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STATE COMPTROLLER



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STATE OF NEW YORK
**OFFICE OF THE STATE
COMPTROLLER**

July 31, 1998

Mr. James J. McGowan
Commissioner
New York State Department of Labor
Building 12, State Campus
Albany, NY 12240

Re: Unemployment Insurance Benefits
Report 97-D-11

Dear Mr. McGowan:

According 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, we have reviewed the accuracy of unemployment insurance benefits processed by the New York State Department of Labor for the six-month period July 1, 1997 through December 31, 1997.

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 3.6 million UI benefit checks in excess of \$808 million during the six-month period July 1, 1997 through December 31, 1997. The Department also issued 194 benefit checks for \$101,107 through the Economic Dislocation and Worker Adjustment Assistance Act and 5,522 benefit checks for \$1,872,393 related to the North American Free Trade Agreement.

The Office of the State Comptroller (OSC) maintains an ongoing audit of UI processing systems and UI benefit disbursements. Our audit of UI processing systems determines whether built-in processing controls are operating as intended. Our audit of UI benefit disbursements (1) evaluates all transactions processed at the UI local offices and sent to the Department's central office computer, (2) selects transactions for detailed audit examination, and (3) prevents check preparation and disbursements until the selected claims are approved by us. To identify New York State employees who owe the Department for past UI benefit overpayments, we do a monthly match of the UI Benefit Overpayment File with the New York State Employee Payroll Files.

The results of our ongoing 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, 1997. Draft copies of this report were provided to Department officials for review and comment. Their comments are included as Appendix A. Department officials generally agreed with the audit findings with one exception concerning benefit rate changes. We have eliminated that section from the final report.

B. Results of Audit

During the six-month period July 1, 1997 through December 31, 1997, we identified 6,251 UI claims that contained errors. We returned these claims to Department staff for adjustment. As a result of these adjustments, overpayments of \$44,629 and underpayments of \$36,726 were prevented. Our calculations of overpayments and underpayments are based on the average number of weeks claimants receive benefits.

We also identified 373 New York State employees who owed the Department a total of \$400,778 for past UI benefit overpayments. During our audit period, the Department was able to collect \$221,128 owed by these and other previously identified New York State employees.

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 at the local offices and sent 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, 1997 through December 31, 1997, a total of 238,204 valid original claims were entered on the master file. We did a cursory review to ensure that these claims were received in a timely manner and were supported by the necessary claims documents. We found that 5,474 of the original claims were not received in a timely manner. We also selected a statistical sample of 13,465 original claims and did a detailed review. In our detailed review, we compared 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 759 of the claims. The correction of these errors prevented overpayments of \$38,825 and underpayments of \$36,653. In the prior six-month reporting period we identified errors in 1,199 of the original claims we reviewed, preventing overpayments of \$52,494 and underpayments of \$60,242.

b. Adjustment Payments

Claimants whose benefit rates are changed may be entitled to receive retroactive payments. Some 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 825 manually-prepared adjustment payments that were greater than \$150. These payments totaled \$367,428. We found calculation errors for 18 (2.2 percent) of these payments, 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 was 1.4 percent. As a result of our review, overpayments of \$5,804 and underpayments of \$73 were prevented.

2. State Employee Offset Program

In a response to a recommendation contained in our report 86-S-94, issued May 1986, the Department implemented a salary offset program to 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 biweekly State wages offset by up to 10 percent of their gross salary to satisfy the repayment of their debt. We identify these employees by doing a monthly match of the UI Benefit Overpayment File with the New York State Employee Payroll Files.

During the six-month audit period, we identified 373 State employees who owed the Department a total of \$400,778. As of December 31, 1997, a total of 1,766 State employees who had been identified through this matching process owed the Department a total of \$2,306,113 in benefit overpayments. The Department recovered \$221,128 from these State employees during our audit period.

Major contributors to this report were Richard Hill, Sheila Emminger, James Maloney, Kathleen Gavigan, Kathleen Murphy, Edward Burr, and Les Whitehead.

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 review.

Yours truly,

David R. Hancox
Audit Director

cc: Robert L. King

STATE OF NEW YORK
DEPARTMENT OF LABOR
Governor W. Averell Harriman
State Office Building Campus
Albany, New York 12240



JAMES J. McGOWAN
Commissioner of Labor

May 7, 1998

Mr. David R. Hancox
Audit Director
Office of the State Comptroller
7th Floor
A.E. Smith State Office Building
Albany, New York 12236

Dear Mr. Hancox:

Thank you for providing us with the opportunity to review draft report 97-D-11, which summarizes the results of your audit of the unemployment insurance benefit payments processed during the period July 1, 1997 through December 31, 1997.

The Department of Labor is in general agreement with the audit findings with one exception. The Department disagrees with the basis for the overpayment and underpayment amounts reported in the benefit rate change section of the report.

Some of the benefit rate change errors identified by the audit were caused by delays in receiving or processing paperwork. Because of these delays, the auditors did not have a full package of information to examine at the time of their audit. When the additional information was supplied to the auditors, in most cases, the auditors agreed with the benefit rate submitted by the Department. Also, in some cases, rate changes have been questioned in error because the auditor used the original claim monetary determination screen rather than the redetermination screen in completing the review. Staff have found similar cases where the auditor looked at claim data applicable to a previous or a subsequent benefit claim instead of the claim on which the redetermination was made. In these situations, despite the fact that the Department's rate was correct, the audit computes a potential overpayment or underpayment prevented. We feel that whenever the rate ultimately approved by OSC agrees with the rate we submit, there should be no overpayment or underpayment calculation.



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We would like to express our appreciation for the changes that have been made to the format of the six-month report and to the procedures for processing the report. We believe these changes enhance the value of your report.

If you have any questions concerning this response, please contact Karen Stackrow at (518) 457-9016.

Sincerely,



James J. McGowan

cc: Deborah Winslow
Deidre Taylor
Brian Sanvidge
Thomas Malone