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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 15, 1997

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

Re: Unemployment Insurance Benefits
Report 96-D-14

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 and other payments processed by the New York State Department of Labor for the six-month period July 1, 1996 through December 31, 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 4.1 million UI benefit checks for approximately \$905 million during the six-month period July 1, 1996 through December 31, 1996. The Department also issued 1,460 checks for \$764,277 through the Economic Dislocation and Worker Adjustment Assistance Act and 2,136 checks for \$785,042 in benefit payments related to the North American Free Trade Agreement. In addition, the Department made payments totaling \$177,000 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 December 31, 1996.

B. Results of Audit

During the six-month period July 1, 1996 through December 31, 1996, we identified 5,443 UI claims that contained errors. We returned these claims to Department staff for adjustment. As a result of these adjustments, overpayments of \$592,601 and underpayments of \$183,900 were prevented. During the prior six-month review period (January 1, 1996 through June 30, 1996), we identified 5,355 UI claims that contained errors. As a result, overpayments of \$348,132 and underpayments of \$107,328 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 272 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 \$242,012 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 July 1, 1996 through December 31, 1996, a total of 265,354 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 3,814 of the original claims were not timely received. We also selected a statistical sample of 13,520 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 1,171 of the claims and, therefore, prevented overpayments of \$93,028 and underpayments of \$61,854. In the prior six-month reporting period, we identified errors in 1,409 of the original claims we reviewed, preventing overpayments of \$81,522 and underpayments of \$44,148. The majority of these errors in both reporting periods occurred as the claims were being processed and resulted 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 61,532 benefit rate change transactions. We sampled 11,347 of those transactions and found that 440 (3.9 percent) had calculation errors or lacked sufficient documentation to support the rate change. The errors could have resulted in overpayments of \$496,608 and underpayments of \$121,602. However, we returned the errant transactions to the Department for correction and resubmission. The 3.9 percent error rate for this period is higher than the prior period error rate of 2.2 percent. The increase in the error rate is attributable to delays in receiving claims documentation timely. This delay resulted as the Department focused its efforts on new microfilming processes and office relocations.

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 1,010 manually-prepared adjustment payments that were greater than \$150. These payments totaled \$430,112. We found calculation errors for 18 (1.8 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 1.5 percent. As a result, overpayments of \$2,965 and underpayments of \$444 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 272 State employees who owed the Department a total of \$291,562. As of December 31, 1996, a total of 1,598 State employees, who have been identified through this matching process, owed the Department a total of \$1,988,391 in

benefit overpayments. The Department recovered \$242,012 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 December 31, 1996, was \$196,762,509 which represents an increase of nearly \$8.1 million (4.3 percent) over the balance as of June 30, 1996. 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 December 31, 1996, was \$649,911,882 which represents an increase of \$15.1 million (2.4 percent) over the balance as of June 30, 1996. 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 December 31, 1996, was \$15,738,811.

3. Other

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. During this audit period, we approved 46 IFGP payments totaling \$75,394. As of December 31, 1996, all claims for the January 1996 flooding disaster have been audited and program payments for this disaster are completed. For the duration of the disaster, we approved 1,324 payments totaling \$1.6 million, while we did not approve 22 payments totaling \$25,416.

Disasters have also been declared for the October 1996 flooding of the New York City/Long Island area and the November 1996 flooding of a 13-county area in upstate New York. During this period, we have received claims for the New York City/Long Island disaster and, as of December 31, 1996, we have approved 67 payments totaling \$101,606, while we have not approved 8 claims totaling \$8,787.

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

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

Age of <u>Receivables</u>	As of December 31, 1996			As of June 30, 1996		
	<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	49,815	\$62,739,113	31.9	50,344	\$60,921,523	32.3
1-2 years	18,783	23,673,517	12.1	19,476	25,289,842	13.4
2-3 years	17,817	24,477,721	12.4	19,209	26,472,756	14.0
3-6 years	38,414	49,861,477	25.3	35,367	44,331,953	23.5
6-10 years	3,070	3,734,943	1.9	1,099	1,109,712	0.6
More than 10 years	2	1,580	0.0	2	8,188	0.0
OSR & 999 Cases (1)	16,256	21,645,274	11.0	15,198	20,254,445	10.7
Judgements (1)	3,908	10,242,656	5.2	3,884	9,939,335	5.3
All others (1)	<u>138</u>	<u>386,228</u>	<u>0.2</u>	<u>136</u>	<u>378,461</u>	<u>0.2</u>
Totals	<u>148,203</u>	<u>\$196,762,509</u>	<u>100.0</u>	<u>144,715</u>	<u>\$188,706,215</u>	<u>100.0</u>

Notes:

- (1) These represent cases requiring special handling. The aging of these cases is not readily available.
- (2) There were 118,716 claimants with 148,203 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

<u>Age of Receivables</u>	<u>As of December 31, 1996</u>			<u>As of June 30, 1996</u>		
	<u>Number of Cases (1)</u>	<u>Amount (2)</u>	<u>Percent of Total Dollars</u>	<u>Number of Cases</u>	<u>Amounts</u>	<u>Percent of Total Dollars</u>
0-1 year	248,051	\$171,190,302	26.3	213,483	\$152,429,890	24.0
1-2 years	89,486	50,346,636	7.8	95,378	52,328,228	8.2
2-3 years	75,267	43,191,463	6.7	77,034	43,804,941	6.9
3-6 years	160,381	111,367,584	17.1	161,720	112,306,398	17.7
6-10 years	251,650	117,121,612	18.0	252,163	117,305,627	18.5
More than 10 years	<u>666,731</u>	<u>156,694,285</u>	<u>24.1</u>	<u>666,477</u>	<u>156,606,019</u>	<u>24.7</u>
Totals	<u>1,491,566</u>	<u>\$649,911,882</u>	<u>100.0</u>	<u>1,466,255</u>	<u>\$634,781,103</u>	<u>100.0</u>

Notes:

- (1) There were 290,925 employers with 1,491,566 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 totaled \$22,748,457 as of December 31, 1996.