IBM Center for
The Business of Government

2017
Risk Series

Risk Management and Reducing Improper Payments: A Case Study of the U.S. Department of Labor

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Table of Contents

Foreword

On behalf of the IBM Center for The Business of Government, we are pleased to present this report, *Risk Management and Reducing Improper Payments: A Case Study of the U.S. Department of Labor*.

Daniel J. Chenok

Dennis R. Kaizer

This report continues the IBM Center's long interest in risk management with a specific focus on employing risk management strategies to reduce improper payments in the U.S. Department of Labor's (DOL) Unemployment Insurance (UI) program. There is a long tradition of public management scholarship that has provided empirical support for the hypothesis that management matters for government performance. One specific management activity that has been growing in prominence in federal agencies over the last several years is risk management. More commonly used in private sector firms, risk management has recently been recognized as a valuable tool by public organizations.

Professors Greer and Bullock detail DOL's innovative approach to improve outcomes and performance related to improper payments, which is an area of operational risk that has been identified as a legislative priority. Public managers faced with operational risks, and more specifically, improper payments, can use the information presented in this report to improve, create, or adopt risk management strategies. These strategies can provide a set of tools for other agencies dealing with improper payments.

DOL and the state workforce agencies that adopted its strategies provide managers with examples of how they can propose and implement tools that address a variety of complex root causes of improper payments. The report also highlights the administrative challenges in solving complex policy problems that require cooperation between federal and state agencies. Understanding the strategies and methods DOL employs to address rising improper payment rates will enable other managers to develop similar practices and improve organizational performance. The accomplishments of DOL and the state workforce agencies it has worked with demonstrate how managers can comply with improper payment legislation and the associated requirements of the U.S. Office of Management and Budget (OMB).

This report serves as an excellent companion piece to recent IBM Center reports which examined other aspects of risk management that can help government agencies. In his report *Ten Recommendations for Managing Organizational Integrity Risks*, Anthony Molina examines an often overlooked aspect of risk, which is managing "organizational integrity" and striving to create ethical organizations. In *Managing Risk, Improving Results: Lessons for Improving Government Management from GAO's High Risk List,* Donald Kettl examines the types of risk identified by the Government Accountability Office and how agencies can more effectively guard against such risks. In their report, *Improving Government Decision Making through Enterprise Risk Management,* Douglas W. Webster and Thomas H. Stanton discuss how agencies can more effectively deploy and use an enterprise risk management approach.

We hope that this new report will assist government leaders in better understanding the strategies and methods DOL employs to address rising improper payment rates and enable other managers to develop similar practices and improve organizational performance.

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Executive Summary

This report provides a case study of how the U.S. Department of Labor (DOL) developed and implemented strategies to reduce improper payments in the Unemployment Insurance (UI) program. This study details DOL's innovative approach to improve outcomes and performance related to improper payments, which is an area of operational risk that has been identified as a legislative priority. The strategies presented in this report can provide a set of tools for other agencies dealing with improper payments. The accomplishments of DOL and the state workforce agencies it has worked with demonstrate how managers can comply with improper payment legislation and the associated requirements of the U.S. Office of Management and Budget (OMB).

Section One, "Introduction," reviews the DOL and UI program objectives along with some background information about improper payments. This section also reviews the connection between risk management and organizational performance, paying particular attention to operational risks.

Section Two, "Improper Payment Legislation and OMB Requirements," provides an overview of the various pieces of improper payment legislation and the role of the OMB. In the discussion of OMB requirements, this section addresses the review process for agencies and the criteria for those identified as being at a high risk for improper payments.

Section Three, "Case Study of Risk, Performance, and Innovation at Department of Labor," summarizes the results of a content analysis of the relevant UI program letters from the DOL detailing the tools and strategies for reducing improper payments. Program letters play the role of communicating changes in the DOL's policies that affect state workforce agencies, which are the entities implementing UI at the state level. These letters detail the DOL's findings about the root causes of improper payments, tools, and strategies for combatting improper payments, and, in effect, address risk management tools and strategies for minimizing financial and reputation risks to the program.

Section Four, "Texas Workforce Commission Case Study," presents a case example of one state, Texas, which adopted and implemented DOL strategies. This case study provides additional evidence with respect to the Department of Labor's approach to risk management and improper payments.

Section Five, "Descriptive Analysis of Improper Payments in Unemployment Insurance," reviews a descriptive analysis which presents time series trends in both the overall improper payment rate as well as the various root causes of improper payments. From these trends, several correlations between DOL risk management strategies and lower improper payments are identified.

Section Six, "Recommendations," concludes with a summary of the lessons learned from DOL and the recommendations for other agencies that are interested in addressing improper payments.

Based on the content analysis, case study, and descriptive analysis, four recommendations are made for reducing improper payments.

Recommendation One: Establish clear metrics for measurement and evaluation.

Recommendation Two: Take advantage of recommended strategies and resources, but don't be afraid to innovate.

Recommendation Three: Provide relevant and timely information to stakeholders.

Recommendation Four: A broad range of strategies is needed when the causes of operational risks are varied.

Public managers faced with operational risks, and more specifically, improper payments, can use the information presented in this report to improve, create, or adopt risk management strategies. DOL and the state workforce agencies that adopted DOL strategies provide managers with examples of how they can propose and implement tools that address a variety of complex root causes of improper payments. It also highlights the administrative challenges in solving complex policy problems that require cooperation between federal and state agencies. Understanding the strategies and methods DOL employs to address rising improper payment rates will enable other managers to develop similar practices and improve organizational performance.

Introduction

The Department of Labor and Unemployment Insurance

The Department of Labor's (DOL) mission is to:

- Foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States
- Improve working conditions and advance opportunities for profitable employment
- Assure work-related benefits and rights[1]

One prominent agency within the DOL is the Employment and Training Administration (ETA), which administers the Unemployment Insurance (UI) program. The UI program plays key roles in helping businesses, communities, and the nation's economy. The program has helped to soften the impact of economic downturns and bring economic stability to communities, states, and the nation by providing temporary income support for laid-off workers since its creation in 1935.

The Unemployment Insurance program is a jointly administered federal-state program that provides unemployment benefits to eligible workers who are unemployed through no fault of their own and meet other state law eligibility requirements.[2] Through payments made directly to eligible, unemployed workers, the program ensures that at least a significant portion of the necessities of life—most notably shelter and clothing—can be met on a week-to-week basis while a search for work takes place. The UI program is a federal-state partnership based on federal law but administered by state government employees under state law. The structure and financing through employer taxes make the UI program a unique social insurance program. The roles of the federal government include[3]:

- Ensuring state laws, regulations, rules, and operations conform and comply with federal laws
- Determining administrative fund requirements and providing money to states for proper and efficient administration
- Setting broad overall policy for administration of the program
- Monitoring state performance
- Providing technical assistance as necessary
- Holding and investing all money in the unemployment trust fund until drawn down by states for the payment of compensation

1. www.dol.gov
2. http://www.ows.doleta.gov/unemploy/uifactsheet.asp
3. http://www.ows.doleta.gov/unemploy/pdf/partnership.pdf

Due to the size and complexity of the UI program, and its role in disbursing funds directly to individual claimants, it faces significant challenges in managing risk. One specific type of operational risk occurs when the agency makes a payment error. These errors are known as improper payments, and the DOL has devoted significant resources over the last six years to reducing those errors and managing the associated risks.

Federal Improper Payments

Federal agencies make more than $2 trillion in payments to individuals and a variety of other entities each year.[4] An improper payment can be any of the following[5]:

- Incorrect amounts paid to eligible recipients
- Payments made to ineligible recipients
- Payments for goods or services not received
- Duplicate payments
- Payments with insufficient or no documentation

On November 20, 2009, President Obama issued Executive Order 13520, *Reducing Improper Payments.* This executive order added requirements for federal agencies to develop coordinated efforts to eliminate payment errors, waste, fraud, and abuse within their programs. In 2010, Congress passed the Improper Payment Elimination and Recovery Act (IPERA). IPERA set a 10 percent improper payment rate as a limit for federal programs. The improper payment rate for Unemployment Insurance had fallen from 2006 to 2009, but it began to increase in 2010 and remained in violation of the IPERA standard for improper payments.

In response to an increase in improper payments, Jane Oates, the Assistant Secretary of the Employment and Training Administration (ETA), issued Unemployment Insurance Program Letter No. 19-11 (UIPL No. 19-11). This program letter laid out a strategy in which the ETA encouraged its partners in state workforce agencies to adopt its national strategic plan to target improper payments, and in particular, overpayments. In this program letter, the assistant secretary addressed the four main causes of unemployment insurance overpayments and set forth a multipronged approach to reduce these improper payments. In the years that followed, state workforce agencies began implementing specific strategies from the assistant secretary's strategic plan. These strategies include:

- Using national and state databases that allow for the cross-matching of new hires
- Increasing direct communication between state agents and employers concerning reasons for job separation
- Increasing the uniformity of communicating programmatic information from state agents to both employers and claimants

Risk Management and Organizational Performance

There is a long tradition of public management scholarship that has provided empirical support for the hypothesis that management matters for government performance (O'Toole and Meier, 2011). One specific management activity in federal agencies that has been growing in prominence over the last several years is risk management. More commonly used in private sector firms, risk management has recently been recognized as a valuable tool by public organizations.

4. https://www.whitehouse.gov/omb/financial_fia_improper/
5. https://paymentaccuracy.gov/about-improper-payments

The benefits of risk management generally have been summarized in a series of IBM reports.[6] Some of the benefits discussed include the following:

- Improved decision making
- Improved information flow
- Gaining an understanding of the importance of sustaining high credibility as an agency
- Affording the opportunity for agencies to make more educated decisions
- Staying off the U.S. Government Accountability Office's High Risk List
- Better budget uncertainty management
- Better positioning to take advantage of opportunities
- Improved performance

The term "risk" is widely used to denote a variety of events and activities. The Government Accountability Office (GAO) defined risk in a 2005 report[7] as: "An event that has a potentially negative impact, and the possibility that such an event will occur and adversely affect an entity's assets and activities and operations." This definition illustrates the more traditional focus on risk management, which has been on events that have a negative impact. These events include everything from Hurricane Katrina to Medicare fraud to financial crises. A more recent conceptualization of risk and risk management has been to consider both threats and opportunities. The future is uncertain and some of that uncertainty may result in events that have a negative impact on an organization's objectives, but it may also result in events that provide opportunities to further the organization's goals.

Webster and Stanton (2015) discuss the many limitations to the siloed approach in risk management. For example, the lack of communication creates gaps in identifying and managing risks across organizational subdivisions. There are also inefficiencies in treating and managing risks that may be shared by several agencies. This lack of strategic alignment results in lower than optimal investment in risk management strategies.

To address these limitations of traditional risk management, many public agencies have implemented a more holistic approach to risk, called enterprise risk management (ERM). ERM is defined as:

> "[A] process, effected by an entity's management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." (COSO, 2004)

One specific type of risk that has become a major focus for governments at all levels has been errors in making payments to individuals or other organizations. These errors are typically referred to as improper payments. During the normal course of operating large and complex organizations there are external risks that the must be recognized and strategically managed, such as changes to the market or consumer behavior. There is also a set of risks internal to the organization that arise from operational systems or organizational disruptions. One important aspect of a holistic ERM strategy that the U.S. federal government, among others, has identified is recognizing, evaluating, and mitigating the risk of making improper payments.

6. For more detail see Hardy (2010), Kwak and Keleher (2015), Webster and Stanton (2015), and Kettl (2016).
7. Government Accountability Office, Report # GAO-06-91, December 2005, page 111

Operational Risk

Operational risk management involves managing uncertainties that arise from defective operation systems or organizational disruption. Operational risk is unique from other types of risks on several dimensions. Perhaps the key difference is that operational risk covers a wide range of risk events that may not be included in risk management strategies under a more traditional framework. Corporate financial institutions have been the focus of operational loss discussions, but all organizations take on operational risks in running their daily business. Dowd (2003) attributes the increasing significance of operational risk to some developments that appear to have boosted the likelihood of operational loss events.[8] These developments include the following:

- The growth of e-commerce, which brings with it operational risk resulting from exposure to external fraud and system security risks
- The use of automated technology, which creates high-impact system failure risk
- The growing use of outsourcing arrangements and participation in clearing and settlement systems
- The growing trend for [organizations][9] to act as large-volume service providers, insourcing back and middle office functions

The federal government has faced its own share of problems stemming from operational risks that can be traced back to the same types of developments presented in Dowd (2003). Federal agency losses have often been the subject of media attention. As discussed in Kettl (2016), the CBS program *60 Minutes* has produced a series of reports on mismanagement and payment errors in Medicare and FEMA. The agencies in question were all included in the GAO reports on high-risk programs most prone to waste, fraud, abuse, and mismanagement. The criteria for identifying high-risk programs looks very similar to the developments that Dowd (2003) attributes to the growing significance of operational losses.

One important metric in the GAO High Risk List is the presence of significant improper payments. Not all improper payments are fraud, but they do all represent a loss to the government. The GAO report focuses on the Medicare improper payments, but the Office of Management and Budget (OMB) has designated 16 programs as “high error.” These high-error programs are those that reported roughly $750 million or more in improper payments in a given year. These programs are required to identify, track, and report improper payments; the information is then used to determine the root causes of errors and to develop corrective action plans to reduce improper payments. The history of both improper payment legislation and executive orders is provided below. We also provide additional details about how OMB has implemented this legislation.

Goal and Objectives of Report

The goal of this report is to use a risk management framework to better understand how federal agencies manage operational risks and improve performance. Risk management has become an increasingly common tool used by federal agencies, but there have been few attempts to analyze and implement strategies to mitigate risk. We provide an analysis of the DOL’s innovative strategic initiatives to improve risk management and lower improper payments. These strategies represent an attempt by the DOL to use information technology and communication tools to lower the improper payment rate; improve overall performance; and help maintain program integrity, accountability, and efficiency.

8. The examples of Dowd’s (2003) development points are summarized and discussed in Moosa (2007).
9. The original context of this discussion is for banks and financial institutions. We have generalized these points to all organizations.

Improper Payment Legislation and OMB Requirements

History

As we have discussed, there has been a history of legislation throughout the early 2000s to lower the number of improper payments. The federal government's increased focus on improper payments, however, began earlier. In 1982, Congress passed the Federal Managers' Financial Integrity Act (FMFIA). FMFIA required continuous evaluation of finance, accounting, and internal controls to prevent waste, fraud, and abuse. As part of this evaluative process, federal agency heads were required to submit annual reports to the president and Congress regarding the processes each agency had implemented to improve internal control systems and increase overall financial accountability. While FMFIA provided a useful first step in drawing attention to improper payments made by the federal government, it lacked mechanisms for remedying these errors.

President George W. Bush made improving government performance a key priority in his 2001 Presidential Management Agenda. President Bush pushed for government reform that addressed the findings by the High Risk List reports. As part of this push, President Bush called for Congress to take legislative action. Congress responded with the Improper Payments Information Act (IPIA) of 2002. IPIA was a short bill that passed with bipartisan support. It shifted the responsibility of identifying and tracking improper payments from the GAO to agency heads and program directors. Additionally, the OMB was selected to work with the GAO in the effort to minimize improper payments.

While IPIA was the first significant legislation in almost two decades to address the minimization of improper payments, it was not without its shortcomings. To begin addressing these shortcomings, President Obama issued Executive Order 13520 in 2009.[10] This executive order remedied several important deficiencies of the IPIA, including:

- Requiring agency heads and the OMB to work to enact change by setting goals and targets for the level of improper payments incurred by high-risk programs
- Requiring the information gathered as a result of both the IPIA and the executive order to be made available to the public

Following Executive Order 13520, Congress decided to take additional action with respect to minimizing improper payments. In 2010, Congress passed the Improper Payments Elimination and Recovery Act (IPERA). IPERA expanded requirements both for agency heads and for the OMB. The OMB's director was required to report to Congress the progress being made in the recovery of improper payments in the high-risk programs,[11] while agency heads were required to estimate and report the following:

10. Executive Order 13520 of November 23, 2009, Reducing Improper Payments and Eliminating Waste in Federal Programs.
11. *Improper Payments Elimination and Recovery Act of 2010,* Public Law 111-204 (July 22, 2010).

- The methods used by the agency to recover improper payments
- The amount of monies that are recovered, yet to be recovered, or cannot be recovered
- The conditions that allow improper payments to occur

Legislation Related to Improper Payments

Federal Managers' Financial Integrity Act (FMFIA) of 1982: An act that amended the Accounting and Auditing Act of 1950. It requires ongoing evaluations and reports regarding the adequacy of the internal accounting systems and administrative control of each executive agency.

Improper Payments Information Act (IPIA) of 2002, Improper Payments Elimination and Recovery Act (IPERA) of 2010, and Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012: Acts that require agencies to periodically review all programs and activities and identify those that may be susceptible to significant improper payments. Agencies must take multiple actions when programs and activities are identified as susceptible to significant improper payments and annually report information on their efforts to monitor and minimize improper payments.

The most recent federal legislation with respect to improper payments is the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012. This act sought to strengthen the previous efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending. IPERIA furthered efforts at transparency, making data available to the public through a central website, clarifying the roles of Inspectors General, and improving improper payment and recovery estimates. Additionally, IPERIA established the Do Not Pay Initiative, which requires agencies to set up a formal review process—using several databases[12]—that provides the agency with relevant information on an individual's eligibility to receive federal funds.

IPERIA supplemented the previous acts by further formalizing the sharing of important person-specific data that would help prevent the agencies from making payments to ineligible recipients. The act also increased the role of the OMB both by requiring the director to provide annual reports to Congress regarding the Do Not Pay Initiative's operations and allowing the OMB to revise and reassess the effectiveness of its assessment methods.[13] To this end, the OMB released Circular No. A-123 to clarify its role.

Role of OMB

As we have highlighted, following IPIA, the OMB has played a central role in risk management and mitigating improper payments by the federal agencies. The OMB has codified its broad responsibilities in a document known as "Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments." The OMB used this document to clarify its roles with respect to risk management and improper payment mitigation. According to the OMB, the document works to accomplish the following:

12. Including, but not limited to, the Death Master File of the Social Security Administration, the General Services Administration's Excluded Parties List System, the Debt Check Database of the Department of the Treasury, the Credit Alert System or Credit Alert Interactive Voice Response System of the Department of Housing and Urban Development, and the List of Excluded Individuals/Entities of the Office of Inspector General of the Department of Health and Human Services.

13. *Improper Payments Elimination and Recovery Improvement Act of 2012,* Public Law 112-248 (January 10, 2013).

- Consolidating and streamlining reporting requirements for agencies and the Inspectors General, and eliminating duplicative and old one-time requirements so agencies can spend less time producing compliance reports and more time focusing on game-changing solutions for achieving payment accuracy
- Establishing new categories for reporting improper payments that will provide more granularity on improper payment estimates, thus leading to more effective corrective actions at the program level and more focused strategies for reducing improper payments at the government-wide level
- Introducing a new internal control framework to ensure that payments are made in the right amount, to the right entity, and for the right purpose
- Providing guidance to agencies—as required by the most recent statute, IPERIA—to strengthen the statistical validity of estimates and include payments to federal employees in the definition of improper payments[14]

Appendix C provides requirements to accomplish these objectives across the following six broad categories:

- Payment recapture audits: Required for any program that expends at least $1 million
- Low-risk programs: Must be reviewed at least every three years
- Programs susceptible to significant improper payments: Agencies must annually estimate and report improper payments and implement corrective actions
- High-priority programs: OMB identifies and provides additional corrective tools for these programs
- Annual reporting: Yearly Agency Financial Reports (AFRs) or Performance and Accountability Reports (PARs) should be written with an internal control framework as a guide
- Annual Inspector General Compliance Review: Inspectors General in each agency must review the agency's AFR or PAR for compliance.[15]

Finally, in Appendix C, the OMB highlights the review process it expects agencies to perform. It is a four-step process:

- Review all programs and activities and identify those that are susceptible to significant improper payments
- Obtain a statistically valid estimate of the annual amount of improper payments for those programs that are identified in Step 1 as susceptible to significant improper payments
- Implement a plan to reduce improper payments
- Annually write an Agency Financial Report or Performance and Accountability Report

As the OMB requirements and guidance highlight, agencies must identify high-priority programs that require additional oversight. Below we will briefly discuss the high-priority programs list. We then turn our attention to one program on this list, Unemployment Insurance, for analysis of its risk management strategies and attempts at lowering improper payments.

14. https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-02.pdf
15. Ibid

High-Risk Programs

The criteria for being designated as a high-priority program (also known as a high-error program) is laid out in the previously discussed Appendix C. In accordance with Appendix C, the OMB may classify a program as high priority if the program meets the following conditions:

- It is susceptible to significant improper payments as defined by statute and OMB implementation guidance (including if the program has greater than $10 million in improper payments and over 1.5 percent of payments are improper, or if the program has more than $100 million in estimated improper payments) and it did any of the following:
    - Estimated and reported improper payments above the OMB-determined threshold (currently $750 million in improper payments) or contributed to government-wide improper payments in the most recent reporting year
    - Did not report an improper payment estimate for the most recent reporting year, but it had reported improper payments before and did not receive measuring and reporting relief from OMB
    - Has not yet reported an overall improper payment estimate amount but the aggregate of the program's component improper payments is above the threshold
- Improper payment amounts are above the threshold, but improper payment rates are below 1.5 percent of program outlays, so agencies may work with OMB to determine if the program can be exempted from fulfilling certain OMB requirements for high-priority programs[16]

Given these criteria, the OMB has designated 16 programs as "high priority" or "high error."[17]

Program	Agency	Total Payments (outlays)	Improper Payment Amounts	Improper Payment Rates
Medicare Fee-for-Service	Department of Health and Human Services	$358.3B	$43.3B	12.1%
Medicaid	Department of Health and Human Services	$297.7B	$29.1B	9.8%
Earned Income Tax Credit (EITC)	Department of the Treasury	$65.6B	$15.6B	23.8%
Medicare Advantage (Part C)	Department of Health and Human Services	$148.6B	$14.1B	9.5%
Retirement, Survivors, and Disability Insurance (RSDI)	Social Security Administration	$862.7B	$5.0B	0.6%
Supplemental Security Income (SSI)	Social Security Administration	$56.5B	$4.8B	8.4%
Unemployment Insurance (UI)	Department of Labor	$32.9B	$3.5B	10.7%
Supplemental Nutrition Assistance Program (SNAP)	Department of Agriculture	$70.0B	$2.6B	3.7%
Medicare Prescription Drug Benefit (Part D)	Department of Health and Human Services	$62.0B	$2.2B	3.6%
National School Lunch Program (NSLP)	Department of Agriculture	$11.3B	$1.8B	15.7%
William D. Ford Federal Direct Loan Program	Department of Education	$98.8B	$1.3B	1.3%
Rental Housing Assistance Programs	Department of Housing and Urban Development	$32.0B	$1.3B	4.0%
School Breakfast	Department of Agriculture	$3.8B	$0.9B	23.0%
Children's Health Insurance Program (CHIP)	Department of Health and Human Services	$9.3B	$0.6B	6.8%
Pell Grants	Department of Education	$29.9B	$0.6B	1.9%
Federal Crop Insurance	Department of Agriculture	$13.7B	$0.3B	2.2%

NR: No data has been reported for the current period

Note: All amounts are in billions of dollars

16. https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-02.pdf
17. https://paymentaccuracy.gov/high-priority-programs

These programs span six agencies and include public insurance, food assistance, pensions, loans, and grants. While generalizations may be made across these 16 programs about their risk management and improper payment mitigation strategies, we have decided to focus in depth on a single program, Unemployment Insurance. In the following section, we provide some background on the enduring relationship between Unemployment Insurance and improper payments, and we present three types of analyses in a multi-method approach. First, we analyze the Unemployment Insurance program letters that discuss how the DOL works to mitigate improper payments. Second, we will provide a summary of a case study of the Texas Workforce Commission and its approach to combatting improper payments. Third, we present a descriptive analysis of improper payment rates and the root causes of improper payments in all 50 states.

Case Study: Reducing Improper Payments at the Department of Labor

Unemployment Insurance, Improper Payments, and Risk Management Strategies

The relationship between the Unemployment Insurance program and improper payments has been examined for the past 35 years. Concerns about rampant improper payments prompted the creation of the National Commission on Unemployment Compensation. This commission worked for two years, 1979 and 1980, and sought to examine the amount of improper payments within the Unemployment Insurance program in six metropolitan areas. The commission found that improper payment rates in these areas ranged from 2.3-25 percent (Kingston et al. 1981). With this knowledge, the DOL initiated a process by which it could systematically measure improper payments across the entire country. This process eventually led to the Benefit Accuracy Measurement program.

The Benefit Accuracy Measurement program, which began in 1995, has provided yearly estimates of the amount of improper payments within the Unemployment Insurance program. The provided estimates show improper payments overall and by state. This process was one of the first of its kind. The Unemployment Insurance program led the way among federal government programs in identifying, measuring, and mitigating improper payments. Unfortunately, improper payment rates have remained stubbornly high.

Strategies Used by the DOL Unemployment Insurance Program via "Program Letters"

To better understand the risk management tools and strategies the DOL uses, we reviewed Unemployment Insurance "program letters" from the time when these tools and strategies were being developed and put into practice. Unemployment Insurance program letters play the role of communicating changes in the Department of Labor's policies that affect UI state workforce agencies, which are the entities implementing Unemployment Insurance at the state level.

We reviewed eight Unemployment Insurance program letters from 2011-2014. These letters detail the Department of Labor's beliefs about the root causes of improper payments throughout the Unemployment Insurance program. They also provide eight strategies for combatting improper payments, and in effect, addressing risk management strategies for minimizing financial and reputation risks to the program.

The letters establish four root causes of improper payments in the Unemployment Insurance program:

- **Root Cause One:** Payments made to claimants who continue to claim benefits after returning to work and failing to report (or underreporting) their claims
- **Root Cause Two:** Untimely and incomplete job separation information (information about

the laid-off individual, also known as an individual experiencing job separation, was delivered late or incomplete to the Unemployment Insurance agents)

- **Root Cause Three**: The state's inability to validate that claimants have met the state's work search requirements (i.e., the state workforce agency cannot adequately prove that the laid-off individual is meeting the state's requirements for looking for a new job)
- **Root Cause Four:** Claimants' failure to register with the state's employment service or the agency's failure to process the employment service registrations

To combat these known financial and reputation risks, the DOL identified eight different strategies, listed below. Appendix I presents Unemployment Insurance program letters associated with each strategy.

- **Strategy One:** Developing UI Performance Measures
- **Strategy Two:** Developing the National Directory of New Hires
- **Strategy Three**: Increasing Messaging with Claimants and Employers
- **Strategy Four:** Increasing Collaboration with "High-Impact" States
- **Strategy Five**: Providing Supplemental Funding
- **Strategy Six**: Developing a State Information Data Exchange System
- **Strategy Seven**: Developing State Quality Service Plans
- **Strategy Eight**: Creating an Unemployment Insurance Integrity Center of Excellence

Strategy One: Developing UI Performance Measures

This strategy highlights the Department of Labor's attempt to develop new performance measures related to Unemployment Insurance integrity. The performance measure developed to protect Unemployment Insurance integrity is the percentage of Unemployment Insurance benefits overpaid by a state due to benefit year earnings fraud. In other words, the main performance measurement the Department of Labor puts forward is a ratio of the amount in benefits improperly overpaid to individuals because of fraudulent reports of earnings compared to the total amount paid out in benefits.

This measure highlights the Department of Labor's concern with overpayments due to the root cause of payments made to claimants who continue to claim benefits after returning to work and failing to report (or underreporting) their claims. This measure standardizes across the states the performance measure of greatest interest to the Department of Labor. The Department of Labor hoped that by bringing prominence to this measure and establishing a standardized, acceptable level of performance, states would devote more attention to minimizing this particularly common type of improper payment.

Strategy Two: Developing the National Directory of New Hires

The National Directory of New Hires (NDNH) seeks to address the same root cause as strategy one: payments made to claimants who continue to claim benefits after returning to work and failing to report (or underreporting) their claims. The use of the NDNH by the Department of Labor's auditing division had been mandated since December 30, 2007. The NDNH originally was created to aid in child support enforcement. Making it available to state workforce agencies gives these agencies access to both wage data and new hire information that previously was unavailable.

The directory gives access to data on federal civilian and military wages along with the ability to locate individuals who may have relocated to another state. The database allows for earlier detection of individuals who are incorrectly reporting their wages and thus receiving overpayments from the Unemployment Insurance program. This informational tool provides much better access to data the states need to make accurate determinations about the benefits that should or should not be paid out to an individual. This tool has also been effective in earlier detection of improper payments.

Strategy Three: Increasing Messaging with Claimants and Employers

Implementation of statewide claimant-employer messaging campaigns is designed to:

- Improve claimants' awareness of their responsibility to report any work and earnings if they are claiming benefits
- Improve claimants' understanding of work search requirements as a condition of eligibility for benefits
- Improve employers' awareness of their responsibility to respond to state requests for separation information and/or earnings/wage verifications

A detailed claimant-employer messaging toolkit was published in UIPL No. 11-12 with sample products for states to consider incorporating into their messaging campaigns.

The purpose of the toolkit is to remedy the root causes of improper payments by providing resources to state workforce agencies to improve communication and understanding between those seeking unemployment insurance benefits (claimants) and the individuals' employers. This toolkit has a variety of premade messages, templates, sample recorded videos, and audio scripts that can be used by the state workforce agencies. Unemployment Insurance Program Letter No.11-12 highlights and describes five specific resources provided in the messaging toolkit:

- Baseline message products offered in a variety of formats for state agency use, to be used or customized as necessary
- Message concepts on important topics, including basic requirements for Unemployment Insurance benefits; requirements for claimants to remain in contact with the state agency while actively collecting Unemployment Insurance benefits; procedures for claimants returning to work; employer responsibilities related to reporting new hires to the State Directory of New Hires; employer responsibilities related to verifying employee earnings; and employer responsibilities related to reporting separation information
- Examples of communication activities and messages to better inform and engage claimants and employers throughout the Unemployment Insurance process
- Suggestions for displaying these messages on the state websites
- Suggestions for the use of social media

The toolkit seeks to use improved communication among relevant stakeholders for making determinations about Unemployment Insurance benefits. The idea behind this tool is that with better access to consistent information, employers and claimants will more easily provide relevant and accurate information to state agents for determining the claimant's Unemployment Insurance benefits.

Strategy Four: Increasing Collaboration with “High-Impact” States

In strategy four, the Department of Labor again uses the strategy of increasing communication and collaboration among important stakeholders; in this case, the relevant stakeholders are the state workforce agencies themselves. For this tool, the Department of Labor worked with 11 “high-impact” states to pilot the instatement of cross-functional task forces. The task forces develop and implement state-specific action plans to reduce improper payments and provide national leadership to other states to aid in the reduction of improper payments.

The Department of Labor saw an opportunity to further encourage collaboration among some of the largest states, which, due to the very nature of their size, have some of the most improper payments. One way the Department of Labor chose to support this effort is by sponsoring opportunities for collaboration among these states. For example, the Department of Labor, through the Unemployment Insurance Integrity Institute, sponsored a series of collaborative webinar sessions for the states’ cross-functional task forces. These webinars were designed to provide states with a variety of tools and resources including a charter, a self-assessment tool, a strategic plan template, data sources, and opportunities to consult with subject matter experts.

Strategy Five: Providing Supplemental Funding

This strategy provides the lifeblood for implementing key tools. Additional funding opportunities provide the Department of Labor with a “carrot on a stick” to encourage states to adopt several of the tools and to encourage states to continue to innovate and modernize their information technology systems.

In the Unemployment Insurance Program Letter No. 18-12, the Department of Labor provided supplemental funding opportunities to:

- Support the integrity of the Unemployment Insurance program for the prevention, detection, and recovery of improper Unemployment Insurance benefit payments
- Improve state performance
- Address outdated information technology system infrastructures necessary to improve Unemployment Insurance program integrity
- Enable states to expand or implement Reemployment and Eligibility Assessment programs

For states to receive supplemental funding, the Department of Labor required that the states had already begun engaging with a set of tools and resources labeled as “core integrity activities.” The Department of Labor required the following core integrity activities:

- Continued operation of a cross-functional integrity task force
- Engaging in a business process analysis to identify areas of weakness and improve program performance if the state’s improper payment rate is above 10 percent
- Activities listed in the Recommended Operating Procedures for conducting cross-matching with the National Directory of New Hires and the State Directory of New Hires
- Use of the State Information Data Exchange System and the associated messaging service
- Use of the Claimant and Employer Messaging Toolkit
- Use of the employment service registration
- Implementation of the U.S. Department of the Treasury’s Offset Program

- Use of an automated State Unemployment Tax Act dumping detection system to detect employers who may be engaged in Unemployment Insurance tax rate manipulation

This strategy not only plays the role of providing state workforce agencies with additional financial resources to implement innovative practices, but it also serves as a strong incentive to encourage agencies to implement a full range of the Department of Labor's tools.

Strategy Six: Developing a State Information Data Exchange System

This is another strategy which uses technology for aiding in communicating and sharing information across the relevant decision makers and stakeholders in the Unemployment Insurance benefit determination process. This system aids employers in responding to requests from state Unemployment Insurance agents in a faster, easier, and more accurate manner.

The State Information Data Exchange System (SIDES) is a web-based system that allows electronic transmission of information requests and replies between Unemployment Insurance agencies and multi-state employers and third-party administrators. SIDES currently allows for the exchange of separation and earnings verification information. The system has two options for employers:

- Employers with large volumes of Unemployment Insurance information requests can have access to an integrated computer-to-computer interface that facilitates an automated data-sharing and file-tracking interface among employers, third-party administrators, and Unemployment Insurance agents.
- Employers with smaller amounts of Unemployment Insurance claims can use an e-response portal that allows employers and third-party administrators to more easily and efficiently respond to information requests from Unemployment Insurance agents.

Strategy Seven: Developing State Quality Service Plans

The State Quality Service Plan (SQSP) is a document used not only to ensure strong program performance, but also to guide key management decisions, such as where to focus resources. The SQSP should focus state efforts to ensure well-balanced performance across the range of Unemployment Insurance activities. The State Quality Service Plan also is designed to be flexible to accommodate, among other things, multiyear planning and significant changes in circumstances during the planning cycle. States can use this flexibility to incorporate the elements from the Program Integrity Strategic Plans developed by their cross-functional task forces into the SQSP to address improper payments.

Strategy Eight: Creating an Unemployment Insurance Integrity Center of Excellence

The Department of Labor funded the development of an Unemployment Insurance Integrity Center of Excellence through a cooperative agreement with the New York State Department of Labor, in partnership with the National Association of State Workforce Agencies. The center's goal is to promote the UI program's development and implementation of innovative integrity strategies, including the prevention and detection of fraud. The center's key activities include developing the following:

- Sophisticated new data analytics and predictive modeling tools to improve the prevention and detection of improper payments

- A secure portal for communicating fraud schemes in the UI program
- Integrity training modules and disseminating these modules
- Information related to best practices and model UI program operations
- Products to help states improve their integrity operations
- On-site technical assistance to identify operational changes that will improve program integrity[18]

Assessment of the Eight Strategies

The complex institutional arrangement involving the DOL and state workforce agencies results in a unique risk management strategy. The DOL, through the program letters and tools discussed above, has laid out its strategic vision for reducing improper payments. Because it does not have administrative control over the state workforce agencies, it incentivizes states using supplemental funding to implement these strategies. States then have the option to apply for supplemental funding and implement the recommended strategies. DOL's management of improper payments in this complex governance system requires innovative risk management that may be of use to other agencies or programs in similarly complex institutional environments. Furthermore, the Department of Labor provided numerous specific and flexible tools that can aid in the state workforce agencies' pursuit of lowering improper payments. The Department of Labor identified and classified the root causes of improper payments, and it then designed tools that directly address those root causes.

Based on our review of the strategies, we found the following:

- The Department of Labor has strongly encouraged increased collaboration between the states and the federal government to implement strategies and tools that will aid the states in lowering improper payments throughout the Unemployment Insurance program.
- The Department of Labor established clear metrics by which state workforce agencies can work.
- The Department of Labor provided numerous tools and strategies for the state workforce agencies while also allowing customization within these tools. Further, it encouraged states to develop state-specific strategies.
- The Department of Labor repeatedly highlighted the importance of a formal strategy that allowed for a systematic risk management strategy to minimize improper payment rates.
- The Department of Labor clearly identified the known root causes that needed to be mitigated and then developed specific strategies to combat them.
- The Department of Labor used financial resources to encourage states to better manage and mitigate improper payment rates.
- The Department of Labor provided to all stakeholders (claimants, employers, third-party administrators, and state workforce agencies) multiple tools aimed at reducing the cost of complying with Unemployment Insurance regulations.
- The Department of Labor strongly encouraged the adoption of several tools that fostered increased communication among relevant stakeholders and standardized the shared information to increase effective communication and decrease confusion.

18. https://www.dol.gov/general/maps/strategies

- The strategies and tools provided by the Department of Labor encouraged the state workforce agencies to engage in several useful behaviors, such as better information gathering, modernizing information technology systems, standardizing communication with both claimants and employers, and using state and national databases to more quickly catch claimants' misreported or unreported wages.

Texas Workforce Commission Case Study

As part of this study, we had the opportunity to discuss how these risk management strategies are perceived and implemented within one state. In our case, we discussed these strategies and implementation structures with ranking individuals at the Texas Workforce Commission (Texas' state workforce agency). We had the opportunity to speak with the Deputy Director of Unemployment Insurance Customer Service and Operations, the Director of Statistical Sampling, the Director of Business Transformation/Rapid Process Improvement, and the Director of the Office of Investigations. We used a semi-structured group interview.[19] For this group interview, there were eight structured questions and significant time allotted for open-ended discussion about the general topics of improper payments and risk management strategies within the Unemployment Insurance program, as well as for discussing specific strategies and tools for lowering improper payments and implementing a risk management framework.

Finding One: The Texas Workforce Commission took very seriously the issue of the prevalence of improper payments within the Unemployment Insurance program. Throughout the discussion with the high-ranking Texas Workforce Commission officials, we were impressed with the diligence and organizational resources dedicated to fighting improper payments. It was clear that the commission's target was to comply with the Improper Payments Elimination and Recovery Act. They want to be below the 10 percent improper payment rate and were quite adamant about trying to utilize every tool available to them to lower improper payments. To them, the problem of improper payments is not only a question of financial waste and abuse but also a question of program integrity. This group takes very seriously the goal of maintaining the integrity of the taxpayer for the Unemployment Insurance program.

Finding Two: The Texas Workforce Commission believes improper payments are a risk that deserves specific management attention. Not only are members of this team encouraged to think creatively about new strategies with respect to lowering improper payments, but they also work closely together—resembling an informal management team—to mitigate the risk of improper payments. In this way, this group of individuals, along with others working in the Texas Workforce Commission, serves the role of a dedicated risk management staff.

Finding Three: The Texas Workforce Commission was aware of the Department of Labor's sponsored tools that we asked about specifically, including NDNH, SIDES, and messaging. The group also directly referenced additional tools sponsored by the Department of Labor, including the UI Integrity Center of Excellence and information technology sources for employment services registration. We also learned that the Texas Workforce Commission essentially takes advantage of every opportunity to apply for supplemental funding for implementing strategies to lower improper payments. The Texas Workforce Commission conducts an internal cost-benefit analysis to make sure the funding will have a net benefit in the fight against improper payments; generally, the funding is found to have a net positive. The group uniformly

19. The interview was conducted on June 9, 2016. See Appendix A for interview questions.

found the supplemental funding to be a huge asset in attempts to implement additional tools for lowering improper payments.

Finding Four: The Texas Workforce Commission had identified additional strategies it believed to be useful in combatting improper payments, outside of those encouraged by the Department of Labor. The group mentioned predictive analytics techniques for identifying unemployment insurance claims that may be more likely to result in an improperly paid claim. The group also mentioned the use of predictive analytics to develop criteria that would aid in not only helping to identify improperly paid claims, but also helping to identify cases of fraud.

Finding Five: The Texas Workforce Commission staff we interviewed believed that the Department of Labor's strategies are helpful in reducing improper payments. They found the NDNH strategy to be the most useful in minimizing improper payments, but they also found SIDES and messaging to be useful. Texas was a pilot state for the regular use of the NDNH database in the mid-2000s. Commission staff have found the regular check of wage information by claimants against the NDNH database to be quite effective at catching improper payments much earlier, often before they occur. They also suggested that the SIDES tool was particularly helpful for managing claims coming from large companies. Furthermore, they perceive this tool as helpful both with the quality and speed of communication with large employers. This level of communication does not always lead to a higher quality of information for making determinations about claimants and the amount of benefits they should or should not receive, though. Finally, the team found the standardization attempts from the messaging strategy to be useful in ensuring that both claimants and employers have the correct information to accurately complete unemployment insurance claims.

Finding Six: The Texas Workforce Commission is working hard on their approach to risk management and improper payments. We found:

- The Texas Workforce Commission has responded to the improper payments target of less than 10 percent that was set in IPERA.
- The lowering of improper payments is a high priority to the Texas Workforce Commission.
- The Texas Workforce Commission has made extensive use of funding and strategies made available by the DOL.
- The Texas Workforce Commission, following the encouragement of the Department of Labor, has sought to develop new tools over and above the ones created by the Department of Labor.
- The leaders of the Texas Workforce Commission believe that NDNH, SIDES, and messaging were all useful in lowering improper payments. The takeaway is better information gathering, modernized information technology systems, standardized communication with both claimants and employers, and the utilization of state and national databases to more quickly catch misreported or unreported wages by claimants.

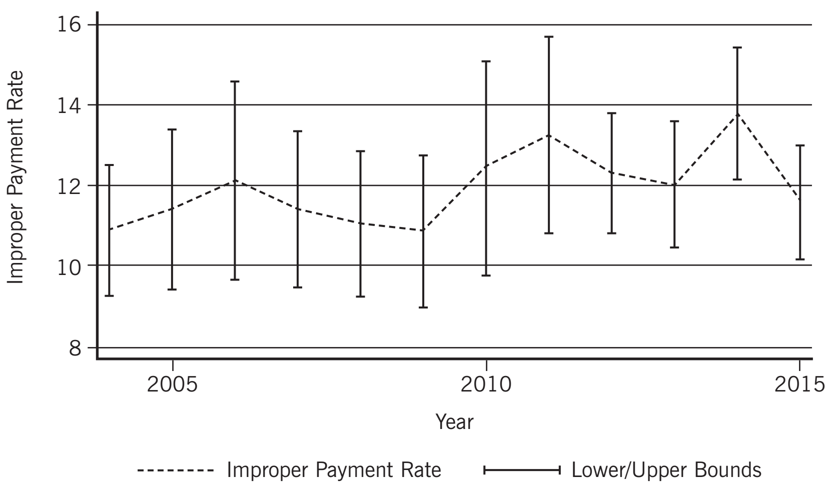
Impact of Efforts to Reduce Improper Payments in Unemployment Insurance

This report on the risk management strategies used by the DOL to reduce improper payments in state UI programs has so far focused on a detailed analysis of the content contained in the program letters and an in-depth look at one state's efforts to implement these strategies. To complement these qualitative analyses, we now turn to a brief descriptive analysis which will allow us to determine time series trends in both the overall improper payment rate as well as the various root causes of improper payments. At the outset, we would like to recommend caution in inferring too much about the determinants of these trends. We can identify several correlations that may suggest the risk management strategies have a positive effect, but we are unable to establish causation without considering alternative explanations and without controlling for confounding factors.

Trends in Reducing Payments

The goal of both the Improper Payment Information Act and the Unemployment Insurance Program Letter No. 19-11 was to lower improper payment rates. As shown in Figure 1, this rate was increasing from 2009–2011 and then decreased from 2011–2013 before spiking in 2014. It should also be noted that the average improper payment rate was above the 10 percent mark in all years. During the 10-year period there is a wide range of improper payment rates in all 50 states and the District of Columbia. The lowest rate was 1.6 percent in Oklahoma in 2004, while the highest was over 60 percent in Indiana in 2011. It is difficult to directly compare states' improper payment rates without considering variations in benefit policies,[20] but this time series graph demonstrates both the change in the average improper payment rate over time as well as the variation across states over time.

Figure 1: Average State Improper Payment Rates 2004–2015



Generated from yearly improper payment data for the UI program reported to OMB as required by IPIA

As discussed above, UIPL No. 19-11 was released by the Department of Labor to spearhead several strategies to decrease the rate and amount of improper payments in the UI system. The DOL found four root causes of improper payments. These root causes, discussed earlier in the paper, include:

- **Root Cause One:** Payments made to individuals after they have returned to work, referred to as "benefit year earnings" (BYE)
- **Root Cause Two:** Payments paid improperly as a result of untimely or incomplete job separation information
- **Root Cause Three:** Payments paid improperly as a result of states' inability to validate that the claimant had met the state's work search requirements

20. The DOL strongly cautions readers in comparing one state's payment accuracy rates with another state's rates because no two states have the same laws, regulations, and policies specifying eligibility conditions. The differences in these conditions influence the potential for errors.

- **Root Cause Four:** Payments paid improperly because the claimant had failed to register with the state's employment services

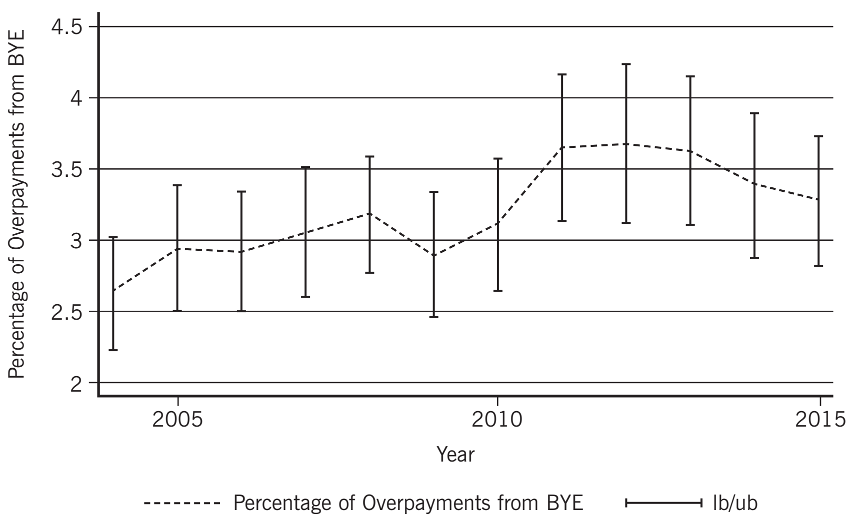
In the program letter, the Department of Labor decided to focus on reducing improper payments that resulted from the root causes using a variety of risk management strategies.

Reducing Improper Payments for Root Cause One: Receiving Benefits After Returning to Work

The first root cause, benefit year earnings, occurs when the claimant continues to claim and receive benefits after returning to work. Several risk management strategies, including the NDNH database, were aimed at reducing improper payments caused by BYE. As shown in Figure 2 below, the percentage of overpayments from BYE steadily increased from 2004-2008, it dipped slightly in 2009, it rose rapidly until 2011, then it leveled off and slightly decreased.

Assessment: While we want to caution against drawing too many conclusions from basic descriptive statistics, it appears that the strategies initiated in 2011 may have contributed to the leveling off of and slight downward trend for state overpayments from BYE.

Figure 2: State Overpayments from BYE 2004–2015

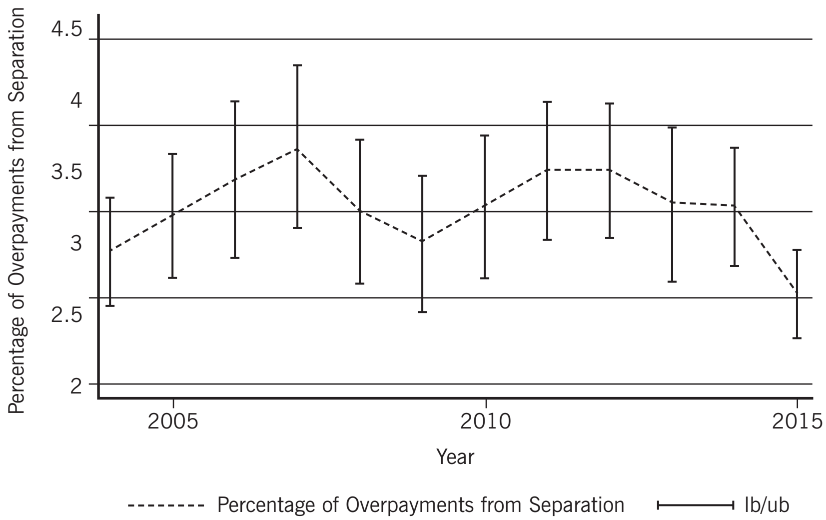


Reducing Improper Payments for Root Cause Two: Incorrect Separation Information

The second root cause, separation issues, occurs when information regarding the claimant's separation from work is received after a claim is paid, thus disqualifying the claimant from eligibility. This may be caused by the employer sending inaccurate or late information. It may also be caused by a ruling made on appeal. One of the key risk management strategies recommended by the DOL was the participation in and use of the SIDES cross-matching system to reduce improper payments due to job separation issues.

Assessment: As shown below in Figure 3, this is a similar story to root cause one involving BYE. The percentage of overpayments due to separation issues increased before 2011 and then leveled off and started to decrease. The main difference is that there has been a more substantial reduction in overpayments from separation issues compared to those from BYE.

Figure 3: Percentage of Overpayments from Separation Issues 2004–2015

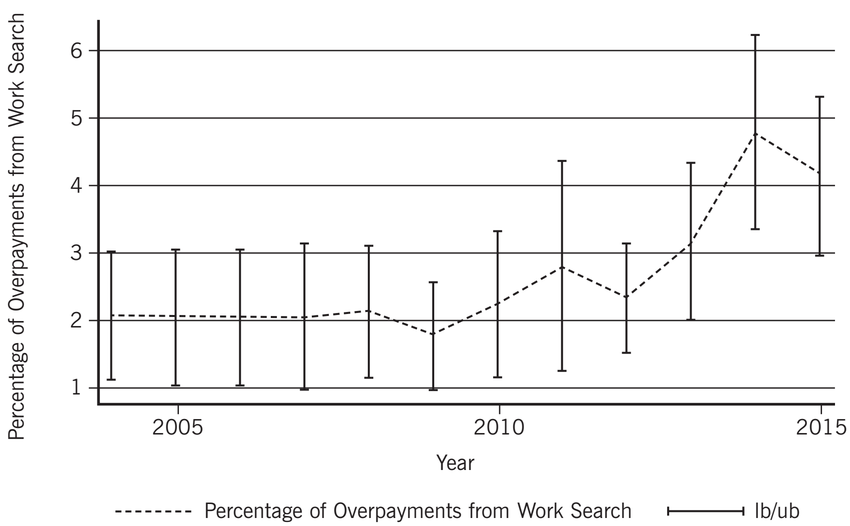


Reducing Improper Payments for Root Cause Three: Inability to Validate Work Search

The third root cause, work search requirements, involves the inability to validate that the individual has met the state's work search requirements, which disqualifies the claimant from being eligible for benefits. One risk management strategy specifically for improper payments from work search requirements is a campaign to target messages to claimants to prevent improper reporting of work/earnings while filing for UI and to promote compliance with state regulations.

Assessment: The time series for overpayment from work search requirements is in Figure 4. As shown, the percentage of overpayments from work search requirements was stable through 2009, but it has been increasing most years since. This trend does not follow the same pattern as the overpayments from BYE or separation issues.

Figure 4: Percentage of Overpayments from Work Search 2004–2015

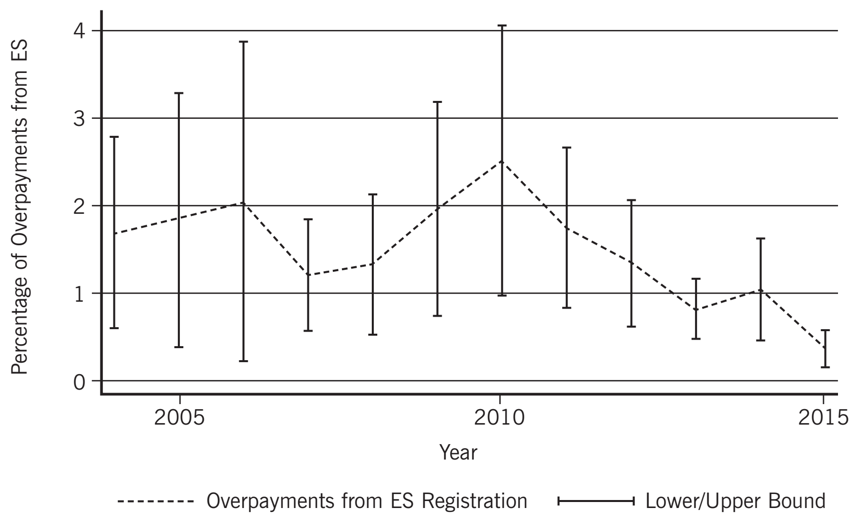


Reducing Improper Payments for Root Cause Four: Failure to Register

The fourth and final root cause described in the UI program letters is employment service (ES) registration. This includes overpayments due to the claimant not being registered with the state's employment services or job bank as required by state regulations. Not being registered may disqualify claimants from being eligible for benefits. Several of the strategies discussed in the content analysis, including several of the information technology resources, targeted ES registration.

Assessment: As shown in Figure 5 below, unlike the other three root causes, the percentage of overpayments from ES registration has been decreasing since 2010. It should also be noted that overall overpayments from ES registration are relatively few compared to the other three root causes.

Figure 5: Percentage of Overpayments from ES 2004–2015



Overall Assessment

This assessment has described the time trends of both state improper payment rates and the percentage of overpayments from the four main improper payment root causes. By reviewing how these improper payments and root causes have changed over time, and the variation across the states, we can start to develop testable hypotheses about the effectiveness of various DOL risk management strategies on both state improper payment rates and the main root causes. From our analysis, there is evidence suggesting that starting in 2011 (correlating with the UIPLs), the percentage of overpayments from three of the four root causes leveled off or started to decrease. The average improper payment rate is a little more difficult to interpret. It does decrease from 2011–2013, but then there was a spike in 2014.

Recommendations

In this report, we have reviewed the risk management framework with specific attention paid to operational risks. One crucial operational risk that has received a considerable amount of both administrative and legislative attention in recent years has been improper payments. We have reviewed the history of improper payments in the federal government before focusing on one program that has a history of being high risk: Unemployment Insurance. UI presents a unique risk management challenge because the DOL must work with state workforce agencies to reduce improper payments. This report reviews the DOL's efforts to manage operational risks across the states using a detailed content analysis of program letters, a case study of one state implementing these strategies, and a descriptive analysis of time trends of improper payment rates and their root causes. Through these analyses, we present four recommendations for managing operational risks in complex institutional arrangements.

Recommendation One: Establish clear metrics for measurement and evaluation.

Compared to other types of risk management problems, improper payment reduction has the advantage of a clear standard established by law in the Improper Payment Elimination and Recovery Act. The goal for federal agencies is to have an improper payment rate below 10 percent. The challenge for federal agencies that have partners in state agencies or other types of organizations is developing clear metrics for evaluation and developing standards for data collection and reporting, which the Department of Labor could do with state workforce agencies. To achieve an overall reduction in improper payments, agencies may first start with identifying the root causes of improper payments that are most relevant. For the DOL this included benefit year earnings, separation issues, work search requirements, and employment services. Specific strategies can then be targeted to those root causes. For example, the UI performance integrity measure of overpayments due to BYE fraud allowed for a standardized measure that could be compared across states. Clear and measurable metrics for the root causes and the outcomes is a necessary condition for improper payment reduction.

Recommendation Two: Take advantage of recommended strategies and resources, but don't be afraid to innovate.

Gathering evidence from our descriptive empirical analysis, content analysis of program letters, and the Texas Workforce Commission case study, it became clear that the DOL took an effective approach to providing necessary assistance to states. The DOL implemented its approach using UI program letters and providing effective supplementary funding to encourage the adoption of the recommended strategies. Furthermore, our case study suggests that the Texas Workforce Commission has been working diligently to implement the provided risk management strategies and tools, including tools directly from the DOL and new and creative tools and strategies. The DOL provided several national tools and strategies for state workforce agencies to use, but it also allowed for tool customization and further encouraged the development of state-specific strategies.

Recommendation Three: Provide relevant and timely information to stakeholders.

One of the DOL's main goals in offering the recommended tools and strategies was to increase communication between the relevant stakeholders—particularly communication between state workforce agents and employers and claimants. One of the DOL strategies, targeted messages to claimants, was found to be an effective strategy to combat improper payments that were caused by work search requirements, which is one of the identified root causes of improper payments. More specifically, the messaging toolkit provided states with a variety of premade messages, templates, sample recorded videos, and audio scripts that could be used by the state workforce agencies. These premade resources provide specific guidance to aid in the communication between state agents and both claimants and employers.

There have also been attempts to encourage communication of best practices among the states through the UI Integrity Center of Excellence. These types of strategies were encouraged throughout the UI program letters and were adopted and found useful in our Texas Workforce Commission case study. This type of communication among states and the DOL takes advantage of using states as pilot studies to identify best practices. Other states then can learn from and adapt those best practices to their own unique needs. Federal agencies can often serve as advocating agents to standardize the information, increase effective communication, and decrease confusion.

Recommendation Four: A broad range of strategies is needed when the causes of operational risks are varied.

From the descriptive analysis, we see that the time trends of the root causes of improper payments have significant variation across states and over time. We can also see that after the DOL implemented its risk management strategies and started using the program letters not all of the root causes were affected. To address these complex and varied causes of operational risks like improper payments, a variety of tools and strategies are needed. Some of these strategies, like the NDNH or SIDES databases, require information technology infrastructure and buy-in from a variety of stakeholders. Other strategies, like the messaging toolkit, advocate effective communication and are relatively easy to implement. When dealing with a complex set of risks, it is useful to have a strategic plan—such as the State Quality Service Plan—that can guide key management decisions. This plan is designed to be flexible to accommodate multiyear planning, changing operating environments, and different strategies for reducing improper payments.

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Appendix I: Program Letters Associated with Each Strategy

Strategies	Program Letters
Strategy One: Development of UI Core Measures	No. 17-11; No. 19-11
Strategy Two: Development of National Directory of New Hires	No. 19-11
Strategy Three: Increasing Messaging with Claimants and Employers Toolkit	No. 19-11; No. 26-11; No. 11-12; No. 24-13
Strategy Four: Increasing Collaboration with "High-Impact" States	No. 19-11; No. 28-11
Strategy Five: Providing Supplemental Funding	No.19-11; No. 26-11; No. 18-12; No. 24-13; No. 13-14
Strategy Six: Developing a State Information Data Exchange System	No. 19-11; No. 24-13
Strategy Seven: Developing a State Quality Service Plan	No. 19-11
Strategy Eight: Creating an Unemployment Insurance Integrity Center of Excellence	No. 19-11

Appendix II – Interview Discussion Questions

For the group interview with the Texas Workforce Commission, the authors designed eight specific questions. These eight questions were as follows:

1. How big of a priority is lowering improper payments at the state level?
    a. Does the state have any specific targets or goals for improper payment rates?
2. Do you view improper payments as a risk that deserves specific management attention?
3. Does your organization have a risk management office or a dedicated risk management staff?
4. Are you familiar with the National Directory of New Hires (NDNH), State Information Data Exchange System (SIDES), and the Claimant and Employer Messaging (Messaging) strategies that the Department of Labor described in a series of program letters?
5. In your opinion, what factors influenced the decision of the state workforce agency to apply for supplemental funding from the Department of Labor to implement these strategies?
6. Are there any state-specific strategies for lowering improper payments that were not encouraged by the Department of Labor?
7. According to the Department of Labor, Texas had completed the implementation of NDNH, SIDES, and Messaging by 2012. What, if any, challenges were there in the implementation of these strategies?
8. In your opinion, have these tools been effective in lowering improper payments?

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