U. S. Department of Labor

FY 2013 Annual Report
on
Improper Payment Recapture Activities

November 2013
Table of Contents

1.0 Introduction........................................................................................................................................ 3

2.0 Unemployment Insurance (UI) Program............................................................................................... 4
   Overview of Improper Payments in the UI Program .................................................................................. 4
   Payment Recapture Activities in the UI Program ...................................................................................... 4

3.0 Federal Employees’ Compensation Act (FECA) Program ................................................................. 7

4.0 Workforce Investment Act (WIA) Grant Programs .............................................................................. 8

5.0 Contracts/Accounts Payable Recapture Audit .................................................................................... 9
   Report of the Recovery Audit Firm ............................................................................................................. 9
   Details of Recapture Audit Procedure ...................................................................................................... 12
   Vendor Statement Audit .......................................................................................................................... 13

6.0 Do Not Pay (DNP) Initiative ................................................................................................................ 14
   Overview of DNP ........................................................................................................................................ 14
   DNP for UI .................................................................................................................................................. 15
   DNP for Benefit Programs .......................................................................................................................... 16
   DNP for the Black Lung Program ............................................................................................................... 16
   DNP for ETA Grants Programs .................................................................................................................... 16
   DNP for Contracts ...................................................................................................................................... 16
   DNP Post Payment Reviews ....................................................................................................................... 16

7.0 Conclusion ........................................................................................................................................... 18
1.0 Introduction

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Pub. L. 111-204), as implemented by Office of Management and Budget (OMB) Circular A-123, Management’s Responsibility for Internal Control, (A-123) Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, requires Federal agencies to conduct payment recapture audits for each program and activity that expends $1 million or more annually—including grants, benefits, loans, and contract payments—if conducting such audits would be cost-effective.

IPERA Section 2(h)(2)(D)(ii) and A-123 Appendix C, Part I.B also require the submission of an annual report to OMB and Congress by November 1st of each year 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. The Department of Labor’s (DOL’s) payment recapture audit activities performed during Fiscal Year (FY) 2013 are described in this report.

Program integrity continues to remain a top priority for DOL. The FY 2013 activities underlie this commitment and help move DOL forward in its efforts to recapture improper payments as part of its extensive program integrity efforts.

This report provides a detailed description of DOL’s FY 2013 improper payments recapture audit activities and recommendations, specifically for the Unemployment Insurance (UI) Program and Department-wide contract payments.
2.0 Unemployment Insurance (UI) Program

*Overview of Improper Payments in the UI Program*

The single largest program at DOL is the UI program, with estimated FY 2013 outlays of approximately $67 billion. The UI program is managed by DOL’s Employment and Training Administration (ETA). Based on preliminary data for FY 2013 from the Benefit Accuracy Measurement (BAM) survey, the estimated improper payment rate is 9.32 percent (8.82 percent overpayment rate plus 0.50 percent underpayment rate) for the period July 2012 to June 2013, the most recent period for which data is available. The FY 2013 error rate target for UI improper payments was 9.23%.

During 2012, DOL developed a new metric to measure improper payments that takes into account the “net” effect of UI overpayment recoveries. This rate includes the two components that have been reported annually as part of Improper Payments Information Act (IPIA) reporting requirements - total overpayments plus total underpayments - and subtracts the amount of overpayments recovered by state workforce agencies as reported on the ETA 227 *Overpayment Detection and Recovery Report* for State UI, Unemployment Compensation for Federal Employees (UCFE), Unemployment Compensation for Ex-Service Members (UCX), Extended Benefits (EB), and Emergency Unemployment Compensation (EUC). On December 13, 2012, OMB informed Department that this methodology is consistent with OMB’s IPERA implementing Guidance (OMB memorandum M-11-16) and approved the methodology to begin with FY 2013 reporting.

The DOL identified the UI program to be at risk of significant improper payments according to OMB criteria of programs with annual improper payments exceeding both $10 million and 2.5% of annual program payments, or $100 million.

Goals for improving UI’s improper payment program include:

- 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. DOL’s recapture activities have focused on the following areas that offer the greatest opportunity for improvement:

- Benefit Year Earnings Issues – These issues arise when a claimant continues to claim and receive UI benefits after returning to work.
- Separation Issues – These issues occur because the claimant files for benefits when 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.
• Work Search Issues - These issues occur when the claimant has not met the state’s requirements to conduct an active search for work.

• Employment Service (ES) Registration Issues – These 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 prevention and detection of UI improper payments 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 record 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) enacted a regulation to permit states to offset UI overpayments through the Treasury Offset Program (TOP). As of September 2013, 36 states had implemented TOP and 11 other states have received supplemental funding, but have not yet implemented. An estimated $323.8 million in UI overpayments were recovered through TOP in FY 2013.

In September 2013, ETA awarded $176.4 million in supplemental funding to 40 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;
• UI Information Technology (IT) Security and IT Contingency Planning Activities; and
• Automation efforts that result in performance and system improvements.

Exhibit 1 provides a summary of UI overpayments established and recovered for the following programs:

• 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.
• UCFE which provides benefits for eligible unemployed former civilian federal employees.
• UCX which provides benefits for eligible ex-military personnel.
• EB which provides benefits to workers who have exhausted regular unemployment insurance benefits during periods of high unemployment.
- 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)**

<table>
<thead>
<tr>
<th>FY</th>
<th>Overpayments Established UI/UCF/UCX</th>
<th>Overpayments Recovered UI/UCF/UCX</th>
<th>Recovered (%)</th>
<th>Overpayments Established UI/UCF/UCX/EB</th>
<th>Overpayments Recovered UI/UCF/UCX/EB</th>
<th>Recovered (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$1,101,549,360</td>
<td>$528,941,410</td>
<td>48.02%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>$960,277,791</td>
<td>$488,807,550</td>
<td>50.90%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>$979,836,264</td>
<td>$511,524,977</td>
<td>52.21%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>$952,898,179</td>
<td>$531,724,056</td>
<td>55.80%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>$1,002,131,148</td>
<td>$571,160,044</td>
<td>56.99%</td>
<td>$1,010,170,720</td>
<td>$572,972,520</td>
<td>56.72%</td>
</tr>
<tr>
<td>2009</td>
<td>$1,456,403,205</td>
<td>$850,987,241</td>
<td>58.43%</td>
<td>$1,736,295,243</td>
<td>$914,626,113</td>
<td>52.68%</td>
</tr>
<tr>
<td>2010</td>
<td>$1,906,310,909</td>
<td>$966,016,812</td>
<td>50.67%</td>
<td>$2,834,448,745</td>
<td>$1,179,889,999</td>
<td>41.63%</td>
</tr>
<tr>
<td>2011</td>
<td>$1,887,177,040</td>
<td>$997,967,260</td>
<td>52.88%</td>
<td>$2,995,716,708</td>
<td>$1,298,988,280</td>
<td>43.36%</td>
</tr>
<tr>
<td>2012</td>
<td>$1,740,389,347</td>
<td>$1,015,228,074</td>
<td>58.33%</td>
<td>$3,021,708,061</td>
<td>$1,400,128,425</td>
<td>46.34%</td>
</tr>
<tr>
<td>2013</td>
<td>$1,561,700,434</td>
<td>$1,035,122,830</td>
<td>66.28%</td>
<td>$2,578,512,487</td>
<td>$1,456,346,563</td>
<td>56.48%</td>
</tr>
</tbody>
</table>

1FY 2013 data is based on data submitted on the ETA 227 Overpayment Detection and Recovery Reports for UI, UCFE, UCX, and EUC for the period July 2012 to June 2013.
3.0 Federal Employees’ Compensation Act (FECA) Program

FECA Program Overview

Over the past two years FECA has completed risk assessments and cost effectiveness analyses as well as a pilot recapture program to determine if a recapture audit would be valuable. It has been determined that it would not be cost effective to conduct a recapture audit for FECA based on the results of the analysis.
4.0 Workforce Investment Act (WIA) Grant Programs

WIA Overview

Programs funded through WIA are a comprehensive set of workforce investment grants overseen by the ETA for delivering employment and training services. Grant funds are provided to states, which 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 and sub-grantees 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. During FY 2012, DOL conducted a payment recapture audit research and analysis pilot for the WIA program. It was determined that it would not be cost effective to conduct a recapture audit for WIA grantees.
5.0 Contracts/Accounts Payable Recapture Audit

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 improper payments, and to assist in the implementation of changes to prevent future improper payments. The following section reflects the analyses and recommendations that DOL is currently considering.

Report of the Recovery Audit Firm

A full review of DOL’s contract payments from October 1, 2007, through July 31, 2012, identified $2.9 million in confirmed duplicate payments out of $8.96 billion in contract transactions – a rate of only 0.0325%. Of the $2.9 million, $2.77 million had already been recovered through normal business processes prior to the recapture audit. The audit recovered $82,893.95 of confirmed duplicate payments. (Payments totaling $989,751.88 are still under review as potential duplicates. If all are confirmed as duplicate payments, the rate would rise to 0.044%). In addition to the work to identify duplicate payments, vendor statement audits of 789 DOL vendors were also performed. This additional step identified $65,657.97 in overpayments, which were recovered. As of November 1, 2013, the overall departmental confirmed overpayment rate of contract payments is 0.0325%. (See table below.)

<table>
<thead>
<tr>
<th>Contract Dollars Reviewed</th>
<th>Retrieved Overpayments (Pre-Audit)</th>
<th>Retrieved Overpayments (Post-Audit)</th>
<th>Total Confirmed Overpayment Rate</th>
<th>Total Potential Overpayments in Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8,964,459,789</td>
<td>$2,768,470</td>
<td>$148,552</td>
<td>0.0325%</td>
<td>$989,751.88</td>
</tr>
<tr>
<td>Total Confirmed Overpayments</td>
<td>$2,917,022</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Recommendations

The unfortunate by-product of processing thousands of invoices and disbursing millions of dollars is human processing errors. The slightest processing error can easily result in a costly duplicate payment. Though most disbursement systems have controls in place to detect and prevent duplicate payments, these controls can be circumvented for various reasons. The following is a list of the most prevalent types of duplicate payments; examples of each type follow:

- **Keying errors**: Invoices keyed with slight variations or inconsistencies in vendor number, invoice number, invoice date, or invoice amount are the greatest causes of duplicate payments.

- **Multiple related vendors**: When the same vendor is set up with multiple vendor numbers on the vendor master file, a processor can easily select the wrong vendor number allowing for duplicate payments to be processed.

- **Multiple ERPs**: The existence of multiple Accounts Payable systems or multiple instances of the same Accounts Payable system facilitates the creation of duplicate payments. DOL was subject to this risk during the crossover from its legacy financial management system, DOLAR$, to the New Core Financial Management System (NCFMS) on January 14, 2010.

**Keying Errors**:

Inconsistent invoice coding accounted for 75% of the duplicate payments. Inconsistent invoice coding describes a duplicate payment caused by differences in how the invoice number was keyed into the
system. Since the invoice number is not an exact match, it would not be flagged by the system's duplicate check. The differences are usually a result of inclusion/exclusion of leading zeros, dashes or alphabetic characters, but are also common on invoices without true invoice numbers (e.g. consultants’ bills, check requests, etc.).

Inconsistent invoice amounts accounted for 6% of the duplicates. Inconsistent invoice amounts signify duplicate payments caused by a difference in the amount that was entered for payment. The typical reason for the differing amounts is manually excluding additional charges (e.g. freight/sales tax) on one submitted invoice but not on the other. This type of overpayment can also arise from partial payments for services and then the amount being paid in full in the following invoicing cycle. Summary billing, where multiple invoices are paid on one invoice, and then one of the single invoices being submitted separately is also a concern.

The auditor recommended reviewing and evaluating standardized coding rules for invoice numbers. These rules should address the handling of leading zeros, spaces, dashes, invoices without true invoice numbers, etc. To assist with fine-tuning invoice coding standards, **Exhibit 2** represents a sample of best practices for Invoice Coding as suggested by the auditor.

**Exhibit 2: Invoice Coding Recommendations**

<table>
<thead>
<tr>
<th>Invoice Coding Best Practices and Recommendations</th>
<th>Example – VALID</th>
<th>Example – INVALID</th>
</tr>
</thead>
<tbody>
<tr>
<td>No periods (,), commas (,) or punctuation marks (!) (&amp;) (?) should be keyed into the invoice number field.</td>
<td>315574</td>
<td>3155.74</td>
</tr>
<tr>
<td>No leading zeros should be keyed into the invoice number field</td>
<td>8W38A09</td>
<td>0008W38A09</td>
</tr>
<tr>
<td>No spaces should be keyed before, in between, or after the invoice number.</td>
<td>232212500</td>
<td>2322 1250 0</td>
</tr>
<tr>
<td>No symbols, or character including dashes (-), slashes (/), asterisks (*), and apostrophes (’), should be keyed into the invoice number field.</td>
<td>81234101</td>
<td>081231-01</td>
</tr>
<tr>
<td>Alphanumeric invoices should not be modified if alpha characters are a true part of the invoice number. Beware of field names, or labels, such as INV, IN, or NO placed before or after the true invoice number and do not include them as a part of the invoice number.</td>
<td>24747</td>
<td>INV.00024747</td>
</tr>
<tr>
<td>If the invoice number exceeds the maximum number of digits in the invoice number field, utilize the maximum number of digits starting from the far right and going left (by starting to the right you are ensuring that the unique sequential numbering scheme is utilized as the invoice number).</td>
<td>Actual Invoice #: P1001S19408C004 Valid Alternative: S19408C004</td>
<td>Actual Invoice #: P1001S19408C004 Invalid Alternative: P1001S1940</td>
</tr>
<tr>
<td>Establish a standard invoice numbering scheme for recurring payments such as utilities, or monthly statements that don’t have a true invoice number. If the account or customer number is provided, begin the invoice number with the account number + the month + year as a suffix at the end in MMYY format. For weekly statement billings also include the day so the invoice number will equal the account, or customer number + month+ day + year suffix in the MMDDYY format. For telephone services use the telephone number starting with the area code + phone number + month + year suffix in MMYY format.</td>
<td>33627246691202</td>
<td>336272466902</td>
</tr>
<tr>
<td>Establish a standard procedure which outlines the alternative information to be used as invoice numbers when a true invoice number does not exist.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If the invoice has other tracking information and no invoice number use one of the alternatives. Alternative invoice numbers may include Order #, Document #, Reference #, Registration #, Billing #, Item #, Job #, Membership #, etc. In case more than
The report also recommended implementing a duplicate review process that does not utilize invoice amount in the match criteria. Also, any short payments or adjustments to the amount shown on the invoice should be approved at the appropriate levels.

**Multiple Related Vendors:**

The auditor made a number of observations and recommendations. Vendor coding errors accounted for 2% of the duplicate payments. Vendor coding errors represent payments made to incorrect vendors and vendor numbers. This indicates that the vendor number was incorrectly keyed or incorrectly selected when processing the invoices.

Specific examples of these types of overpayments should be shared with the invoice processing staff to demonstrate how critical their contribution is and the resultant cost impact of inconsistencies. Also, a duplicate payment routine should be developed that excluded vendor id from the match criteria.

Multiple related vendors accounted for 2% of the duplicate payments. Multiple related vendors identify an item coded to multiple listings of the same vendor on the vendor master file. This can occur due to remittance address distinctions or vendors set up with multiple Agencies.

The auditor recommended a periodic review of the vendor master file that will assist in identifying multiple related vendors. DOL should look to identify vendors with the same address or similar naming conventions. **Exhibit 3** presents recommendations on vendor coding conventions.

**Exhibit 3: Vendor Coding Recommendations**

<table>
<thead>
<tr>
<th>Vendor Coding Best Practices and Recommendations</th>
<th>Example – VALID</th>
<th>Example – INVALID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vendor Naming Conventions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No periods (.), commas (,) or punctuation marks (!)? should be keyed.</td>
<td>ADG Maintenance Co Inc</td>
<td>ADG Maintenance Co, Inc</td>
</tr>
<tr>
<td>Eliminate “THE” if it is the first word in vendor/payees name.</td>
<td>Irvine Company LLC</td>
<td>The Irvine Company, LLC</td>
</tr>
<tr>
<td>“AND” is replaced by a special character “&amp;”.</td>
<td>Hogan &amp; Hartson LLP</td>
<td>Hogan and Hartson, LLP</td>
</tr>
<tr>
<td>No spaces should be used before or after special characters or initials unless the special character is centered between words, in which case a space would be used before and after the special character.</td>
<td>A&amp;B Carpet Cleaning Inc</td>
<td>A &amp; B Carpet Cleaning, Inc</td>
</tr>
<tr>
<td>Mickey &amp; Co</td>
<td>Mickey&amp;Co</td>
<td></td>
</tr>
<tr>
<td>If the name has an apostrophe (‘), use the apostrophe.</td>
<td>Larry A O’Neill</td>
<td>Larry A O Neill</td>
</tr>
<tr>
<td>Do not use the characters – or /.. Instead, leave a space; or split the name to line 2.</td>
<td>City of Boulder Dept of Finance (line 2)</td>
<td>City of Boulder/Dept. of Finance</td>
</tr>
<tr>
<td>Numeric values used in the name field will be entered as such.</td>
<td>3M Corporation</td>
<td>Three M Corporation</td>
</tr>
</tbody>
</table>
Vendor Coding Best Practices and Recommendations

<table>
<thead>
<tr>
<th>Do not use abbreviations for North, South, East, and West if it is part of the vendor name.</th>
<th>Example – VALID</th>
<th>Example – INVALID</th>
</tr>
</thead>
<tbody>
<tr>
<td>No space between last names with “Mc” or “Mac”.</td>
<td>McGovern Group</td>
<td>The Mc Govern Group</td>
</tr>
</tbody>
</table>

Vendor Address Conventions

<table>
<thead>
<tr>
<th>Abbreviate North, South, East, West street addresses without periods.</th>
<th>150 W 30th St Floor</th>
<th>150 W. 30th St. Floor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use numbers in street abbreviation versus words.</td>
<td>677 11th Ave</td>
<td>677 Eleventh Ave.</td>
</tr>
<tr>
<td>North, South, East, and West used in the city name will be spelled out.</td>
<td>North Fort Myers, FL</td>
<td>N FT Myers, FL</td>
</tr>
<tr>
<td>Words in the city name will be spelled out in full.</td>
<td>Fort Lauderdale, FL</td>
<td>FT Lauderdale, FL</td>
</tr>
<tr>
<td>State or territory names and Canadian provinces will be keyed with the standard two (2) character abbreviation.</td>
<td>MA PA VA</td>
<td>Mass. Penn. Virginia</td>
</tr>
<tr>
<td>Use standard abbreviations for street addresses with no period following an abbreviation</td>
<td>Ln Ave St</td>
<td>Lane Avenue Street</td>
</tr>
<tr>
<td>When setting up a vendor, use the address lines as follows:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Address Line 1 = Extended name, street address or PO Box</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Address Line 2 and 3 = Street address, Apt. number, suite number</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Address Line 4 = City, State, and Zip Code (this is a 3 part line)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The audit firm also provided a separate report that identifies potential duplicate vendor records on the NCFMS vendor master file.

**Multiple ERPs:**

The use of different payment systems accounted for 15% of duplicate payments. These overpayments occurred during the crossover period from DOLAR$ to NCFMS. With the decommissioning of DOLAR$ in early 2010, this is no longer a control weakness.

**Details of Recapture Audit Procedure**

The focus of the audit was 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

**Scope and Objectives**

The audit covered contract disbursements from October 1, 2007, through July 31, 2012, consisting of approximately 200,000 invoices totaling nearly $9 billion. The auditor analyzed disbursement data, vendor master data, and detailed purchase card data.
**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 DOL identified data fields required for a successful audit. DOL provided test data to the audit firm, which 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, which 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 consisted of researching vendor histories, reviewing supporting documentation, and holding discussions with knowledgeable DOL agency staff.

Once a potential overpayment was completely vetted and appeared to be valid, the audit firm prepared a claim package containing information such as invoice copies, payment information, purchase order, and a report describing the potential error. The claim package was then presented to the vendor in question for analysis and review.

**Vendor Statement Audit**

In addition to the duplicate payment audit, the audit firm conducted a thorough vendor statement audit. Through a vendor statement audit, DOL can determine delays in processing flows and identify outstanding credits owed back. Although many of the factors that cause statement claims occur outside the direct responsibility of the Accounts Payable business process, this area does have the ability to ensure these types of items are realized by DOL any prior to being written off by the respective vendors. Periodic statement audits are a valuable means to identify errors that fall outside of traditional overpayment detection and prevention controls.

To conduct the vendor statement audit, the audit firm requested statements from 789 of DOL’s vendors with an annual spend of more than $100,000. The audit firm sent three request letters to each vendor. The overall response rate accounts for 77% of the aggregate spend of the suppliers targeted. This audit procedure identified an additional $65,657.97 in overpayments.
6.0 Do Not Pay (DNP) Initiative

This section describes an important part of DOL’s program integrity efforts designed to prevent, identify, and recapture improper payments. Specifically, the Do Not Pay (DNP) solution is a government-wide initiative mandated by the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (Pub. L. 112-248) to screen payment recipients before a grant, contract award, or payment is made. Participation in the initiative is required under IPERIA and OMB guidance; the initiative is being managed by Treasury.

Overview of DNP

IPERIA 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. DNP provides Federal agencies with a web-based single-entry access portal (Portal) to these existing databases and additional data analytics.

At DOL, the DNP Solution is being 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. In addition, DOL has partnered with the Department of Treasury to perform post-payment reviews for all contract and benefit payments since March 2013.

Approach for Implementing DNP

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 Office of the Chief Financial Officer (OCFO) facilitated development of a Plan for enrollment and implementation with affected component agencies. DOL’s Accountable Officer for Improper Payments, the Chief Financial Officer, CFO, is responsible for monitoring and concurring with any changes to the Department’s DNP Plan. Component agencies 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 are responsible for implementation of DNP within their business processes and interfacing with state stakeholders where appropriate.

Phase 1 involved choosing the following pilot programs from each of three major business areas:

- **Benefits Programs** – UI and Office of Workers’ Compensation Programs Benefits Programs
- **Grant Programs** – ETA Grants Programs
- **Contracts** – Department-wide procurement and contract payment activities

Lessons learned from Phase 1 and best practices gained from the experience of other Agencies have been 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 DNP 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.

**DNP for UI**

DOL is coordinating with OMB and Treasury to provide access to the DNP Solution to state agencies for identifying potential UI improper payments and/or fraud. Supporting implementation of the DNP Solution is being accomplished through two projects.

**DNP Pilot of “The Work Number”**

DOL is testing the effectiveness of cross-matching UI claim records against selected data sources through DNP, specifically using “The Work Number” a real-time database compiled by Equifax, directly from payroll feeds of employers across the country. It includes current employment and income data on about one third of the U.S. workforce and is the largest database of its kind. It is currently used by some government agencies for employment and earnings verification. DOL recruited Arizona and Colorado to participate in this pilot. The pilot states will conduct a value test for the use of DNP 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. Arizona finalized an agreement with DNP and Equifax to access “The Work Number” for this pilot in February 2013, and an agreement for Colorado remains in development as of September 2013. In the meantime, DOL is moving forward with DNP, Equifax, and Arizona to commence the pilot with “The Work Number” during the first quarter of FY 2014 while Colorado finalizes its agreement. Once the full pilot is completed the results and feedback from state partners will be shared with the UI system to promote DNP adoption.

**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. The Center will:

- Collaborate with Treasury’s DNP 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.

As part of its work, the Center is working with the DNP Solution’s Data Analytics Services (DAS) as both work to develop data analytics and predictive modeling methodologies and tools. The Center will be sharing these tools with all states across the UI system.
DNP for Benefit Programs
DOL performs weekly pre-award and pre-payment checks against the full version of the List of Excluded Individuals and Entities (LEIE), a database designed specifically for Federal health programs. While the public version of LEIE is included as part of the DNP database, the full version contains more detailed information, including Tax Identification Numbers and Provider Numbers that are not in the public version. Based on post-payment validations with DNP showing no instances of improper payments, DOL has found this pre-award and pre-payment review to be highly effective.

DNP for the Black Lung Program
The Black Lung Program is currently using Treasury’s DNP Portal to perform single online searches of the Social Security Administration’s Death Master File (DMF) to identify potential improper payments. As of August 16, 2013 the Black Lung Program has been successfully submitting current payment files to the Portal. The Black Lung Program will utilize the Portal for continuous monitoring of payments against the Death Master File upon completion of remaining technical issues.

DNP for ETA Grants Programs
ETA was selected as the pilot grantor agency to implement the Do Not Pay Initiative for DOL, as its grant programs are representative of the various other DOL grants. Furthermore, ETA awards more grant dollars and has more active grant programs than all other DOL grantor agencies combined.

Grants awarded by ETA come in two forms, non-competitive and competitive. Generally, most non-competitive grants are directed by law and regulation in the form of formula funding. Competitive grants are awarded by ETA according to criteria established by law and regulation. In 2013, the pre-award vetting process was updated for both types of grant awards (competitive and formula). This process includes using the public version of General Services Administration (GSA)’s System for Award Management (SAM) which is accessible via the Portal along with other internal vetting procedures.

Once grants (both competitive and non-competitive) are awarded, the recipients are accountable for monitoring the use of grant funds. The recipients are responsible for: pre-award reviews of awards to contractors and sub-recipients; pre-payment reviews of payments to recipient employees, program participants, sub-recipients and contractors; and post-payment reviews of all payees.

DNP for Contracts
DOL contract officers check 100% of contracts against SAM prior to award. The SAM public list is the primary component of DNP and includes all data sources with the exception of the Death Master File.

DNP Post Payment Reviews
As part of Treasury’s post payment review process, roughly 200,000 payments are matched against the DNP databases each month.

March 2013: 202,463 payments
April 2013: 195,616 payments
May 2013: 260,500 payments
June 2013: 195,394 payments
July 2013: 194,711 payments

DOL found no instances of improper payments based on a payee’s match to DNP – primarily because of false positives, but in some cases because the exclusion would not preclude payment. Based on DOL’s thorough analysis of exclusion and payment types, the Department has been able to assist Treasury in developing business rules that will increase the accuracy of further matches.
7.0 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.

- **FECA**: A limited scope pilot payment recapture audit of the FECA medical program in FY 2012 indicated that FECA medical payments appear to be a low-risk area for improper payments and therefore not a candidate for cost-effective recapture audits.

- **WIA**: Based on risk assessments, WIA programs are not a candidate for cost-effective recapture audits.

- **Contracts**: DOL’s recent payment recapture audit, ongoing since FY2012, has recovered $2.9 million in confirmed overpayments in a review of $8.98 billion in vendor payments and statement audits of 789 DOL vendors – a rate of 0.0325%. The Department is continuing to research another $989,752 in potential duplicates and will pursue recovery where appropriate.

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