



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Unemployment Compensation Management Advisory

September 30, 2011

Report Number FT-MA-11-005



HIGHLIGHTS

IMPACT ON:

Unemployment compensation benefit charges and identification of potential fraud.

WHY THE OIG DID THE AUDIT:

To determine whether opportunities exist to improve the unemployment compensation program.

WHAT THE OIG FOUND:

The U.S. Postal Service could improve management of the unemployment compensation program. Specifically, management could not validate weekly unemployment compensation benefit charges against payroll records for all states. Also, management did not review confirmed overpayments in order to identify and report potential fraudulent activity.

[REDACTED]

WHAT THE OIG RECOMMENDED:

We recommended management request from the U.S. Department of Labor (1) clarification of what detailed payment data the SESAs should furnish upon request to support quarterly charges billed and (2) request detailed payment data sufficient to perform validation

procedures [REDACTED]. We also recommended management coordinate with the contractor to develop reports listing confirmed overpayments made to individual claimants and develop and implement procedures to review the listings of confirmed overpayments made to individual claimants to identify and refer potential fraud to the U.S. Postal Service Office of Inspector General (OIG) Office of Investigations for further action.

WHAT MANAGEMENT SAID:

Management agreed with recommendations 1 and 2, and agreed partially with recommendation 3. They stated they will request clarification of detailed payment data requirements from SESAs [REDACTED].

[REDACTED]. Finally, management agreed to refer lists of all potential overpayments to the OIG.

AUDITORS' COMMENTS:

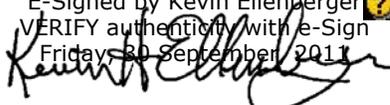
The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report.

[Link to review the entire report](#)



September 30, 2011

MEMORANDUM FOR: VINAY GUPTA
DIRECTOR, COMPENSATION AND BENEFITS

E-Signed by Kevin Ellenberger
VERIFY authenticity with e-Sign
Friday, 30 September 2011


for
FROM: John Cihota
Deputy Assistant Inspector General
for Financial Accountability

SUBJECT: Management Advisory – Unemployment Compensation
(Report Number FT-MA-11-005)

This report presents the results of our review of unemployment compensation (Project Number 11BD010FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Financial Reporting, or me at 703-248-2100.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Anthony J. Vegliante
Gordon J. McGraw
Joseph Alexandrovich
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction	1
Conclusion	1
Validation of Benefit Charges	1
Review of Protested Payments	2
Recommendations	3
Management's Comments	3
Evaluation of Management's Comments	4
Appendix A: Additional Information.....	5
Background	5
Objective, Scope, and Methodology	5
Prior Audit Coverage	6
Appendix B: Other Impact.....	7
Appendix C: Management's Comments	9

Introduction

This report presents the results of our review of the U.S. Postal Service's unemployment compensation program (Project Number 11BD010FT000). Our objective was to determine whether opportunities exist to improve the program. We conducted this self-initiated review to address financial risk. See [Appendix A](#) for additional information about this audit.

The Postal Service participates in the Unemployment Compensation for Federal Employees (UCFE) program. The Department of Labor (DOL) is responsible for administering and promulgating regulations that implement and carry out the UCFE program as stated in the instructions for federal agencies.¹ State Employment Security Agencies (SESA) act as agents for the federal government to provide benefits to eligible former employees² and charge the cost of those benefits back to the DOL. Quarterly, the DOL bills the Postal Service via the Intra-governmental Payment and Collection (IPAC) System. In 2007, the Postal Service contracted with the TALX Corporation (TALX) to streamline unemployment compensation activities and capture savings due to erroneous payouts.

Conclusion

The Postal Service could improve management of its unemployment compensation program. Specifically, management could not validate all unemployment compensation benefit payments against payroll records or identify and report potential fraudulent overpayment activity for investigative action.

Validation of Benefit Charges

Management did not ensure that weekly unemployment compensation benefit charges were validated against payroll records for all states. Specifically, TALX was unable to perform the validation process for [REDACTED] of the [REDACTED] SESAs to identify and protest³ charges and wages in the same benefit week period.

¹ DOL *UCFE Instructions for Federal Agencies*, dated March 1995.

² *Employee and Labor Relations Manual*, Section 551.2 – Qualification Factors, states “State law requires that a claimant be unemployed or be employed less than full-time as defined by the state employment security law with earnings less than an amount specified in the state law.”

³ The Statement of Work (SOW) between the Postal Service and the TALX Corporation, dated March 31, 2006, states that, “a benefit payment is protested by sending a letter to the state specifying the charge period, the amount in error, and the reason for protest.” TALX specialists review all potential errors and protest charges and wages in the same period.

[REDACTED]

On a quarterly basis, TALX receives detailed benefit charge statements from all 53 SESAs. [REDACTED]

The DOL's instructions state that quarterly detailed charges should be validated against payroll records. Additionally, the requirements in the SOW between the Postal Service and TALX state the contractor will conduct detailed investigations of individual charges on each SESA statement. SESAs are responsible for furnishing, upon request, detailed payment data which supports charges billed to the Postal Service. The instructions did not specify whether detailed charges must include the date and amount of weekly payments made to individual claimants.⁴

Management noted that TALX, in the past, has requested detailed weekly payment charges from all SESAs; [REDACTED] TALX was unable to perform this requirement and the Postal Service was not in compliance with the DOL's instructions.

In CY 2010, the Postal Service paid approximately \$99.9 million for unemployment compensation benefits. [REDACTED]

[REDACTED] When unemployment benefit charges are not validated against payroll records there is increased risk that improper payments are not identified and forwarded to the SESAs for determination of appropriate action.

Review of Protested Payments

Management did not review confirmed overpayments made to claimants to identify and report potential fraudulent activity. This occurred because after final determination by the SESAs, management did not have procedures in place to review confirmed overpayments to refer potential fraud to the U.S. Postal Service Office of Inspector General's Office of Investigations (OIG OI). The DOL's instructions state that the Postal Service should take no action pertaining to possible fraud until it receives notification from the SESA and potential actions are cleared with the federal agency's (Postal Service) OIG. TALX did maintain an automated reporting tool that tracked final SESA determination of confirmed overpayments for each protested payment; however, management did not request TALX to provide reports listing identified overpayments because they stated that SESAs take action regarding identification and prosecution of fraud.

⁴ UCFE Instructions for Federal Agencies, Chapter IX.

The OIG reported that they have received only one referral from management for potential fraud related to unemployment compensation and stated that they would like to get listings identifying overpayments from Postal Service management for potential fraudulent analysis.

The DOL's instructions state, "Federal agencies are responsible for the adequacy of their UCFE operations by ensuring that a system of internal controls is established and maintained to minimize waste, fraud, and mismanagement." As a result, there is increased risk that the Postal Service did not identify potentially fraudulent overpayments and report them for investigative action, thus affecting the integrity of the agency as a whole.

Recommendations

We recommend the director, Compensation and Benefits:

1. Request from the U.S. Department of Labor (1) clarification of what detailed payment data State Employment Security Agencies (SESAs) are required to furnish the Postal Service upon request to support quarterly charges billed and (2) detailed payment data sufficient to perform validation procedures [REDACTED]
2. Coordinate with the TALX Corporation to develop reports listing confirmed overpayments made to individual claimants.
3. Develop and implement procedures to review the listings of confirmed overpayments made to individual claimants to identify potential fraud and refer to the U.S. Postal Service Office of Inspector General's Office of Investigations for further action.

Management's Comments

Management agreed with recommendations 1 and 2 and agreed partially with recommendation 3. They stated they will approach the DOL to request clarification of detailed payment data requirements from SESAs by November 30, 2011. [REDACTED]

Finally, instead of developing and implementing procedures to review listings of confirmed overpayments to identify potential fraud, management agreed to refer lists of all potential overpayments to the OIG OI. Management believes the SESAs and the OIG have primary responsibility for identifying fraud and, therefore, it is logical for the OIG to develop procedures to identify fraud based on overpayment reports from the SESAs. Further, they stated the SESAs have programs in place to detect fraud and that

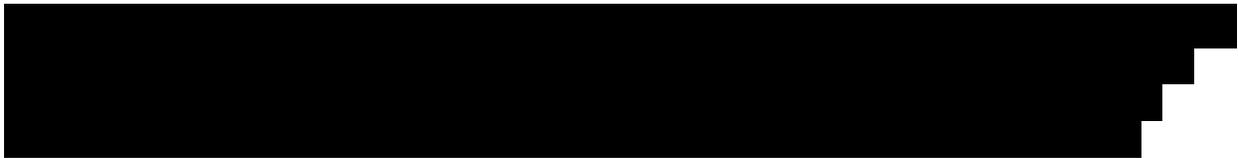
the Postal Service and TALX effectively respond to the SESAs Benefit Accuracy Measurement and New Hire audits.

Although not included in the official written comments, management subsequently advised that the official responsible for implementing all recommendations is the director, Compensation and Benefits. Also, they agreed to coordinate with TALX to develop reports and begin forwarding overpayment reports to the OIG by December 31, 2011.

See [Appendix C](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to the recommendations and corrective actions should resolve the issues identified in the report. Although management did not agree to develop and implement procedures to review listings of confirmed overpayments to identify potential fraud, we believe the actions to develop reports that provide enhanced controls and refer lists of all potential overpayments to the OIG will address the finding.



Appendix A: Additional Information

Background

The Postal Service participates in the UCFE program. Federal law establishes the U.S. Secretary of Labor as the sole authority responsible for the UCFE. The UCFE is administered by the states under separate agreements with the DOL. Under these agreements, the states are agents of the U.S. and take, adjust, pay, or deny claims for unemployment compensation. SESAs determine eligibility for benefits based upon wage and separation information provided by the Postal Service. The DOL funds the SESAs for unemployment compensation and bills the Postal Service quarterly for amounts paid.

In 2007, the Postal Service contracted with TALX to streamline unemployment compensation activities and capture savings due to erroneous payouts. TALX manages the unemployment compensation process and communication with SESAs. TALX receives detailed benefit charge statements quarterly from all 53 SESAs [REDACTED]. The validation process of weekly benefit charges against Postal Service earnings for all claimants who receive payments within the quarter consists of an electronic comparison by Social Security number. Records indicating concurrent earnings and benefits paid during the same period are flagged as charges found to be in error. TALX generates and forwards a protest letter to the SESAs to investigate and resolve each flagged record. The SESAs are responsible for investigating protested charges to identify overpayments and recoup monies owed to the Postal Service. TALX maintains an automated reporting tool that tracks each protested payment until the SESA confirms final determination of appropriate action. This reporting tool does not generate reports of confirmed overpayments.

Objective, Scope, and Methodology

The objective of our review was to determine whether opportunities exist to improve the unemployment compensation program. To accomplish our objective, we:

- Reviewed Postal Service policies and procedures, state laws and regulations, and DOL guidelines to identify current requirements for administering and recording unemployment compensation benefits.
- Conducted interviews with Postal Service, TALX, and SESA representatives, as appropriate, to gain an understanding of the program administration and to discuss causes for deficiencies found.
- Reviewed Postal Service reports of quarterly charges against DOL billings.

We conducted this review from March through September 2011 in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for*

Inspection and Evaluation. We discussed our observations and conclusions with management on August 25, 2011, and included their comments where appropriate.

We assessed the reliability of computer generated data by verifying automated records with source documents. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

We did not identify any prior reports related to unemployment claims in the past 3 years.

Appendix C: Management's Comments

HUMAN RESOURCES



September 22, 2011

SHIRIAN B. HOLLAND

SUBJECT: Unemployment Compensation – Report Number FT-MA-11-DRAFT

This is in response to the Office of Inspector General (OIG) report on the findings of their review of the Postal Service Unemployment Compensation Program.

After a detailed and comprehensive review of this report, which was compiled by the office of Compensation and Benefits, please find enclosed the management response to your findings.

If you have additional questions or concerns, please contact Gordon McGraw, Program Manager, Pay at (202) 268-6102.

A handwritten signature in black ink, appearing to read "Vinay Gupta".

Vinay Gupta
Director, Compensation and Benefits

475 L'ENFANT PLAZA SW, ROOM 9670
WASHINGTON DC 20260-4210
202-268-4552
FAX: 202-268-3337

**USPS Management Response
OIG Unemployment Compensation Audit
(Report Number FT-MA-11-DRAFT)**

Under Conclusion – Page 1

OIG states that USPS management could not validate all unemployment compensation benefit payments against payroll records or identify and report potential fraudulent overpayment activity for investigative action. [REDACTED]

Response: Quarterly benefit data that is currently provided by many states is not unique to the Postal Service. Every other federal agency gets similar quarterly benefits data from these states. [REDACTED]

OIG Recommendations:

- 1) Request from the U. S. Department of Labor:
 - Clarification of what detailed payment data State Employment Security Agencies (SESAs) are required to furnish the Postal Service upon request to support quarterly charges billed.
 - Detailed payment data sufficient to perform validation procedures from the [REDACTED]

Response: The Postal Service is agreeable to approaching the DOL again to request clarification of detailed payment data SESAs are required to furnish to support quarterly charges billed to the USPS. [REDACTED]

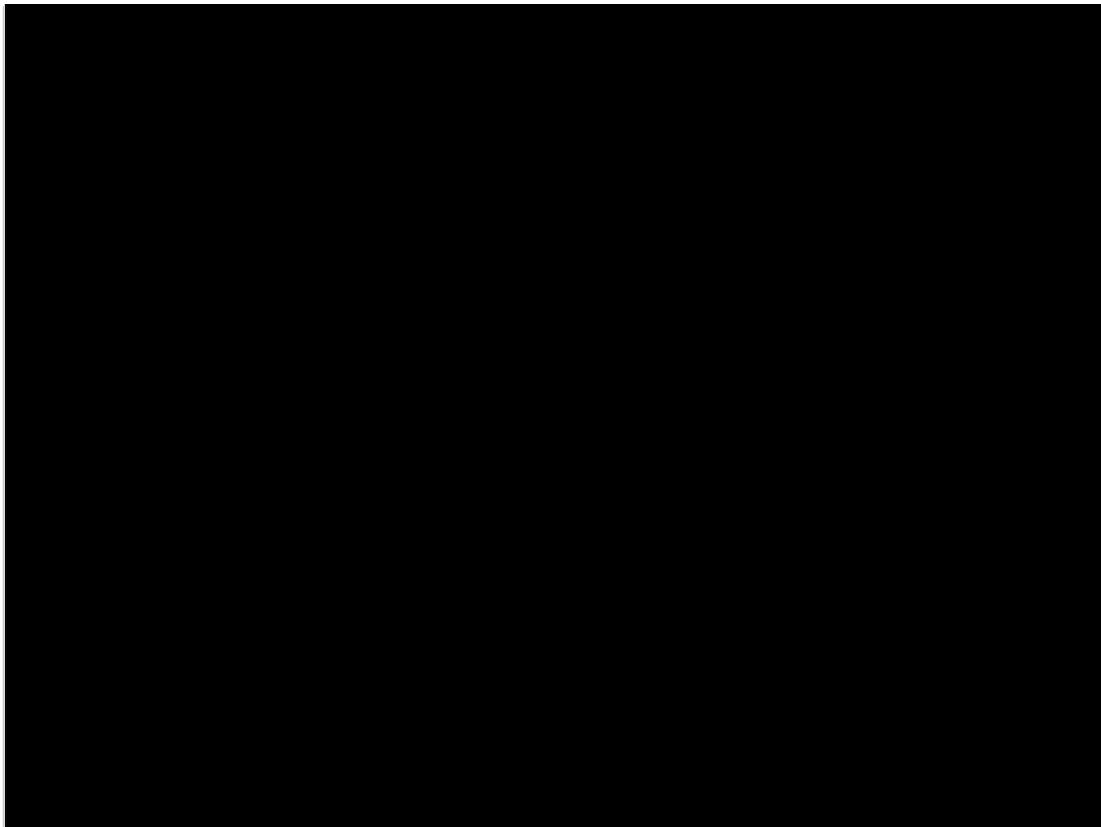
[REDACTED] The planned completion date of this activity will be 60 days after the final report is issued by the OIG.

- 2) Coordinate with the TALX Corporation to develop reports listing confirmed overpayments made to individual claimants.
[REDACTED]

- 3) Develop and implement procedures to review the listings of confirmed overpayments made to individual claimants to identify potential fraud and refer to the U. S. Postal Service Office of Inspector General's Office of Investigations for further action.

Response: We are in partial agreement with this recommendation. This audit report correctly states "... the Postal Service should take no action pertaining to possible fraud until it receives notification from SESA and potential actions are cleared with the federal agency's (Postal Service) OIG". The Postal Service is agreeable to providing the OIG detailed lists of all potential overpayments. Since SESAs and OIG have primary responsibility for identifying fraud, it is logical that the OIG develop procedures to identify fraud based on overpayment reports that the Postal Service can and is agreeable to providing.

It should be noted that SESAs already have programs in place to detect fraud as this activity is a major responsibility of the State Agencies. It should be further noted that the Postal Service and the TALX Corporation do respond proactively and effectively to the SESAs Benefit Accuracy Measurement (BAM) audits and New Hire audits.



We believe this audit report should be directed to the Department of Labor OIG so they can influence changes that will benefit all federal agencies and the Postal Service.

A handwritten signature in black ink, appearing to read "Vinay Gupta", is written over a horizontal line.

Vinay Gupta
Director, Compensation and Benefits