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

By Dr. Robert A. Greer and Dr. Justin B. Bullock

Throughout the early 2000s, there has been a history of legislation to lower the number of improper payments within the U.S. federal government. This is 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 the 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. One prominent agency within the DOL is the Employment and Training Administration (ETA), which administers the UI program.

The UI program plays key roles in supporting businesses, communities, and the economy. The program is a jointly administered federal-state program that has helped to soften the impact of economic downturns and bring economic stability to communities, states, and the nation since its creation in 1935. The UI program provides unemployment benefits to eligible workers who are unemployed through no fault of their own and meet other state law eligibility requirements.

The DOL's Unemployment Insurance and Federal Improper Payments

Federal agencies make more than $2 trillion in payments to individuals and a variety of other entities each year. 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 risk that has become a major focus for government at all levels has been errors in making payments to individuals or other organizations. These errors are typically referred to as improper payments. An improper payment can be any of the following:

- 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

During the normal course of operating large and complex organizations, there are a set of internal organizational risks that arise from operational systems or organizational disruptions. One important aspect of a holistic Enterprise Risk Management (ERM) strategy that the U.S. federal government among others has identified is recognizing, evaluating, and mitigating the risk of making improper payments. The DOL has devoted significant resources over the last six years to reducing improper payments and managing the associated risks.

Following an increase in improper payments in 2010, Jane Oates, then Assistant Secretary of the ETA, issued an Unemployment Insurance Program Letter. This communication encouraged ETA partners in state workforce agencies to adopt its national strategic plan to target improper payments, and in particular, overpayments.

Four Main Causes of Improper Payments in the UI Program

In the program letter, the assistant secretary addressed the four main 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 (this is data about the laid-off individual, also known as an individual experiencing job separation, that was delivered late or incomplete to 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)

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- **Root Cause Four** – The claimants' failure to register with the state's employment service or the agency's failure to process the employment service registrations

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

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's 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
- Help maintain program integrity, accountability, and efficiency

Risk Management Strategies for Combating Improper Payments

The DOL identified eight different strategies for minimizing financial and reputation risks to the program:

- Developing UI Performance Measures
- Developing the National Directory of New Hires (NDNH)
- Increasing Messaging with Claimants and Employers
- Increasing Collaboration with "High-Impact" States
- Providing Supplemental Funding
- Developing a State Information Data Exchange System (SIDES)
- Developing State Quality Service Plans
- Creating an Unemployment Insurance Integrity Center of Excellence

The complex institutional arrangement between 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. The 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 then designed tools that directly addressed them.

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.

Recommendations

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.

- Establish clear metrics for measurement and evaluation – To achieve an overall reduction in improper payments, agencies should first start by identifying the root causes of improper payments. 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.

- Take advantage of recommended strategies and resources and don't be afraid to innovate – Gathering evidence from our descriptive empirical and content analysis, it became clear that the DOL took an effective approach in providing the necessary assistance to states. 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.

- Provide relevant and timely information to stakeholders – The DOL strategy of targeted messages to claimants was found to be an effective method to combat improper payments that were caused by work search requirements, (one of the identified root causes of improper payments). There have also been attempts to encourage the communication of best practices among the states through the UI Integrity Center of Excellence.

- A broad range of strategies is needed when the causes of operational risks are varied – To address the complex and varied effects 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, such as the messaging toolkit, advocate effective communication and are relatively easy to implement.

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. The 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 the DOL employs to address rising improper payment rates will enable other managers to develop similar practices and improve organizational performance. ◘

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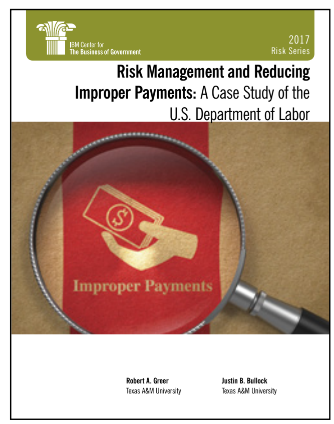

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The report can be obtained:

- **In .pdf (Acrobat) format at the Center website, www.businessofgovernment.org**
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