



**New Jersey State Legislature
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**Department of Labor and Workforce Development
Unemployment Insurance Services**

July 1, 2009 to June 30, 2011

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Labor and Workforce Development, Unemployment Insurance Services for the period of July 1, 2009 to June 30, 2011. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
October 11, 2012

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Scope

We have completed an audit of the Department of Labor and Workforce Development, Unemployment Insurance Services for the period July 1, 2009 to June 30, 2011. Our audit focused on benefit payments.

For the fiscal year ended June 30, 2011, \$7.2 billion was paid to unemployment insurance recipients. The average weekly unemployment payment was \$387.26. The total number of claimants compensated during fiscal year 2011 was 728,228.

Objectives

The objective of our audit was to determine whether unemployment payments were accurately paid to eligible claimants.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation and the administrative code, as well as policies and procedures of the Unemployment Insurance Services program. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through a review of claim details.

Statistical sampling was utilized for eligibility testing. These samples included a test of claimants paid during fiscal years 2010 and 2011 and specific tests of claimants who may be working while collecting benefits. We also matched ineligible populations (death files, correctional inmates, etc.) with claims paid during fiscal year 2011 and tested for payments after the date of death or incarceration. Nonstatistical sampling was utilized to test claimants having the same address or similar information.

A specific test of claimants who may be working while collecting benefits required the matching of claimant data to the U.S. Department of Human Services, Administration of Children and Families, National Directory of New Hires. Direct access to this data was denied requiring our data to be submitted through the New Jersey Department of the Treasury, Office of Information Technology. This process required our acceptance of the resulting match without independent verification.

Conclusions

The calculation of unemployment benefit payments is accurate and reasonable based on the information available when a claim is initiated. However, procedures maintained for the verification of continued eligibility require improvement.

Unreported Earnings

Claimants are working and not reporting earnings in accordance with statute.

In accordance with N.J.S.A. 43:21-19 claimants are allowed to work part-time while receiving unemployment benefits. They must report their gross weekly earnings to the department so benefit payments can be adjusted, if necessary. According to U.S. Department of Labor statistics for calendar year 2010, approximately 3.37 percent of unemployment benefit payments nationwide and 5.01 percent in New Jersey are overpaid as a result of claimants failing to properly report their earnings. The department employs detective and preventive measures to identify claimants underreporting their wages or failing to report earnings. Various matches are performed utilizing state and national wage and new hire data. Timely matches supported by accurate wage data determine the amount of improper payments prevented. The unreliability and lack of completeness of wage data, and the limited resources available to investigate matches diminish the department's detective and preventive efforts.

Wage data for each quarter is maintained in the department's Wage Record System for New Jersey employment and in the State Identification Inquiry system for 49 participating states. We statistically sampled 150 unemployment claims with payments totaling \$1.5 million in fiscal years 2010 and 2011 and compared benefit payments with these wage systems to determine if the claimant accurately reported earnings. Within our sample, the department detected and corrected three claims where claimants underreported or failed to report earnings. We noted an additional 12 claims that had potential conflicts and requested payroll information from employers for those claims. We found that nine or six percent of the 150 claims sampled contained underreported or unreported earnings and claimants were overpaid benefits totaling \$27,239. Projecting our results to the entire population of fiscal year 2010 and 2011 claims paid would amount to approximately \$288 million in overpayments.

Additionally, statistical samples from two targeted populations were chosen to determine if they had significantly higher error rates compared with our overall sample. The first sample was for claimants having an out-of-state residence, excluding those in zip codes directly bordering New Jersey, who received an unemployment payment in fiscal year 2011. We compared benefit payments for 143 claims to the wage systems to detect compliance with reporting requirements. We found 23 claimants, or 16 percent, who underreported or failed to report earnings given that they had either all 13 weeks of wages listed in the systems and at least one unemployment payment or 13 unemployment payments and some wages paid during the quarter. The total amount of overpayment was \$42,658. The total amount of unemployment paid to this population was \$679.6 million. Projecting our results to the entire out-of-state residents' population for 2011 claims paid would amount to approximately \$13.6 million in overpayments. In addition to the above results, we noted 16 claimants, or 11 percent, had possibly underreported or failed to report their earnings given they had unemployment payments and wages in the same quarter, but not for the entire quarter. The wage systems do not indicate the breakdown of which weeks were worked or the dollar amount of the wages per week. We did not request payroll information from the employer to determine whether an improper payment was made.

Another sample consisted of claimants reported on the National Directory of New Hires (NDNH) database. The federal government compared the NDNH W-4 records submitted between June 30 and September 30, 2011 with claimants receiving benefit payments in the fourth quarter 2011 and provided us with the matching records. We selected a sample of 203 claims from the matched records and compared them with the two wage systems to determine if earnings were being reported as required. We found 69 claimants, or 34 percent, definitely misreported earnings by using the same criteria as our out-of-state residence sample. Unemployment overpayments for these individuals totaled \$152,483. Payments totaling \$339.4 million were made to the matched NDNH population for six quarters. Projecting our results to the entire NDNH population would amount to approximately \$20 million in overpayments. Furthermore, we noted 43 possible exceptions, but we did not have sufficient information to determine if a wage conflict exists.

The department periodically selects samples from wage systems data matches for investigation. Additionally, NDNH data matches are automatically entered into the claimant's online record requiring contact with an agent. However, wage data is not immediately requested from the NDNH employer. Wage data is not requested from employers until the start of the investigative process. It would benefit the department to obtain wage data from employers promptly in order to verify amounts in conflict and reduce improper payments.

Recommendation

We recommend the department identify wage benefit conflicts using the most current information as soon as this data is available. Requests for wage information from employers should be made when a conflict is apparent. Efforts should be made to automate these processes.



National New Hire Process

The National New Hire process does not function as intended.

On a weekly basis the department submits claimant data to the federal government to perform a match to the National Directory of New Hires (NDNH). The results of the match are included in the claimants' online record as a remark detailing the date of hire and employer. A return to work date is also included in the claimant's online record that temporarily flags the claim so that when the claimant certifies for benefits they must speak with an agent. Capturing the remark and the return to work date is the most significant preventive measure utilized by the department to expose conflicts with claimants both working and collecting unemployment benefit payments.

We statistically sampled the results that were matched by the federal government between the National Directory of New Hires (NDNH) and unemployment benefit payments made during

the fourth quarter of fiscal year 2011. From the results we randomly chose 203 claimants. We eliminated claimants where the date of hire was prior to the date of claim, making them not applicable for our testing purposes. We reviewed the remaining 152 claimants to verify that the employment information and date of hire were included in the claimant's online record. We found that 56 claimant files did not have a remark noting their employment on the online record. We found 31 of these 56 claimants may have underreported or failed to report their earnings resulting in an overpayment of unemployment benefits. Thirty of the claimants were employed by the matched employers. Wages paid from all but two of the employers contributed to the overpayment.

We also found that 59 of the remaining 96 claimants, that had a remark noting their employment on the online record may have underreported or failed to report earnings resulting in an overpayment of unemployment benefits. Forty-five of these 59 claimants were employed by the matched employers.

The Department of the Treasury, Office of Information Technology submits the claimant information to the federal government on behalf of the department. They utilize an automated process for the submission of data for matching with the NDNH. The program logic in this process removes data that was previously matched based on the claimant, date of claim, and program code and sets the dates matched with the NDNH to 19 days prior and 28 days in the future for the most recent claim week. A part of this process attempts to eliminate duplicate remarks in the system. However, after an initial remark the logic prevented additional remarks from being posted to the online claim record. Claimants may obtain several jobs within the duration of their claim and all entries matched to the NDNH need to be posted to the claim record and followed up by an unemployment representative. In addition, the days currently specified limit the match coverage period.

Recommendation

We recommend the department review the program logic in the process used by the Office of Information Technology and make needed changes to ensure all NDNH matches are posted in the online claim record. In addition, the number of prior days should be increased to lengthen the look back period with the NDNH database to allow for greater coverage.



Ineligible Payees

Claimants unavailable to work continue to receive unemployment benefits.

In accordance with N.J.A.C. 12:17-4.3 and N.J.S.A. 43:21-4 to receive unemployment benefit payments an individual must certify weekly or bi-weekly by phone or web to seven questions, one of which states that you are able and available to work. Additionally, the claimant certifies that all statements are true under penalty of law. We compared unemployment data to the

Department of Health and Senior Services, Vital Statistics death files and to the Department of Corrections incarcerated inmate data to obtain the population of possible ineligible individuals receiving unemployment benefits after their date of death or incarceration. The comparison of fiscal year 2011 benefits to the Vital Statistics death files from 2006 to May 2011 resulted in a population of 1046 claimants for review. Fifty exceptions were noted where payments totaling \$237,000 were made after the date of death. One claimant had an October 2008 date of death and collected more than \$8,000 between February 2010 and May 2011. Six claimants were still collecting payments as of October 1, 2011 even though they had died up to 11 months prior. We informed unemployment personnel and they immediately discontinued payments.

Our comparison of the fiscal year 2011 unemployment benefits to the Department of Corrections active incarcerations data resulted in a population of 1207 claimants for review. There were 198 exceptions totaling \$354,000 where claimants received benefits after their incarceration date. Unemployment personnel perform periodic comparisons of this data. They detected and corrected 96 of these exceptions totaling \$135,000. We noted an additional 102 exceptions totaling \$219,000. However, 23 noted exceptions were not detected by the program personnel. In addition, 73 of the 79 that were detected had no action taken to recover overpayments while the claimant was incarcerated. One individual not detected received 83 payments totaling \$36,000 while incarcerated. Additionally, we noted 23 possible exceptions. These exceptions are inconclusive since only some of the claimants' information matches the inmates, aliases are utilized by the inmates, or the placement of the inmate when benefits are paid is not readily available. For example, inmates in residential centers that are available and looking for work are eligible for benefits as long as they monetarily qualify.

Recommendation

We recommend the department obtain Vital Statistics death files, perform periodic cross matches, and test the results for conflicts. Periodic inquiries of the Social Security Administration should also be performed. Payments made to deceased and incarcerated claimants need to be investigated and pursued for reimbursement.

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Claim Documentation

Sufficient information is not maintained in support of claim activity.

All claims have been electronically maintained since 2001. The Remarks conversation serves as the only audit trail for the claim. Remarks are the only means to ensure workflow continuity for unemployment personnel; they should contain all the details of the claims' events. During our testing of unemployment benefit payments we observed remarks that lacked a reason for the action taken and clarity. Additionally, there were remarks that never documented the occurrence of a specific action needed prior to payment, leaving unemployment personnel wondering if the action was taken.

Automated systems should include documentation that provides workflow continuity for all personnel that access the claims information.

Payments are processed without required verification or documentation. Frequently, it takes program personnel more time to research the matter than it does to work on the file. The addition of file backlogs and wait times to speak to an agent can foster an inefficient process.

Recommendation

We recommend the coaching of personnel that detailed concise remarks are required to address the issues and that specific verification or documentation may be required before a payment can be processed. Supervisors need to sample daily work to ensure the quality of work and compliance with the law.





State of New Jersey

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KIM GUADAGNO
Lieutenant Governor

September 28, 2012

Mr. Stephen M. Eells, State Auditor
Office of the State Auditor
P.O. 067
Trenton, NJ 08625-0067

Dear Mr. Eells:

This correspondence is in response to your September 10, 2012 draft audit report of the State of New Jersey Department of Labor and Workforce Development (LWD), Unemployment Insurance Services (UI).

During the period under review, July 1, 2009 to June 30, 2011, New Jersey had a significant increase in unemployment claims as a result of the national recession. That recession brought about the introduction of the Emergency Unemployment Compensation program and the Extended Benefits program, which increased the potential duration of claim eligibility of up to 99 weeks. During calendar years 2009 through 2011, the number of initial claims and benefit weeks rose dramatically, as evidenced by the chart included in this response.

To provide some context to these numbers, we included preceding years for perspective. We have provided this information to address the circumstances regarding the increase in the workload as it related to the processing of unemployment insurance claims.

The following is our response to the findings raised in the draft report:

FINDING:

Claimants are working and not reporting earnings in accordance with statute.

MANAGEMENT RESPONSE:

During the fall of 2011, the New Jersey Division of Unemployment/Fraud Prevention was honored by the USDOL/ETA for utilizing the National Database of New Hire (NDNH) return-to-work information to stop overpayment of UI benefits. NJDOLWD received the \$250,000 first place award in the "Killer Application" competition which was entered by 20 states. This process uses NDNH data to update UI benefit claims of individuals reported to have been hired.

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The flagging of these claims requires the claimants to speak to an agent regarding the return-to-work date when it conflicts with a benefit payment. The agent then confirms that the person has been hired and begun a new job. Benefits are paid as appropriate for any time up until the return to work date.

During the process, we also identify individuals who have been reported as new hires but deny having begun work. If, in fact, the person has begun work and continues to collect UI benefits they will be identified as having a wage benefit conflict once the wage data becomes available for cross matching. In such instances it is possible that over 13 weeks of benefits could be paid to such an individual before the wage benefit conflict would be identified. Rather than wait for the wage data to become available, New Jersey intends to be pro-active by contacting the employer immediately to determine if the reported return-to-work occurred or not.

In July 2012, LWD initiated a service request through the Office of Information Technology to enhance our New Hire process by allowing for automated employer correspondence and electronic submission of return-to-work verification. This new process will allow agents, at the time of dispute, to automate employer correspondence through a system transaction. Once received by the employer, we will allow the employer to utilize a web-based reporting function to provide updated information. The web screen will require the entry of the SSN, the employer's federal identification number and one of two options, "did not hire" or "hired on" ___/___/____. Verified dates will automatically flag the payment of future benefits and force fact-finding appointments between fraud staff and claimants who claimed that they had not returned to work. In instances where the "did not hire" option was selected, the flag will be removed from the claim allowing for benefit payment where appropriate.

The Department continues to focus on elements related to the integrity of the unemployment insurance system. In addition to savings of approximately \$140M already realized over the past two years, we shall continue to strengthen our efforts to monitor our claimants to ensure that we minimize the number who are working and not reporting earnings. Additionally, as we move more of our claimants towards Internet filing, we have employed the use of software that monitors for the use of foreign IP addresses. Through this effort, we have saved almost \$18M (\$12.7M in initial claims and \$5.1M through certifications) for the Unemployment Trust Fund.

FINDING:

The National New Hire process does not function as intended.

MANAGEMENT RESPONSE:

During the matching process the department has removed the 19 day look-back period. We will now review any new hire data submitted. By removing the 19 day look back period, the cross match will be able to consider any employers who may have not filed their new hire information in a timely manner. In the past, there was no such step.

The department has also addressed the issue of NDNH multiple employers and now submits remarks for when more than one employer reports to NDNH. The department is also now running the new hire cross-match on new/initial claims and when claims are certified for payment.

FINDING:

Claimants unavailable to work continue to receive unemployment benefits.

MANAGEMENT RESPONSE:

The department is in the process of creating a Memorandum of Understanding with the Department of Corrections in order to run a cross-match with individuals in county correctional facilities against individuals collecting unemployment insurance benefits. This cross-match will work in the same manner as the current cross-match.

The department submitted a service request to the Office of Information Technology to have not only initial claims, but also all certified payments, run against Veris data, which tracks status/validity of Social Security numbers.

FINDING:

Sufficient information is not maintained in support of claim activity.

MANAGEMENT RESPONSE:

New Jersey will follow-up on this suggestion through several initiatives. First, in August 2011, the United States Department of Labor (USDOL) awarded a \$500,000 Supplemental Budget Request (SBR) to New Jersey Division of Unemployment Insurance (UI). These funds are intended for the sole use of improving quality in the Division of UI through training. The lack of entering clear and concise remarks will be covered through this training with an emphasis on stressing the need for "good remarks" in the unemployment benefit LOOPS system.

In addition, a service request was created to change some minor programming in the LOOPS system. The request describes programming changes to enter the first initial and last name of the employee entering a remark into LOOPS system. This programming change is expected to be completed by the end of October 2012.

Finally, over the last several years the Division of UI has faced extremely high workloads, which it had never faced during the entire history of the program. While high workloads do not justify poor or nonexistent remarks, these statistics should be taken into account due to the high levels that New Jersey was experiencing during the review period. The recession years are highlighted in gray.

Year	Initial Claims Filed	UI Benefit Weeks Claimed
2006	524,500	5,600,000
2007	550,400	5,900,000
2008	623,100	7,000,000
2009	747,500	10,400,000
2010	628,000	8,600,000
2011	604,800	7,600,000

In order to continue with the level of service that the public expects from the New Jersey Division of UI, some remarks may not have seemed necessary in the grand scheme, therefore they were omitted or not entered in order for the staff person to continue paying timely UI benefits.

If you have further questions or need additional assistance, please contact Jerry Calamia at (609) 292-1885 or by e-mail at jerry.calamia@dol.state.nj.us.

Sincerely,



Harold J. Wirths
Commissioner

c: Aaron Fichtner
Frederick Zavaglia
Ronald Marino
Jim Fink
Jerry Calamia