U. S. Department of Labor

FY 2012 Annual Report
on
Improper Payment Recapture Activities

November 1, 2012

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1.0 Introduction

The *Improper Payments Elimination and Recovery Act of 2010*, PL 111-204 (IPERA) and implementing guidance require Federal agencies to conduct payment recapture audits for all programs and activities - including grants, benefits, loans, and contract payments - that expend $1 million or more annually if conducting such audits would be cost-effective.

IPERA Section 2(h)(2)(D)(ii) and Appendix C, Part I.B requires the submission of an annual report to OMB and Congress by November 1 that describes any recommendations identified by payment recapture auditors on how to mitigate conditions giving rise to improper payments, and any corrective actions the agency took during the preceding fiscal year to address the auditors' recommendations.

A payment recapture audit is a review and analysis of an agency's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, that is specifically designed to identify overpayments. It is not an audit in the traditional sense. Rather, it is a detective and corrective control activity designed to identify and recapture overpayments, and, as such, is a management function and responsibility. DOL's payment recapture audit activities performed during FY 2012 are described in this report.

During FY 2012, the Department of Labor (DOL) conducted a number of activities to support the prevention and/or recapture of improper payments. Activities covered all DOL payment programs – benefits, grants, and contracts. For the Unemployment Insurance (UI) Program, which is rated high priority, work included continued coordination with states, more focused audits, improved understanding, utilization, and execution of statutory and regulatory authorities, and establishment of payment recapture targets. The Department also conducted three pilot programs - one benefit, one grant, and one contract program - to assess the feasibility and cost-effectiveness of performing payment recapture audits and/or to perform a limited scope payment recapture audit.

Preventing improper payments continues to remain a top priority for DOL. The FY 2012 activities underline this commitment and help move DOL forward in its efforts to recapture any improper payments.

This report provides a detailed description of DOL's FY 2012 improper payments recapture audit activities and recommendations, specifically for the UI Program and the three pilot programs.

2.0 Unemployment Insurance (UI) Program

Overview of Improper Payments in the UI Program

The single largest program at the DOL is the UI program, administered by DOL's Employment & Training Administration (ETA), with estimated FY 2012 outlays of approximately $90.16 billion. Based on preliminary data for FY 2012 from the UI Program's Benefit Accuracy Measurement (BAM) survey, the estimated improper payment rate is 11.42 percent (10.81 percent overpayment rate plus 0.61 percent underpayment rate) for the period July 2011 to June 2012, the most recent period for which data is available. This represents an estimated decrease of 0.58 percent from the prior year's rate of 12.0 percent. Because the improper payments for UI are estimated to be over 10 percent, the UI program is classified as a high-priority program, the only program with this designation within the DOL.

Goals for improving UI's improper payment program included:

- Working with the states to develop and implement processes to identify and recapture improper payments;
- Defining audit procedures to be performed on selected items;
- Developing a framework for identifying improper payments and providing guidance to implement that framework;
- Establishing appropriate payment recapture targets; and
- Utilizing statutory and regulatory authorities to recapture improper payments.

Payment Recapture Activities in the UI Program

Performing UI payment recapture activities and providing states with tools to aid recovery are top priorities at DOL. Our recapture activities have focused on the following areas that offer the greatest opportunity for improvement:

- Benefit Year Earnings Issues – Arise when a claimant continues to claim and receive UI benefits after returning to work.
- Separation Issues – Occur because the claimant files for benefits even though they are ineligible to do so, and the state has not received documentation to that effect from the former employer before the claim is processed.
- Employment Service (ES) Registration Issues – Occur when the claimant has not registered in the state's Employment Service system (or job bank) when required to do so, and is therefore ineligible for UI benefits.

The Department coordinates with states to recover UI overpayments. Each state's Benefit Payment Control (BPC) unit is responsible for promoting and maintaining UI program integrity through prevention, detection, investigation, establishment, and recovery of improper payments. Every state conducts post-award audits for the detection of UI improper payments, and to determine whether error or willful misrepresentation has occurred. States audit UI benefits payments by means of a cross-match against new hire directories (National and State) and state wage files. States conduct these activities through the use of automated tools and procedures that confirm the identity and legal status of the claimants, search for unreported earnings, and detect other forms of fraud or errors contributing to improper payments in the UI program.

In February 2011, the Department of Treasury (Treasury) issued a regulation permitting states to offset UI overpayments through the Treasury Offset Program (TOP). As of August 2012, 17 states had implemented TOP and several others were in various stages of implementation. An estimated $134 million in UI overpayments were recovered through TOP in FY 2012.

In September 2012 ETA announced the award of $169.9 million in supplemental funding to 33 states to support the prevention, detection, and recovery of improper UI benefit payments; improve state performance; address outdated IT system infrastructures necessary to improve UI program integrity; and enable states to expand or implement Reemployment and Eligibility Assessment (REA) programs. These incentive funds will support state implementation of high-priority activities including:

- Activities to address Worker Misclassification;
- Implementation of other integrity-related projects, including technology-based prevention, detection, and collection activities;
- Implementing the State Information Data Exchange System (SIDES) Earnings/wage verification and monetary and potential employer charges data exchange;
- Subscription fees for maintenance and operation of SIDES;
- Contract staff support for activities that do not require use of state merit staff;
- Implementation of TOP; and
- Automation efforts that result in performance and system improvements.

Exhibit 1 provides an eight-year summary of UI overpayments established and recovered for:

- State UI, which provides unemployment benefits to eligible workers who are unemployed through no fault of their own (as determined under state law), and meet other eligibility requirements of state law.
- Unemployment Compensation for Federal Employees (UCFE) which provides benefits for eligible unemployed former civilian federal employees.
- Unemployment Compensation for Ex-Service Members (UCX) which provides benefits for eligible ex-military personnel.
- Extended Benefits (EB) which provides benefits to workers who have exhausted regular unemployment insurance benefits during periods of high unemployment.
- Emergency Unemployment Compensation (EUC) which provides benefits to individuals who have exhausted regular state benefits.

The information is based on actual counts of UI overpayments identified and recovered by the state agencies.

Exhibit 1: UI Overpayments Established and Recovered By Fiscal Year (Excluding Waivers)

FY	Overpayments Established UI/UCFE/UCX/EB	Overpayments Recovered UI/UCFE/UCX/EB	Recovered (%)	Overpayments Established (UI/UCFE/UCX/EB + EUC)	Overpayments Recovered (UI/UCFE/UCX/EB + EUC)	Recovered (%)
2004	$1,101,549,360	$528,941,410	48.02%			
2005	$960,277,791	$488,807,550	50.90%			
2006	$979,836,264	$511,524,977	52.21%			
2007	$952,898,179	$531,724,056	55.80%			
2008	$1,002,131,148	$571,160,044	56.99%	$1,010,170,720	$572,972,520	56.72%
2009	$1,456,403,205	$850,987,241	58.43%	$1,736,295,243	$914,626,113	52.68%
2010	$1,906,310,909	$966,016,812	50.67%	$2,805,367,403	$1,175,555,423	41.90%
2011	$1,887,177,040	$997,967,260	52.88%	$2,957,910,114	$1,291,384,816	43.66%

3.0 FY 2012 Pilot Programs

During FY 2012, DOL conducted three pilot programs. The first pilot study assessed the feasibility and cost-effectiveness of performing payment recapture audits for the Workforce Investment Act (WIA) grant program at the grantee level. The second pilot was a limited scope payment recapture audit for the Federal Employees' Compensation Act (FECA). The third pilot is an ongoing payment recapture audit for DOL's contract payments. A description of each plan and the results of the three pilot programs are presented below.

3.1 Workforce Investment Act Grant Program

Purpose

During FY 2012, DOL conducted a payment recapture audit research and analysis pilot for the WIA program. The pilot's objectives are to:

- Identify ways to prevent, reduce, and recapture improper payments;
- Assess the feasibility and cost-effectiveness of conducting grantee payment recapture audits of the WIA program at the recipient level; and
- Provide recommendations on how to improve DOL's grant management processes and activities.

WIA Program Overview

The WIA program is a comprehensive workforce investment grant program overseen by the Employment and Training Administration (ETA) for delivering employment and training services. The WIA program primarily provides grant funds to states that in turn award the majority of the funds to local workforce investment boards that award sub-grants and/or contracts to one-stop service centers/sub-grantees to fund employment and training services. The WIA program also provides grant funds to non-state grantees on a discretionary basis to fund employment and training services. The financial records and other documentation supporting WIA outlays at the state level and lower tiers are located at the grantee and sub-grantee locations rather than at the DOL National Office.

The WIA grant program is classified by OMB as risk susceptible due to its annual level of outlays; although the Department's risk assessments have never supported a high risk designation.

Scope and Objectives

The pilot was performed using a phased approach. Phase 1 consisted of reviews of the DOL and ETA grants management function at the national and ETA regional levels and was completed during the first and second quarters of FY 2012.

Phase 1 of the Pilot found that DOL has several options to increase its efforts to identify ways to prevent, reduce and recapture improper payments. For example, ETA's regional monitoring process currently produces the second largest major available source of improper payments data for the WIA program (Single Audit Act audit reports are the largest source).[1] However, the monitoring process is not specifically designed to identify improper payments, although improper payments may be identified during the reviews. Additionally, there is no DOL database that consistently tracks questioned costs (that may be determined to be improper payments) and their resolution from all sources, including Single Audit Act audit reports, DOL Office of Inspector General (OIG) audit reports, and ETA regional monitoring reviews.

Using the knowledge of the WIA program gained from Phase I, a plan was developed for Phase 2. Phase 2 entailed conducting grantee pilot recapture audit research and analysis reviews in two states, one small and one large state. The plan included the review of each state's policies and procedures, performance and process documentation, assessment of key processes, and the selection of activities deemed at highest risk for improper payments.

State Review - Small State

DOL selected a small state for the first visit since it has one of the least complex WIA management structures. Also, WIA findings were reported for the State in recent State Single Audit Act audit reports. WIA funds are administered centrally in the State Office – allowing access to most supporting documents.

The three major WIA programs are Adult, Dislocated Workers and Youth Services. For this State, the Adult and Dislocated Workers programs are directly administered by the State while the Youth Services program, including determination of eligibility and training, is contracted out. The site visit was conducted during the period of March 12 to March 23, 2012. During the two-week site review, DOL:

- Determined the process flow for five key grant management processes: (1) cash management, (2) participant eligibility, (3) sub-recipient monitoring for the Youth Program, (4) procurement, and (5) payroll and administrative cost allocations.
- Interviewed key managers and staff, completed a detailed review of supporting documentation for a limited number of transactions, and reviewed the methodology and process used in completing the ETA Form 9130 Financial Report.

[1] Based on a review of OMB's definition of questioned costs as reflected in OMB Circular A-133, and with OMB's approval, DOL determined that questioned costs could be used as a proxy for improper payments. For the purpose of estimating the improper payment rate for the WIA program, DOL considers improper payments to include: (1) resolved questioned costs that are disallowed, (2) unresolved questioned costs as of the time of calculation of the rate, and (3) questioned costs for which no resolution information is readily available as of the time of the calculation of the rate.

For improper payments related to questioned costs identified in Single Audit Act audits, the most recent full year of Single Audit Act audit reports available in the Federal Audit Clearinghouse database is used. As an example, for FY 2012, Single Audit Act audit reports for FY 2010 were used, allowing sufficient time in most cases for the resolution process to be completed.

DOL determined that, for this small state, payment recapture audits are feasible for direct expenditures of the State in the areas of cash management, Adult and Dislocated Worker participant eligibility, procurements, and payroll and related administrative allocations. Sufficient supporting documentation exists to test these areas, although the documentation includes hard copy documents and manual spreadsheets.

Based on the review of this state, DOL determined that payment recapture audits at small states are feasible, and ETA may increase efforts to identify and recapture improper payments where cost effective as resources become available.

State Review – Large State

In contrast to the first state reviewed, the second state is representative of the more typical large and complex WIA cascading funding structure. Similar to the first state, WIA findings were reported in recent State Single Audit Act audit reports. The site visit was conducted during the period from April 23 to May 4, 2012.

During the two-week site review, five key processes were reviewed: (1) sub-recipient monitoring, (2) cash management, (3) payroll, (4) administrative cost allocations, and (5) the Single Audit Act audit finding resolution process.[2]

Limited WIA improper payment detection and recapture activities are performed at several points in the program - ETA regional monitoring, State annual monitoring, Single Audit Act audits, and internal audits performed by the State Bureau of Audits. Single Audit Act audit finding resolution is included in the monitoring processes of the DOL OIG, ETA National Office, ETA regional offices, and the State.

Similar to the small state, this state is dealing with budget constraints and staff reductions, which increase the risk for improper payments.

For this large state, sufficient documentation exists at the State level to conduct payment recapture audits for costs which are spent directly by the State, such as payroll and other administrative costs, although these costs represent no more than 5 percent of the State's WIA expenditures.

The highest risk of improper payments is in the expenditures of the State's sub-recipients (local WIBs and One-Stop Centers). However, the States perform limited fiscal monitoring of sub-recipient expenditures. Payment recapture audits of WIA grants that the State awards to sub-recipients must be performed at the sub-recipient locations where the supporting documentation is maintained.

Based on the review of this state, DOL determined that payment recapture audits at large states are feasible, and ETA may increase efforts to identify and recapture improper payments where cost effective as resources become available.

[2] The key processes for each state that were deemed highest risk for improper payments based on Phase 1 analysis were reviewed.

Conclusion Based on WIA Grantee Payment Recapture Pilot Review of Two States

With consideration given to the limited time and scope of each review, DOL concluded that payment recapture audits are feasible for State and sub-recipient expenditures, and ETA may increase efforts to identify and recapture improper payments where cost effective.

Due to limited resources, ETA currently focuses its monitoring activities on program performance. Adding resources to ETA's current grants fiscal monitoring process would enable DOL to increase efforts to identify, prevent, and recapture improper payments. For example, with additional staff, training and travel, ETA could review WIA cost categories such as payroll, cash management, and Single Audit Act audit finding resolution for sub-recipients. Additional resources are also needed to enable ETA to work with the states to participate in the Do Not Pay initiative.

Suggested Improvements to the WIA Improper Payments Program

ETA may improve the improper payment (IP) identification and recapture of IPs through testing a "Cost-Effective Recapture Audit Program" in select areas as resources become available. In addition, ETA could enhance its ability to identify and recapture IPs by investing resources in training, additional financial field staff, information technology, and site visits where cost effective.

3.2 Federal Employees' Compensation Act Benefit Program

Purpose

During FY 2012, DOL conducted a limited scope pilot payment recapture audit of the Office of Workers' Compensation Program's (OWCP's) Federal Employees' Compensation Act benefit program (FECA) Medical Invoice Process to determine the cost-effectiveness of performing a full scope recapture audit for these payments.

FECA Program Overview

FECA is a workers' compensation law covering more than three million federal and postal employees. It authorizes medical benefits, income replacement, and certain supportive services to employees with work-related injuries or, in the case of deaths, survivor benefits to family members. Employees who fully or partially recover from their injuries are expected to return to work.

In FY 2011, the program provided nearly $3 billion in benefits to approximately 251,000 workers and survivors for work-related injuries or illnesses. Of these benefit payments, $913 million (31%) was for medical and rehabilitation services, $1.9 billion (64%) was for wage-loss compensation, and $139 million (5%) was for death benefit payments to surviving dependents.

The OWCP is charged with administering the FECA program through twelve OWCP District Offices and the national headquarters located in Washington, DC. OWCP is responsible for making eligibility determinations of claims, approving benefit payments, supporting treatment and recovery activities, and coordinating return to work when an employee is able to resume part-time or full-time work.

FECA covers all medical care that an employee needs to recover from the effects of a work-related injury, including hospitalization, nursing services, prosthetic appliances, and the services of an attendant when required for severe injuries. Payments for medical services are subject to a schedule of maximum allowable amounts. These benefits are paid from the OWCP Employees' Compensation Fund, which is mainly funded through chargebacks to the Federal agency that employs the injured or ill workers[3]. The FECA program affects the budget of all Federal agencies and quasi-federal agencies such as the United States Postal Service and the Peace Corps.

Scope and Results

OWCP manages the FECA wage-loss compensation program in the Integrated Federal Employees Compensation System (iFecs), which is the case management system. It allows authorized staff to create cases; to authorize, track and query compensation payments; and to provide reporting functionality. The system maintains claims filed, the adjudicatory status of claims paid and denied, the amount of payments issued, and eligibility status for covered medical conditions.

FECA medical invoice payments are processed by a third-party vendor, Affiliated Computer Services State Healthcare, LLC (ACS), using a system called Achieve, which is also referred to as the medical or central invoice processing system (CBP)[4]. The CBP covers all aspects of invoice processing from the receipt of paper and electronic invoices, the imaging and data entry of paper invoices, editing of invoices against criteria established by OWCP, resolution of suspended invoices, and the creation of payment files that are sent to iFecs for transmission to Treasury. ACS also maintains a call-center for invoice-related inquiries and for authorization of medical services.

The CBP and the iFecs systems are interfaced. Case file details, including claim and eligibility data, are transferred from iFECs to CBP and invoice and payments details are transferred from CBP to iFecs.

To perform the medical payment recapture audit, the DOL Office of the Chief Financial Officer (OCFO) obtained six months of medical invoices processed between the dates of January 1, 2011 and June 30, 2011 from ACS. OCFO loaded the data onto a software tool for analysis[5].

Of the approximately 2.6 million invoices processed during this period, 1.8 million were paid, while the remaining invoices were denied for payment, were in an adjustment process, or there

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[3] Insurance is not a factor in the reimbursements of work-related injuries. If insurance is charged for such injuries which are later determined to be covered by FECA, FECA will reimburse the insurance company for services paid.

[4] The base system uses a mainframe platform and is written in COBOL for claims processing and other related invoices. The CBP is also called the Achieve System.

[5] IDEA Data Analysis Software was used to complete the data analysis.

was no charge for the services provided[6]. OCFO focused the audit work on the paid invoices. Following are the results of OCFO's analysis of these invoices.

Duplicate payments – 140 invoices or .01 percent were for the same provider, same day, same procedure, and same dollar amount. OCFO tested these 140 invoices and found that 44 were potential duplicates, for a dollar amount of $5,275.58.

Duplicate invoices submitted by different providers for same service – Eight invoices or .0004 percent were submitted by different providers for the same service (same day, same diagnosis; same patient, same amount). OCFO tested these eight invoices and found that four were not duplicates and two were potential duplicates. The remaining two invoices were EDI/pharmacy bills for which there are no bill images. OCFO did not review the on-line documentation for these two invoices.

Potential Overpayments - 1,194 invoices (about .07 percent) were for amounts greater than the invoiced amount by hospitals. According to OWCP, pricing schedules for hospitals are established using DRG Codes (Diagnosis Related Groups codes) that are based on industry standards; also, if a service provider qualifies for an incentive fee, the provider's paid amount will be greater than the amount invoiced. OCFO's testing of 50 of these invoices, showed that all were paid accurately.

Bundling of services – 3,395 invoices (about .19 percent) were for bundled services on an invoice for which a separate invoice from the same provider showed what appeared to be the same services unbundled for the same patient (same patient name, same provider, and same date of service). OCFO tested 25 of these invoices and found that none of the invoices were for the same services. Instead they were for different services, on different days (the invoice indicates the date of service was on a different date than the date on the invoice) for a different diagnosis.

Volume by provider compared to other providers by state – Several providers submitted substantially more invoices than the average number per provider in their state. OCFO computed the average (mean) and standard deviation of the number of invoices per provider in the states of California, Illinois, and Florida. OCFO then selected outlier providers whose number of invoices was two or more standard deviations more than the state average to determine whether the procedures fit the diagnosed conditions, and whether multiple invoices were submitted for procedures that were permitted only once per day. OWCP staff reviewed the providers and the services provided and determined the invoices were appropriate.

Payments over $50,000 – 118 invoices (about .01 percent) were for an amount over $50,000, requiring approval by the district or national office in accordance with OWCP policy. OCFO tested all 118 invoices to ensure that appropriate FECA personnel had approved the payments.

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[6] Typically, this occurs as part of a surgery process where the follow up visits are included in the price of the surgery but the provider invoices for the visits even though the invoice amount is for $0.00.

The testing showed that all the payments were properly approved by either a FECA District Office employee or an employee at the OWCP National Office[7].

Payments between $40,000-$49,999 - 104 invoices (about .01 percent) were between $40,000 and $49,999. Twelve service providers submitted more than one invoice in that dollar range in the six-month period. OCFO provided these twelve service providers and the invoices to OWCP staff familiar with the service providers and the charges to help determine if the invoices were valid. OWCP staff reviewed the providers and the services for the condition and determined the invoices were appropriate.

Recommendations

Based on the results of the payment pilot payment recapture audit for FECA medical payments, these payments appear to be a low-risk area for improper payments. However, this effort did not evaluate the potential for fraud or improper payments related to compensation or death benefit payments. Recent reports from both the OIG and the Government Accountability Office (GAO) reported ongoing fraud in the FECA program.

DOL should expand its payment recapture efforts to include other areas of possible FECA improper payments, including compensation and death benefit payments and the potential for fraud.

3.3 Contracts/Accounts Payable

Purpose

On April 16, 2012, DOL selected an independent recapture audit firm to perform a pilot recapture audit on a contingency fee basis of DOL's contract payments to identify and recapture overpayments in the contracts arena and assist in the implementation of changes that prevent future improper payments. If improper payments are identified, DOL will recapture them.

Program Overview

The focus of the audit is to identify improper payments resulting from the following:

- Payments for procurement contracts, services, operations and maintenance, equipment, land or structures
- Payments for rent, communications and utilities
- Payments for printing and reproduction services
- Payments for supplies and materials

[7] It was noted that all FECA personnel should obtain an identifier that clearly demonstrates the difference between an employee of Affiliated Computer Services State Healthcare, LLC and an OWCP employee.

Scope and Objectives

The audit covers disbursements for FY 2007 through 2011 consisting of approximately 200,000 invoices for about $2 billion in annual disbursements. DOL began working with the audit firm in April 2012 to provide disbursement data, vendor master data, and detailed purchasing card data.

The analysis is currently ongoing. When completed, it will identify improper payments such as overpayments and duplicate payments. It will also identify discounts and pricing errors, duplicate vendor master records, and provide best practices for vendor-naming conventions and addresses and invoice coding standards. In addition, the audit firm will help DOL recapture overpayments and improve internal controls to prevent improper payments.

Process

The audit firm began the recapture audit by interviewing DOL staff members about the disbursement process, including identifying existing overpayment prevention controls within the system. After reviewing the disbursement process, IT professionals from the audit firm and the DOL identified the data fields that are required for a successful audit. The DOL provided test data to the audit firm who performed a quality assurance process to ensure the accuracy of the data. Once both DOL and the audit firm were satisfied, DOL provided full data sets to the audit firm, who normalized the data and loaded it into the firm's proprietary audit software tool. The firm used the audit software tool to generate a number of exception reports highlighting potential disbursement errors.

The audit firm's Senior Auditor began reviewing the exception reports and the process of researching and validating the potential errors. The Senior Auditor was granted read-only access to the appropriate internal DOL systems to assist with this research, which can consist of researching vendor histories, reviewing supporting documentation, and holding discussions with knowledgeable DOL agency staff. Using the information gained in the process, the analysis will be revised to dig deeper into areas of potential overpayments.

The audit tool is capable of producing a variety of analytical reports allowing DOL visibility into such things as days payable outstanding and top vendors by dollar amount or invoice volume. The audit firm has presented samples of some of these reports to DOL for review. Additional analytical reports will be produced throughout the audit, at the request of DOL.

Next Steps

Once a potential overpayment is completely vetted and appears to be valid, the audit firm will prepare a claim package containing information such as invoice copies, payment information, purchase order, and a report describing the potential error. The claim package will be presented to the vendor in question for analysis and review and any recapture opportunities will be resolved.

At the close of the review, the audit firm will issue a final report with root cause analysis of any recaptured items along with best practice recommendations for preventing future disbursement errors.

The audit firm will also conduct an analysis of potential fraudulent or questionable vendors. This analysis will be performed through a combination of analytics generated via the audit tool and manual research conducted by the audit firm's Certified Fraud Examiners (CFE). The results of this analysis will be reported to DOL.

Recommendations

As a result of the initial analysis, the audit firm offered the following preliminary recommendations to assist in the prevention of improper payments:

- Check for potential duplicate payments based on vendor name.
- Identify and inactivate duplicate vendor master records.
- Implement best practices for vendor naming conventions and addresses.
- Implement and enforce invoice coding standards.
- Enter all payment corrections into the financial management system as credits to establish an audit trail of the corrections for future reference.
- Post invoices for credits into the financial management system at the full amount of the obligation to create an audit trail.

4.0 Do Not Pay

This section describes a new initiative under the improper payment program that will help prevent improper payments and/or identify and recapture improper payments. Specifically, the Do Not Pay Solution is a government-wide initiative to screen beneficiaries of all federal payment programs before an award or payment is made. Participation in the initiative is required by the Office of Management and Budget (OMB) and is being managed by the Department of the Treasury.

Overview of Do Not Pay Solution

Presidential and OMB directives require agencies to integrate the use of existing Federal databases (collectively known as the "Do Not Pay List") to verify eligibility for Federal payments in order to reduce and eliminate payment errors before they occur. OMB and the Department of the Treasury have developed the "Do Not Pay (DNP) Solution" to provide Federal agencies with both a web-based single-entry access portal (Portal) to these existing databases to facilitate their use and additional data analytics.

At DOL, the DNP Solution will be implemented in three phases over a three-year period and will be designed to address the Department's three major business areas affected: Benefit Programs, Grant Programs, and Contracts.

Approach for Implementing the Do Not Pay Solution

Incorporating the DNP Solution fully into DOL's business processes is a major undertaking involving the active cooperation of not only OMB, Treasury, and DOL component agencies, but also the states. The OCFO will facilitate development of a Plan for enrollment and implementation of the DNP Solution with affected DOL component agencies. DOL's Accountability Officer for Improper Payments, the CFO, is responsible for monitoring and concurring with any changes to the Department's DNP Plan. Component agencies will work with OCFO to implement the DNP Solution in their business processes, provide status reports when requested, and clear any variations from the DNP Solution Plan with OCFO. Component agencies will be responsible for implementation of the DNP Solution within their business processes and interfacing with their state stakeholders where appropriate.

The DNP Solution will be implemented in three phases. Phase 1 involves choosing a pilot program or activity from each of three major business areas in which the DNP Solution can be implemented. Planned pilot activities include:

1. Benefits Programs – Unemployment Insurance (UI) and Office of Workers' Compensation Programs (OWCP) Benefits Programs.
2. Grant Programs – Employment and Training Administration (ETA) Grants Programs.
3. Contracts – Department-wide procurement and contract payment activities.

Lessons learned from Phase 1 and best practices gained from the experience of other Agencies will be incorporated into DOL planning for Phases 2 and 3. Phase 1 is expected to be completed by September 2013.

Phase 2 will include expanded rollout of the DNP Solution to more states in the UI and Grants Programs, and will emphasize the continued improvement of previously incorporated programs. During Phase 2, DOL will also evaluate DNP Solution applicability to additional aspects of Contracts pre-payment and pre-award processes. Phase 2 is expected to be completed in September 2014.

During Phase 3, DOL plans to implement the DNP Solution across all program areas that can gain value from its use, including expanding implementation to all remaining interested states and DOL Benefit and Grant Programs. DOL currently plans to complete the majority of this phase by September 2015.

Do Not Pay (DNP) Solution for UI

DOL is coordinating with OMB and the Department of the Treasury to provide the DNP Solution to state agencies for identifying potential UI improper payments and/or fraud. The DNP Solution will be accomplished in phases. Phase 1 will include piloting the DNP Portal service in at least two states, as well as working with the DNP Solution's Data Analytics Services (DAS) to develop data analytics and predictive modeling methodologies and tools that are transferable and expandable to all states. During Phase 1, the two selected pilot states will conduct a value test for the use of the DNP Portal to support existing processes to verify the eligibility of beneficiaries for continuing payments, and to study the feasibility of using the DNP Solution for pre-award activities.

UI Integrity Center of Excellence

DOL selected the New York State Department of Labor to establish a UI Integrity Center of Excellence (Center) to support the development, implementation, and promotion of innovative program integrity strategies to reduce improper payments, including the prevention and detection of fraud, in the UI program. Over the next two years, New York State will work collaboratively with the Department, state representatives, and the National Association of State Workforce Agencies (NASWA) to guide the Center's work and ensure that the strategies support all states' integrity activities.

The Center will:

- Collaborate with Treasury's Do Not Pay Solution unit to develop data analytics and predictive modeling methodologies and tools to improve UI fraud prevention and detection.
- Develop a secure portal to routinely communicate fraud schemes among states.
- Identify and pilot new strategies to combat improper payments and fraud, building on the work of states, other Federal and state government agencies, and the private sector.
- Identify and disseminate promising practices for state fraud prevention across the UI program.
- Identify state training needs on fraud solutions and integrity strategies, develop a comprehensive training plan, and provide training.

DNP for the Black Lung Program

The Black Lung Program is currently using the Do Not Pay Portal to perform single online searches of the Social Security Administration's (SSA) Death Master File (DMF) to identify improper payments. The Black Lung Program plans to begin using the Portal for continuous monitoring of its beneficiary files after data exchange processes are established and after all required Memoranda of Understanding (MOU) are approved. DOL is hopeful that the processes will be set up and tested successfully, and that the necessary Departmental clearances of an MOU in both DOL and Treasury will be completed by the end of the first quarter of FY 2013.

5.0 Conclusion

In summary:

- UI: DOL's ongoing coordination with the states to support UI payment recapture audits and activities showed these audits and activities are feasible and cost-effective.
- WIA: Pilot payment recapture audits of the WIA grant program at one small state and one large state showed:
  - Payment recapture audits at both small and large states are feasible, and ETA may increase efforts to identify and recapture improper payments where cost effective.
  - ETA may improve the improper payment (IP) identification and recapture of IPs through testing a "Cost-Effective Recapture Audit Program" in select areas as resources become available. In addition, ETA could enhance its ability to identify and recapture IPs by investing resources in training, additional financial field staff, information technology, and site visits where cost effective.
  - Sub-recipient audits must be performed at the level at which the supporting documentation is maintained—normally the sub-recipient or local level.
- FECA: A limited scope pilot payment recapture audit of the FECA medical program indicated that FECA medical payments appear to be a low-risk area for improper payments. However, recent report from both the OIG and the GAO reported ongoing fraud in the FECA program. DOL should expand its payment recapture efforts to include other areas of possible FECA improper payments, including compensation and death benefit payments and the potential for fraud.
- Contracts: DOL is in the process of performing a payment recapture audit for contract payments. When completed, this audit is expected to identify improper overpayments and duplicate payments; discounts and pricing errors, and duplicate vendor master records. It will also provide best practices for vendor-naming conventions and addresses and invoice coding standards. If improper payments are identified, DOL will recapture them.

DOL remains firmly committed to continuing to take appropriate action to prevent, reduce, and recapture improper payments.