BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Labor

An Assessment Of Random Audit--
A New Department Of Labor Program
To Improve The Accuracy Of
Unemployment Insurance Benefit Payments

The Labor Department estimated that in fiscal year 1983 more than 15 million persons received over $29 billion in jobless benefits from the Unemployment Insurance system. To help assure that the states correctly pay such benefits to only entitled claimants, in 1981 Labor initiated the Random Audit program. This program requires states to review a statistically projectable sample of claimants' payments each week to gauge compliance with federal and state laws and regulations.

The program is providing evidence that much higher overpayment rates are occurring than states previously reported. In the five initial states the estimated overpayment rate ranged from about 7 to 24 percent of benefits paid. While some states have already used this information to strengthen their procedures, others have apparently made few changes to reduce overpayments.

This report discusses Labor's efforts in implementing the program. GAO is recommending that the Secretary (1) determine the adequacy of federal efforts to monitor the implementation of Random Audit and (2) explore possibilities for expanding the program to include unemployment insurance programs currently not covered.

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GAO/HRD-84-26
MARCH 30, 1984

B-214581

The Honorable Raymond J. Donovan
The Secretary of Labor

Dear Secretary Donovan:

We have assessed the Department's Random Audit program.
This program was initiated to improve the accuracy of benefit
payments under the Unemployment Insurance (UI) system. Because
of the significance of the UI expenditures and the importance of
paying benefits in correct amounts to only entitled claimants, we
are presenting the information we obtained concerning the pro-
gram's implementation. The information should be considered as
the Department implements its recently announced plans to estab-
lish a comprehensive quality control program for the UI system.
This letter summarizes our findings, including several unresolved
questions about Random Audit; appendix I discusses the findings
in more detail. In our opinion, the most significant question
deals with Labor's role in using information from Random Audit to
better assure that states take needed corrective actions to re-
duce overpayments. Employment and Training Administration (ETA)
officials reviewed a draft of this report and generally agreed
with the findings.

BACKGROUND

The UI system is a federal/state partnership for providing
income insurance to unemployed workers. Although grounded in
federal law, the system is executed at the local level by 53 UI
jurisdictions--the 50 states, the District of Columbia, Puerto
Rico, and the Virgin Islands--in accordance with their own laws
and with their own employees. At the federal level, Labor's
ETA administers the program and is essentially responsible for
assuring that the states operate effective and efficient pro-
grams. The UI system's benefits and administrative costs are fi-
nanced by federal and/or state UI taxes paid by employers and
deposited in various state and federal trust funds. During fis-
cal year 1983, the UI system paid an estimated $29.3 billion in
benefits to about 15 million persons; the budgeted federal and
state cost to administer these benefits was about $1.7 billion.

Paying correct benefit amounts to only entitled individuals is a principal UI system goal. Thus, controlling overpayments is important. ETA considers three functions vital to such control—prevention, detection, and recovery of overpayments. Accordingly, provisions related to these three areas are found in federal and each state's employment security laws and policies. The states, however, have primary responsibility for controlling overpayments and receive funding from ETA specifically for this function.

The detection function is particularly important to overpayment control. Without adequate detection, the states and ETA lack a good basis for evaluating how well overpayments are controlled. In addition, inadequate detection would hamper collections since overpayments cannot be collected until identified. Detection activities vary among states but generally include such methods as crossmatching individuals receiving UI benefit payments with wage data reported by employers to detect individuals working while drawing UI benefits.

By 1981, however, evidence indicated that state statistics probably understated the extent of overpayments in the UI system by a significant amount. To help determine the nature and magnitude of the overpayment problem, ETA initiated the Random Audit program in March of that year.

Random Audit is designed to produce statistically reliable estimates of overpayment and underpayment rates and to provide information on the type and cause of payment errors. The program's basic objective is to strengthen the controls that prevent error and abuse in paying benefits. ETA officials believed the data on extent, type, and cause of overpayments would help the states identify system weaknesses and thus improve their ability to reduce overpayments.

After pilot-testing the program in five volunteer states during 1981, ETA has added other states each year. By the end of fiscal year 1983, 35 jurisdictions participated, and ETA plans to add 11 other states in fiscal year 1984. The estimated cost to operate Random Audit during fiscal year 1984 is $14.5 million. In its internal budget justification for fiscal year 1983, ETA estimated that annual "net savings" from decreasing overpayments in the 35 states would be between $307 and $462 million by fiscal year 1986.

We reviewed the Random Audit program because of (1) evidence showing the UI system may have a large overpayment problem and (2) the stated potential of Random Audit to better define the parameters of this problem, help the states reduce overpayments, and generate savings to the UI trust fund.

Our review, which was carried out largely between February and August 1983, included a review of Random Audit's statistical design and methodology and discussions with ETA headquarters staff, ETA consultants who helped design the program, and state personnel in each of the five pilot states--Illinois, Kansas, Louisiana, New Jersey, and Washington.

RANDOM AUDIT CAN PROVIDE USEFUL INFORMATION ON OVERPAYMENTS

Random Audit relies on statistical sampling and probability theory to estimate the level of overpayments in the UI system. In each participating state, Random Audit personnel select each week a random sample of about eight UI payments for detailed investigations. The results of these investigations provide the basis for estimating the extent, type, and cause of overpayments in each state.

While we did not evaluate in detail how well the states implemented specified Random Audit procedures, we believe the program is conceptually sound and should, if properly implemented, provide information appropriate for use as broad indicators of the extent, type, and cause of overpayments.

Users of Random Audit data should recognize, however, that the data have limitations. These include:

--Comparisons between states may not be meaningful.

--Statistically reliable projections of a national overpayment rate cannot be made until all states have implemented Random Audit.

--Not all UI claims are covered by Random Audit.

--Overpayment rates tend to be understated.

For more specific information about our findings on Random Audit's design and methodology and the various data limitations, see appendix I, pages 11 to 17.

RANDOM AUDIT RESULTS INDICATE A NATIONAL OVERPAYMENT PROBLEM EXISTS

The results of the Random Audit program have generally confirmed that high overpayment rates exist. Random Audit's overpayment rate estimate in the five pilot states was 14 percent of UI benefits paid and ranged from about 7 to 24 percent in the

individual states.[1] These are similar to the rates found in a previous overpayment study conducted in six cities. The principal identified cause for these overpayments was claimants not actively seeking work. While ETA had not as of November 1983 released the results for the next 10 states added to the Random Audit program, ETA officials told us that the results continue to indicate an overpayment problem exists.

Random Audit results indicate that there are limitations in the states' systems for detecting, preventing, and recovering overpayments. For example, estimated overpayments for the five Random Audit pilot states were nine times higher than the total overpayments identified by these states' detection activities.

ETA considers the states' performance, as shown by Random Audit, to be illustrative of a potentially large national UI overpayment problem. While a statistically sound basis does not yet exist for estimating the extent of national overpayments, the overpayments estimated by Random Audit in the 1-year pilot study period for only five states were $392 million--much larger than total overpayments identified by the detection systems in all 53 UI jurisdictions. Based on information from Random Audit, ETA concluded that ". . . primary emphasis be directed toward improving the UI system's capability to prevent, detect, and recover overpayments."

For more specific information about the results of the Random Audit program, see appendix I, pages 17 to 22.

RANDOM AUDIT OFFERS POTENTIAL TO IMPROVE
THE UI SYSTEM, BUT ITS POTENTIAL TO
PRODUCE SIGNIFICANT SAVINGS IS UNKNOWN

The Random Audit program identifies opportunities for ETA and states to improve payment accuracy by providing information on the extent, type, and cause of overpayments. For example, the program's quarterly reports on Random Audit's results should help state officials focus on the most significant problems contributing to their overpayments. Also, ETA can benefit from the program through such means as identifying states most in need of technical assistance and using program data as a basis for establishing overpayment goals or standards.

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[1]The estimated underpayment rate in the five states was less than 1 percent. However, this rate probably is understated because Random Audit is limited to individuals who receive UI benefits and does not include individuals whose claims have been denied.

Based on the program's potential and ETA studies of the effect that using a similar random-audit methodology had in other federally funded programs (such as Food Stamps), we believe overpayments can be greatly reduced in the long run if ETA and the states effectively use the Random Audit information. However, there are several reasons why overpayment reductions do not necessarily equate to dollar-for-dollar savings to the UI trust funds. For example, since the most frequent reason for overpayments was the failure of claimants to actively seek work, a state's efforts to tighten its program administration may result in individuals modifying their behavior to meet the state's requirements without necessarily improving the likelihood of their getting a job and without affecting the amount of UI benefits they draw. Thus, while the overpayment rate would be reduced, dollar savings would not occur because the individuals would be in compliance with UI regulations and would continue to draw UI benefits. (See p. 24.)

Although potential savings from Random Audit are unknown, this should not, in our opinion, detract from the program's potential to improve UI system integrity and reduce overpayment rates. Such benefits are important, and they should be considered when evaluating the program's value. In addition, ETA officials believe the UI system changes likely to result from Random Audit will produce some cost savings.

For more information about Random Audit's ability to improve the UI system and potentially save money, see appendix I, pages 22 through 25.

EXTENT OF CORRECTIVE ACTIONS
VARIES AMONG STATES

States should correct the problems that Random Audit identifies. In several states the program is contributing to improved claims processing and overpayment control. For example, some states have used information from Random Audit to change their laws, develop new payment control procedures, devise improved forms, and better train UI staff. Others, however, have apparently not made substantial changes to improve their programs. For example, of the 15 states that have had Random Audit units long enough to have developed effective corrective actions, an ETA program official believed about half were doing at least a satisfactory job.

While a number of reasons have likely contributed to the lack of actions by some states, we believe a principal factor was ETA's initial passive role in seeking corrective actions. The subject is more fully discussed in the following section dealing with program questions.

For additional information about the extent of corrective actions taken by states, see appendix I, pages 26 and 27.

STATUS OF UNRESOLVED
PROGRAM QUESTIONS

In Random Audit, as in many new and evolving programs, several questions have surfaced that need to be addressed. ETA program officials are aware of the issues and are generally taking or planning actions that can potentially resolve them.

In our opinion, the most significant Random Audit issue deals with what ETA's role should be in using program data to better assure that states take corrective actions to reduce overpayments. Until recently, ETA maintained a passive role--that is, it essentially left corrective actions up to each state and instead focused staff time on getting the program underway. Now, however, program officials believe that Random Audit has evolved to a point that they can and should give more effort to assuring that the states use the data to make program improvements.

In recent months, ETA began several actions to better ensure that states make needed changes. For example, ETA guidance requires each state participating in Random Audit in fiscal year 1983 to develop an action plan for reducing overpayments. In addition, ETA staff have been evaluating other options for strengthening ETA's ability to assure that states act to reduce overpayments. These options included using Random Audit to measure goal performance against a (1) "desired level of achievement" or (2) performance standard which could provide administrative funding incentives for good performance. To help evaluate these and other possible actions for better controlling overpayments, ETA organized a Benefit Payment Control Oversight Committee.

While ETA's role in assuring that states use Random Audit data is still uncertain, we believe the thrust of its recent actions, if sustained, can help achieve the program's potential for reducing overpayments. If ETA does not take a more active role, some states may not act to correct the problems identified.

In addition to the question of ETA's role, a question exists on whether federal monitoring of the Random Audit program in each state should be strengthened. The present independent review of each state's program by federal monitors provides an important safeguard for assuring that the states properly carry out the program methodology. Concern exists, however, among state Random Audit supervisors, federal officials, and the program's designers

that the current monitoring effort may be inadequate for such purposes as ensuring the overpayment decisions reached on each sampled case are in accordance with the state's written UI law and policy.

The concern stems largely from ETA's use of temporarily assigned "state detailees" as monitors. ETA officials said that when they decide how to use Random Audit data, they will evaluate current and alternative monitoring strategies and select one consistent with how accurate Random Audit data need to be. While this approach is reasonable, we found that the present concerns are based largely on impressions rather than "hard" data--nobody really knows to what extent the past monitoring has been successful in ensuring accurate data. Therefore, we believe ETA should periodically determine how well the monitoring program is working to help ensure Random Audit's integrity and reliable overpayment data.

Another question deals with whether Random Audit should be expanded to include additional types of UI claims. Currently, the program excludes claims paid to individuals who have moved to other states (interstate claims) and claims under the Extended Benefits (EB) and Federal Supplemental Compensation (FSC) programs. Claims under these programs represented about 30 percent of recent UI claims, based on ETA data. While ETA officials plan to add interstate claims to Random Audit, no such plans exist for EB and FSC claims because the continued eligibility of EB and FSC claimants cannot be as readily determined as for claims now covered by Random Audit. The officials said investigating these claims would be very expensive and in many cases would produce inconclusive results.

We believe, however, that ETA needs a reasonable basis for assessing payment accuracy in its major UI programs and for helping determine any needed corrective actions. While the reasons ETA officials cited may prohibit EB and FSC claims from being fully investigated under Random Audit, there may be other alternatives that could give ETA a reasonable basis for determining the extent of overpayments in these claims. Therefore, we believe ETA should determine and evaluate alternatives for assessing the extent, type, and cause of overpayments for EB and FSC claims.

For details of these and the other questions about Random Audit, see appendix I, pages 27 to 36.

RECOMMENDATIONS TO
THE SECRETARY OF LABOR

To facilitate the resolution of program questions concerning Random Audit, we recommend that you direct the Assistant Secretary for Employment and Training to:

--Determine the adequacy of federal efforts to monitor the implementation of Random Audit.

--Determine and evaluate alternatives for assessing the extent, type, and cause of overpayments in EB and FSC claims.

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As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the House and Senate Committees on Appropriations and the cognizant legislative committees; the Director, Office of Management and Budget; and other interested parties.

We appreciate the Department's courtesy and cooperation given to us during our review.

Sincerely yours,

Richard L. Fogel
Director

C o n t e n t s

APPENDIX

ABBREVIATIONS

EB   Extended Benefits

ETA   Employment and Training Administration

FSC   Federal Supplemental Compensation

GAO   General Accounting Office

NCUC   National Commission on Unemployment Compensation

UI   Unemployment Insurance

AN ASSESSMENT OF RANDOM AUDIT--

A NEW DEPARTMENT OF LABOR PROGRAM

TO IMPROVE THE ACCURACY OF

UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS

Random Audit is a new Department of Labor program aimed at improving the accuracy of benefits provided to jobless workers under the Unemployment Insurance (UI) system.

INTRODUCTION

The UI system was established in 1935 as part of the federal/state employment security program authorized under the Social Security Act (42 U.S.C. 501) and the Wagner-Peyser Act (29 U.S.C. 49). The system's overall goal is to provide adequate income insurance for unemployed workers when suitable jobs[1] are not available. Cash benefits are payable to the unemployed who meet their states' minimum UI conditions and who are (1) free from disqualification on the basis of their separation from their last job and (2) ready, willing, and able to work. During fiscal year 1983, the UI system paid an estimated $29.3 billion in unemployment benefits to about 15 million persons; the budgeted federal and state cost to administer these benefits was about $1.7 billion.

The UI system is a federal/state partnership program. Although grounded in federal law, the system is executed at the local level by 53 UI jurisdictions[2] in accordance with their own laws and with their own employees.

At the federal level, the Department of Labor's Employment and Training Administration (ETA) administers the UI system through its Unemployment Insurance Service. ETA has general leadership and oversight responsibilities for the system.

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[1]Generally under regular UI benefits a claimant is not required to seek employment that is (a) outside his or her normal occupation or area of training, (b) further than a reasonable commuting distance, or (c) paying less than the normal wage for that type of employment.

[2]The jurisdictions are the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. The term states is used in this report to refer to the 53 jurisdictions.

Essentially, it is responsible for assuring that the states oper-
ate effective and efficient UI programs. In this connection, ETA
reviews state laws and programs for conformity with federal re-
quirements, establishes performance goals and standards, monitors
states' performance, and provides technical assistance to foster
program improvements.

The states, in turn, operate local UI offices and pay UI
benefits. With few exceptions, the states determine the substan-
tive UI provisions for their programs, including (1) the condi-
tions individuals must satisfy to become and remain eligible for
benefits, (2) the circumstances under which states may deny bene-
fits, (3) the number of weeks they may pay benefits, and (4) the
amount of benefits they will pay. Consequently, many differences
exist among the states' UI programs.

Most states provide UI benefits for up to 26 weeks. An
individual's maximum weekly entitlement varies by state. For ex-
ample, as of January 1983 the maximum weekly award ranged from
$84 in Puerto Rico to $258 in Massachusetts. The average for all
UI jurisdictions was $162. In addition to these regular state
benefits, in 1970 the Congress enacted a permanent Extended Bene-
fits (EB) program--providing up to 13 weeks of additional
benefits--which is "triggered" by certain economic conditions.
Also, at various times the Congress has authorized temporary
emergency benefit programs to further expand UI coverage. One
such temporary program, Federal Supplemental Compensation (FSC),
was in effect during fiscal year 1983. It provided additional
weeks of benefits beyond the states' regular programs and the EB
program. The duration of these benefits varied, depending on
such factors as a state's insured unemployment rate and the
period of unemployment claimed.

The employers covered by the Federal Unemployment Tax Act
(26 U.S.C. 3301) pay federal and state UI taxes to finance the UI
program. The federal tax rate is currently 3.5 percent of the
first $7,000 of an individual's earnings from covered employers.
The law provides a 2.7-percent credit against the federal tax to
employers who pay state unemployment taxes under programs
approved by the Secretary of Labor, resulting in an effective
federal tax rate of 0.8 percent.

The state UI taxes are deposited in each state's UI trust
fund to pay benefits under the state's regular UI program and
half the cost of the EB program. The federal UI taxes are
deposited in various federal trust fund accounts. The federal
funds are used to (1) pay all the UI system's administrative

costs (both federal and state), (2) pay half the extended bene-
fits, and (3) maintain a loan fund from which the states may
borrow to pay benefits if their trust fund accounts become in-
solvent. Because of such reasons as frequent recessionary per-
iods, many states depleted their trust funds and had to borrow
from the federal government. As of December 1982, 23 UI juris-
dictions had outstanding federal loans totaling $10.6 billion.

Controlling overpayments is important

A principal UI goal is to pay correct benefit amounts only
to entitled individuals. Thus, controlling overpayments is im-
portant. ETA considers three functions vital to such control--
prevention, detection, and recovery of overpayments. Accord-
ingly, provisions relating to these three areas are found in fed-
eral and each state's employment security laws and policies.

The legal basis and general objectives for preventing,
detecting, and recovering benefit overpayments come from broad
provisions of the Social Security Act and Internal Revenue Code.
The Secretary of Labor has determined that the federal provisions
require that a state's law include such administrative methods as
are, within reason, calculated:

--"To detect benefits paid through error by the agency or
   through willful misrepresentation or error by the
   claimant or others."

--"To deter claimants from obtaining benefits through
   willful misrepresentation."

--"To recover benefits overpaid under certain circum-
   stances."

These requirements provide a foundation for the federal and
state roles in controlling overpayments. Each state has primary
responsibility for controlling its benefit overpayments. How
well this is done can be influenced by many aspects of a state's
UI program, such as its laws and policies covering eligibility
and its procedures for (1) screening/processing claimants to
determine their eligibility for benefits, (2) informing claimants
of their rights and responsibilities, (3) detecting overpayments,
(4) administratively penalizing and/or prosecuting individuals
who fraudulently obtained benefits, and (5) collecting overpay-
ments from claimants.

The detection function is particularly important to overpayment control. Without adequate detection of overpayments, the states lack a good basis for evaluating their procedures and activities for preventing overpayments. In addition, inadequate detection would hamper the collection function since collection efforts cannot be started until an overpayment is identified. While specific detection systems/procedures vary among states, they typically have included such methods as:

--Crossmatching benefit payments and wage information provided by employers to determine individuals who were working while drawing UI benefits.

--Verifying return-to-work dates provided by claimants to determine if they received benefits for too long.

--Checking with border states to detect cases of claimants receiving claims in one state while working in another or cases of concurrent filing for claims in more than one state.

--Investigating complaints, tips, etc., from employers or others that involve concurrent working and receiving benefits or other questions of eligibility.

The federal role is also important. In concert with the above requirements and its general responsibility for ensuring the effectiveness of state UI programs, ETA

--reviews each state's law and program administration for compliance with the benefit payment control objectives/requirements;

--allocates and funds personnel positions to the states specifically for benefit payment control activities, such as the detection activities mentioned previously;

--develops and tests new and improved systems and techniques to detect, deter, collect, and prosecute (for fraud) UI overpayment cases;

--establishes performance goals for benefit payment control operations;

--requires the states to submit reports that show various data relating to payment control activities (e.g., the amount of overpayments identified, the amount of overpayments recovered, and the number of convictions obtained for willful misrepresentation);

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--monitors the states' benefit payment control performance;

--encourages states to develop action plans to correct
  performance below the performance goals; and

--works with the states to improve benefit payment control
  operations.

Concern about potentially
high overpayment rates led
to the Random Audit program

     Public concern about the accuracy of UI payments, which has
existed for many years, heightened during the 1970s. The onset
of the 1974-75 recession put a great strain on the program as UI
claims dramatically increased. Certain mandated federal "time-
liness" requirements for paying claims added to the pressures of
higher claim loads. Some UI observers believed this would
adversely affect payment accuracy. They also believed that fraud
and abuse in paying claims might be contributing to the increas-
ing state trust fund indebtedness to the federal government.

     At that time, the extent of overpayments detected by the
states showed alarming trends. As the following table shows,
both the extent of overpayments from fraud and the extent of
total overpayments (in terms of their percentages of total bene-
fits paid) had increased significantly.

Selected Labor Data From
State Benefit Payment Control Activities,
July Through June Periods, 1975-79

	1975	1976	1977	1978	1979
Total benefits paid (millions)	$11,051	$13,195	$11,263	$9,659	$8,677
Fraud overpayments identified: Amount (millions)	$ 22.52	$ 32.00	$ 42.91	$45.74	$47.47
Percent of total benefits	0.20	0.24	0.38	0.47	0.55
Total overpayments identified: Amount (millions)	$ 60.29	$100.98	$129.77	$129.55	$127.55
Percent of total benefits	0.55	0.77	1.15	1.34	1.47

The cause of these trends was unclear. For example, were the increasing rates principally the result of improved detection methods? Or were they caused by higher rates of fraud and over-payments? UI officials believed that existing detection activit-ties would not identify all fraud and overpayments; however, they did not know the extent that understating had occurred.

Concern about fraud and abuse in the UI system and about mounting evidence that state statistics might significantly un-derstate overpayments led the National Commission on Unemployment Compensation (NCUC) to study the overpayment problem. The Con-gress established NCUC in 1976 to evaluate the UI system. In 1979 the Commission funded a study to develop accurate estimates of detectable overpayment rates.

The resulting study provided the first statistically reli-able estimates of overpayments in the UI system. Over a 6-month period--from October 1979 through March 1980--the study evaluated

the overpayment problem in six cities. The final report,[3]
issued in 1981, showed that much higher overpayment rates existed
at the study locations than identified by the states' detection
activities. Specific findings included the following.

--The detectable overpayment rates varied widely by loca-
  tion, ranging from 3.8 to 24.3 percent of benefits paid.
  The simple average of these rates for the six cities was
  13.9 percent.

--In five of the six cities, the detectable overpayment rate
  was at least 4 times greater than the rate established by
  existing state detection activities, and in one city it
  was 40 times greater.

--The most frequent cause of overpayment was the failure of
  claimants to actively seek work.[4]

The study's ramifications concerned ETA. Although the study
results were not statistically projectable to the entire Nation,
they nonetheless raised questions about the states' capability
to effectively detect, prevent, and recover overpayments. For
example, the simple average overpayment rate of 13.9 percent in
this study was generally more than 10 times greater than national
overpayment rates detected by the states' regular detection sys-
tems.

ETA believed the significant issues that the six-city study
raised required a major effort to more precisely determine, on a
larger scale, the nature and magnitude of the overpayment problem
within the UI system. ETA retained the consultants that devel-
oped the six-city study to help design a program to meet this
need. The resulting effort became known as the Random Audit
program.

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[3]Jerry L. Kingston and Paul L. Burgess, Unemployment Insurance
   Overpayments and Improper Payments in Six Major Metropolitan
   Areas, prepared for the National Commission on Unemployment
   Compensation (May 1981).

[4]See page 18 for a further discussion of overpayments resulting
   from claimants failing to actively seek work.

The Random Audit program--
a brief overview

ETA implemented the Random Audit program in 1981. The
program's basic objective is to strengthen the controls that
prevent error and abuse in providing UI benefits. Like the NCUC-
sponsored six-city study, Random Audit is designed to produce
statistically reliable estimates of overpayment rates and provide
information on the types and causes of payment errors found.
However, Random Audit develops statewide overpayment and under-
payment projections, in contrast to only the citywide overpayment
estimates of the NCUC study. ETA believes the data from Random
Audit will help the states identify system weaknesses so that
they can act to reduce payment errors.

ETA is using a phased approach to implement the Random Audit
program in the UI jurisdictions (see app. III). Five states
volunteered to pilot-test the program, beginning in March 1981.
ETA added 10 states the following year and 20 states during 1983,
bringing the total number of participating states to 35. ETA
plans to add 11 other states during fiscal year 1984. The esti-
mated cost to operate Random Audit during fiscal year 1984 is
$14.5 million.

Both ETA and the states have responsibilities for implement-
ing the program. Each participating state must establish a Ran-
dom Audit unit that is independent from the UI functions re-
viewed. In this regard, (1) the unit must be separate from other
operational units, such as benefit payment control; (2) it
must be supervised full time by someone other than the UI Chief
of Benefits, the UI Chief of Tax, the Chief of Data Processing,
or any individual having direct responsibility for payment certi-
fication or processing operations; and (3) its supervisor must
report to an administrative level that does not have direct
responsibility for UI operations and that is at least equal to
the state UI director. Each unit should consist of a supervisor,
three to five investigators, and a clerk and is responsible for
carrying out ETA's prescribed Random Audit methodology (see next
paragraph). ETA is responsible for overseeing the development,
operation, and evaluation of each state's Random Audit program.
ETA (1) helps the states develop procedures to implement the pro-
gram, (2) conducts training, (3) provides on-site assistance, and
(4) coordinates program implementation. In carrying out this
role, ETA monitoring teams work with each state's staff to make
certain the states comply with ETA's prescribed Random Audit
methodology.

The Random Audit methodology is similar to that used in the NCUC six-city study. It involves comprehensive reviews of a random sample of UI payments made statewide to determine whether they were proper. Each state's Random Audit unit samples about eight UI payments made each week. If unit personnel find a payment error, they determine the dollar amount and then classify it by type and cause. These investigated cases provide the basis for making statistical estimates of the overpayments and underpayments in each state. On the average, Random Audit investigators spend about 8 to 10 hours investigating each sampled case. (For more information on the methodology, see p. 11.)

ETA officials believe the Random Audit program will lead to a substantially improved ability to control overpayments. For example, the program handbook states that:

> "Information obtained from the random audit will allow national and State policymakers to more knowledgeably evaluate the accuracy of benefit payments. State administrators will have information about the operating effectiveness of the program and the quality of its underlying policies. Identifying specific types and causes of errors will serve as a basis to improve and strengthen program operations. The random audit should lead to significant improvements in reduced errors, dollar savings, and continuing benefit payment integrity in the Unemployment Insurance program."

Because of this perceived potential, ETA identified Random Audit as an important part of its efforts to improve UI system integrity and to help generate savings to the UI trust funds. In its budget justification for fiscal year 1983, ETA estimated that the annual "net savings" from decreasing overpayments in the 35 states participating in Random Audit would be between $307 million and $462 million by fiscal year 1986. (See p. 24 for a discussion of this estimate.)

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed the Random Audit program because of (1) the evidence showing that the UI system may have a large overpayment problem and (2) the program's stated potential to better define the parameters of this problem, help the states reduce overpayments, improve the integrity of the UI system, and generate savings to the UI trust funds. Our specific review objectives were to

--determine the adequacy of the Random Audit design and
  methodology to estimate overpayment rates,

--evaluate the program's results,

--evaluate the program's potential to help improve the
  UI system and to save money,

--determine whether the states are taking corrective actions
  based on program results to better reduce overpayments,
  and

--identify any concerns about the program that ETA should
  resolve.

Our review was carried out largely between February and
August 1983 and was performed in accordance with generally
accepted government auditing standards. Our scope and method-
ology were as follows.

--We reviewed the statistical design and methodology as de-
  scribed in the Random Audit program documents. However,
  we did not review in detail the degree to which the states
  were carrying out the methodology.

--We assessed the adequacy of the national data processing
  operation to provide overpayment statistics from the case
  investigations performed by state Random Audit personnel.

--We reviewed available overpayment data. This included
  the Random Audit results in the five pilot states, the
  reports from the NCUC-sponsored study of overpayments in
  six cities, and statistics on overpayments identified from
  the states' overpayment detection activities.

--We held extensive interviews with the people involved in
  Random Audit to obtain their opinions on the program's
  benefits, identify the extent of corrective actions taken,
  and determine the program problems that ETA needs to re-
  solve. Specifically, we interviewed ETA headquarters
  staff responsible for the Random Audit program; the
  principal designers of the program and the NCUC-sponsored
  six-city study; federal and state staff assigned to
  monitor the program's implementation; and state staff
  responsible for operating the program in each of the five
  pilot states--Illinois, Kansas, Louisiana, New Jersey, and
  Washington.

RANDOM AUDIT CAN PROVIDE USEFUL
INFORMATION ON OVERPAYMENTS

Random Audit relies on statistical sampling and probability
theory to estimate the overpayments in the UI system. After re-
viewing Random Audit's design and methodology, we believe the
program is conceptually sound. While the Random Audit data have
some limitations, we believe the information is useful as
broad indicators of the extent, type, and cause of overpayments
in states. An overview of the Random Audit process, and specific
data limitations that users should understand, follows.[5]

The Random Audit process

The Random Audit program is based on the statistical premise
that information derived from a few randomly selected sample
cases can provide useful information about the cases from which
the sample was drawn.

In each participating state, Random Audit personnel each
week select a random sample of about eight UI payments.[6] Random
Audit personnel are required to perform a number of tests to make
sure the sample was correctly drawn from the proper universe of
UI claims.

The process of investigating the sampled cases is the heart
of the Random Audit program, as the results of this process pro-
vide the basis for estimating overpayments. Each case investiga-
tion proceeds from the presumption that the sampled payment was
correct and complied with provisions of the state's UI law and
written policy. This premise is based on the fact that the
agency's routine processing channels had already screened the

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[5]For a more detailed description of the design, methodology, and
limitations of Random Audit, see: Paul L. Burgess, Jerry L.
Kingston, and Robert D. St. Louis; The Development of an
Operational System for Detecting Unemployment Insurance Payment
Errors Through Random Audits: The Results of Five Statewide
Pilot Tests, prepared for Unemployment Insurance Service,
Employment and Training Administration, U.S. Department of Labor
(Dec. 1982).

[6]Most UI claims paid by a state are subject to sampling by Random
Audit. Claims not currently subject to sampling include
(1) benefits paid to individuals residing in other states
(interstate claims), (2) payments under the EB program, and
(3) claims under the FSC program (see also p. 33).

claim and approved it for payment. Random Audit staff are re-
sponsible for investigating this claim until they (1) obtain sub-
stantive evidence to fully document a payment error, (2) deter-
mine the payment was proper, or (3) believe they cannot firmly
document any payment errors. Random Audit treats this third
category of "borderline" cases as proper in view of the premise
discussed above and to avoid overstating overpayment rates.

To ensure the general adequacy of the investigations, ETA
has developed comprehensive written guidance and requirements for
case investigations. ETA also provides training courses for new
state investigators and supervisors. While the investigation of
each case may differ slightly, ETA identified basic tasks that
investigators should complete. These include:

--Reviewing each sampled claimant's UI case file to deter-
  mine whether payment errors exist.

--Verifying with former employers the wages paid the
  claimant in the period necessary to qualify for UI
  benefits.

--Verifying with former employers the reason for the
  claimant's separation from employment.

--Verifying with employers the claimant's stated efforts to
  find suitable work.

--Investigating other issues that could affect the
  claimant's eligibility for UI benefits.

--Establishing a case file for documenting the data obtained
  and conclusions reached.

To further ensure the adequacy of the investigative process
and the conclusions reached, the Random Audit program contains
several safeguards. For example, the program requires that

--the Random Audit supervisor thoroughly review the ade-
  quacy of the investigation and conclusions reached on each
  sampled case;

--the Random Audit unit ask the manager of the local UI
  office at which the claim was filed to review and furnish
  comments or additional information on tentative overpay-
  ment decisions to help the unit make a final decision;

--the claimants have the right to appeal an overpayment
   decision of the Random Audit unit;

--the coded data[7] covering the results of the Random Audit
   investigation be subjected to computer editing to identify
   inconsistencies and other potential data errors; and

--the federal monitors review completed sampled cases to
   ensure that the investigations were complete and that the
   conclusions reached were consistent, fair, and reasonable
   in light of the state's UI law and written policy.

The states send the coded results of their case investiga-
tions for each quarter to an ETA contractor. The contractor
screens each state's data for completeness and runs the computer
programs for projecting the sample results on a statewide basis.

The quarterly reports stemming from these computer projec-
tions are the principal products of the Random Audit process.
The reports sent to each state show projected dollar estimates of
overpayments and the estimated overpayment rate based on total
benefits paid. These overpayment data are broken down into three
major groups of payment errors.

--Group A: Fraud overpayments identified by the state
             Random Audit team and on which the state estab-
             lished fraud overpayments against the claimants.

--Group B: Fraud (Group "A") plus nonfraud overpayments or
             underpayments identified by the state Random
             Audit team and on which the state initiated
             corrective actions.

--Group C: Group "B" plus overpayments or underpayments
             that would not or could not be substantiated by
             official agency action because of such reasons
             as state law or written policy prohibiting
             further official action.[8]

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[7]To allow computer analysis and projection of the results of
Random Audit, data obtained and conclusions reached on each case
are numerically coded for computer processing.

[8]As an example, some states have "finality" rules which establish
a time limit by which overpayment decisions against a claimant
must be made.

In addition to data on the extent of overpayments, the reports
show information on the type and cause of overpayments.

--"Type" information shows the category of overpayment, as
well as who was responsible for the problem that resulted
in the overpayment: the claimant, the employer, the
agency, or a combination of these.

--"Cause" information identifies what aspect of the state's
law or policy was violated, such as not actively seeking
other work, concealing employment, or voluntarily quitting
a previous job.

Limitations of Random Audit

While the reports to the states provide much information on
the extent, type, and cause of overpayments, the users of this
information should recognize that the program has certain limita-
tions. These stem largely from the differences among the state
UI programs and from the Random Audit design and methodology.
Limitations include the following.

1. The estimates are not precise: Because all statistical
projections are based on sample information, a risk exists that
the sampled data may not represent the population from which the
sample is chosen. This risk is defined by the "confidence inter-
val," which is a measure of estimate precision or reliability.
ETA designed the Random Audit process to provide an 80-percent
confidence interval. For example, a state's projected overpay-
ment rate might show "10 percent, plus or minus 2 percent." The
"10 percent" figure is called the "point estimate," which is the
midpoint of the confidence interval. In this example, the user
would be 80-percent confident the actual overpayment rate is
between 8 and 12 percent. The precision of the overpayment sta-
tistics could have been made higher by sampling a larger number
of cases each week; however, ETA officials and the project's
designers believed this was not warranted, given the uses origin-
ally planned for the data and the higher cost of investigating
more cases.

2. Comparisons among states may not be meaningful: Direct
comparison of overpayment statistics among states can be mislead-
ing. This is because significant differences among the states'
respective UI laws and policies affect the number and types of
overpayments detected. For example, some states do not require
claimants to actively seek suitable work while on UI. In these
states one would expect to find (assuming other factors are
equal) lower overpayment rates than in states with strict work
search provisions.

3. <u>Statistically reliable projections of a national over-payment rate cannot be made</u>: At this time the Random Audit data provide no basis for developing statistically reliable projections on the Nation's total overpayment rate. This is because (1) Random Audit samples only from state populations, (2) significant differences exist among states' UI programs, (3) all states are not yet involved with Random Audit, and (4) states that have Random Audit programs were not randomly selected. When Random Audit data are developed on all states, such projections should be possible.

4. <u>Not all UI claims are covered by Random Audit</u>: Because Random Audit excludes some types of UI claims from sampling, the program provides no statistical basis for determining the extent of problems in these types of claims. As stated, the principal exclusions from Random Audit are interstate claims and claims under the EB and FSC programs. These three types of claims accounted for about 30 percent of all UI claims during the year ended July 31, 1983. (See p. 33.)

5. <u>Overpayment rates tend to be understated</u>: The estimated overpayment rates developed by Random Audit will tend to understate the overpayment rate of the sampled population, especially the fraud overpayment rate, for the following reasons:

--ETA officials adopted conservative approaches to ensure that the design and methodology of Random Audit would not overstate the true overpayment rates. However, as a result, there is a tendency to understate overpayments. As an example, the conservative treatment of borderline cases as correct payments (see p. 12) tends to understate the overpayment rate of the population since some of these cases would likely be overpayments.

--ETA has not yet incorporated into Random Audit a compre-
hensive "postaudit"[9] procedure for detecting claimants
who work and draw benefits at the same time. Because
this procedure is generally recognized as the best way to
detect unreported earnings, the exclusion probably tends
to understate overpayment rates. Further, because such
unreported earnings are apt to involve fraud, omitting
postaudit probably results in a larger percentage under-
statement of fraud overpayments than of the total over-
payment rate.

--Random Audit cannot, from a practical standpoint, detect
fraud involved in "cash economy" transactions, in which
claimants are paid "off the books." This practical
limitation no doubt results in a larger percentage under-
estimation of fraud than of total overpayments.

ETA officials and the consultant/designers of Random Audit said
that they had no basis for estimating the extent that the program
understates overpayment rates.

6. <u>Underpayment rates are likely understated</u>: The Random
Audit sampling design excludes claims for UI benefits which were
denied for payment. As a result, the underpayment rates devel-
oped by Random Audit are likely understated because an important
reason for underpayments would be the erroneous denial of bene-
fits claimed. According to the first year report on Random Audit
results, the decision to exclude weeks claimed but not paid was
made because an entirely different methodology would have been
required.

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[9]"Postaudit" refers to determining from employee wage data
routinely supplied by employers in most states whether claimants
had unreported earnings during their periods of receiving UI
benefits. Postaudit was included in the NCUC-sponsored overpay-
ment study and, according to the two researchers, was important
in identifying overpayments at some study locations. One re-
searcher estimated that about 15 percent of this study's ident-
ified overpayments was accounted for by postaudit. The other
researcher said he could not make a point estimate, but believed
postaudit would not have accounted for more than 15 percent of
the overpayments. ETA officials are considering incorporating
this procedure into Random Audit and are pilot-testing the
procedure in several states (see p. 34).

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     While we did not evaluate in detail how well the states
implemented specified Random Audit procedures, we believe the
program is conceptually sound and should, if properly imple-
mented, produce useful estimates of participating states' over-
payment rates. Although the estimates will tend to understate
overpayments--particularly those due to fraud--we believe the
Random Audit information should be useful as broad indicators of
the extent, type, and cause of overpayments in states and should
benefit both ETA and the states in their efforts to control over-
payments (see also p. 22).

RANDOM AUDIT RESULTS
INDICATE A MAJOR NATIONAL
OVERPAYMENT PROBLEM EXISTS

     The results of the Random Audit program have generally con-
firmed that high overpayment rates exist in many states. The
overpayment rate in the five Random Audit pilot states was 14
percent of UI benefits paid, similar to the rates found in the
previous NCUC study of six cities. Additionally, ETA officials
told us that the results for the 10 states later added to Random
Audit also indicate that an overpayment problem exists.

     Random Audit results show that there are limitations in the
states' existing systems for detecting, preventing, and recover-
ing overpayments. For example, estimated overpayments for the
five Random Audit pilot states were nine times higher than the
total overpayments identified by these states' detection sys-
tems. (See p. 20.)

     ETA considers the states' performance, as shown by Random
Audit, to be illustrative of a potentially large national UI
overpayment problem. While a statistically sound basis does not
yet exist for estimating the extent of national overpayments, the
overpayments estimated in a 1-year period by Random Audit for
only five states was $392 million--much larger than total over-
payments identified by detection systems in all 53 UI jurisdic-
tions.

Results show unacceptably
high overpayment rates

     To a large measure, Random Audit pilot and postpilot results
have confirmed that unacceptably high overpayment rates exist in
many states. ETA publicly released the first results of the five

·Random Audit pilot states in June 1983. These results covered
the 1-year period ended March 31, 1982.

Random Audit's findings for these five states essentially
paralleled those of the NCUC-sponsored study in the extent, type,
and cause of overpayments. During the 1-year study period, the
five states paid about $2.8 billion in UI claims. Of this
amount, Random Audit estimated that $392 million (or 14.2 per-
cent) was overpaid, compared to the simple average overpayment
rate in the NCUC six-city study of 13.9 percent.[10] Similarly,
in both studies the major type of overpayment was categorized as
"claimant error" and the major cause, by overwhelming margins,
was the failure of claimants to actively seek work. The esti-
mated underpayment rate was less than 1 percent of the UI bene-
fits paid.

Regarding overpayments resulting from claimants not actively
seeking work, ETA officials said that all of the pilot states,
like nearly all UI jurisdictions, have general work search provi-
sions in their state laws, regulations, policies, and proce-
dures. When Random Audit investigations showed a claimant's work
search efforts were inconsistent with the state's requirements,
overpayments were usually established.[11]

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[10]Both studies developed several different ways to measure over-
   payments. Those rates shown above represent the most conserva-
   tive developed in both studies--"Group B" type errors in Random
   Audit and "Measure 1" errors in the NCUC study. These are com-
   parable measures because, in part, all overpayments had to be
   sanctioned by the state agency. However, the NCUC six-city
   study did not provide a basis for computing a weighted average
   overpayment rate, such as the 14.2-percent figure shown for
   Random Audit. The simple average rate for the six cities (13.9
   percent) is similar to the simple average rate for the pilot
   states (13.1 percent).

[11]Because of such reasons as employers being unable to recall
   whether a claimant looked for a job, in many instances Random
   Audit investigators are unable to definitely verify whether
   listed work search contacts were actually made. For example,
   in the pilot states the extent of unverifiable work search
   contacts ranged from 28 percent in one state to 59 percent in
   another. Consistent with Random Audit's conservative design
   approach (see p. 15), ETA officials said that unverifiable work
   search contacts do not provide a factual basis for establishing
   overpayments--the claimants are given the "benefit of any
   doubt."

However, there are several exceptions. For example, ETA
officials said that in most states having work search provisions,
the state's UI administration can waive (or delegate such author-
ity to local UI office personnel) these provisions for a claimant
(or groups of claimants) because of such reasons as: the claimant
belonged to a labor union, the claimant has a specific return-to-
work date from a former employer, or economic conditions in the
local labor market make it nearly impossible for the claimant to
obtain a job in his or her occupation or industry. If a claimant
received such a waiver, an overpayment would not be established by
the Random Audit unit for failing to actively seek a job, regard-
less of the claimant's work search efforts. Also, ETA officials
said that under some states' laws, policies, or court orders, the
Random Audit unit cannot establish an overpayment for failing to
actively seek work unless the agency has documentation to show
that the claimant had been specifically instructed on what consti-
tutes an acceptable work search.

While Random Audit has shown that the violation of work
search provisions is the most frequent cause of overpayments, this
does not mean that most claimants disqualified for such reasons
were intentionally trying to abuse the UI system. ETA officials
said that the failure of claimants to actively seek work is often
due to: a lack of understanding of their state's work search re-
quirements (as they apply to the audited claimant), beliefs that
there are no suitable jobs in the labor market for which they
qualify, or feelings of discouragement from many previous un-
successful attempts to find work.

Specific Random Audit results for each of the five pilot
states are shown in appendix II. As shown, the estimated over-
payment rates varied considerably between the states--ranging from
7.3 percent in Louisiana to 24.3 percent in New Jersey. In terms
of type of payment error, overpayments categorized as "claimant
error" accounted for between two-thirds and nine-tenths of dollars
overpaid. Similarly, in all states the claimant's failure to
actively seek work was the principal cause of overpayments, ac-
counting for about one-half to four-fifths of the states' over-
payments. While the fraud overpayment rate in most states was
relatively small compared to the total overpayment rate, as dis-
cussed earlier, overpayments due to fraud are likely to be more
significantly affected (percentage-wise) by the tendency of Random
Audit to understate actual overpayment rates (see p. 15). For

this and other reasons,[12] Random Audit's fraud estimates may be misleading.

As of November 1983, ETA has not publicly released Random Audit results for the postpilot study period, which will include the 10 additional states that began the program in 1982. However, ETA officials told us that the overpayment rates reported in the postpilot phase continue to show high overpayment rates.

Results show limitations
with state UI systems

The results from Random Audit show that there are limitations in the states' systems to detect, prevent, and recover overpayments. The high overpayment rates from Random Audit indicate that states have problems in preventing overpayments. Similarly, limitations in the detection and recovery functions are illustrated when comparing Random Audit estimated UI overpayments with state-reported detection and recovery data.

Comparison of Random Audit Overpayment Estimates to State-Reported Data for the Five Pilot States

	Amount
	(millions)
Estimated overpayments-- Random Audit (April 1981 through March 1982)	$392
State-reported data (July 1981 through June 1982):	
Overpayments detected	44
Overpayments recovered	18

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[12]Another reason why the fraud overpayment rate may be misleading relates to how this statistic is determined. ETA officials said that in some instances claimants no doubt misrepresented facts pertaining to their UI eligibility, such as the extent they looked for other jobs, but this misrepresentation is often not counted as a fraud. They said that in most states fraud must generally be based on a pattern of misrepresentations. But, since Random Audit investigators examine only one payment week, they said that a determination of fraud often cannot be made based on the evidence obtained.

As shown, the five pilot states recovered $18 million, or about 40 percent, of the overpayments they detected. However, they only detected 11 percent ($44 million) of the estimated overpayments.

As a further illustration of UI system problems, the $392 million of Random Audit's estimated overpayments in the five pilot states greatly exceeded the $246 million in overpayments detected by all 53 UI systems during a similar 1-year period.

There are a number of reasons why state detection systems have identified only a small portion of the overpayments made in the UI system. According to ETA officials, it would be neither cost effective nor feasible to investigate the millions of claims made each year with the degree of thoroughness given to the small number of claims sampled under Random Audit. Thus, state benefit payment control systems and results are limited by the extent of staff resources available for these activities. For example, state crossmatching systems generally identify many more claimants who were likely working while drawing UI benefits than can be investigated. To make the best use of available resources, the staff concentrate their attention on those cases where violations are most probable and/or the potential overpayments are relatively large.

Also, the officials said that historically benefit payment control staff have not devoted significant resources to continued eligibility issues--such as whether the claimant is available for work or is actively seeking employment--partly because of the prohibitive cost of investigating these issues for all claimants and the lack of past knowledge about how much these matters were contributing to the overpayment problem. Since Random Audit has shown work search violations to be the major cause of overpayments, state-detected overpayments would significantly underrepresent total overpayments due to the work search matter alone. According to these officials, the availability of Random Audit data now gives both ETA and the states a basis for reevaluating both the adequacy of resources provided for controlling overpayments and the activities on which these resources are spent.

Although the extent of overpayments nationwide is not yet quantifiable (see p. 15), we agree with ETA that the Random Audit evidence has demonstrated that a nationwide problem exists. In commenting about this situation in a 1984 departmental budget document, ETA said:

"This potential rate of [national] overpayments [as in-
dicated by Random Audit] is unacceptable and requires
that primary emphasis be directed at improving the UI
system's capacity to prevent, detect, and recover over-
payments."

RANDOM AUDIT OFFERS POTENTIAL TO IMPROVE THE UI SYSTEM, BUT ITS POTENTIAL TO PRODUCE SIGNIFICANT SAVINGS IS UNKNOWN

Random Audit has confirmed that the states have higher over-
payments than previously reported and has provided information
that states can use to improve the UI system. ETA and the states
can use the information on the extent, type, and cause of over-
payments to improve payment accuracy. But although the Random
Audit program can lead to an improved UI system, it is unclear
whether the program will result in the significant savings to the
UI trust funds that ETA had estimated.

Random Audit can help the states and ETA reduce overpayments

Given the high overpayment rates found in many states,
Random Audit's goal--to strengthen the controls that prevent pay-
ment errors--is important. The program can achieve this goal by
helping the states identify needed corrective actions. For ex-
ample, the program's quarterly reports on the extent, type, and
cause of overpayments should help state officials focus on the
problems most affecting their overpayment rates.

Once states take corrective actions, they can use Random
Audit to assess whether their actions actually corrected the
problems. Because of the ongoing nature of Random Audit, its
quarterly reports and investigations of new cases can help state
officials determine whether their actions are working. Continued
evidence of problems could indicate the need for additional cor-
rective actions.

Through Random Audit, the states could enhance their ability
to (1) identify needed training programs, (2) devise new benefit
payment control programs, (3) improve existing forms and proce-
dures, (4) recommend needed changes to state UI laws, and (5)
take other corrective actions to deal with overpayments.

ETA too can benefit from Random Audit data in carrying out its leadership and oversight responsibilities. For example, many UI observers believe that states that require employers to routinely report employee wage data can more effectively identify overpayments than those that must request employee wage data on a case-by-case basis. ETA officials believe that Random Audit can supply data to demonstrate the effect of this difference and thus help convince the wage request states to change to the wage reporting approach. Also, ETA could use Random Audit data to identify the states that need technical assistance to reduce overpayments. In addition, it could use the data to evaluate the states' progress in reducing payment errors.

The program could also give ETA a basis for establishing overpayment goals or standards and a system to measure state performance in meeting them. While ETA has established performance goals and standards for some aspects of the UI system, none exist that specifically deal with overpayments. In this regard, the consultants that designed Random Audit said the current system gives states little incentive to pay claimants accurately. They said that developing payment goals and standards, perhaps coupled with sanctions and rewards based on performance, would help provide needed incentives. (See p. 30.) Also, they believe such goals and standards would better balance the emphasis on payment timeliness by reinforcing that accurately paying claimants is also important to the UI system.

To determine Random Audit's potential impact on reducing payment error rates, ETA studied the effect that a similar methodology had on other federally funded programs administered by state agencies.[13] Based on the error reductions attained by these programs, ETA concluded in a fiscal year 1983 budget document that

> ". . . a 1.0 percent average annual decline in the UI
> overpayment rates of States implementing the random
> audit over a three-year period (beginning in the second
> full year of random audit implementation) is a conser-
> vative, attainable estimate, and that a 1.5 percent
> average annual decline over this same period represents
> a maximum performance outcome . . .."

Based on this conclusion, ETA estimated the following overpayment reductions for the 35 states in the 1983 Random Audit program.

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[13]These programs were Aid to Families with Dependent Children, Food Stamps, Medicaid, and certain Social Security programs.

ETA Estimated
Overpayment Reductions
in 35 Random Audit States

| Fiscal year | Overpayment reductions[a] | |
	Based on a 1.0% annual decline	Based on a 1.5% annual decline
	------------(millions)------------	
1983	$ 51.6	$ 79.2
1984	142.1	216.4
1985	232.5	351.3
1986	307.3	462.1

[a]Reductions assumed the initial overpayment rate was 15 percent of total benefits paid.

Based on the studies of other programs and on Random Audit's potential to help ETA and the states better carry out their responsibilities, we believe significant overpayment reductions can be attained if ETA and the states effectively use the Random Audit information. However, as discussed below, overpayment reductions do not necessarily equate to dollar-for-dollar savings to the UI trust fund.

Random Audit's potential
to save money is unclear

While the Random Audit program can help the states and ETA to reduce overpayments, the program's potential to save money and improve the UI trust fund's debt problems is unclear. In departmental budget justifications, ETA included tables (such as the one above) showing estimated overpayment reductions resulting from Random Audit. ETA identified such figures as "net savings" and used them to support its statements that Random Audit can help alleviate trust fund solvency problems. However, when we raised questions about such savings, ETA officials acknowledged that these savings are only estimated overpayment reductions and are neither program cost reductions nor savings to the UI trust fund. They agreed that, for several reasons, reducing overpayments will not produce savings to the trust fund on a dollar-for-dollar basis. These reasons are as follows.

  --ETA officials and the Random Audit program designers said
    that a state's efforts to "tighten" the administration of
    its programs will no doubt result in many individuals
    modifying their behavior to meet the requirements without

affecting the time they draw UI benefits. For example, a state could "tighten" its administration by beginning publicized efforts to verify the work search efforts of large numbers of claimants. However, to ensure their continued eligibility, many individuals might change their behavior to meet the state's requirements, without necessarily getting a job. Although the overpayment rate for these individuals would be reduced (since they would now be in compliance), dollar savings would not occur because the individuals would continue to draw UI benefits.

--ETA officials and the Random Audit program designers also said that in most states a nonfraud overpayment established against a person in a given week will generally not reduce the maximum benefits the person can receive during the benefit year. If recipients maintain their UI eligibility and exhaust their benefits, establishing the overpayment would simply delay paying that week's benefits to a later date. Thus, total benefit outlays made during the benefit period would not be affected, even though the overpayment rate would be reduced.

--In most states, employers pay state UI taxes based on "experience ratings." In these states, the amount of taxes employers pay reflects, at least in part, the extent the firm or industry group contributes to the drain on the trust fund. According to the Random Audit program designers, if these states reduce total UI benefit payments by reducing overpayments (other factors being equal), then future state UI taxes would be reduced. This would partially offset the positive impact on the states' trust funds of reduced UI claims expenditures.

--Even if states become more effective in identifying overpayments, they are not likely to recover all of this money from the claimants. Historically, states have collected only about half of the overpayments detected.

For these reasons, ETA officials and the Random Audit program designers cannot estimate how much the program can reduce benefit outlays or increase savings to the UI trust fund. Nevertheless, ETA officials believe the UI system changes likely resulting from Random Audit will produce some cost savings and positive trust fund impact by such means as (1) claimants getting off UI payment rolls faster from increased efforts to find work or (2) changes in state laws to permit reducing a claimant's maximum UI benefits by the overpayment, thus preventing the situation described in the second reason above. They noted that one pilot state is actively considering such a law change.

EXTENT OF CORRECTIVE ACTIONS
TAKEN VARIES AMONG STATES

     States should correct the problems that Random Audit identi-
fies. While some states have taken corrective actions, others
have apparently not made changes needed to improve their pro-
grams.

     As the result of Random Audit, some states have taken ac-
tions to change their laws, develop new payment control proce-
dures, devise improved forms, and better train UI staff. For ex-
ample:

     --One state revised its law to eliminate a particular type
       of overpayment that Random Audit identified. The former
       law required employers to report wages paid to employees,
       whereas UI benefits were to be calculated based on wages
       earned. Because the state paid benefits based on avail-
       able information (i.e., wages paid), many small payment
       errors resulted. The state changed its law to require
       benefit payments to be based on wages paid, rather than
       earned.

     --This state also concluded that more effort was needed to
       verify claimants' work search efforts to reduce overpay-
       ments resulting from claimants failing to seek jobs. To
       help verify claims, the state, as the Random Audit unit
       recommended, revised a claims processing form to ensure
       adequate space was available for the claimant to report
       the employers he or she had contacted to find a job.

     --Another state issued written instructions to its UI
       claims examiners to verify by telephone at least one em-
       ployer job contact the claimant listed as a place he or
       she looked for work. This procedure should help the
       state's normal claims processing procedures identify over-
       payments stemming from claimants' failure to seek suitable
       employment.

     --In another state, the Random Audit unit found that payment
       errors were resulting because UI local office staff were
       not familiar with new processing forms. As the unit
       recommended, the state implemented a training program to
       correct this problem.

     Comments from the Random Audit designers, ETA officials, and
ETA monitors indicate that some states are not taking needed
actions. For example:

--The ETA consultants who designed the Random Audit program
  expressed their concern about the lack of effort by some
  states to take corrective actions.

--An ETA program monitor told us that only about half of the
  states are aggressively taking corrective actions.
  Another monitor said that about 75 percent of the states
  have taken at least some actions, but that some of these
  actions have been relatively minor, thus having little im-
  pact on reducing overpayments.

--An ETA program official agreed that a few states were
  aggressively seeking and taking corrective actions and a
  few were doing very little. For the 15 states that have
  had Random Audit units long enough to have developed cor-
  rective actions, he believed that about 50 percent were
  doing at least a satisfactory job.

These comments are consistent with our observations and im-
pressions when we visited the five pilot states. For example,
one state had taken many actions as the result of Random Audit,
including actions to improve its UI law, test new payment control
procedures, develop a more useful claims processing form, and
better train UI staff. This state's unit supervisor determined
what corrective actions were needed by analyzing Random Audit
case files and discussing actions needed with Random Audit
investigators and the state's UI administrator. To implement
agreed-on actions, the state developed an action plan that laid
out actions to be taken and the organizations responsible for the
actions.

In contrast, another state did little to determine what cor-
rective actions were needed. The state had not prepared an ac-
tion plan, and the state's Random Audit supervisor said that he
was unaware of any formal corrective actions that resulted from
the Random Audit findings.

While a number of reasons may have contributed to the lack
of actions taken by some states, we believe a more active role by
ETA will better ensure corrective actions are taken in the
future. This subject is discussed below.

STATUS OF UNRESOLVED PROGRAM QUESTIONS

In the Random Audit program, as in many new and evolving
programs, several questions have surfaced which need to be
addressed. Briefly, these include:

--What should ETA's role be to better ensure the states take
    corrective actions?

--Should federal monitoring be strengthened to better ensure
    that Random Audit data are accurate?

--Should Random Audit's statistical design be changed to
    more accurately estimate each state's overpayment problem?

--Should the coverage of types of UI claims sampled in
    Random Audit be expanded to identify overpayment problems
    in the EB and FSC programs?

--Should postaudit be incorporated into the Random Audit
    methodology to more accurately estimate overpayments?

ETA officials are aware of these questions and are generally tak-
ing or planning actions to resolve them. Each of these questions
is discussed below, along with ETA's plans for resolving them and
our comments on any other actions that ETA should take. We be-
lieve the principal program question relates to ETA's role in
using Random Audit data to foster program improvements.

What should ETA's role be?

In our opinion, the most significant unresolved Random Audit
issue is what ETA's role should be in using program data to
better ensure that states take corrective actions to reduce over-
payments. Until recently, ETA maintained a passive role--that
is, it essentially left corrective actions up to each state. In
recent months, however, ETA officials began several actions which
should help ensure that the states make needed changes.

ETA originally established the Random Audit program as a
"state management tool." Under this concept, ETA did not require
the states to use Random Audit data to identify and take needed
corrective actions. Although ETA emphasized to the states the
importance of taking corrective actions, it did not ensure that
needed changes were made. For example, ETA did not (1) provide
guidance on how information from the Random Audit program could
be used to help identify needed corrective actions, (2) work with
the states to help them identify potential actions, (3) require
the states to develop action plans showing how they planned to
correct problems that Random Audit identified, or (4) develop
performance goals or standards using Random Audit results or
otherwise use the data to help evaluate the states' performance
in reducing overpayments.

ETA officials told us that several reasons dictated their original role. For example, the plans to pilot-test and later expand the program required getting states to volunteer. ETA officials believed that if the states felt ETA would use the Random Audit data in ways that might hurt them, this would further the states' tendency not to volunteer.[14] Similarly, ETA officials believed it would be inappropriate to treat the Random Audit states differently than states not in the program. This would occur if ETA established overpayment performance goals or standards for the Random Audit states or evaluated these states' performance using Random Audit data. Additionally, ETA officials said that limited effort was devoted to ensuring that states used the data to make changes until the mechanics of Random Audit were operating smoothly and they were sure the project was producing reliable data. Thus, they said the bulk of ETA's staff time needed to be spent on basic operational concerns, such as pilot-testing the basic approach, "fine-tuning" the project's requirements, bringing on additional states, training Random Audit supervisors and investigators, and ensuring that each state was properly implementing the project's methodology.

Now, however, ETA officials believe the Random Audit program has evolved to a point that they can and should give more effort to ensuring that the states use the data to make program improvements. In recent months ETA started several actions to help ensure that the states will use Random Audit data to reduce overpayments. For example, ETA's fiscal year 1984 guidelines for each state's required Program and Budget Plan specify that:

> "The 35 States in the Random Audit program in FY '83 should evaluate the results of the audits and submit corrective action plans for reducing improper payments, providing targets for overpayment rate reductions and dates for completing actions."

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[14]According to the final report on unemployment compensation in 1980 by NCUC:

> "Many State agencies are simply unwilling to take a closer look at their real rates of fraud or overpayment for fear that the results would create a bad image of the program or their performance. (It was found, for example, that individual States were not willing to work with the Commission on an overpayment study where the city or State is identified with the findings.)
> . . . ."

ETA officials believe this "action plan" requirement represents a major step toward helping to ensure that the states take corrective actions. They said ETA staff will review the adequacy of each state's plan, provide technical assistance, and monitor the states' implementation of approved plans.

In addition, ETA staff have been evaluating other options for strengthening ETA's oversight of the states' actions to reduce overpayments. These options include using Random Audit to measure goal performance against a (1) "desired level of achievement" or (2) performance standard for which actual performance could result in administrative funding rewards or sanctions.

To help evaluate these and other possible actions for reducing overpayments, ETA organized a Benefit Payment Control Oversight Committee. During recent meetings this committee discussed a wide range of possible actions as to how ETA can best foster needed improvements in reducing overpayments, including what role ETA should have in the Random Audit program.

While ETA's role in using Random Audit data is still uncertain--ETA must decide which options to pursue--we believe the thrust of its recent actions, if sustained, can help achieve Random Audit's potential for reducing overpayments. If ETA does not take a more active role, some states may not act to correct problems identified by Random Audit (see p. 26).

Specifically regarding ETA's "action plan" requirement, we believe these plans can be beneficial if ETA effectively carries out its oversight tasks--that is, reviewing the adequacy of the plans, monitoring their implementation, and providing technical assistance to the states.

Should federal monitoring be strengthened?

The federal monitors' independent review of each state's Random Audit program provides an important safeguard for ensuring that the states properly carry out the program methodology and that the overpayment decisions made on the sampled cases are proper. The problems the monitors have identified during their visits to the states participating in Random Audit illustrate the importance of this work. For example, monitors identified sample cases that were not adequately investigated and situations where state staff were not following prescribed Random Audit methodology.

But while the monitors have contributed substantially to the
accuracy of the resulting Random Audit information, concern
exists among state supervisors, federal officials, and the Random
Audit designers that the monitoring effort, as now operated, may
be inadequate for such purposes as ensuring that the overpayment
decisions reached on each case are in accordance with the state's
written UI law and policy. These concerns stem largely from
ETA's use of temporarily assigned "state detailees" as monitors.
Because of reasons that included a lack of available federal
staff, ETA elected to staff most of the monitoring positions with
state UI staff detailed to ETA for 1-year periods. These staff,
in the opinion of many, do not have enough experience in other
states' UI programs to effectively monitor their Random Audit
effort. For example:

  --Two ETA officials said the monitors must try to become
    "instant experts" in other states' UI laws and policies--
    which is difficult. By the time they get a good perspec-
    tive of the states' operations to effectively carry out
    monitoring, their detail is over.

  --A state Random Audit supervisor told us that while the
    monitors can do a good job in assessing whether a state is
    properly carrying out the investigative methodology, they
    lack the experience and training in the state's UI program
    to ensure that the overpayment conclusions reached comply
    with the state's UI law and policy. Another supervisor
    said that he has to spend much time explaining the state's
    UI law and policy to the monitors.

  --The Random Audit program designers said that fundamentally
    it is not a good idea to send out monitors who know a lot
    less about the program than the people they are monitor-
    ing. They believe that many inconsistencies in monitoring
    stem from such factors as the lack of knowledge about the
    states' written UI laws and policies and about what Random
    Audit program guidelines say and mean.

ETA officials have not changed the system of using state
detailees primarily because of the uncertainty surrounding how
ETA will eventually use Random Audit data (see p. 29). They be-
lieve that if Random Audit operates essentially as just a "state
management tool," the current monitoring system is probably suf-
ficient. However, they said if ETA were to use Random Audit data
for measuring a state's overpayment performance against a goal or
standard or for providing monetary incentives based on perfor-
mance, then the need for accurate data would increase and the
monitoring effort might require strengthening. They said that
one option for strengthening monitoring would be to develop a

permanent cadre of federal monitors. When ETA officials decide
how they will use Random Audit data, they plan to evaluate cur-
rent and alternative monitoring strategies and select one con-
sistent with how accurate the data need to be.

We agree this approach is reasonable. However, the present
concerns are based largely on impressions rather than "hard"
data--nobody really knows to what extent past monitoring has been
successful. Therefore, we believe ETA should determine the
adequacy of federal efforts to monitor the implementation of
Random Audit.

Should the statistical design be changed?

The uncertainty surrounding how ETA will eventually use
Random Audit data creates similar uncertainty about the adequacy
of the program's statistical design. As discussed (see p. 11),
we found the Random Audit program to be conceptually sound and
believe it can provide overpayment statistics which can be used
as broad indicators of the extent, type, and cause of payment
errors. This general acceptance of Random Audit's design, how-
ever, is based on the program's current focus as a "state manage-
ment tool." If ETA were to change how it uses Random Audit data,
such as basing monetary incentives on overpayment performance as
measured by Random Audit, the current program design may be
inadequate.

The issue of whether Random Audit's design would be adequate
centers largely on the precision of the estimates provided under
the current approach (see p. 14). The consultants who designed
Random Audit told us the program's design was a "least-cost" ap-
proach to developing reasonably accurate statewide data on over-
payments. They believe the degree of precision of the payment
error estimates is adequate for the current use of the project as
a management tool for broadly defining the extent, type, and
cause of overpayments. On the other hand, they believe ETA would
need to have more precise payment error estimates if monetary in-
centives were made based on Random Audit results. If ETA sub-
stantially changed how it uses program data, they said that it
may be desirable to (1) construct 90- or 95-percent confidence
limits around the point estimates, rather than the 80 percent
currently used, and (2) increase the weekly sample size to reduce
the width of such confidence intervals.

ETA officials said that as they consider making changes in how they will use Random Audit data, they will ensure that the necessary statistical expertise is available to help design the least-cost method for achieving the project's objectives. Further, they said that they will evaluate the cost of performing Random Audit under a redesigned effort as part of the process of determining whether changing how ETA would use Random Audit is beneficial.

Should the coverage of types of UI claims be expanded?

As discussed, Random Audit excludes some types of UI claims paid by the states--principally, claims paid to individuals that have moved to other states (interstate claims) and claims under the EB and FSC programs. Claims under these programs represent about 30 percent of all UI payments,[15] and they may have higher overpayment rates (compared to claims now under Random Audit) because of unique eligibility rules or processing procedures. Regarding interstate claims, the researchers of the previous NCUC study found substantial evidence suggesting that overpayment problems may be particularly pronounced for these claims. They recommended that a major effort be taken to more precisely determine the nature and magnitude of overpayments within the interstate system. Regarding EB and FSC claims, the eligibility for these programs is established by federal law, and the federal government pays 50 percent and 100 percent, respectively, of the benefits under these programs.

According to ETA officials, Random Audit's design originally excluded interstate claims because most UI jurisdictions did not have Random Audit investigative units. Therefore, gathering information to determine the correctness of payments made to out-of-state claimants would have been difficult and expensive. They explained, however, that because nearly all jurisdictions will soon be in Random Audit, ETA will add interstate claims to the program, probably sometime in fiscal year 1985.

ETA officials told us that EB and FSC claims are excluded from Random Audit because they have unique eligibility rules, which complicate the process of determining whether EB and FSC

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[15]ETA estimated that of the approximate $29 billion in UI claims for the 1-year period ended July 31, 1983, EB, FSC, and interstate claims amounted to about $2.7, $4.8, and $1.5 billion, respectively.

payments were proper. Essentially, the continued eligibility of
EB and FSC claimants cannot be determined by merely examining
eligibility factors for only one week, as can be done for the
claims covered by Random Audit.[16] For example, to determine
whether a person's weekly EB or FSC payment was proper would re-
quire checking the individual's work search activities for his or
her entire UI claim series since on EB or FSC. The officials ex-
plained that this investigation would not only be very expensive
and time consuming, but in many cases would not produce conclu-
sive results. For example, an employer's memory of whether the
claimant looked for work at that business would fade over time.
For these reasons, ETA has no plans for incorporating EB and FSC
claims into Random Audit.

     In our opinion, ETA's plans to incorporate interstate claims
into Random Audit are appropriate. Regarding EB and FSC claims,
we believe ETA needs a reasonable basis for assessing payment
accuracy in these major UI programs and for helping determine
needed corrective actions. While the reasons ETA officials cited
may prohibit EB and FSC claims from being fully investigated
under Random Audit, there may be other alternatives that would
give ETA a reasonable basis for determining the extent of over-
payments in these types of claims. Therefore, we believe ETA
should evaluate alternatives for assessing the extent, type, and
cause of overpayments for EB and FSC claims.

Should postaudit be incorporated into Random Audit's methodology?

     As discussed, ETA has not incorporated into Random Audit a
"postaudit" procedure for identifying individuals who are working
while drawing UI benefits (see p. 16). Including this procedure
in the program could reduce Random Audit's tendency to understate
overpayment rates, particularly fraud overpayment rates. Random
Audit's predecessor--the NCUC overpayment study in six cities--
included a postaudit procedure. According to the researchers, at
some cities the procedure was important in identifying overpay-
ments and, overall, may have accounted for up to 15 percent of
the study's identified overpayments.

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[16]For example, an EB claimant who fails to actively seek work is
   not entitled to benefits for the week in which the failure
   occurred, but is also not entitled to further benefits until
   the individual has been employed during at least 4 weeks and
   has earned four times his or her extended weekly benefit
   amount.

But a decision to include a postaudit procedure in Random Audit involves several factors that need careful consideration. First, the procedure would be costly. ETA officials estimated that the cost of operating Random Audit with postaudit in all the states would be about 15 to 20 percent higher--amounting to about $1.5 million more a year. This cost was a principal reason why ETA did not originally include postaudit in Random Audit.

Second, would the benefits derived from postaudit be worth the cost? This question is complicated, partly because most states already perform postaudit as a major part of their regular detection activities. This is normally done by some form of computer crossmatching of UI payment records with employee wage data from employers to identify for followup investigation individuals who are likely to have large overpayments. As this statewide crossmatch screens the individuals that Random Audit samples, one could conclude that adding postaudit to Random Audit may represent a duplication of effort. On the other hand, a Random Audit postaudit procedure could serve as a means of assessing the adequacy of a state's crossmatch program, thereby aiding the process of making improvements.[17] This assessment could be beneficial in some states; a recent audit of state benefit payment control systems by Labor's Office of Inspector General found that most states had an ineffective crossmatching program.[18] The above question is further complicated by the current uncertainty on how ETA will use Random Audit data (see p. 28).

Early in fiscal year 1983 ETA began to pilot-test a postaudit methodology as part of the Random Audit program in one state, and in July 1983, the pilot test was expanded to six other states. These pilot tests are being done to (1) "firm up" the methodology to be used, (2) estimate the cost of performing postaudit, and (3) allow a more complete assessment of potential benefits. However, ETA officials said that they will probably

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[17]Presumably, under Random Audit the postaudit procedure would investigate all potential overpayments (regardless of amount) resulting from claimants working and drawing UI at the same time. Generally, under the statewide crossmatching program only individuals who are likely to have relatively large overpayments are selected for more detailed postaudit investigations.

[18]Unemployment Benefit Payment Controls: Improvements Needed, Office of Inspector General, U.S. Department of Labor, Office of Audit, Report Number 03-3-061-L-002 (May 16, 1983).

not decide whether to include postaudit until the question is
settled on how ETA will use Random Audit data. This will enable
ETA to more completely assess the need for and benefits of in-
cluding postaudit.

SUMMARY OF PRINCIPAL EMPIRICAL RESULTS:

FIVE RANDOM AUDIT PILOT TEST STATES

APRIL 1981 THROUGH MARCH 1982

State	Dollar rate of total over-payments (Group B)[a]	Dollar rate of fraud over-payments (Group A)[a]	Principal type: dollar rate of overpayments due solely to claimant error[b]	Principal cause: dollar rate of overpay-ments due to failure to actively seek work[a]
Point Estimates				
Illinois	11.9% (2.1)	1.2% (0.8)	7.7%	5.7% (1.6)
Kansas	12.9 (2.5)	0.2 (0.3)	11.6	10.3 (2.2)
Louisiana	7.3 (1.7)	2.7 (1.1)	6.5	3.6 (1.1)
New Jersey	24.3 (3.0)	1.9 (0.8)	19.2	17.3 (2.6)
Washington	9.3 (1.8)	2.1 (1.0)	6.4	4.6 (1.3)

[a]An error factor is shown in parentheses below each point esti-mate; the upper and lower limits of an 80-percent confidence interval may be determined by adding (subtracting) this factor to (from) the point estimate, with the exception that any lower limit is constrained to be greater than zero. An approximate interpretation of such an interval is that the likelihood is 80 percent that it includes the "true" population value; for a more precise explanation, see The Development of an Operational System for Detecting UI Payment Errors Through Random Audits: The Results of Five Statewide Pilot Tests, December 1982, Technical Appendix.

[b]According to ETA's Random Audit Project Supervisor, the total error factor for the principal "type" of overpayments was not generated.

WHEN THE UI JURISDICTIONS STARTED OR

WILL START RANDOM AUDIT

Jurisdictions starting in March 1981 (pilot states)

Illinois	New Jersey
Kansas	Washington
Louisiana	

Jurisdictions starting in January 1982

Alabama	Nevada	Oklahoma
Arizona	New York	Pennsylvania
Iowa	Ohio	Utah
Missouri		

Jurisdictions starting in April 1983

Arkansas	Maryland	Rhode Island
California	Minnesota	South Dakota
Colorado	Mississippi	Tennessee
Connecticut	New Hampshire	Texas
Florida	North Carolina	West Virginia
Georgia	North Dakota	Wisconsin
Maine	Puerto Rico	

Jurisdictions scheduled to start in 1984

Alaska	Montana	South Carolina
Delaware	Nebraska	Virginia
Idaho	New Mexico	Wyoming
Michigan	Oregon	

Jurisdiction not yet scheduled to start

Dist. of Columbia	Kentucky	Virgin Islands
Hawaii	Massachusetts	
Indiana	Vermont	

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