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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 28, 1997

Mr. John E. Sweeney
Commissioner
New York State Department of Labor
Building 12, State Campus
Albany, NY 12240

Re: Unemployment Insurance Benefits
Report 95-D-46

Dear Mr. Sweeney:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution, Section 8, Article 2 and Section 111, Article 7 of the State Finance Law, and Section 550, Article 18 of the State Labor Law, the following summarizes our review of the accuracy of unemployment insurance benefits processed by the New York State Department of Labor for the six-month period January 1, 1996 through June 30, 1996.

A. Background

The New York State Department of Labor (Department) administers the Unemployment Insurance (UI) Program which provides benefits to workers who are unemployed through no fault of their own, and are ready, willing and able to work. The Department processes UI information, claims and payments through an automated wide area network system (WANS). The Department issued about 5.2 million UI benefit checks for approximately \$1.2 billion during the six-month period January 1, 1996 through June 30, 1996. The Department also issued 5,122 checks for \$2,536,399 through the Economic Dislocation and Worker Adjustment Assistance Act and 1,350 checks for \$427,933 in benefit payments related to the North American Free Trade Agreement. In addition, the Department made payments totaling \$1.5 million for the Individual and Family Grant Program.

The Office of the State Comptroller (OSC) maintains an on-going audit of UI processing systems and UI benefit disbursements. Our audit of UI benefit disbursements: (1) evaluates all transactions processed from the UI local offices to the Department's central office computer, (2) selects transactions for detailed audit examination, and (3) limits check preparation and disbursements until claims are audit-approved. To identify New York State employees who owe the Department for past UI benefit overpayments, OSC also performs a monthly match of the UI Benefit Overpayment File with the New

York State Employee Payroll File.

The results of our on-going audit are reported to Department officials on a regular basis. This is a summary of our activity for the six-month period ended June 30, 1996.

B. Results of Audit

During the six-month period January 1, 1996 through June 30, 1996, we identified 5,355 UI claims that contained errors. We returned these claims to Department staff for adjustment. As a result of these adjustments, overpayments of \$348,132 and underpayments of \$107,328 were prevented. During the prior six-month review period (July 1, 1995 through December 31, 1995), we identified 6,075 UI claims that contained errors. As a result, overpayments of \$605,915 and underpayments of \$171,881 were prevented. Our calculations of overpayments and underpayments are based on 26 weeks, the maximum number of weeks a claimant can receive benefits under UI Law.

We also identified 301 New York State employees who owed the Department for past UI benefit overpayments. As a result, during our audit period, the Department was able to collect \$217,107 owed by these and other previously identified individuals.

1. Audit of UI Claims

a. Original Claims

The Department's local offices process claimant and employer information to determine eligibility for UI benefits. For those individuals who qualify, valid original claims are processed from the local offices over the WANS to the Benefit Control Record (BCR) Master File maintained on the Department's central office computer system.

During the six-month period January 1, 1996 through June 30, 1996, a total of 317,548 valid original claims were entered on the master file. We performed a cursory review to ensure all claims were timely received, and supported with the necessary claims documents. We found that 3,658 of the original claims were not timely received. We also selected a statistical sample of 13,627 original claims and performed a detailed review. This included comparing the source documents with the BCR Master File data to verify the accuracy of the data being processed. We provided detailed error reports to Department staff on a daily basis. As a result of our cursory and detailed reviews of original claims data, we found errors in 1,409 of the claims and, therefore, prevented overpayments of \$81,522 and underpayments of \$44,148. In the prior six-month reporting period we identified errors in 2,176 of the original claims we reviewed, preventing overpayments of \$109,772 and underpayments of \$77,038. The majority of these errors in both reporting periods occur as the claim is being processed and result in the need for a monetary adjustment of benefits.

b. Benefit Rate Changes

The Department generally computes a claimant's benefit rate using employment and wage information reported to the Department by the former employer. The Department requests wage information from the employer when the former employee applies for UI benefits. If this information is not received on a timely basis, the Department computes the benefit rate based on information reported by the claimant. Information reported by claimants is sometimes incomplete or inaccurate. In those instances, if more accurate information is subsequently received from the employer, the benefit rate is recalculated, often resulting in a rate change. To maximize the effectiveness of our limited resources, we selected our audit sample from only those transactions which caused a change in the claimants' benefit rate.

During the six-month review period, the Department processed a total of 77,619 benefit rate change transactions. We sampled 11,969 of those transactions and found that 268 (2.2 percent) had calculation errors or lacked sufficient documentation to support the rate change. The errors could have resulted in overpayments of \$260,312 and underpayments of \$63,180. However, we returned the errant transactions to the Department for correction and resubmission. The 2.2 percent error rate for this period is lower than the prior period error rate of 3.3 percent. The reduction in the error rate is attributable to the continued efforts by the Department to obtain and to assemble supporting documentation with respect to rate redeterminations.

c. Adjustment Payments

Claimants whose benefit rates are changed may be entitled to receive retroactive payments. A portion of these payments are prepared manually by the local offices and are then submitted to the central office for payment.

During our audit period, the Department processed 1,363 manually-prepared adjustment payments that were greater than \$150. These payments totaled \$561,087. We found calculation errors for 20 (1.5 percent), which we returned to the Department for correction prior to payment. This was a slight increase from our prior review period when the error rate found was 1.4 percent. As a result, overpayments of \$6,298 were prevented.

2. **Accounts Receivable**

a. State Employee Offset Program

In response to a recommendation contained in our report 86-S-94, issued in May 1986, the Department has implemented a salary offset program to aggressively pursue the recovery of excess UI benefits paid to New York State employees. Under this program, State employees who owe the Department for benefit overpayments may have their bi-weekly State wages offset by up to 10 percent of their gross salary to satisfy the repayment of their debt. OSC identifies these employees by performing a monthly match of the UI Benefit Overpayment File with the New York State Payroll File.

During our six-month audit period, OSC identified 301 State employees who owed the Department a total of \$323,522. As of June 25, 1996 a total of 1,563 State employees, who have been identified through this matching process, owed the Department a total of \$1,913,134 in benefit overpayments. The Department recovered \$217,107 from these State employees during our audit period.

b. UI Benefit Overpayment File

The Department is responsible for determining if claimants have been overpaid. Overpayments may result from rate redeterminations which are calculated from updated salary data received after original claims processing, the identification of disqualifying circumstances, the results of investigative inquiry, and administrative processing errors.

The Department maintains an automated system to collect, process, update and disseminate overpayment data. We have performed an aging of the Department's Overpayment Accounts Receivable Master File. The balance on the Overpayment File as of June 30, 1996 was \$188,706,215 which represents an increase of nearly \$3.6 million (1.9 percent) over the balance as of December 31, 1995. Refer to Exhibit A for the aging of these receivables.

c. UI Employer Tax Payments

The Department is responsible for collecting unemployment taxes from employers in New York State. We have performed an aging of the outstanding UI Employer Tax Receivables. The balance of outstanding receivables as of June 30, 1996 was \$634,781,103 which represents an increase of \$9.2 million (1.5 percent) over the balance as of December 31, 1995. Refer to Exhibit B for the aging of these receivables.

There are also amounts owed to employers because of excess UI tax payments made to the Department. Overpayments may be either refunded to the employers or credited to their accounts to be applied to subsequent contribution amounts due. The balance of these overpayments as of June 30, 1996 was \$19,180,543.

3. Other

During the audit period, we reviewed the Individual and Family Grant Program (IFGP), which provides financial assistance to individuals or families who sustain damage or develop serious needs because of a natural or man-made disaster. We approved 1,278 IFGP payments totaling \$1.5 million while we did not approve 22 payments totaling \$25,416.

Major contributors to this report were Richard Hill, John Cervera, James Maloney, Kathleen Murphy, Joanne Bolduc, Edward Burr, Nancy Oliver, and Marsha Yetto.

We wish to express our appreciation to the management and staff of the Department of Labor for the courtesies and cooperation extended to our staff during this audit.

Very truly yours,

Jerry Barber
Audit Director

cc: Patricia A. Woodworth
Mark B. Mitchell

NEW YORK STATE DEPARTMENT OF LABOR
UNEMPLOYMENT INSURANCE BENEFIT PAYMENTS
COMPARATIVE AGING OF OVERPAYMENT ACCOUNTS RECEIVABLE

| <u>Age of Receivables</u> | <u>As of June 30, 1996</u> | | | <u>As of December 31, 1995</u> | | |
|-------------------------------|-------------------------------|----------------------|---|--------------------------------|----------------------|---|
| | <u>Number of Cases(2)</u> | <u>Amount</u> | <u>Percent of Total Dollars</u> | <u>Number of Cases</u> | <u>Amount</u> | <u>Percent of Total Dollars</u> |
| 0-1 year | 50,344 | \$60,921,523 | 32.3 | 47,612 | \$56,970,038 | 30.8 |
| 1-2 years | 19,476 | 25,289,842 | 13.4 | 22,770 | 30,449,838 | 16.4 |
| 2-3 years | 19,209 | 26,472,756 | 14.0 | 18,581 | 24,940,859 | 13.5 |
| 3-6 years | 35,367 | 44,331,953 | 23.5 | 30,922 | 36,640,753 | 19.8 |
| 6-10 years | 1,099 | 1,109,712 | 0.6 | 7,192 | 6,079,087 | 3.3 |
| More than 10 years | 2 | 8,188 | 0.0 | 4 | 11,545 | 0.0 |
| OSR & 999 Cases (1) | 15,198 | 20,254,445 | 10.7 | 15,512 | 19,887,822 | 10.7 |
| Judgements (1) | 3,884 | 9,939,335 | 5.3 | 4,057 | 9,846,282 | 5.3 |
| All others (1) | <u>136</u> | <u>378,461</u> | <u>0.2</u> | <u>146</u> | <u>292,502</u> | <u>0.2</u> |
| Totals | <u>144,715</u> | <u>\$188,706,215</u> | <u>100.0</u> | <u>146,796</u> | <u>\$185,118,726</u> | <u>100.0</u> |

Note:

- (1) These represent cases requiring special handling. The aging of these cases is not readily available.
- (2) There were 116,250 claimants with 144,715 cases on file. There are more cases than claimants because each claimant can have more than one receivable outstanding.

NEW YORK STATE DEPARTMENT OF LABOR
UNEMPLOYMENT INSURANCE EMPLOYER TAX PAYMENTS
COMPARATIVE AGING OF OUTSTANDING RECEIVABLES

| Age of <u>Receivables</u> | <u>As of June 30, 1996</u> | | | <u>As of December 31, 1995</u> | | |
|------------------------------|--------------------------------|----------------------|---|--------------------------------|----------------------|---|
| | <u>Number of Cases (1)</u> | <u>Amount (2)</u> | <u>Percent of Total Dollars</u> | <u>Number of Cases</u> | <u>Amount</u> | <u>Percent of Total Dollars</u> |
| 0-1 year | 213,483 | \$152,429,890 | 24.0 | 274,485 | \$187,201,678 | 29.9 |
| 1-2 years | 95,378 | 52,328,228 | 8.2 | 85,462 | 46,226,474 | 7.4 |
| 2-3 years | 77,034 | 43,804,941 | 6.9 | 69,669 | 40,791,937 | 6.5 |
| 3-6 years | 161,720 | 112,306,398 | 17.7 | 160,267 | 107,763,555 | 17.2 |
| 6-10 years | 252,163 | 117,305,627 | 18.5 | 242,216 | 104,175,745 | 16.7 |
| More than 10 years | <u>666,477</u> | <u>156,606,019</u> | <u>24.7</u> | <u>633,940</u> | <u>139,419,033</u> | <u>22.3</u> |
| Totals | <u>1,466,255</u> | <u>\$634,781,103</u> | <u>100.0</u> | <u>1,466,039</u> | <u>\$625,578,422</u> | <u>100.0</u> |

Notes:

- (1) There were 295,500 employers with 1,466,255 cases on file. There are more cases than employers because each employer can have more than one receivable outstanding.
- (2) The amounts do not include interest and penalties which UI reports total \$22,430,701.