

# Audit Highlights



Highlights of Legislative Auditor report on the Employment Security Division issued on December 13, 2012. Report # LA12-24.

## Background

The Employment Security Division is a division of the Department of Employment, Training and Rehabilitation. The Division provides comprehensive employment and training services to Nevada businesses and workers and oversees the collection of unemployment taxes, pays unemployment benefits, and performs employment services to match job seekers with employers.

The Division's Unemployment Insurance (UI) program is a joint state/federal insurance system that provides temporary partial wage replacement to protect workers against the hardships of unemployment. The UI program provides monetary benefits to individuals who become unemployed through no fault of their own and who meet established qualifications.

The Division has been significantly impacted by the nationwide economic recession. Nevada's unemployment rate has significantly exceeded the national average since 2008. Consequently, average weekly benefit claims increased from about 48,000 in 2008 to a high of more than 142,000 in 2010. To pay these claims, the Division has had to borrow more than \$1.1 billion from the federal government when trust fund reserves and tax collections were insufficient to cover claims. As of September 30, 2012, the state owed about \$676 million and has paid \$46.5 million in interest on amounts loaned to the state.

## Purpose of Audit

The purpose of the audit was to determine if certain control activities related to the verification of continued claimant eligibility were adequate to prevent and detect unemployment claim overpayments. This audit included a review of the Division's eligibility activities during fiscal year 2012 and prior fiscal years in certain instances.

## Audit Recommendations

This audit report contains 12 recommendations to improve controls over assessing the continued eligibility of claimants who are incarcerated, deceased, collecting workers' compensation, or have returned to work.

The Division accepted the 12 recommendations.

## Recommendation Status

The Division's 60-day plan for corrective action is due on March 13, 2013. In addition, the six-month report on the status of audit recommendations is due on September 13, 2013.

# Employment Security Division

## Department of Employment, Training and Rehabilitation

### Summary

Implementing certain processes can help the Division identify and prevent payments to individuals not meeting ongoing eligibility requirements. Specifically, the Division needs to compare claimant information with external sources such as records of incarceration and death. Furthermore, the Division does not have assurance claimants are not receiving workers' compensation and unemployment benefits concurrently because the Division is not requesting or comparing records with insurance providers as required by statute. Through the development of data comparisons with state and local entities, statute revisions ensuring access to records, and improvements to policies and procedures, the Division can significantly reduce improper payments to these types of ineligible individuals.

Enhancements to current processes in the Division's program to identify claimants who have returned to work can further reduce and identify improper payments to unemployed claimants. Specifically, further application of the U.S. Department of Labor's (DOL) new hire recommended operating procedures and practices used by other states with low improper payment rates could better identify and stop payments to ineligible recipients. Furthermore, policies and procedures and supervisory review enhancements are necessary to ensure the program consistently and properly classifies and processes cases.

### Key Findings

We estimate as much as \$5 million in improper payments could have been made to claimants who were incarcerated over the last 3 years. Our review of benefit claims paid in January 2012, identified 67 of the nearly 97,000 unemployment claimants were incarcerated in one local government detention center or a state correctional facility. These claimants received benefits of about \$241,000 during their period of confinement. We provided the Division with information regarding each claimant to allow for claims to be stopped and investigations to be initiated. (page 9)

Division management indicated it does not have specific authority through state or federal law to compel detention facilities to provide records of incarceration. As a result, statutory revisions requiring facilities provide data to the Division are necessary to ensure the Division can compare claims data with incarceration records. (page 12)

We identified eight instances of potential identity theft of claimants' personal identifying information by incarcerated individuals. Division policies should be updated to notify claimants their personal identifying information is being used by another individual. (page 16)

Fifteen deceased claimants were found in the nearly 97,000 UI claimants paid benefits during January 2012. In 12 of 15 instances, benefits were not requested after the claimant's death; however, 3 deceased claimants received payments totaling \$40,417 after they had died. In addition, the Division needs to enhance its claims information system to prevent accounts of deceased claimants from being reopened when deceased individuals are identified. (page 17)

The Division is not requesting data from private insurance carriers regarding individuals receiving disability, temporary partial disability, or rehabilitative services as a result of on the job injuries. NRS 612.265(9) requires private carriers of workers' compensation insurance to provide the Division a monthly list of individuals who received benefits and the Division is required to compare this information with claimant records to identify individuals concurrently receiving both benefits. (page 18)

We identified potential for improper payments continued to exist in 154 of 497, or 31%, of cleared cases where claimants returned to work. Specifically, better scrutiny of earnings reported by claimants is needed, payment stops on claims should be made to ensure benefits are not restarted, claimants should be notified of their return to work status, and the Division needs to record pertinent information into the claims information system. Based on DOL estimates, a reduction in improper payments of 10% would yield savings of \$2.9 million per year. In addition, the Division needs to develop and enhance policies and procedures over the review process and institute a routine review of examiner cases to ensure consistent case resolutions. (page 23)