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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

SEP 26 1972

MANPOWER AND WELFARE
DIVISION

Dear Mr. Zarb

We have completed a survey of the extended benefit program established by the Federal-State Extended Unemployment Compensation Act of 1970 (26 U.S.C 3304 note) as administered by the Minnesota Department of Manpower Services. The survey was conducted as a part of our survey of selected unemployment insurance activities at the Chicago, Illinois, Regional Manpower Administration Office and at the State and local offices of the employment security agencies in the States of Minnesota and Illinois. Our comments on other unemployment insurance activities will be reported separately, as appropriate.

During our survey we noted that operating personnel of the Minnesota Department of Manpower Services were properly handling the accounting for extended benefit payments to residents of the State and the resultant determination of the Federal share of such payments. However, they were improperly handling the accounting for payments to and reimbursements from other States in connection with extended benefits made on the basis of combined wage claims and for reimbursements from Minnesota State agencies for extended benefit payments to former State employees. While over and undercharges to the Federal Government occurred, the Federal Government was underbilled \$9,288 owed to Minnesota.

We are bringing this matter to your attention because it appears that operating personnel at the State level did not fully comprehend the theory of the reimbursement of the Federal share of extended benefit payments based on combined wage claims, and other States may be having similar problems.

The State of Minnesota did not follow the procedures as set forth in section 5753 of the Employment Security Manual for the reimbursement of the Federal share of extended benefit payments based on combined wage claims which provides

"Reimbursement involving UI claims only. The paying State will receive the full 50 percent Federal share of all extended benefits paid to a combined-wage claimant. In turn, the paying State will bill all transferring States 50 percent of the regular charge.***"

The State of Minnesota's practice is to bill the Federal Government for 50 percent of the total amount of extended benefits paid to residents of the State during the month. Prior to making the computation, however, Minnesota increased the amount of extended benefits paid to the residents

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of the State by the amount paid during the month to other States that had presented bills for Minnesota's share of extended benefit combined wage claims paid to those States. As a result of this procedure, Minnesota was billing the Federal Government for 50 percent of Minnesota's share of the combined wage claim extended benefit payment.

Conversely, Minnesota reduced the amount of extended benefits paid to residents of the State by the amount received during the month from other States that had been billed by Minnesota for their share of combined wage claim extended benefit payments. As a result of this procedure, Minnesota was underbilling the Federal Government's share of the extended benefits paid by 50 percent of the combined wage extended benefit payments received from other States.

The same procedure was followed with respect to the payment of extended benefits to former employees of the State of Minnesota. The State's portion of the extended benefit payments was deducted from the total payments made which resulted in reducing the amount billed the Federal Government by 50 percent of the State's share.

We found that during the 5-month period ended February 1972, the State of Minnesota, relative to extended benefits, paid \$1,595 to other States, received \$8,079 from other States, and received \$12,092 from other departments of the State Government. Under the procedure used by the State, the Federal Government was underbilled \$9,288.

Under the Department's current procedures for accounting for extended benefit payments on Form MA2-112, UI Financial Transactions Summary, the amount of extended benefits paid to claimants within the State is not adjusted for payments to or from other States on a combined wage payment with the result that the amount shown on the report for "Net State Share Extended Benefits" is not the actual expense to the State. The payments to and from other States are recorded elsewhere on the summary and, if otherwise properly accounted for, the State will be reimbursed for the correct amount of the Federal Government's share of extended benefit payments made by the State.

In discussions with a Minnesota Department of Manpower Services official, we were advised that the procedures used by the State were designed to show the actual expense to the State for extended benefit payments. The method used, while it did not provide the actual expense, did provide the actual cash expenditure for the month, but due to the fact that the paying State in a combined wage extended benefit payment receives the full 50 percent Federal share, the method used by the State of Minnesota resulted in erroneous billings for the Federal share of extended benefits paid. When we brought this matter to the attention of the Minnesota Department of Manpower Services officials, action was taken to correct the error.

Since other States may be having similar problems with recording extended benefits paid, we recommend that (1) the Department determine the extent to which the problem does exist and (2) revise the procedures for recording extended benefits paid accordingly.

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We wish to thank you for the cooperation and assistance extended to our staff during our review. Please do not hesitate to call on us for additional details on the matters discussed in this report.

We would appreciate being informed of any actions taken by the Department on the matters discussed in this report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "George D. Peck". The signature is written in dark ink and is positioned above the printed name and title.

George D. Peck
Assistant Director

The Honorable Frank G. Zarb
Assistant Secretary for Administration
and Management
U. S. Department of Labor