David H. Pryor
United States Senate

Dear Senator Pryor:

This report is a follow-up to our 1982 report to you on unemployment compensation payments to former federal employees. We conducted the review to see if agencies had taken any actions on our recommendations.

Copies of this report are being sent to the Secretaries of the agencies included in our review, the Administrator of Veterans Affairs, the Director of the Office of Management and Budget, and congressional committees having interest and responsibilities in this area. Additionally, we will make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "W. J. Anderson".

William J. Anderson
Assistant Comptroller General

Executive Summary

Purpose

In 1982, GAO found that about half of the former employees of four federal agencies who received unemployment compensation payments from the District of Columbia were not eligible for the benefits. They received payments because the agencies did not provide all pertinent information on the employees' separations to the District in a timely manner.

To see if the problem continues, GAO reviewed the unemployment compensation procedures of the Departments of the Army, Health and Human Services, Interior, Navy, and Treasury, and the Veterans Administration and payments to former employees of these agencies by the states of California, Pennsylvania, and Washington, and the District of Columbia.

Background

Federal civilian employees are entitled to the same unemployment compensation coverage as nonfederal employees. Unemployment compensation is a state-administered program, and each state has its own criteria for entitlement. The states withdraw funds for payments to former federal employees from a Treasury account. Each agency reimburses the account for payments to its former employees. Reimbursements during fiscal years 1983 to 1985 totaled over \$500 million. The Department of Labor is responsible for developing administrative procedures and advising federal and state agencies of their responsibilities under the law.

When a former federal employee applies for unemployment compensation, the state asks the former employee's agency to furnish information about the employee's earnings and the circumstances which led to the employee's separation. The state uses this information to determine the employee's eligibility and the amount of payment. If the agency does not respond, is late in responding, or does not furnish complete and accurate information, the state will authorize payment based on information provided by the former employee. The agency and the former employee may appeal if either disagrees with the state's payment determination.

Results in Brief

The problems discussed in GAO's 1982 report still exist. The six agencies GAO reviewed were incurring greater than necessary unemployment compensation costs. GAO estimates that about \$5.7 million, or about 14 percent of the \$40.3 million paid by the three states and the District to former employees of the six agencies in fiscal year 1984, was paid to ineligible recipients.

With the exception of the Department of Health and Human Services, the agencies' 1984 and 1985 reports prepared in response to the Federal Managers' Financial Integrity Act of 1982 did not address the internal control weaknesses that allowed the improper payments to occur.

Principal Findings

Unemployment Benefits Approved for Ineligible Former Employees

Because the six agencies did not have effective internal control systems to assure that states were furnished timely, complete, and accurate information, former employees who separated under circumstances making them ineligible for unemployment compensation were authorized to receive payments. Overall, about 1 of every 6 claims GAO reviewed was paid to an ineligible recipient. By agency, the percentages ranged from 7 to 26 percent. (See ch. 2.)

Agencies Did Not Appeal Payments

The six agencies missed another opportunity to reduce their unemployment compensation costs and prevent payments to ineligible former employees when they did not appeal inappropriate payments. Fewer than 1 percent of the improper payment authorizations were appealed even though the agencies had information showing that all the recipients were ineligible. (See pp. 17 and 18.)

Most Agencies' Financial Integrity Act Reports Did Not Disclose Weaknesses

GAO believes the internal control weaknesses that allowed the improper payments to occur are the type of weaknesses the Congress expected to be addressed in response to the Federal Managers' Financial Integrity Act of 1982. (See pp. 22.)

Of the six agencies, only the Department of Health and Human Services' reports under the act for fiscal year 1984 and 1985 discussed weaknesses in unemployment compensation controls. None of the 1984 and 1985 reports submitted by the other agencies discussed the unemployment compensation program. (See p. 22.)

Initiatives to Improve Management

The Office of Management and Budget has instituted an Intra-Agency Insurance Initiative to improve the management and reduce the cost of unemployment compensation, workers' compensation, and disability

retirement programs. All major agencies are to submit a 1987 Management Improvement Plan explaining the actions they will take to improve program management. (See pp. 21 and 22.)

The Department of the Interior, after the period covered by GAO's review, employed a private contractor to manage its unemployment compensation program. Interior expects the contractor to manage the program successfully. Other agencies, not included in GAO's review, have contracted for similar services.

Recommendations

GAO recommends that the Secretaries of the Army, Health and Human Services, Interior, Navy, and Treasury, and the Administrator of Veterans Affairs:

- establish effective internal control systems to assure states are provided accurate, complete, and timely wage and separation information for former employees who apply for benefits, and appeal decisions when it appears that the state misinterpreted the facts or the determination is not in accordance with state law;
- specifically address in the evaluations and reports required by the Federal Managers' Financial Integrity Act of 1982 the status of internal controls for avoiding improper payments in the unemployment compensation program and the plans for and accomplishments toward developing effective internal control systems.

GAO recommends that the Secretary of Labor:

- again send a memorandum to all federal agencies providing information on how to reduce improper unemployment benefits, and
- evaluate the use of the contractor's services as used by Interior and other agencies to determine if it can serve as a solution for avoiding improper benefit payments.

Agencies' and States' Comments

Five of the six agencies included in the review agreed with GAO's recommendations. Interior, however, saw no need for further action because it believed the contractor would remedy the internal control weaknesses and that contracting for program management should be considered as a permanent solution. (See app. II-VI.)

The Department of Labor agreed to again alert agencies to the need for improved controls over the unemployment compensation program. However, it did not agree to assess the use of contractors to administer the program. Labor said such decisions were each agency's responsibility. GAO continues to believe that an assessment is needed and would be consistent with Labor's overall administrative responsibilities for the program.

Although GAO provided copies of a draft of this report to the three states included in this review and the District of Columbia, only California and Pennsylvania provided comments. (See app. VIII and IX.)

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Abbreviations

DOL	Department of Labor
GAO	General Accounting Office
HHS	Department of Health and Human Services
OMB	Office of Management and Budget
SESA	State Employment Security Agency
VA	Veterans Administration

Introduction

Since January 1, 1955, federal civilian employees have had unemployment insurance protection under Chapter 85, Title 5, of the U.S. Code. As provided by the law, the Secretary of Labor has entered into agreements with all 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands whereby former federal employees in these jurisdictions are entitled to unemployment compensation in the same amount and under the same terms and conditions that apply to unemployed nonfederal claimants. Generally, the paying state will be the one in which the claimant's last official duty station was located.

All states require that to receive payments, claimants must be unemployed because of lack of work and be able and available for work. State unemployment compensation laws and policies vary regarding eligibility requirements, payment amounts, and duration of payments.

The Department of Labor, through its Employment and Training Administration's Unemployment Insurance Service, is responsible for (1) developing administrative procedures and forms for state and federal agencies to use, and (2) advising state offices and federal agencies of their responsibilities under the law.

Reimbursement of States

From 1955 until 1980, Congress appropriated funds to the Department of Labor for reimbursements to the states for unemployment benefit payments to former employees of all federal agencies. However, in December 1980, Congress enacted P.L. 96-499, which for the first time required each federal agency to pay the unemployment benefits of its former employees. Payments from fiscal years 1983 to 1985 totaled over \$500 million. Congress enacted this law in response to our recommendation in a 1979 report.¹ We believed such a change would make agencies more conscious of their unemployment costs and lead to improved administration of the program to help assure that benefits were paid only to eligible former employees. When the Department of Labor was paying agencies' unemployment bills, there was less incentive for the agencies to closely monitor and control their unemployment claims.

Each calendar quarter, the states bill the Department of Labor for benefits they paid to former federal employees the previous quarter. Each state bill lists separately the total amount paid to former employees of each federal agency. Labor then aggregates the bills from all states and

¹ Part Time and Other Federal Employment: Compensation and Personnel Management Reforms Needed (FPCD-78-19, June 5, 1979).

sends a quarterly bill to each federal agency showing the amount of benefits each state paid to that agency's former employees. The federal agency has 30 days to pay the bill by transferring funds to a Department of the Treasury account which states draw on to pay benefits to former employees. This cycle begins again the next quarter. In addition, when a federal agency requests, states send a more detailed quarterly bill directly to each federal agency which lists the names and social security numbers of the former employees who received benefits and the amount of the benefits paid.

How a Former Federal Employee Applies for Benefits

Department of Labor regulations (20 CFR 609.20) require each federal agency to provide separating employees with information on their rights to unemployment payments and how to claim such payments (regardless of the reason for separation). Each separating employee is to be issued a Standard Form 8, "Notice to Federal Employee About Unemployment Compensation," which explains the basic eligibility requirements and describes the documents needed to file an unemployment insurance claim. It also contains the name and address of the federal agency payroll office that is responsible for furnishing the individual's wage and separation data used by the state for eligibility determinations.

When a former federal employee applies for unemployment, the state unemployment office mails an ES Form 931, "Request for Wage and Separation Information," to the federal payroll office listed on the Form 8. The agency is asked to identify the claimant's official duty station, the amount of wages earned, the date of separation, the complete and accurate reason for the claimant's separation, and whether the claimant received lump-sum leave and severance payments. A Labor regulation (20 CFR 609.21) requires agencies to complete and return the Form 931 within 4 working days after receipt.

The state unemployment office, before processing an application, will also obtain an affidavit from the claimant about the length of employment, wages earned, and reasons for separation. The state reviews the affidavit together with the completed Form 931 from the federal agency and determines if the claimant is eligible for benefits. If the Form 931 is not returned within the required number of days, states can pay unemployment benefits on the basis of the claimant's affidavit and some credible evidence of employment, such as a "pay stub."

After determining a claimant's eligibility, states notify both the claimant and the federal agency. If the claimant is eligible, the notice shows the weekly and maximum benefit amounts, number of weeks of eligibility, and the date the first week's benefits are payable. Federal agencies and claimants, depending on the state, have between 5 and 30 days from the mailing of the notice to appeal the determination in writing. If an appeal is filed by either the claimant or the federal agency, both parties must be prepared to testify at a hearing to resolve the dispute.

Prior GAO Report

In October 1982, we issued a report² on unemployment payments by the District of Columbia to 246 former employees of four federal agencies. We found that nearly half of the employees had been improperly authorized to receive unemployment payments amounting to \$419,000. The errors occurred because the agencies were not providing the District with accurate, complete, and timely wage and separation information for their former employees. These employees were not eligible for unemployment payments because they (1) received severance pay, (2) refused other job offers, (3) voluntarily resigned their jobs, (4) were fired for misconduct, or (5) were retired and receiving an annuity.

Our report recommended, among other things, that the Secretary of Labor alert all executive departments and agencies of the need to (1) provide appropriate and timely information to state unemployment offices, and (2) appeal state decisions to pay unemployment benefits to former employees who were separated from federal service under circumstances that the agency believed would disqualify the claimant.

In March 1983, the Secretary of Labor, in response to our recommendations, sent a memorandum to all federal agencies notifying them of our findings and providing information on how to reduce improper unemployment benefit payments through improved management.

Objective, Scope, and Methodology

Our objective was to determine if federal agencies had acted on the recommendations in our October 1982 report by developing adequate internal controls to prevent former employees from improperly receiving unemployment payments.

²Federal Agencies Unemployment Compensation Costs Can Be Reduced Through Improved Management (FPCD-83-3, October 29, 1982).

To accomplish this objective, we selected agencies with the greatest unemployment compensation billings for fiscal year 1984. These agencies, the Departments of the Treasury, Interior, Army, Navy, and Health and Human Services (HHS), and the Veterans Administration (VA) incurred about 48 percent of the federal government's \$176.8 million total unemployment costs during fiscal year 1984. We then identified the states that paid benefits to the former employees of the six agencies. From this list of states we selected California, Pennsylvania, Washington, and the District of Columbia which together accounted for about 33 percent of the six agencies' total unemployment compensation costs in fiscal year 1984. We reviewed 1,159 randomly selected claims filed during fiscal year 1984 by former employees of the six agencies. Our sample included claims both approved and denied.

To determine if the six agencies' former employees were properly receiving unemployment benefits, we

- reviewed the state unemployment office file for each individual in our sample;
- recorded the wage and separation information provided by the claimant as well as the federal agency;
- determined what information was used by the state to deny or approve the claim, and whether approved claims were appealed; and
- reviewed the federal official personnel folders for the individuals in our sample to determine if the six agencies had accurately and completely reported on the Form 931 all information about the claimant's separation from federal service.

When the state files or federal official personnel folders disclosed information that we believed should have changed the determination, we asked state officials to review the information and decide whether the claimants had been improperly authorized or denied benefits or should have received a different level of benefits. We accepted the state officials' decisions on each questionable claim and calculated the improper payments under each state's law.

We also reviewed the six agencies' fiscal year 1984 and 1985 reports on internal controls (these reports are required by the Federal Manager's Financial Integrity Act of 1982) to determine if the reports discussed the agencies' internal controls over unemployment insurance payments.

Sampling Methodology

To identify the universe of former federal employees of the six agencies who had filed claims for unemployment compensation during fiscal year 1984, we used state unemployment office computer files in California, the District of Columbia, Pennsylvania, and Washington.

We identified a universe of 15,799 claims filed in the four states that met, or were likely to meet, these criteria:

- the claims had been filed during fiscal year 1984,
- the claimants had been federal employees, and
- the claimants separated from one of the six federal agencies.

We used standard statistical techniques to select stratified random samples at each of the four states. The stratified random samples totaled 1,620 claims. After studying the claims files at the local unemployment offices, we found that 1,159 of the 1,620 claims sampled met our selection criteria. The number of claims sampled by state were: California, 311; Pennsylvania, 260; Washington, 276; and the District of Columbia, 312. Our adjusted sample of 1,159 claims can be statistically projected to a universe of 10,941 claims at the four states. (See app. I.)

Data Accuracy

Before relying on the state computer files from which we drew our samples, we had to determine if the files were accurate and complete. To verify data accuracy, we compared selected data elements from the computer files with information in the claimant files at the local unemployment offices. To verify data completeness, we selected claimant files from the local unemployment offices and searched for these claims on the computer files.

The results of our data reliability tests found that generally the computer files were accurate and, with one exception, complete. Inaccurate data elements were found in a small number of claims. This information was corrected as we collected data for our sample claims. In three of the states, our tests indicated that the computer files contained all the cases which were physically stored at the local offices. In the last state (Washington), however, a number of claims on file at the local offices could not be located on the state computer file.

We performed our review between March 1985 and March 1986 at the Washington, D.C., headquarters of the six selected federal agencies. We also held discussions with agency officials and officials at the Office of Management and Budget and the Department of Labor. At the state

level, we performed our review at Employment Security Agency headquarters and selected local unemployment offices in California, Pennsylvania, Washington, and the District of Columbia.

We performed our review in accordance with generally accepted government auditing standards.

Federal Agencies' Unemployment Compensation Costs Can Be Reduced Through Improved Management

One of about every six former employees from the Departments of the Army, Health and Human Services, Interior, Navy, and Treasury, and the Veterans Administration who filed for unemployment compensation in fiscal year 1984 in California, Pennsylvania, Washington, and the District of Columbia was improperly authorized to receive unemployment benefits. Based on our random samples, we estimate that improperly authorized benefits for the six agencies ranged from 27 percent at the Veterans Administration to 7 percent at the Department of the Interior.³ Overall, we estimate that improper payments by the six agencies in the four states amounted to \$5.7⁴ million, or about 14 percent of the total unemployment benefit payments covered by our review.

These improper payments occurred when the six agencies did not (1) provide state unemployment offices with accurate, complete, and timely wage and separation information for former employees who applied for unemployment benefits; or (2) appeal state decisions to pay unemployment benefits to former employees for whom the agency had information indicating they were not entitled to such payments. These problems are similar to those we reported in 1982. All federal agencies, including the six agencies in our review, were told by the Secretary of Labor in March 1983 of the results of our 1982 report and the need to improve the management of their programs.

We found that five of the six agencies' Federal Managers' Financial Integrity Act annual reports did not disclose that there were material weaknesses in the agencies' internal controls that would permit former employees to receive unemployment benefits when they were not entitled to them.

The following table shows for each agency the total projected benefits we reviewed in each state and the amounts estimated to be improperly authorized.

³With a 95 percent confidence level the sampling error is ± 2.7 percent. See appendix I.

⁴With a 95 percent confidence level the sampling error is $\pm \$1.06$ million. See appendix I.

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Table 2.1: Estimated Improperly Authorized Payments

	Agencies						Total
	Treasury	Army	Navy	Interior	H.H.S.	Vet. Adm.	
California							
Benefits Reviewed	\$3,345,194	\$2,663,421	\$7,756,303	\$2,813,172	\$1,007,278	\$1,818,808	\$19,404,176
Improperly Authorized	196,585	245,417	907,681	142,953	102,264	504,007	2,098,907
Error Rate	5.88%	9.21%	11.70%	5.08%	10.15%	27.71%	10.82%
District of Columbia							
Benefits Reviewed	890,224	589,525	478,284	840,372	1,573,211	417,434	4,789,050
Improperly Authorized	294,520	286,169	68,271	49,329	465,481	198,458	1,362,228
Error Rate	33.08%	48.54%	14.27%	5.87%	29.59%	47.54%	28.44%
Pennsylvania							
Benefits Reviewed	1,513,659	3,350,365	3,095,349	1,210,770	498,778	1,104,768	10,773,689
Improperly Authorized	213,536	333,750	767,729	219,774	26,733	203,388	1,764,910
Error Rate	14.11%	9.96%	24.80%	18.15%	5.36%	18.41%	16.38%
Washington							
Benefits Reviewed	87,968	1,735,427	1,437,720	1,653,064	113,546	333,536	5,361,261
Improperly Authorized	19,077	149,411	191,861	44,636	22,838	82,104	509,927
Error Rate	21.69%	8.61%	13.34%	2.70%	20.11%	24.62%	9.51%
Total for all States							
Benefits Reviewed	5,837,045	8,338,738	12,767,656	6,517,378	3,192,813	3,674,546	40,328,176
Improperly Authorized	723,718	1,014,747	1,935,542	456,692	617,316	987,957	5,735,972
Error Rate	12.40%	12.17%	15.16%	7.01%	19.33%	26.89%	14.22%

Agencies Did Not Provide States With Timely, Complete, and Accurate Information on Separated Employees

We found that about \$4.7 million (or 82 percent) of the estimated \$5.7 million in improperly authorized payments occurred because the agencies did not provide state unemployment offices with timely, complete, and accurate wage and separation information on the Forms 931.

The following examples illustrate what happens when federal agencies do not provide timely, complete, and accurate information on the Forms 931 when employees voluntarily resigned or were removed for misconduct. In all cases, state officials said the claims would have been denied if they had received timely, complete, and accurate information on the separation.

- An employee of the Department of Health and Human Services (HHS) applied for benefits in Washington after resigning to return to school. The Form 931 from HHS did not state any reason for separation. The claim was approved and the employee was paid \$2,448 in benefits.

- A Veterans Administration (VA) employee applied for benefits in the District of Columbia after resigning to seek other employment. VA was late in returning the Form 931 and as a result the claimant was paid \$5,848 in benefits.
- A VA employee applied for unemployment benefits in Washington after being discharged for attempted theft and making false statements. The claimant's file in the unemployment office did not contain a Form 931 from VA explaining the reason for discharge. As a result, the claim was approved based solely on the facts presented by the employee, who was paid \$6,061 in benefits.
- A Navy employee applied for benefits in the District of Columbia after being removed from employment for being under the influence of controlled substances while on duty. However, the Navy did not return the Form 931 on time, and as a result the District of Columbia approved the claim based on the employee's affidavit. The employee was paid \$7,004 in benefits.
- A Treasury (Customs Service) employee applied for benefits in the District of Columbia after being removed from employment for heroin possession, failure to report a prior arrest record, and unauthorized possession of a special agent's badge. Department of the Treasury officials did not notify the District of Columbia of the complete reason for separation, and the employee was paid \$7,004 in benefits.
- A Navy employee applied for benefits in Pennsylvania after being discharged for unauthorized absences during working hours. Navy's Form 931 stated the employee was on leave without pay but did not mention any problems with unauthorized absences from work. The claimant was paid \$5,564 in benefits.

The following table shows how much of the estimated \$4.7 million in improperly authorized benefits was incurred by each of the six federal agencies. The table also shows the amount of improper authorizations that occurred because (1) agencies provided states with Forms 931 containing inaccurate or incomplete wage and separation information, or (2) the agencies did not provide any separation information to the states or did not provide it in time to be considered by the states.

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Table 2.2: Improperly Authorized Payments Estimated for Each Agency and the Reason for the Error

	Agencies						Totals
	Treasury	Army	Navy	Interior	H.H.S.	Vet. Admin.	
Incomplete or Inaccurate Form 931	\$283,249	\$683,085	405,310	138,794	382,270	277,465	2,125,173
Form 931 Not Provided on Time and Authorization Based on Employee's Affidavit	323,938	185,697	1,215,615	120,690	172,463	256,236	2,274,639
Basis For Payment Authorization Could Not Be Determined ^a	7,480	6,440	0	0	132	267,020	281,072
Total	\$614,667	\$830,222	\$1,620,925	259,484	554,865	800,721	\$4,680,884

^aCase files did not contain either the Form 931 or affidavit. The files, however, did contain fact finding reports annotating the reasons for separation as provided by the federal agency and claimant. Based on the fact finding reports we concluded the agencies had not provided sufficient information but could not determine if it was timely.

**State Errors Also
Caused Improper
Benefit Payments**

Eighteen percent of the improper payments, amounting to an estimated \$1.1 million, occurred because state unemployment officials did not properly use wage and separation information provided by the federal agencies or the claimants. The following table shows how much of the \$1.1 million was incurred by each of the six federal agencies.

Table 2.3: Estimated State Administrative Errors

	Agencies						Totals
	Treasury	Army	Navy	Interior	H.H.S.	Vet. Admin.	
California	\$8,021	\$18,050	\$181,847	\$62,391	\$183	\$28,955	\$299,447
District of Columbia	7,096	15,345	261	1,092	29,715	5,356	58,865
Pennsylvania	93,333	56,906	58,822	99,998	26,733	123,989	460,381
Washington	0	94,226	73,687	33,724	5,820	28,935	236,392
Total	109,050	184,527	314,617	197,205	62,451	187,235	1,055,085

**Agencies Seldom
Appeal Payment
Determinations**

Headquarters personnel officials from four of the six agencies told us they seldom appeal improper determinations because payroll offices do not forward state benefit decisions within the allotted appeals time frame. HHS and Navy officials told us they did not have policies or processes for appealing questionable claims. Of all ineligible payment authorizations we found, less than 1 percent were appealed by the agencies.

All state laws provide for administrative appeals of state decisions on unemployment payments. Appeals may be initiated by the claimant or the employer. Labor regulations (20 CFR 609.07) make the federal agency from which the employee separated responsible for filing an appeal whenever it appears that the state agency has misinterpreted the facts or the state determination is not in accordance with the provisions of state law.

Following are examples of inappropriate state decisions that the agencies did not appeal.

- A VA employee applied for unemployment benefits in California after voluntarily quitting due to illness. Although the VA's Form 931 stated the separation was voluntary, the state approved the claim and the employee was authorized \$2,626 in benefits. VA did not appeal the state's decision.
- A Navy employee applied for unemployment benefits in California after voluntarily quitting because of the inability to find affordable housing. Although the official personnel file stated the employee quit voluntarily, the Navy did not appeal and the employee was paid \$1,534 in benefits.
- A Treasury employee applied for benefits in the District of Columbia after being removed for absence-without-leave and falsification of medical records. However, Treasury did not appeal the District's decision to approve the claim and the employee was paid \$4,794 in benefits.
- An employee of the Department of Health and Human Services applied for benefits in the District of Columbia after being removed for failure to follow instructions on leave usage and failure to report to work. HHS did not appeal the District of Columbia's decision to pay. The employee was paid \$7,004 in benefits.
- A VA employee applied for benefits in Pennsylvania after voluntarily quitting. The VA Form 931 stated that the claimant resigned voluntarily as did the claimant's affidavit. However, the state approved the claim for \$2,886. VA did not appeal.
- An Army employee applied for benefits in Washington after voluntarily quitting because the night hours were a hardship on the employee's family. Both the employee's affidavit and the Army's Form 931 stated the employee voluntarily resigned, which should have disqualified the employee from benefits. However, Washington unemployment officials approved the claim and the employee received \$7,018 in benefits. Army did not appeal.
- A VA employee applied for benefits in California after voluntarily quitting. Although the employee's affidavit and the VA's Form 931 stated the separation was voluntary, California's unemployment office approved

the claim and the employee received \$1,774 in benefits. VA did not appeal.

Agencies' Unemployment Claims Processes Need Better Internal Controls

The Department of Labor's unemployment compensation instructions to federal agencies divide program responsibility between payroll and personnel offices. Payroll offices are responsible for providing states with wage and separation information. Personnel offices are responsible for appealing state decisions to pay unemployment benefits to former employees whom the agency believes are not entitled to such benefits. States mail all entitlement correspondence, including benefit determination and appeal notices, to the agency's payroll office shown on the Form 8. During FY 1984 the six agencies followed Labor's instructions and had program responsibility divided between their payroll and personnel officers. With no single office or individual responsible, the agencies lacked effective internal controls to assure that responses to the states were on time and contained complete and accurate information.

Compounding this fragmentation problem, the instructions also tell payroll personnel to exactly transcribe, as the reason for separation, what appears in the nature of action and remarks sections of the Notification of Personnel Action, Standard Form 50, or its equivalent. Twenty-five percent of the Forms 931 we reviewed lacked sufficient reasons for separation. For example, the terms "discharge," "separated," or "terminated" were often provided but these are not detailed enough explanations for the states to use to make accurate eligibility decisions. We believe more complete explanations are not provided because (1) the Form 50 nature of action section is limited to a one- or two-word description and the remarks section is seldom used; and (2) the agencies do not have effective internal control procedures to assure that additional data, frequently available from the official personnel folders, is used to respond to the states. Labor officials told us they plan to issue a memorandum seeking the comments of all agencies' Assistant Secretaries for Administration on the transfer of complete responsibility for unemployment functions to their personnel offices where the complete employment and separation records are maintained.

Forms 931 Not Processed Promptly

Labor regulations (29 CFR 509.21) require federal agencies to complete and return Forms 931 to state unemployment offices within 4 work days of their receipt. Timely processing of these forms is necessary to insure that the state promptly pays benefits to eligible claimants and denies benefits to ineligible claimants. The federal agency is charged for any

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Federal Agencies' Unemployment
Compensation Costs Can Be Reduced
Through Improved Management**

benefits paid by a state on the basis of the claimant's affidavit, including benefits that would have been denied if the federal agency had returned the Forms 931 promptly with information showing that the claimant was ineligible.

We recorded the number of work days it took the six agencies to process Forms 931 received from the states for the employees in our samples and found the average at all locations reviewed was 5 work days—or 1 day longer than required by Labor regulations. As shown in the following table, the average number of work days to process the forms varied from 17 days for Navy to 1 day for the Department of Health and Human Services.

Table 2.4: Average Number of Work Days Agencies Took to Process Forms 931

Agencies	Working days average
Treasury	2.4
Army	6.7
Navy	16.8
Interior	7.7
HHS	1.0
VA	2.3
All agencies	5.1

HHS and the Internal Revenue Service within the Department of the Treasury are more timely because they have centralized automated systems to respond to all the states' Forms 931. The other agencies are decentralized and each payroll and personnel office within a certain geographical area responds to the state's inquiry. For example, VA has over 220 payroll and personnel offices, while Navy has 85 payroll and 200 personnel offices responding to states' inquiries and at times the Forms 931 are misrouted.

We found a correlation between untimeliness and improper authorizations. For those claims for which agencies provided the Forms 931 on time, improper authorizations totalled about 13 percent. For those claims for which agencies did not provide Forms 931 on time, improper authorizations totalled about 32 percent. While timely processing is important, it will not reduce agencies' unemployment costs if the wage and separation information on the form is inaccurate or incomplete as discussed above.

Agencies' Initiatives

The Office of Management and Budget (OMB), during the management review of the 1987 budget, announced an effort to improve the management of the workers' compensation, unemployment insurance, and civil service disability retirement programs. Each of the 23 major federal agencies (including the 6 in our review) are required to describe in their 1987 management improvement plans the actions they plan to take to improve the management and reduce the cost of these programs. OMB guidance suggests generally that agencies (1) designate an accountable official and/or organization as the focal point for program management, (2) develop a procedure for charging costs to the lowest possible cost center (based on costs actually incurred), and (3) develop internal directives and operating guidance. Specifically for unemployment insurance, OMB encourages agencies to include in their plans ways to (1) ensure complete linkage, coordination, and cooperation between personnel and payroll system staffs; (2) assure that separation documentation contains complete reasons for separation; and (3) compare states' detailed billings against payroll records to detect any employee drawing unemployment insurance while on the agency's payroll.

Interior officials told us they recognized their unemployment compensation internal control problems in mid-1985 and decided to follow the U.S. Department of Agriculture's lead in using an outside contractor to manage its program. Interior officials believe that contracting out was the quickest and most effective way to correct the internal control weaknesses identified in this report. However, Labor officials and OMB staff see the use of the contractor's service as a short-term fix to a problem that should be addressed for the longer term by correcting agencies' operating procedures and internal control systems.

The contract, as negotiated by Agriculture, allows any federal agency to issue purchase orders to use the contractor's services. Agriculture, the General Services Administration, and the National Archives have done this. Under the terms of the contract, the contractor is designated as the addressee of record for the Form 931 requests for wage and separation information and other related inquiries. Also, the contractor reviews states' benefit determinations and refers questionable cases to appropriate agency officials. If agency officials decide to appeal, the contractor will provide the necessary representation throughout the appeal process. Agencies can also have the contractor verify the states' unemployment compensation bills and prepare detailed management reports allocating unemployment compensation costs to the components that separated the former employees. We did not evaluate the effectiveness of the contractor's services.

Five Agencies' Financial Integrity Act Reports Did Not Disclose Weaknesses

The Congress enacted the Federal Managers' Financial Integrity Act of 1982 in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of federal funds and assets. The goal of this legislation is to enhance management of federal government operations through improved internal control and accounting systems. The act requires agency heads to report annually on the status of their internal controls and accounting systems and holds managers accountable for correction of any material weaknesses identified. The agency heads' annual reports are supposed to identify any material weaknesses in their systems together with plans for corrective actions. As called for in the act, OMB published guidelines which provided agencies with a structured process for evaluating internal control systems and reporting their results.

We found that five of the six agencies' included in our review did not disclose in their 1984 and 1985 annual reports that there were material weaknesses in the agency's internal controls permitting former employees to improperly receive unemployment benefits.

The sixth agency, HHS, in its reports for 1984 and 1985 addressed three areas of concern regarding unemployment benefits: (1) the timeliness and completeness of the Department's processing of Forms 931, (2) the development of timely and cost-effective procedures to appeal states' decisions to pay ineligible claimants, and (3) the need to validate and reconcile states' quarterly billings. Although HHS disclosed these as material weaknesses, its reports did not describe the agency's plan for corrective action as required by the act. HHS, in its comments on a draft of this report, agreed to include the plans and status of corrective actions in its future reports.

Conclusions

Nearly 6 years after Congress enacted legislation aimed at improving agencies' management of their unemployment compensation programs and nearly 4 years after our last report on this subject, former federal employees are still being improperly authorized unemployment payments.

We found that the federal agencies discussed in this report do not have effective internal control systems to assure that (1) timely, accurate, and complete wage and separation information is provided to the state offices that are authorizing unemployment payments to former

employees; and (2) payment authorizations are appealed when the agencies have reason to believe their former employees are not entitled to unemployment payments.

Also, we believe that the internal control weaknesses discussed in this report are the types that Congress anticipated should be included in agencies' reports required under the provisions of the Federal Managers' Financial Integrity Act of 1982.

We did not evaluate the effectiveness of the contract used by Interior and other agencies, so we are unable to conclude whether it will correct the problems we found.

Recommendations to the Heads of the Agencies Included in Our Review

We recommend that the Secretaries of the Army, Health and Human Services, Interior, Navy, and Treasury, and the Administrator of Veterans Affairs establish effective internal control systems to assure states are provided accurate, complete, and timely wage and separation information for former employees who apply for benefits, and appeal decisions when it appears that the state misinterpreted the facts or the determination is not in accordance with state law. The agencies' evaluations and reports required by the Federal Managers' Financial Integrity Act of 1982 should specifically address the status of internal controls for avoiding improper payments in the unemployment compensation program and the agencies' plans for and accomplishments toward developing effective internal control systems.

Recommendations to the Secretary of Labor

We recommend that the Secretary of Labor, in keeping with his overall responsibility for agencies' unemployment compensation programs, again send a memorandum to all federal agencies providing information on how to reduce improper unemployment benefits. We also recommend that the Secretary evaluate the use of the contractor's services as used by the Department of Interior and other agencies to determine if it can serve as a solution for avoiding improper benefit payments.

Agencies' And States' Comments and Our Evaluations

Agencies

In commenting on a draft of this report, the Departments of Defense, in behalf of the Army and Navy; Health and Human Services; and the Treasury and the Veterans Administration agreed with our recommendations and said they had implemented or were shortly going to initiate actions to strengthen their internal controls over the unemployment compensation program. The Department of Defense said it had initiated a systems study to (1) document current processing procedures and (2) identify specific processing deficiencies and will use the study results to develop specific policy and procedure changes to correct identified problems. HHS is in the process of implementing an appeal process to be effective in October 1986. HHS will also continue to include in its Financial Integrity Act report the status of its internal controls and progress toward developing an effective system over the program. Treasury plans to use our report as a resource tool in implementing its management improvement plan for unemployment compensation cost reduction. Additionally, Treasury will include unemployment compensation as an area of special interest to be addressed by its bureaus in their annual reports to the Secretary of the Treasury under the Federal Managers' Financial Integrity Act. The Veterans Administration said it will establish effective internal controls, report their status under the Federal Managers' Financial Integrity Act, and appeal improper state decisions. (See app. II to V.)

The Department of the Interior said it planned to continue using a contractor to manage the program and thus saw no need to address unemployment benefits in its Federal Managers Financial Integrity annual report. (See app. VI.) We believe it is premature for Interior to say the contractor will solve the weaknesses identified in this report, since the contract has been in effect for a brief period of time.

Several agencies expressed concern about the cumbersome billing and erroneous payment recovery processes that they believed were inherent in the unemployment insurance program. Agencies pointed out that states have little incentive to recoup erroneous payments. Currently, federal agencies may not offset state billings by any erroneous payments. Credit is given in subsequent billings only if the state collects the

overpayment from the former employee. Federal agencies absorb the erroneous payment if it is not collected by the state. The agencies suggested that erroneous state payments be offset from current billings to create an incentive for states to aggressively pursue collection. We did not examine these processes in our review. However, to the extent that agencies are able to provide the states with more timely and accurate information and appeal questionable state decisions, any problems with recovering erroneous payments should be alleviated.

The Department of Labor concurred with our recommendation that it again send a memorandum to all federal agencies providing information on how to reduce improper benefit payments but did not agree that Labor should assess the use of a contracting arrangement as a solution. (See app. VII.)

The Department of Labor suggested that the OMB management reviews and agency management improvement plans (discussed on page 24) are more appropriate vehicles for assessing and improving agency management of the unemployment program. The Department said that its intervention into this process, however well intended, would be counterproductive and could serve to dilute the principle of individual agency responsibility for management decisions.

We continue to believe our recommendation is appropriate. As the agency with overall responsibility for administering the unemployment program at the federal level, we believe it is reasonable for Labor to take a more vigorous role in assisting agencies to improve their program management. An assessment by Labor of (1) the contractor's effectiveness, (2) the cost and benefits of using contractor personnel to perform the function, and (3) the possible governmentwide applicability of a contracting arrangement would be consistent with its overall program responsibilities.

States

Although we provided copies of a draft of this report to the three states included in our review and the District of Columbia, only California and Pennsylvania provided comments. (See app. VIII and IX.)

Confidence Limits for Universe Estimates

When only a portion of the universe is selected for analysis, each estimate developed from the sample has a measurable precision or sampling error. The particular sample of claims we selected was only one of a large number of samples of equal size and design which could have been selected. Each of these samples could produce a different value for most characteristics being estimated. An estimate's sampling error measures the variability among the estimates obtained from all the possible samples. The sampling error is therefore a measure of the precision or reliability with which a result from a particular sample approximates the results of a complete census. From the sample estimate, together with an estimate of its sampling error, interval estimates can be constructed with prescribed confidence that the interval includes the average results of all possible samples.

For example, we found that 16.9 percent of the claims had improperly authorized payments totalling \$5.7 million for the six agencies in the four states during fiscal year 1984. Our sampling procedure was designed so that we had a 95-percent chance of producing a set of limits that enclosed the true percent of claims having improperly authorized payments. Our goal was to arrive at a set of limits that would be within 7 percent of our sample estimate. Using a sampling error formula with a 95 percent confidence level, we found that the percentage of claims having improperly authorized payments had an actual sample error of 2.6 percent. Thus, although we do not know if the true percentage of improperly authorized payments actually fell within the limits computed (16.9 percent, plus or minus 2.6 percent), we may state that there is a 95-percent chance that our sample is one whose limits will include the true percentage. By applying the percentage to the universe, we can "project" or estimate that 1,846 claims out of a universe of 10,941 claims had improperly authorized payments. The 95 percent confidence limits would be approximately from 1,559 to 2,133 claims (1,846 claims, plus or minus 287 claims). There is a 95-percent chance that these limits will include the true number of improperly authorized payments.

Upper and lower limits for selected figures are presented in tables I.1 to I.6. Because many of the claims did not meet our selection criteria, our sample had to be adjusted, and the sampling error may be larger than the plus or minus 7 percent our sample was designed to produce.

Appendix I
Confidence Limits for Universe Estimates

Table I.1: Improperly Authorized Payments (\$) By Agency

Agency	Universe estimate	Confidence interval of individual estimates (95 percent)	
		Lower limit	Upper limit
Treasury	\$723,717	\$339,818	\$1,107,616
Army	1,014,749	659,161	1,370,337
Navy	1,935,542	1,163,124	2,707,960
Interior	456,691	206,689	706,693
Health & Human Services	617,315	311,448	923,182
Veterans Administration	987,956	669,036	1,306,876
All Agencies	\$5,735,970	\$4,673,797	\$6,798,143

Table I.2: Improperly Authorized Payments by Agency (As a Percent of Total Cases)

Agency	Universe estimate	Confidence interval of individual estimates (95 percent)	
		Lower limit	Upper limit
Treasury	11.7	6.7	16.7
Army	15.1	10.5	19.7
Navy	17.3	11.0	23.6
Interior	12.8	8.2	17.4
Health & Human Services	21.6	13.6	29.6
Veterans Administration	31.9	23.1	40.7
All Agencies	16.9	14.2	19.5

Table I.3: Improperly Authorized Payments by Agency (As a Percent of Total Payment Dollars Authorized)

Agency	Universe estimate	Confidence interval of individual estimates (95 percent)	
		Lower limit	Upper limit
Treasury	12.4	5.8	19.0
Army	12.2	7.9	16.4
Navy	15.2	9.1	21.2
Interior	7.0	3.2	10.8
Health & Human Services	19.3	9.8	28.9
Veterans Administration	26.9	18.2	35.6
All Agencies	14.2	11.6	16.9

Appendix I
Confidence Limits for Universe Estimates

Table I.4: Improperly Authorized Payments (\$) By Agency Due to Federal Agency Error

Agency	Universe estimate	Confidence interval of individual estimates (95 percent)	
		Lower limit	Upper limit
Treasury	\$614,667	\$423,372	\$805,962
Army	830,222	717,712	942,732
Navy	1,620,925	1,280,547	1,961,303
Interior	259,484	189,879	329,089
Health & Human Services	554,865	504,999	604,731
Veterans Administration	800,721	710,424	891,018
All Agencies	\$4,680,884	\$4,255,920	\$5,105,848

Table I.5: Improperly Authorized Payments (\$) by Agency Due to State Error

Agency	Universe estimate	Confidence interval of individual estimates (95 percent)	
		Lower limit	Upper limit
Treasury	\$109,050	\$50,745	\$167,355
Army	184,527	102,224	266,830
Navy	314,617	285,374	343,860
Interior	197,206	103,237	291,175
Health & Human Services	62,450	35,986	88,914
Veterans Administration	187,235	105,547	268,923
All Agencies	\$1,055,085	\$890,064	\$1,220,106

Table I.6: Average Workdays for Agencies to Process Forms 931

Agency	Universe estimate	Confidence interval of individual estimates (95 percent)	
		Lower limit	Upper limit
Treasury	2.4	2.1	2.7
Army	6.7	3.9	9.5
Navy	16.8	12.3	21.3
Interior	7.7	5.9	9.5
Health & Human Services	1.0	0.6	1.4
Veterans Administration	2.2	1.4	3.0
All Agencies	5.1	4.4	5.8

Comments From the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

10 OCT 1986

Mr. Frank C. Conahan
Director, National Security and
International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "UNEMPLOYMENT COMPENSATION: Ineligible Former Federal Employees Receiving Payments," dated July 30, 1986, (GAO Code 966187), OSD Case 7079.

The DoD agrees with the intent of your recommendations, and that there are major problems in the unemployment compensation program. Specific comments on the findings and recommendations are enclosed. A thorough systems study is necessary, however, to identify more fully the causes. The DoD has, therefore, initiated a systems study to document current processing procedures, and to identify specific processing deficiencies. Based upon this study specific policy and procedural changes to correct identified problems within the unemployment compensation programs will be developed.

The GAO draft report will be extremely helpful to the personnel completing the study effort. The DoD appreciates the opportunity to provide comments on the report.

Sincerely,

A handwritten signature in cursive script, reading "John R. Quetsch".

Enclosure

John R. Quetsch
Principal Deputy Assistant Secretary of Defense
(Comptroller)

Discussed on p. 24.

GAO DRAFT REPORT - DATED JULY 30, 1986
(GAO CODE 966187) - OSD CASE 7079

"UNEMPLOYMENT COMPENSATION: INELIGIBLE FORMER FEDERAL
EMPLOYEES RECEIVING PAYMENTS"

SUMMARY OF FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF DEFENSE COMMENTS

* * * * *

FINDINGS

- o FINDING A: Agencies Did Not Provide States With Timely, Complete, And Accurate Information On Separated Employees. The GAO reported that (1) Federal employees are entitled to the same unemployment compensation coverage as nonfederal employees, (2) unemployment compensation is a state administered program, (3) the states withdraw funds for payments to former Federal employees from a Treasury account, and (4) each agency reimburses the account for payments to its former employees--totaled over \$500 million during fiscal years 1983-1985. The GAO found that the problems discussed in its 1982 report (to the Department of Labor) still exist. Specifically, the GAO found that the six agencies reviewed (the Departments of Army, Health and Human Services, Interior, Navy and Treasury, and the Veterans Administration) were incurring greater than necessary unemployment compensation costs. The GAO further found that about \$4.7 million (82 percent) of the estimated \$5.7 million in improperly authorized payments occurred because the agencies did not provide state unemployment offices with timely, complete, and accurate wage and separation information on ES Form 931, "Request for Wage and Separation Information." The GAO also found that 18 percent of the improper payments amounting to an estimated \$1.1 million occurred because state unemployment officials did not properly use wage and separation information provided by the Federal agencies or the claimants. The GAO concluded that nearly 6 years after Congress enacted legislation aimed at improving agencies' management of their unemployment compensation programs and nearly 4 years after its last report on the subject, former employees are still being improperly authorized unemployment payments. (p. 1 Executive Summary, pp. 17-22, 31, GAO Draft Report)

DoD RESPONSE: Concur. It should be noted that reimbursements to Department of Labor (DOL) are subject to the availability of the appropriation. The law, however, does not authorize the offset of state billings by the amount of any erroneous payments by states. When an

GAO Draft Report No. 7079
Page 1 of 8

Discussed on p. 24.

erroneous payment is detected the appropriate state is notified. The state then grants credit in subsequent bills, only if it collects the overpayment. Agencies absorb the portion of the erroneous payment not collected by the states. It would appear that legislation which provides for the offset of payments to states for any erroneous payment is necessary to create a incentive for states to aggressively pursue collection of erroneous payments. (See DoD Responses to GAO Findings C and D for additional information pertaining to timely, complete, and accurate wage and separation information on ES Form 931)

- o **FINDING B: Agencies Seldom Appeal Payment Determinations.**
The GAO reported that Labor regulations make the Federal agency from which the employee separated responsible for filing an appeal whenever it appears the state agency has misinterpreted the facts or the state determination is not in accordance with the provisions of state law. The GAO noted that headquarters personnel officials from four of the six agencies stated that they seldom appeal improper determinations because payroll offices do not forward state benefit decisions within the allotted appeals time frame. Specifically, Health and Human Services (HHS) and Navy officials stated that they did not have policies or processes for appealing questionable claims. The GAO found that of all ineligible payment authorizations, less than one percent were appealed by the agencies. Examples of inappropriate state decisions that the agencies did not appeal include: (1) a Navy employee applied for unemployment benefits in California after voluntarily quitting because of inability to find an affordable house, and (2) an Army employee applied for benefits in Washington after voluntarily quitting because the night hours were a hardship on the family. The GAO concluded that Federal agencies do not have effective internal control systems to ensure payment authorizations are appealed when the agencies have reason to believe their former employees are not entitled to unemployment payments--as a result, former Federal employees are still being improperly authorized unemployment payments in some instances. (pp. 23-25, 31 GAO Draft Report)

Now on p. 17.

See p. 24.

DoD RESPONSE: Concur. The Office of the Assistant Secretary of Defense (Comptroller) has undertaken a study of both the Military and Civilian unemployment compensation programs. The purpose of the study is to determine if additional policy guidance is required and if so, what that guidance should be. The appeals process is one of the topics included in the study. The study began in April, 1986, and is scheduled for completion by the end of December, 1986. The study group is staffed by representatives from the Office of the Secretary of Defense (Comptroller), Military Departments, and the Defense Logistics Agency. These representatives include subject

Improvement Plan contains an initiative on this problem. Corrective action has been identified and documented through milestones and completion dates. These milestones are monitored by the Office of the Secretary, DoD and OMB.

- o **FINDING C: Agencies' Unemployment Claims Processes Need Better Internal Controls.** The GAO found that during FY 1984, the agencies followed the Department of Labor's instructions and had program responsibility divided between their payroll and personnel officers. The GAO further found that compounding this fragmentation problem, Labor's instructions tell payroll personnel to exactly transcribe, as the reason for separation, what appears in the nature of action remarks sections of the Notification of Personnel Action, Standard Form 50 or its equivalent. The GAO also found that 25 percent of the Forms 931 lacked sufficient reasons for separation. The GAO concluded that more complete explanations are not provided because (1) the Form 50 nature of action section is limited to a one or two word description and the remarks section is seldom used, and (2) the agencies do not have effective internal control procedures to ensure that additional data, frequently available from the official personnel folders, is used to respond to the states. The GAO further concluded that with no single office or individual responsible, the agencies lacked effective internal controls to assure responses to the states were on time and contained complete and accurate information. (pp. 25-26, GAO Draft Report)

Now on p. 19.

DoD RESPONSE: Concur. The Office of Personnel Management's (OPM) Federal Personnel Manual Supplement 296-33, Chapter 31, regulates the Standard Form (SF) 50 preparation. The manual requires that SF 50s contain a summary of personnel actions which are stated on other personnel type notices. In some instances, agencies are prohibited by OPM regulations from annotating the actual reasons for an employees separation. Consequently, there appears an inconsistency between DOL and OPM instructions. GAO may wish to expand their audit to explore this apparent problem. In any event, the DoD unemployment compensation program study will fully consider this issue. Also, the Department's FY 1987/1988 Management Improvement Plan contains an initiative on this problem. The Army and the Navy are implementing corrective action, while the inconsistency between DOL and OPM regulations are being resolved. The Army is developing an automated interface to its payroll system, STARCIPS, which will allow the finance office to query the system to identify former employees who are not eligible for unemployment compensation. The Navy is assigning responsibility for completing the Form 931 to the personnel offices which have the necessary personnel information to properly complete the form.

See comment 1.

personnel offices which have the necessary personnel information to properly complete the form.

- o **FINDING D: Forms 931 Not Processed Promptly.** The GAO reported that when a former Federal employee applies for unemployment, the state unemployment office mails a ES Form 931, to the Federal payroll office. The GAO further reported that regulations require agencies to complete and return the Form 931 within 4 working days after receipt. The GAO found, however, that it took the agencies an average of 5 work days to process Forms 931 received from the states. The GAO further found that the average number of work days to process the forms varied from 17 days for Navy to 1 day for the Department of Health and Human Services. The GAO also found a correlation between untimeliness and improper authorizations. Specifically, for those claims where agencies provided the Forms 931 on time, improper authorizations were about 13 percent. For those claims where agencies did not provide the Forms 931 on time, improper authorizations were about 32 percent. The GAO concluded that while timely processing is important, it will not reduce agencies' unemployment costs if the wage and separation information on the form is inaccurate or incomplete. (pp. 10, 26-28, GAO Draft Report)

Now on p. 19.

See comment 2.

DoD RESPONSE: Concur. The Assistant Secretary of Navy (Financial Management) reported an unemployment compensation program weakness and related corrective actions in his fiscal year 1985 Internal Control Certification Statement to the Secretary of the Navy. The Navy did not consider this weakness significant enough to be included in the department report submitted to the Office of the Secretary of Defense. Furthermore, the Navy developed a corrective action plan for the unemployment compensation weakness and forwarded the status of corrective actions to the Secretary of the Navy in April, 1986 as part of the semiannual tracking and follow-up report. In addition, in May 1986, the Navy issued a policy message, to field activities, which states in part that all questionable unemployment compensation claims will be appealed. The accuracy of the ES Form 931 information will be verified, and the time constraints delineated by OPM regulations will be met in all cases. As part of its corrective action plan, the Navy will conduct training at major commands in September 1986. Furthermore, separated employees often furnish incorrect information concerning the employing office to states. Consequently SESAs forward the ES Form 931 to the wrong location, such as Department of the Army, Pentagon, Washington. The SESA has already processed the unemployment compensation claim by the time the form ES Form 931 reaches the proper Military Service Office, and is returned to the SESA. In addition, the Defense Department's FY 1987/1988 Management Improvement Plan identifies milestones to ensure that Form 931 are processed accurately and timely. Efforts include studies on ES 931 processing

documentation, training to ensure proper handling of unemployment compensation program, shifting unemployment compensation function to personnel offices, and assigning program responsibilities to specialists. These milestones are monitored by the Office of the Secretary, DoD and OMB.

- o **FINDING E: Agencies' Initiatives.** The GAO found that the Office of Management and Budget (OMB), during the management review of the 1987 budget, announced an effort to improve the management of workers' compensation, unemployment insurance, and civil service disability retirement programs. The GAO further found that each of the 23 major Federal agencies (including the six cited in the report) are required to describe in their 1987 Management Improvement Plans the actions they plan to take to improve the management and reduce the cost of these programs. Specifically, for unemployment insurance, OMB encouraged agencies to include in their plans ways to: (1) ensure complete linkage, coordination and cooperation between personnel and payroll system staffs, (2) assure that separation documentation contains complete reasons for separation, and (3) compare state detailed billings against payroll records to detect any employee drawing unemployment insurance while on the agency's payroll. The GAO also found that Interior officials recognized their unemployment compensation internal control problems in mid-1985, and decided to follow the U.S. Department of Agriculture's lead in using an outside contractor to manage its program. The GAO noted that it did not evaluate the effectiveness of the contract used by Interior and other agencies, so it was unable to conclude whether it will correct the problems found. The GAO concluded, however, that in view of the amount of improper payments being made, quick corrective action is called for and the use of a contractor with unemployment program expertise may be appropriate in the short term. The GAO further concluded that it may be cost effective for the other five agencies, and possibly other Federal agencies, to use the same or a similar contract while they improve their internal controls and procedures. Finally, the GAO concluded that controlling unemployment benefit determinations is part of each agency's basic personnel management responsibility and should not be delegated to a contractor as a permanent arrangement. (pp. 28-29, 31-32, GAO Draft Report)

DoD RESPONSE: Concur. A DoD study of the unemployment compensation program is underway. The study group will identify the corrective actions which are necessary in DoD, and will also explore using a contractor. Also, the Defense Department's FY 1987/1988 Management Improvement Plan contains an initiative which comprehensively includes the actions identified in the GAO audit to improve management of the unemployment compensation program. The initiative identifies specific milestones and dates for implementation

of corrective action. The plan, signed by the Secretary of Defense, is monitored by DoD and OMB to ensure timely achievement of stated actions.

- o **FINDING F: Five Agencies' Financial Integrity Act Reports Did Not Disclose Weaknesses.** The GAO reported that the Federal Managers' Financial Integrity Act of 1982 requires, among other things, agency heads to report annually on the status of their internal controls and accounting systems. The agency heads' annual reports are supposed to identify any material weaknesses in their systems, together with plans for corrective actions. The GAO found that the 1984 and 1985 annual reports of five of the six agencies did not disclose material agency internal control weaknesses permitting former employees to improperly receive unemployment benefits. The GAO concluded that the internal control weaknesses discussed in its report are the types the Congress anticipated should be included in agencies' reports required under the provisions of the Federal Managers' Financial Integrity Act of 1982. (pp. 30-31, GAO Draft Report)

Now on p. 22.

See comment 2.

DoD RESPONSE: Partially Concur. The DoD does not agree that this problem exists as a material weakness within the department on a DoD-wide basis. DoD Components have conducted vulnerability assessments required by the Act. The Assistant Secretary of Navy (Financial Management) reported an unemployment compensation program weakness and related corrective actions in the fiscal year 1985 Internal Control Certification Statement to the Secretary of the Navy. The Navy did not consider the weakness significant enough to be included in the department report to the Office of the Secretary of Defense. In addition, the Navy developed a corrective action plan for the unemployment compensation weakness and forwarded the status of corrective actions to the Secretary of the Navy in April, 1986 as part of the semiannual tracking and follow-up report. The Navy implemented corrective actions in May 1986.

RECOMMENDATIONS TO THE HEADS OF AGENCIES
INCLUDED IN THE GAO REVIEW

- o **RECOMMENDATION 1:** The GAO recommended that the Secretaries of the Army, Health and Human Services, Interior, Navy and Treasury, and the Administrator of Veterans Affairs establish effective internal control systems to ensure states are provided accurate, complete, and timely wage and separation information for former employees who apply for benefits, and appeal decisions when it appears that the state misinterpreted the facts or the determination is not in accordance with state law. (p. 32, GAO Draft Report)

Now on p. 23.

DoD RESPONSE: Concur. Upon completion of the DoD unemployment compensation program study at the end of December 1986, any necessary additional guidance will be developed and implemented. The DoD intends to monitor the program until all significant issues are resolved.

- o **RECOMMENDATION 2:** The GAO recommended that the agencies' evaluations and reports required by the Federal Managers' Financial Integrity Act of 1982, specifically address the status of internal controls for unemployment compensation and the agencies' plans for and accomplishments toward developing effective internal control systems. (p. 32, GAO Draft Report)

Now on p. 23.

DoD RESPONSE: Concur. DoD Components have performed the required evaluations. The Assistant Secretary of Navy (Financial Management) reported an unemployment compensation program weakness and related corrective actions in the fiscal year 1985 Internal Control Certification Statement to the Secretary of the Navy. The Navy did not consider the weakness significant enough to be included in the department report to the Office of the Secretary of Defense. Furthermore, the Defense Department's FY 1987/1988 Management Improvement Plan contains an initiative that comprehensively includes the actions identified in the GAO audit to improve management of the unemployment compensation program.

See comment 2.

RECOMMENDATIONS TO THE SECRETARY OF LABOR

- o RECOMMENDATION 1: The GAO recommended that the Secretary of Labor, in keeping with his overall responsibility for agencies' unemployment compensation programs, again send a memorandum to all Federal agencies providing information on how to reduce improper unemployment benefits. (pp. 32-33, GAO Draft Report)

Now on p. 23.

DoD RESPONSE: Defer Comment to the Secretary of Labor.

- o RECOMMENDATION 2: The GAO recommended that the Secretary of Labor evaluate the contracting arrangement used by the Department of Interior and other agencies to determine if it can serve as an effective short-term solution for avoiding improper benefit payments while internal procedures are being improved. (p. 33, GAO Draft Report)

Now on p. 23.

DoD RESPONSE: Defer Comment to the Secretary of Labor.

The following are GAO's supplemental comments on the Department of Defense letter dated October 10, 1986.

GAO Comments

1. We agree that the Office of Personnel Management's Federal Personnel Manual Supplemental 296-33 chapter 31 restricts in some instances what may be stated on the SF-50. However, chapter 850 Subchapter 2-32 of the Manual tells agencies how to respond to state inquiries in those instances where the restrictions apply.
2. We disagree that Navy's unemployment compensation weaknesses were not significant enough to be reported to the Secretary of Defense. As shown in table 2.1, the Navy had a 15.16 percent error rate in unemployment compensation payments.

Comments From the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

SEP 3 1988

Mr. Richard L. Fogel
Director, Human Resources
Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

The Secretary asked that I respond to your request for the Department's comments on your draft report, "Unemployment Compensation: Ineligible Former Federal Employees Receiving Payments." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "R. Kusserow".

Richard P. Kusserow
Inspector General

Enclosure

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES
ON THE COMPTROLLER GENERAL'S DRAFT REPORT

UNEMPLOYMENT COMPENSATION-INELIGIBLE FORMER FEDERAL EMPLOYEES
RECEIVING PAYMENTS

GENERAL COMMENTS

The GAO report states that since its 1982 report, the six agencies reviewed, including the Department of Health and Human Services, (HHS) still incur greater than necessary unemployment compensation costs because of improper payments to ineligible former employees. The report states that HHS was the only agency of the six to address internal control weaknesses in its unemployment compensation procedures in its 1984 and 1985 reports under the Federal Managers' Financial Integrity Act of 1982.

HHS takes its responsibilities to ensure proper unemployment compensation payments very seriously. This is evidenced by:

- our success in achieving same-day turn around for ES-931 (Wage and Separation Information Inquiry) forms.
- our investment in a computer system which generates an automated ES-931 complete with wage and separation information as well as severance pay and retirement data.
- our inclusion of unemployment compensation payments in our 1984 and 1985 reports prepared in response to the Federal Manager's Financial Integrity Act of 1982.
- our conduct of a comprehensive analysis of all employment insurance programs.
- our inclusion of specific tasks to improve the integrity of our unemployment compensation payments as a part of the HHS Management Improvement Plan for 1987, and
- our draft instructions to servicing personnel offices to provide more complete information about separations and to prepare to appeal questionable cases.

We concur in the reports findings and recommendations. We understand that the methodology included adjustments when following a waiting period, a State determines that an initially ineligible claimant is then eligible for reduced benefits. An additional statement in the section entitled Objective, Scope and Methodology would help to clarify understanding of the methodology.

See comment 1.

GAO RECOMMENDATION # 1

Establish effective internal control systems to assure States are provided accurate, complete, and timely wage and separation information for former employees who apply for benefits, and appeal decisions when it appears that the State misinterpreted the facts or the determination is not in accordance with State law.

HHS COMMENT ON GAO RECOMMENDATION #1

Provide Accurate, Complete and Timely Wage and Separation Information to the States.

We concur. Since April 1983, HHS has used an automated system specifically designed to accommodate the unemployment compensation functions of the Department. It is a two-phase system; an automated ES-931 Response System and an Accounting Reconciliation System.

ES-931 Response System

This system's capability allows the Department's Office of Personnel Operations to collect employees' separation information transmitted from every servicing personnel office nationwide. This information is merged with the employees' wage data to allow the timely and accurate response to the various inquiries, including the initial Wage and Separation Information Inquiry Form (ES-931), Request for Additional Information (ES-934), Verification of Wage/Separation Information Previously Reported (ES-936), etc., requested from the 50 States and territories. A computer generated ES-931, complete with wage and separation information, is returned to the State the same day the incoming ES-931 is received, with few exceptions. Exceptions are occasionally caused by the lack of separation information to update the automated ES-931 response program before the State's inquiry is received. In these few instances, the information is secured by telephone and keyed into the ES-931 program before it is printed and mailed to the State, within the required four-day timeframe.

Since September 1984 the ES-931 includes more detailed information regarding severance pay; the amount of the weekly severance pay a former employee will receive and the total number of weeks an employee will be eligible. In March 1986, we began including information concerning a retired employee's application for retirement benefits and the date it was forwarded to OPM for processing. This additional information on severance pay and retirement benefits allows the State Employment Security Agencies to make more accurate assessments of claimants' eligibility and payment limitations.

Reconciliation System

The second phase of the automated system assists the Office of Personnel Operations', Payroll Accounting Group in the reconciliation of quarterly charges from the States. The system stores each transaction charged to HHS by State, including the names and social security numbers of claimants who were not employed by HHS and the amounts being charged. The Department reports the names and social security numbers of the claimants who were not employed by HHS directly to the State making the charge. The State is formally notified of the charge and is requested to reduce our next charge by the erroneously reported amount. The regulations do not allow flexibility to automatically adjust overpayments and underpayments. However, the Department has been aggressive in notifying States of erroneous charges by monitoring and following up with subsequent bills to ensure that credits are received.

Listed below are several additional manual internal controls also implemented:

A log is maintained by the Office of Personnel Operations', Payroll Operations Group to determine when the ES-931 was received and when it was returned to the State.

Each ES-931 received is matched against the current payroll files. This procedure reveals if a current employee has applied for unemployment compensation benefits while in a nonpay status or otherwise still employed.

State Notices of Determinations (NOD) are controlled and matched against the ES-931 Control Log.

Notices of Claimant Appeals are controlled and forwarded to the Servicing Personnel Offices (SPOs) for response.

The Department has drafted instructions to all SPOs reminding them of their responsibility for providing accurate and timely separation information on the SF-50. They were reminded to process SF-50 separation data within the same pay period because the information is used to update the ES-931 Separations File for responding to the States' Wage and Separation Information Inquiries. The SPOs were also reminded to ensure that each separating employee receives a SF-8 on or before their last day of service and to explain the purpose of the SF-8.

Appeal Decisions When it Appears that the State Determinations are Incorrect

HHS Appeals Process

The Department is in the process of implementing an appeals process to be effective in October 1986.

Page 4

Following are highlights of the Department's unemployment compensation Appeals Process:

- o Designation of unemployment compensation Liaison Officers in each SPO
- o Establishment of a separate unemployment compensation separation file in each SPO for documenting detailed separation information on those employees the SPO feels should not be eligible for UC benefits if a claim were filed.
- o Prompt SPO response to the States Notices of Determination for its former employees.
- o SPO preparation of appeals for its former employees.
- o SPO attendance at State hearings for its former employees.
- o Establishment of a monitoring and reporting system of the appeals and subsequent cost savings in each SPO.

GAO RECOMMENDATION #2

Specifically address in the evaluations and reports required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) the status of internal controls for the unemployment compensation program and the plans for and accomplishments toward developing effective internal control systems.

HHS COMMENT ON GAO RECOMMENDATION #2

We concur. The Department addressed internal controls in its unemployment compensation practices in its 1984 and 1985 FMFIA Report. Weaknesses were identified in the following three areas: (1) timeliness and completion of responses to the ES-931, (2) appeals of State determinations and (3) validation and reconciliation of State bills. We will include the plans for improving each of the deficiencies in the 1986 report and continue to monitor and report the status in each subsequent annual FMFIA Report. Unemployment compensation will be considered for evaluation during each Section Four FMFIA review.

**Appendix III
Comments From the Department of Health
and Human Services**

The following are GAO's supplemental comments on the Department of Health and Human Services letter dated September 3, 1986.

GAO Comments

1. Clarifying language was added to the report on page 11.

Comments From the Department of the Treasury

These comments are discussed on p. 24.



DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

AUG 24 1986

Dear Mr. Anderson:

Secretary Baker has asked me to respond to your letter of July 30, 1986, which transmitted copies of a draft GAO report entitled "Unemployment Compensation: Ineligible Former Federal Employees Receiving Payments." We appreciate the fact that GAO has addressed this matter and identified areas of concern in which the Department can make improvements.

The Department plans to use the final report as a resource tool in implementing its management improvement plan for unemployment compensation cost reduction. In addition, the Department will include unemployment compensation as an area of special interest to be addressed by our bureaus in their annual reports to the Secretary of the Treasury under the Federal Managers' Financial Integrity Act.

Overall, we are committed to taking steps internally to ensure a more effective and efficient operation within the Department. However, it should be noted that external systemic problems tend to negate agency improvement efforts. For your information, enclosed is a discussion of these areas of concern, including recommended solutions.

We appreciate the opportunity to comment on the draft and await receipt of the final report.

Sincerely,

A handwritten signature in cursive script, appearing to read "John F. W. Rogers".

John F. W. Rogers
Assistant Secretary
of the Treasury (Management)

Mr. William J. Anderson, Director
General Government Division
General Accounting Office
Washington, D.C. 20548

Enclosure

Systemic Problems in the Unemployment Compensation Program

- One of the most difficult problems with the system has been the fact that individual agencies are obligated to deal with over 50 varying laws and regulations of the states, territories and the District of Columbia. Inconsistency in procedures alone contribute to the incidences of erroneous payments. The Federal Government is the largest single employer in the nation. The Labor Department is responsible for developing procedures to be followed by state and federal agencies. It should establish a project to seek procedural uniformity as regards claims of former federal employees. Because of the problems uncovered by the GAO study and the myriad of laws, regulations and guidance, we suggest a recommendation be included in the report that the Department of Labor undertake a vigorous program to make training readily available to agency employees who handle unemployment compensation. In addition, it should be noted that guidance for agencies from the Department of Labor, UCFE Instructions for Federal Agencies, has not been revised since 1978. We suggest that Labor review the guidance and update the publication where appropriate.
- The Department of Labor's instructions to agencies have contributed to the erroneous payments uncovered by GAO. Those instructions divide program responsibility between Payroll and Personnel offices, with Payroll responsible for providing states with wage and separation information and Personnel responsible for appealing questionable state decisions. The report contains a finding that by following those procedures, agencies lack effective internal controls to assure timely, complete and accurate responses to the state.
- The Labor Department's instructions also contain directions to payroll offices for preparing the SF 931, using information contained on the SF 50. The report acknowledges, however, that by following these directions, the states were not provided sufficient detail to make accurate eligibility determinations. Although the report indicates that the Labor Department plans revisions, we suggest that the report contain a specific recommendation for Labor to amend the procedures and instructions to help rectify the problems.

Appendix IV
Comments From the Department of
the Treasury

- 2 -

- Misrouted or delayed correspondence between the states and the agencies is another major cause of erroneous payments. In an effort to address this, a number of approaches have been tried with the states. These include notifying a state (at the time an ineligible employee is separated) that the agency prospectively contests any application for unemployment compensation. Another approach is to notify states at the time the SF 931 is returned that the application is being contested. We believe that an improved opportunity for advance notification to the states will help reduce erroneous determinations caused by misrouted or delayed correspondence. It certainly deserves the Labor Department's serious consideration.
- For the most part, states do not appear to be interested in accepting agency positions on eligibility. They request the employing agency's position, but within rigid timeframes. In this regard, the four day timeframe for providing information to the state is very difficult to meet even under the best of conditions. To compound the situation, the time limits for appeal vary from state to state and also are very difficult to meet. These inconsistent timeframes, coupled with state misrouting of appeal forms, contribute to agencies difficulties in appealing decisions to prevent payments being made to ineligible employees.
- The report recommends that separating employees receive a complete and accurate SF 8, including the agency's address, so that states can correctly route the SF 931. However, the states do not require separated employee to furnish the SF 8 when applying for unemployment benefits.
- The inability or unwillingness of states to cooperate with employing agencies to reduce erroneous payments points up the fact that little if any incentive appears to exist for states to effectively and efficiently administer the program. Eligibility determinations and subsequent appeals are decided by the state. Yet the burden to pay lies with the Federal Government. The report attributes 18% of the erroneous payments to state error. Specific recommendations either to correct the state error rate, or to facilitate the Federal Government's recovery of erroneous payments attributable to state error would be helpful. In addition the report should address the need for procedures or instructions to terminate erroneous payments when an error is made by an employing agency or discovered after the time limits.

Comments From the Veterans Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Office of the
Administrator
of Veterans Affairs

Washington DC 20420



SEP 12 1986

Mr. Richard L. Fogel
Director, Human Resources Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

This responds to your request that the Veterans Administration (VA) review and comment on the General Accounting Office (GAO) July 30, 1986 draft report "Unemployment Compensation: Ineligible Former Federal Employees Receiving Payments." GAO reviewed unemployment compensation procedures at the VA and five other agencies and payments to former employees of these agencies.

We concur with the GAO recommendations to establish effective internal controls, report their status under the Federal Managers' Financial Integrity Act, and appeal improper state decisions on compensation. Our comments on the recommendations as well as general comments on the report are enclosed.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Thomas K. Turnage', written in a cursive style.

THOMAS K. TURNAGE
Administrator

Enclosure

ENCLOSURE

VETERANS ADMINISTRATION RESPONSE TO THE GAO DRAFT REPORT
"UNEMPLOYMENT COMPENSATION: INELIGIBLE FORMER FEDERAL
EMPLOYEES RECEIVING PAYMENTS"

COMMENTS ON RECOMMENDATIONS

GAO recommended that the heads of the agencies included in their review establish effective internal control systems to assure states are provided accurate, complete, and timely wage and separation information for former employees who apply for benefits, and appeal decisions when it appears that the state misinterpreted the facts or the determination is not in accordance with state law.

The VA concurs in this recommendation. We have completed a draft revision of Chapter 850, MP-5, Part I, 'Unemployment Compensation,' placing emphasis on the need to timely and adequately respond to State Employment Security Agencies' (SESA) requests for information. Our Unemployment Compensation for Federal Employees (UCFE) Verification and Matching Procedures Report (a comparison of VA employment records with benefit data received from each SESA) has resulted in a significant improvement in the accuracy of UCFE benefits paid. This computerized report provides management with an effective tool for reviewing and, where applicable, recouping unemployment insurance payments.

Also, under our Fiscal Quality Assurance Review Program, field facilities are responsible for reviewing the ES 931 "Request for Wage and Separation Information" suspense control to determine if the forms were completed and returned within 4 workdays and if the computation of wages was correct.

We plan to strengthen our internal controls for the appeals process relating to the disposition of SESA Notices of Award. The governing VA directives, Office of Budget and Finance (Controller) Policy Manuals MP-4, Part II "Payment of Salaries," and MP-6, Part V, Supp. 2.3 "Payroll Operating Procedures," are being updated. In the meantime, financial managers will be apprised of the planned changes.

GAO also recommended that the agencies' evaluations and reports required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 should specifically address the status of internal controls for unemployment compensation and the agencies' plans for and accomplishments toward developing effective internal control systems.

We agree that the reports required by the FMFIA should specifically address the status of internal controls for the unemployment compensation program. Discussions of significant improvements that were made in administering the UCFE program as a result of our annual internal control reviews are contained in Enclosure A of this Agency's reports to the President under Section 2 of the FMFIA for fiscal years 1983, 1984, and 1985.

See comment 1.

2.

In our report for fiscal year 1983, we stated the VA was developing an automated report to provide summary program information and to assist in verifying chargeback billings. For fiscal year 1984, we reported the manual review of 1,745 claims from 12 states and recovery of over \$35,000 for incorrect billings and the anticipated use of an ALTOS microcomputer-based matching system for billings verification the following year. For fiscal year 1985, we reported use of the computerized verification process, training seminars for VA field personnel, establishment of a task force to prepare recommendations for improved program administration and procedures, improvements in the flow of information to field stations through bulletins and conference calls, and improvements in the working relationship with the Department of Labor to facilitate the exchange of information and the sharing of program goals.

GENERAL COMMENTS

See comment 2.

This GAO draft report infers that the VA was included in the scope of the October 1982 report "Federal Agencies' Unemployment Compensation Costs Can Be Reduced Through Improved Management" and did not take action on the findings. The VA was not in the scope of that GAO review, nor was the report transmitted to the Agency.

In the report section "Agencies Did Not Provide States with Timely, Complete, and Accurate Information...", Table 2.2 shows payments that were improperly authorized because the Forms 931 were not provided on time. Based on discussions with GAO's evaluator-in-charge, we understand that a large amount of the data for this table were obtained from California SESA offices' files. We have experienced consistent misrouting of requests for claimant information by 14 states; California is one of the most flagrant in sending their requests to the VA Central Office in Washington rather than to the VA facility of last employment. The delays caused by this misrouting are undoubtedly reflected in Table 2.2. As early as March 1984, we asked the Department of Labor to intercede on our behalf in attempting to rectify this situation.

See comment 3.

Table 2.2 is misleading because the heading indicates the three columns all depict "reasons for the errors." The caption on column three shows that in GAO's examination of the case files, they "could not determine" the basis for payment authorization, further explaining by footnote that "case files did not contain either the Form 931 or affidavit." In discussions with the evaluator-in-charge, we learned the case files did contain state examiners' fact finding reports of the determinations, based on either a Form 931 or an affidavit. But, when GAO attempted to "look behind" or corroborate the authorization determination, they found the actual Form 931 or affidavit was missing from the file. Because the examiner's determination was based on either a Form 931 or affidavit, this situation could reflect instances where a complete, accurate Form 931 was received and subsequently misplaced. The VA has no control over these instances.

The following are GAO's supplemental comments on the Veterans Administration letter dated September 12, 1986.

GAO Comments

1. The improvements reported primarily concern the VA's system of verifying the accuracy of state billings to assure that VA is not charged for other agencies' unemployment costs. The reports did not address any material weaknesses in internal controls that allowed improper payments to former employees.
2. It is true that VA was not included in our earlier review. This report makes no such inference. However, the Secretary of Labor's March 1983 memorandum to all federal agencies advised them of our findings and cited the report in suggesting corrective actions that all agencies should consider.
3. See footnote on table 2.2, page 17.

Comments From the Department of the Interior

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

SEP 4 1986

Mr. J. Dexter Peach
Director, Resources, Community and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Your letter of July 30, 1986 to Secretary Hodel enclosed 15 copies of a draft report on "Unemployment Compensation: Ineligible Former Federal Employees Receiving Payments" and requested our comments on the draft.

The draft report has been reviewed by those individuals responsible for the operation of the unemployment compensation (UC) program at the Department and bureau headquarters levels. We believe that most of the internal control weaknesses pointed out in the draft report were identified in the review the Department of the Interior conducted prior to its decision to contract for UC assistance. We also believe that most of the weaknesses have been addressed and probably cured by the contracted program. As recommended in the report, responsibility for oversight of the program has been transferred to personnel offices, with functions formerly assigned to payroll now being taken care of by the contractor's use of PAY/PERS payroll tapes. It is too early to determine whether weaknesses in program administration still exist (since we have operated under the contract for a brief time). We believe that use of the contractor to perform certain functions in the administration of our UC program will prove to be very satisfactory in controlling costs and should be carefully considered for endorsement as a long-term solution to problems in program administration.

See comment 1.

Our main concern about the draft report is that it dismisses the contract as a long-term solution, stating that unemployment compensation determinations are part of basic personnel management responsibilities "and should not be delegated to a contractor as a permanent arrangement." The report admits that the reviewers have not closely examined the operation of the contract, and the view of a contract as only a short-term solution reflects a lack of understanding of the functions performed by the contractor and the responsibility retained by agency management. It is very significant, in a time of severely reduced staff resources, that we have a means of efficiently and promptly responding to states' inquiries on behalf of UC claimants. The contractor offers us a very valuable resource which we could not duplicate: a centralized, knowledgeable point of reference for all 50 states. Delays caused by Forms 931 being sent to the wrong office are virtually eliminated when there is one address for all former Interior employees nationwide. The contractor has access to and knowledge about UC laws in all 50 states; there is a permanent, up-to-date data base against which claims can be measured to determine whether a claim should be protested or appealed. The contractor has trained personnel to

See comment 2.

Appendix VI
Comments From the Department of
the Interior

- 2 -


assist when an appeal needs to be made and a hearing is held. Even if our bureaus had staff resources to devote to the work now being done by the contractor (and this is arguable, with benefits staffs being stretched to their limits by changes in other benefits programs, such as the retirement system), it is not efficient for agency staff at the bureau (or lower) level to try to maintain the level of expertise necessary to question claims. This activity would require familiarity with laws in 50 states and application of this knowledge with enough frequency that decisions could be made quickly and accurately. Certainly, time is of the essence, since state laws favor claimants when employer information is not supplied within 4 days. We seriously doubt that duties now being performed by the contractor on our behalf could be performed as efficiently or within the required tight time deadlines with in-house staff. We certainly would question the cost effectiveness of such a commitment of resources.

It is important for the report writers to be aware that we have not given to the contractor all of the responsibility for the UC program. Personnel offices are still responsible for promptly providing personnel information on a claimant. The contractor has contacts in each bureau for handling problems or for making decisions about appeals cases. The contractor provides us with quarterly reports so that we know what activity has taken place and where, both organizationally and geographically. This enables personnel staffs to pass information on to managers and budget staffs. Using a contractor to perform basic tasks from a centralized location with a specialized and current base of knowledge does not mean that we abdicate responsibility for the program. It means that we have a way to insure that the program is running effectively, that internal controls are in place, and that our managers can evaluate activity in the program for the first time.

The Department expects to continue utilizing the contractor services to maintain an effective UC program and to control costs. As a result, the Department sees no need to address unemployment benefits in its Federal Managers' Financial Integrity Act annual report because material weaknesses are not involved.

We appreciate the opportunity to comment on the subject draft report. Copies of the draft will be returned to your office under separate cover.

Sincerely,


Assistant Secretary - Policy, Budget
and Administration

The following are GAO's supplemental comments on the Department of the Interior's letter dated September 4, 1986.

GAO Comments

1. Our report did not recommend transferring program responsibility to personnel offices. The report on page 19 said that Labor officials are planning to seek agencies' comments on the transfer of program responsibility to their personnel offices.
2. The draft of this report concluded that a contracting arrangement should be considered as a possible short-term solution to the overpayment problem until agencies improved their internal controls. In view of our recommendation that the Department of Labor review effectiveness of a contracting arrangement, we removed this conclusion from the final report.

Comments From the Department of Labor


This comments are discussed on p. 24.

U.S. Department of Labor

Assistant Secretary for
 Employment and Training
 Washington, DC 20340

Ms. Fankhauser
 Mr. Key
 Associate Director
 Control D
 File

AUG 21 1986



AUG 21 1986

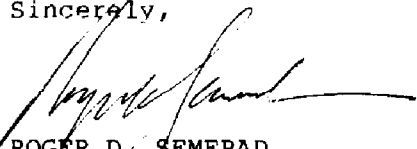
Mr. Richard L. Fogel
 Director
 Human Resources Division
 U.S. General Accounting Office
 441 G Street N.W.
 Washington, DC 20548

Dear Mr. Fogel:

In reply to your letter to the Secretary of Labor requesting comments on the draft GAO report entitled "Unemployment Compensation--Ineligible Former Federal Employees Receiving Payments," the Department's response is enclosed.

The Department appreciates the opportunity to comment on this report.

Sincerely,



ROGER D. SEMERAD
 Assistant Secretary of Labor

Enclosure

U.S. Department of Labor's Response To
The Draft General Accounting Office Report
Entitled --

Unemployment Compensation
Ineligible Former Federal Employees
Receiving Payments

I. Departmental responses to the recommendations made in the report:

Recommendation: The Secretary of Labor, "again send a memorandum to all federal agencies providing information on how to reduce improper unemployment benefits".

Response: The Department concurs. A memorandum to all Federal agencies requesting that they re-emphasize several existing procedures and implement two new procedures we believe are key to reducing improper payments has been drafted and will be issued as soon as necessary interagency clearances are completed. This memorandum will also solicit agency comments on other changes, including the transfer of responsibility for unemployment functions to personnel offices and revised procedures for documenting and reporting separation information to State agencies. The Department's target date for issuing this memorandum is September 30, 1986.

Recommendation: The Secretary of Labor, "evaluate the contracting arrangement used by Interior and other agencies to determine if it can serve as a short-term solution for avoiding improper payments while agencies internal procedures are being improved".

Response: The Department does not concur. As noted in the report, there already exists a vehicle for assessing the effectiveness of current agency program management and proposing solutions for the resolution of deficiencies noted. The Department believes this process -- the annual OMB management review and agency improvement planning process -- is the appropriate vehicle for assessing and improving Federal agency UCFE program performance. It recognizes that primary responsibility for program management rests with the Federal agency and holds each agency accountable for its own management actions and performance during its annual budget review with the Office of Management and Budget. The Department believes that intervention into this process, however well intended, would be counter productive and may serve to dilute the principle of individual agency responsibility for their own management decisions.

Comments From California's Employment Development Department

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

GEORGE DEUKMEJIAN, Governor

EMPLOYMENT DEVELOPMENT DEPARTMENT

(916) 445-9212

P. O. Box 942880 MIC 78, Sacramento, CA 94280-0001



August 28, 1986

REFER TO: 78:22:pm

Ms. Rosslyn S. Kleeman
Senior Associate Director
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. Kleeman:

This letter is in response to your draft report on "Unemployment Compensation: Ineligible Former Federal Employees Receiving Payment." The report states that California state unemployment officials did not properly use wage and separation information provided by the federal agencies or the claimants resulting in an estimated \$299,447 paid in error on federal claims. The federal agencies did not appeal the majority of these claims.

We disagree with the report concerning the estimated amount of improper payments on federal claims. The report does not provide sufficient support to substantiate that there were improper payments. In addition, our Department staff were not given an opportunity to review the federal claims in question. Only by conducting a case by case review could we determine whether the decisions were in error or not.

Thank you for the opportunity to comment on your draft report. If you have any questions, please contact Art Shiigi at (916) 322-5460.

Sincerely,

K. R. KADDOO
Director

See comment 1.

The following are GAO's supplemental comments on California's Employment Development Department letter dated August 28, 1986.

GAO Comments

1. Because adjudication of unemployment insurance cases, like any judicial process, is not an exact science and differences of opinion are expected, we referred California's questionable claims to a senior Administrator Labor Judge from the state's Unemployment Insurance Appeals Board. The Administrative Law Judge reviewed the questionable claims, and we accepted his opinion on which of the claims were improperly paid.

Comments From Pennsylvania's Department of Labor and Industry

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
OFFICE OF EMPLOYMENT SECURITY
HARRISBURG, PA 17121

October 9, 1986

Mr. William Anderson
Assistant Comptroller General
Room 3858-C
U.S. General Accounting Office
441 'G' Street, NW
Washington, DC 20548

Dear Mr. Anderson:

This is in regard to the July 30, 1986, U.S. General Accounting Office (GAO) Draft Report on the benefit eligibility of separated federal civilian employes for Unemployment Compensation for Federal Civilian Employees (UCFE). This Agency feels it necessary to provide you with our comments regarding the federal findings on pages 18 and 22 of that Draft Report to which we are in strong disagreement:

Page 18

The second full paragraph on this page should be expanded as follows to point out how benefits became "improperly authorized":

The following table shows for each agency the total projected benefits we reviewed in each state and the amounts estimated to be improperly authorized as a result of the federal agency's failure to provide prompt and/or accurate and/or complete wage and separation information to the state agencies. (Underlining indicates suggested new language)

The category "ERROR RATE" in Table 2.1 at the bottom of the page should be changed to read "FEDERAL AGENCY ERROR RATE", thereby clearly pointing out that the high rates shown resulted from the actions of the federal agencies, not the states.

Page 22

The first paragraph on this page should be revised as follows to more specifically point out the manner in which states failed to properly use wage and separation information provided by the federal agencies. This is a broad accusation with no supporting evidence reported. In a January 21, 1986, letter to our agency from Mr. Fred D. Layton, GAO Regional Manager, summarizing GAO's audit in Pennsylvania during 1985, made no mention of Pennsylvania improperly using wage and separation data. Of 17 Pennsylvania cases pointed out as questionable,

Now on p. 14.

See comment 1.

Now on p. 17.

See comment 2.

Appendix IX
Comments From Pennsylvania's Department
of Labor and Industry

-2-

Mr. William Anderson

October 9, 1986

GAO indicated that they were only so because key information was not previously made available to Pennsylvania. Had complete and accurate information been provided in the first place by federal agencies, it assuredly would have changed the way Pennsylvania determined benefit eligibility in these cases.

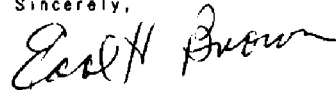
Eighteen percent of the improper payments, amounting to an estimated \$1.1 million, occurred because state unemployment officials took the following actions when using inaccurate wage and separation information provided by the federal agencies or the claimants: (Underlining indicates suggested new language)

(Each specific improper action(s) taken should be listed and the extent to which each state took the improper action should be indicated.)

It is hoped that you will take our comments into consideration and include them in subsequent discussions and/or related federal reports regarding the GAO's UCFE program audit findings.

If you have any questions regarding the above comments, please feel free to contact Mr. Alan R. Williamson, Director, Bureau of Unemployment Compensation Benefits and Allowances, telephone number (717) 787-3547.

Sincerely,



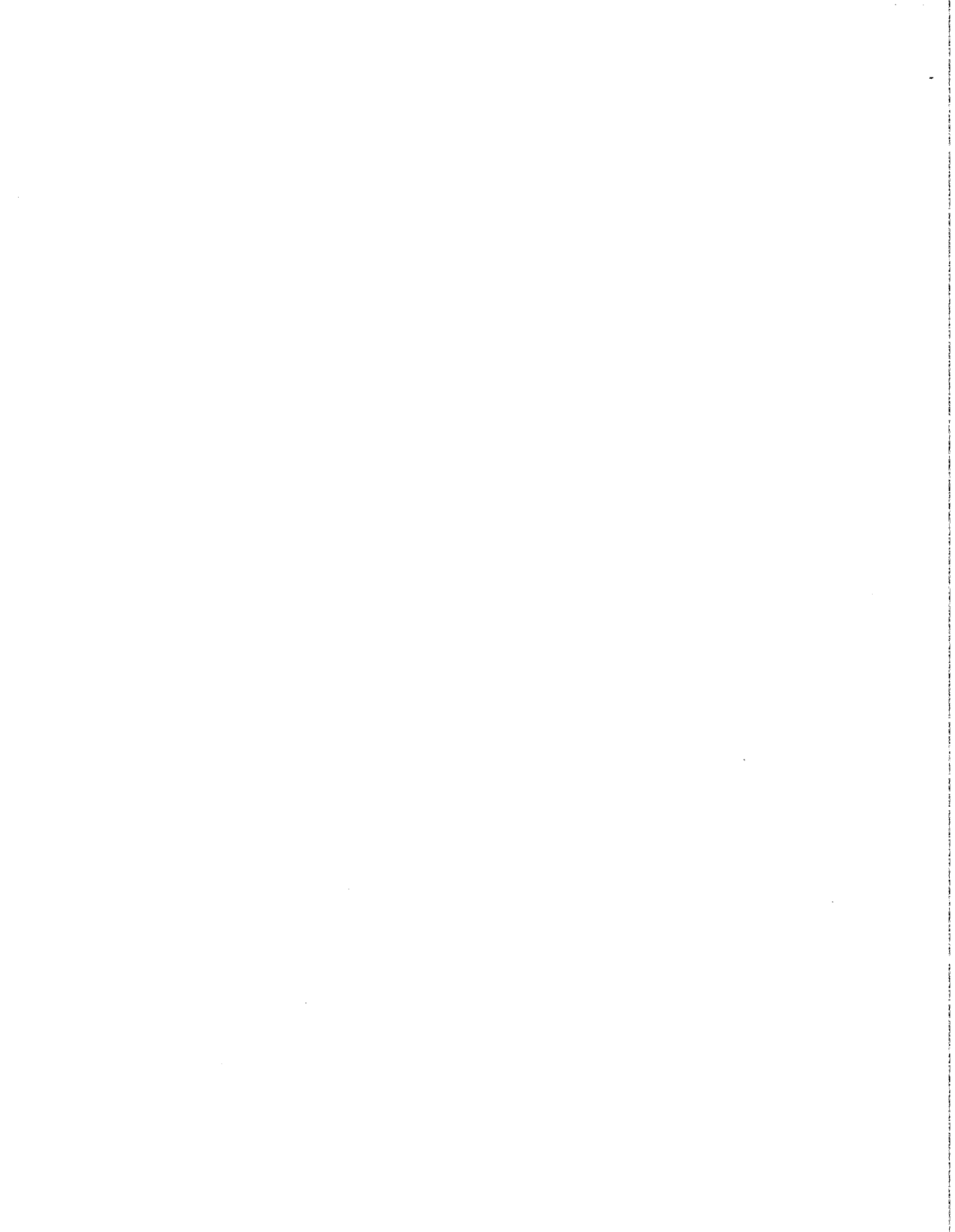
Earl H. Brown
Deputy Secretary
for Employment Security

Appendix IX
Comments From Pennsylvania's Department
of Labor and Industry

The following are GAO's supplemental comments on Pennsylvania's Department of Labor and Industry letter dated October 9, 1986.

GAO Comments

1. The error rate is an overall estimate of the percentage of payments which were improperly authorized and includes all types of errors found during our reivew.
2. During our close-out conference with the Department's federal programs office we discussed all questionable cases, including the state administrative errors, and provided the officials with copies of all the questionable cases. The officials reviewed the questionable claims, and we accepted their opinion on which claims were improperly paid.



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