

Calendar Year 2011 Benefit Accuracy Measurement Data Summary

The Benefit Accuracy Measurement program (BAM) is designed to determine the accuracy of paid and denied claims in three major Unemployment Insurance (UI) programs: State UI, Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Servicemembers (UCX). State Workforce Agencies (SWAs) select weekly random samples of these program payments and denied claims. BAM investigators audit these paid and denied claims to determine whether the claimant was properly paid or denied eligibility. The results of the BAM statistical samples are used to estimate accuracy rates for the populations of paid and denied claims. In addition, BAM is a diagnostic tool for Federal and SWA staff to use in identifying systemic errors and their causes and in correcting and tracking solutions to these problems.

Readers are strongly cautioned that it may be misleading to compare one state's payment accuracy rates with another state's rates. No two states' written laws, regulations, and policies specifying eligibility conditions are identical, and differences in these conditions influence the potential for error. States have developed many different ways to determine monetary entitlement to UI. Additionally, nonmonetary requirements are, in large part, based on how a state interprets its law. Two states may have identical laws, but may interpret them quite differently. States with stringent or complex provisions tend to have higher improper payment rates than those with simpler, more straightforward provisions. (See the 2011 "Comparison of State Unemployment Laws," <http://www.oui.doleta.gov/unemploy/comparison2011.asp>).

The Improper Payments Information Act (IPIA) of 2002 and subsequent amendments in the Improper Payments Elimination and Recovery Act (IPERA) of 2010 require agencies to examine the risk of erroneous payments in all programs and activities they administer. An improper payment is defined as any payment that was made to an ineligible recipient, duplicate payments, and payments that are for the incorrect amount -- both overpayments and underpayments, including inappropriate denials of payment or service. Agencies are required to review all programs and activities they administer and identify those that may be susceptible to significant erroneous payments. IPERA defines "significant erroneous payments" as annual erroneous payments exceeding both 2.5 percent of program payments and \$10 million. UI meets both of these criteria. Additionally, IPERA codifies the requirement for valid statistical estimates of improper payments such as those generated by BAM and compels actions to reduce improper payments. SWAs make all UI payment decisions. Therefore, the U.S. Department of Labor (Department) requires SWAs to review their BAM improper payment data and report their planned activities to prevent, detect, reduce, and recover improper payments in an UI Integrity Action Plan.¹

The Department reports the annual report and operational overpayment rates, as well as the underpayment rate to Office of Management and Budget (OMB)², as part of its [IPIA](#) reporting. It is extremely important that BAM accurately measures the level of improper payments so that performance against the targets can be properly evaluated.

¹ Unemployment Insurance Program Letter No. 21-11; http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=3050

² Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123;
<http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-16.pdf>

UI benefit payments included in BAM in calendar year (CY) 2011 decreased to \$47.9 billion, compared with nearly \$58.0 billion in CY 2010. CY 2011 BAM paid claims results are based on the 24,676 sample cases. This represents a completion rate of 99.99 percent. BAM auditors completed claimant interviews in 93.61 percent of the cases. The remaining audits were completed based on information obtained from agency records, the claimants' former employers, and third-party sources, such as labor unions and private employment agencies. No single measure can reflect all aspects of UI benefit payment integrity. The Department uses six analytical measures to assess SWA payment accuracy and estimate the risk of erroneous denial of benefits. Individual SWA rates reflect state law, administrative code or rules, and policy. National results reflect all SWA findings (the Virgin Islands are exempt from operating a BAM program due to cost benefit considerations).

BAM Annual Report Rate (10.67%)³ - The annual report rate is the broadest measure of payments determined to be overpaid. The rate includes fraud, nonfraud recoverable overpayments, nonfraud nonrecoverable overpayments, official action taken to reduce future benefits, and payments that are technically proper due to finality or other rules. The rate excludes payments determined to be "technically" proper due to law/rules requiring formal warnings for unacceptable work search efforts. All causes and responsible parties are included in this rate. When overpayments attributed to another SWA are excluded from individual state results, the annual report rate is 10.50 percent. Nationally, BAM estimates that \$5.11 billion in benefit payments were overpaid (including overpayments for which other SWAs were responsible).

BAM Operational Rate (6.12%)³ - The BAM operational overpayment rate includes those overpayments that the states are reasonably expected to detect and establish for recovery -- fraud and nonfraud recoverable overpayments, excluding work search, employment service (ES) registration, base period wage issues and miscellaneous causes, such as benefits paid during a period of disqualification, redeterminations, and back pay awards. Nationally, BAM estimates the operational rate dollars overpaid were \$2.93 billion.

Agency Responsibility (3.08%)³ - This rate includes overpayments for which the SWA was either solely responsible or shared responsibility with claimants, employers, or third parties, such as labor unions or private employment referral agencies. The rate includes fraud, nonfraud recoverable overpayments, nonfraud nonrecoverable overpayments, official action taken to reduce future benefits, and payments that are technically proper due to finality or other rules. When overpayments attributed to another SWA are excluded from individual state results, the agency responsible rate is 2.90 percent. Nationally, BAM estimates SWAs had contributory responsibility for \$1.47 billion in benefits overpayments.

Fraud (2.92%)³ - The definition of unemployment compensation (UC) fraud varies from state to state. Because fraud determination criteria and thresholds vary throughout the SWAs; the individual state rates reflect these differences. The rate includes all causes and responsible parties. Nationally, BAM estimates that \$1.40 billion in benefit payments were fraudulently claimed.

³ National rates are based on the CY 2011 SWA data; California results do not include mandated National Directory of New Hire crossmatch findings; several BAM units did not enforce work search requirements according to state laws.

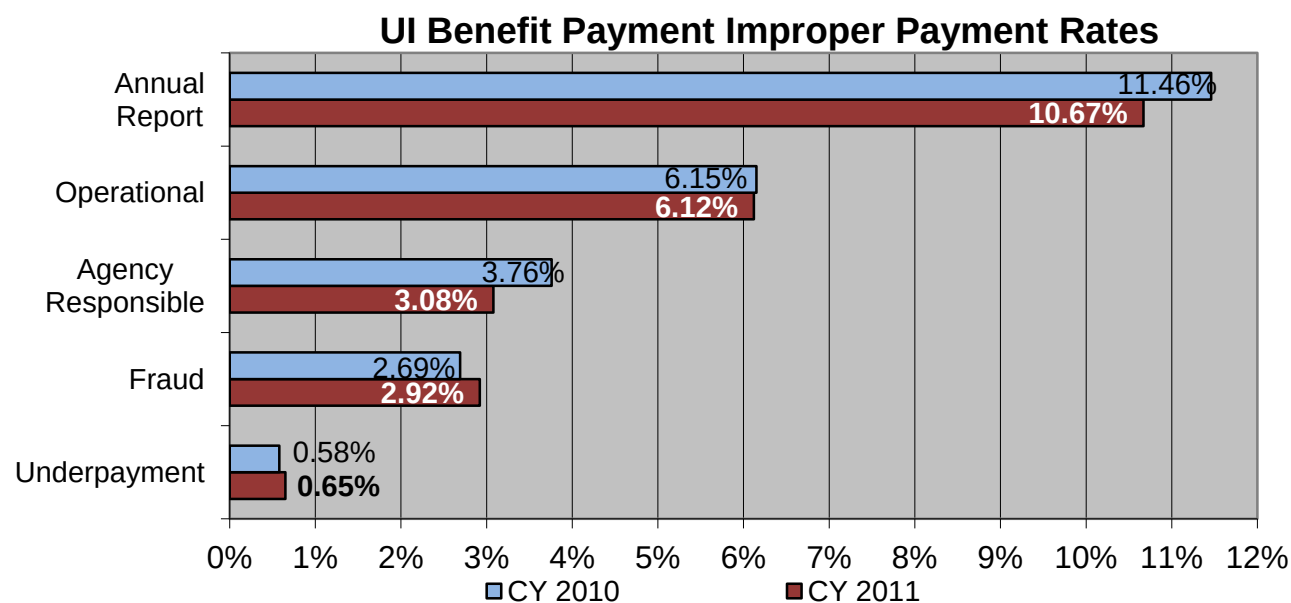
Underpayment Rate (0.65%)³ - This rate includes payments that the BAM investigation determines were too small. All causes and responsible parties are included in this rate. It includes errors where additional payment is made or those errors that are technically proper due to finality rules or technically proper due to rules other than finality. As a percentage of UI benefits paid, BAM estimates the underpayment rate was 0.65 percent or \$309 million.

Improper Denial Rates - BAM estimates the adjusted improper denial rates to be 6.97 percent for monetary denials, 6.42 percent for separation denials, and 12.58 percent for nonseparation denials.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages): [CY 2011 Integrity Rates all states.xls](#)

I. Paid Claims Accuracy

For each paid UI week investigated, referred to as the Key Week (KW), BAM records whether the payment was proper or improper and, if improper, the type of erroneous payment. Payment errors on the key week are used to generate improper payment estimates. The coding of BAM audit findings is consistent with the laws, rules and written policies of the each SWA⁴. BAM captures 110 data elements for each sampled payment or denial ([ET 395 Handbook 5th Edition BAM State Operations Guidance](#)). Data for nine of these elements are completed only for erroneous payments or denials. The Department uses these elements to produce the various integrity rates listed. The following chart summarizes four paid claim accuracy (PCA) rates, which are used for calculating overpayment estimates.



Each integrity rate represents a different view of the BAM data set. The BAM data construct provides multiple perspectives; and payment errors may be included or excluded for a specific

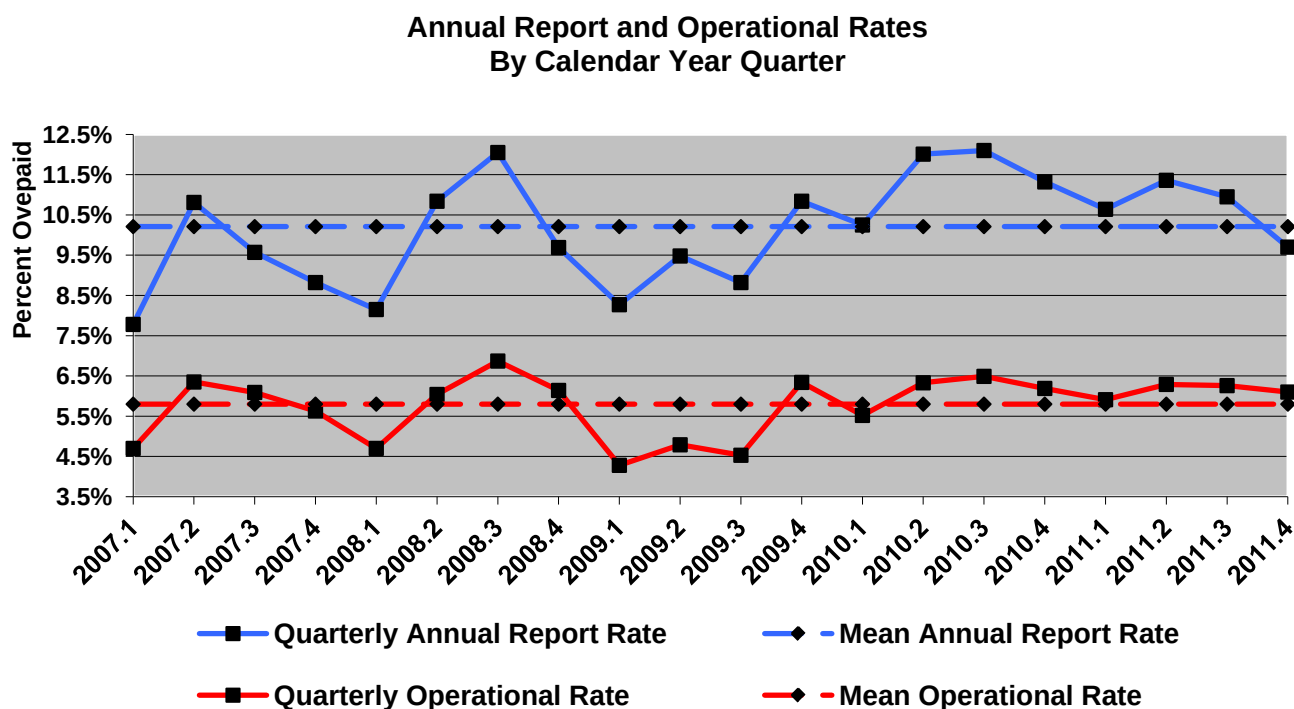
⁴ Comparison of State Unemployment Laws, <http://www.oui.doleta.gov/unemploy/comparison2011.asp>

rate (See [Methodology and Program Description](#) Integrity Rate definitions). The Operational, Fraud, and Agency Responsible Rates are subsets of the annual report rate.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages): [CY 2011 - CY 2010 Integrity Rate Changes.xlsx](#)

Annual Report and Operational Rate Time Series

The following chart displays the annual report and operational overpayment rates by calendar quarter. For the period CY 2007 to CY 2011, the average annual report rate was 10.21 percent and the average operational rate was 5.80 percent.



The chart displays the contrast between these two rates and the impact of excluding the payment errors that are considered “not detectable by normal means” or are cost prohibitive to establish and recover.

In contrast to the U. S. graph above, SWA rates show a higher degree of volatility from one quarter to the next. The quarterly volatility is in part due to the smaller sample sizes at the state level, the probability of sampling a given number of weeks with payment errors, and seasonal factors. This volatility is one of the reasons that the Overpayment Detection Core Measure uses three years of BAM data. This demonstrates that SWAs should be cautious in making performance assumptions and judging corrective actions effectiveness based on a single calendar quarter data.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY07-CY11 Annual Report & Operational Overpayment Rates by Quarter&State.xlsx](#)

BAM Operational Overpayment Rate

The BAM operational rate is a component of the performance indicator that measures the detection of recoverable overpayments, which is one of five UI program performance goals that the Employment and Training Administration (ETA) has set as part of its Government Performance and Results Act (GPRA) plan. These GPRA goals reflect the UI program's benefit payment, tax, and reemployment facilitation responsibilities.

The [overpayment detection measure](#) is also a Core Measure for [UI Performs](#), the UI performance management system. The UI Performs Overpayment Detection Core Measure covers a three-year period, and the GPRA measure is for a one-year period. The measure is defined as the percentage of recoverable, detectable overpayments estimated by BAM that state Benefit Payment Control (BPC) operations establish for recovery.

$$\text{Overpayment Detection Measure} = \frac{\text{Overpayments Established (BPC)}}{\text{Estimated Overpayments (BAM Operational Rate x benefits paid)}} \times 100$$

The denominator or operational rate estimate represents that portion of total overpayments that state BPC operations should be able to detect and establish for recovery. The operational rate was developed following an extensive analysis of BAM overpayment data. State and national overpayment detection measure data can be found at the following links:

GPRA Measure- <http://www.oui.doleta.gov/unemploy/gpra.asp>

Core Measure - http://www.oui.doleta.gov/unemploy/3yr_overpay.asp

The minimum Acceptable Level of Performance (ALP) for the Detection of Overpayments Core Measure is 50 percent, using a three-year average of the measure. There is also an upper limit to the ALP. When a state exceeds the upper limit of performance of 95 percent, it indicates a problem with the state's BAM methodology and/or reporting of overpayment established by BPC.

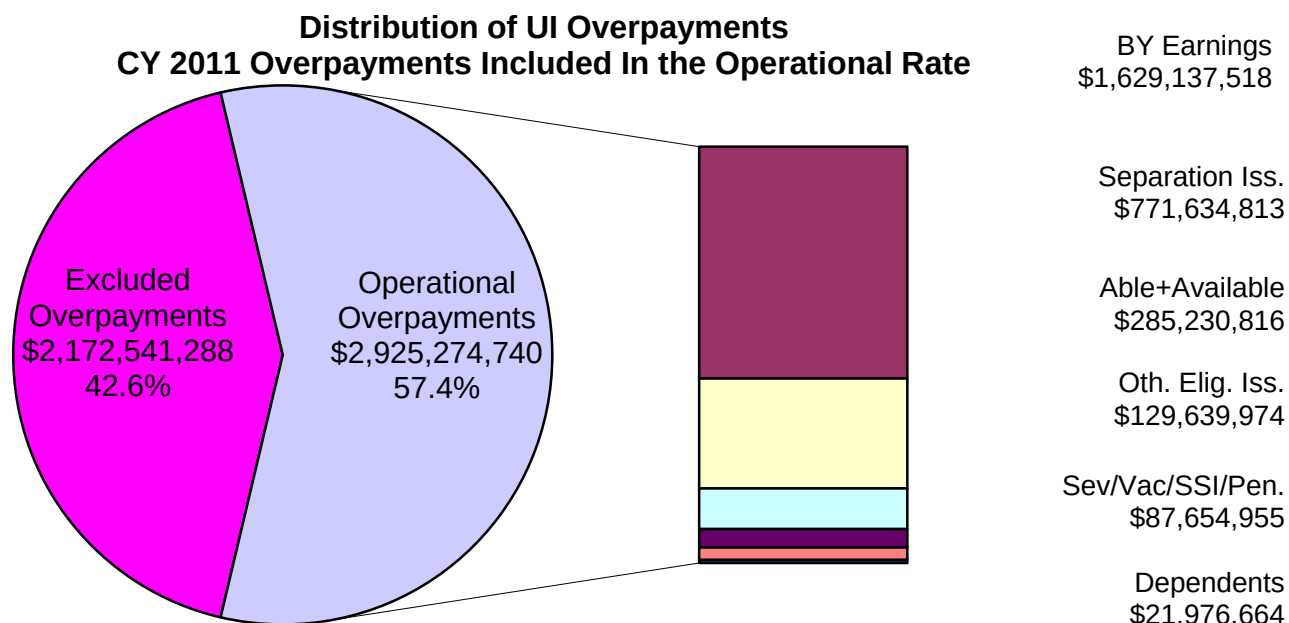
The following section illustrates the cause components of the operational rate and the types of overpayments excluded from the operational rate.

Operational Overpayments

Overpayments included in the operational rate constitute 57.4 percent of all UI benefit dollars overpaid in CY 2011. Slightly more than half of the operational overpayments involve unreported or misreported benefit year (BY) earnings. Separation issues account for just over one-quarter of the operational overpayments, followed by issues related to the claimant's ability to work and availability for work (A&A).

The "Other Eligibility" category includes refusal of suitable work, self-employment, alien status, identity theft, and reporting issues (failure to appear as requested by the SWA to provide information related to the UI claim). Deductible Income issues include benefit eligibility

determinations involving the impact of payments received by the claimant such as severance pay, vacation pay, or pension (Sev/Vac/SSI/Pen.).



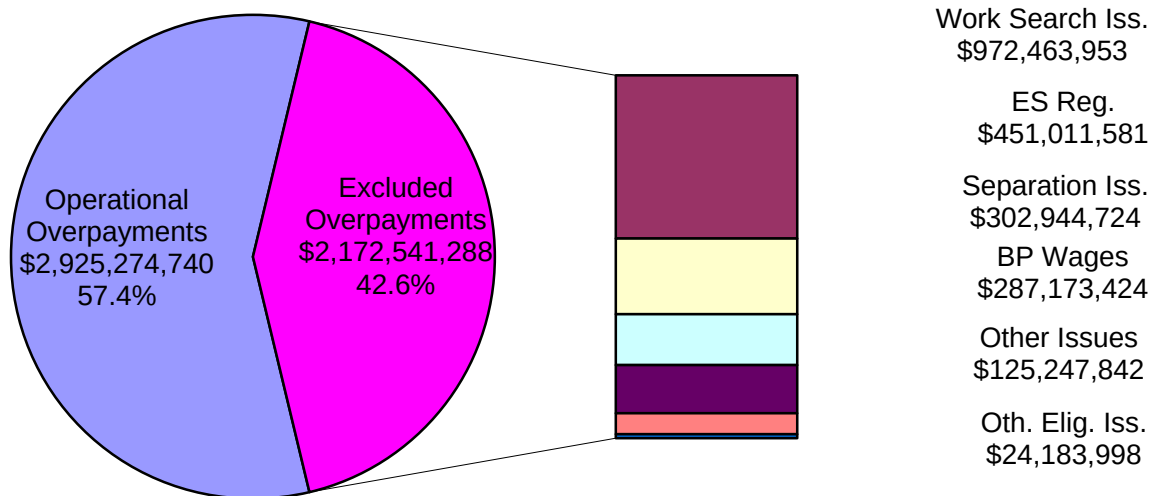
Overpayments Excluded from the Operational Rate

Several overpayment causes are excluded from the operational rate because either 1) SWAs are unlikely to detect these overpayments through the methods commonly employed by BPC (for example, crossmatches of UI claimant Social Security Numbers with wage record and New Hire Directory data, appeals reversals, and tips or leads); or 2) the cost of pursuing these overpayment errors exceeds the amount of benefits that can be recovered.

Work search issues (44.8 percent of all excluded overpayments), ES registration issues (20.8 percent of all excluded overpayments), separation issues and base period wage issues (representing slightly more than 13.9 percent and 13.2 percent respectively of all excluded overpayments) constitute the majority of the excluded causes.

After the exclusions by cause, the residual 7.9 percent of UI overpayments excluded from the operational rate are found unrecoverable, because either 1) the time that has elapsed between the overpayment and its detection exceeds the period established in state law in which an erroneous payment can be recovered; or 2) responsibility for the improper payment error rests with the agency, employer, or third party, not the claimant; or 3) state law prohibits the SWA from re-determining an issue that has been previously addressed (finality rule). Most of these nonrecoverable overpayments are separation or continued eligibility issues, such as the requirement that the claimant is able and available for work.

**Distribution of UI Overpayments
CY 2011 Overpayments Excluded In the Operational Rate**



For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Overpayment Causes Included & Excluded from the Operational Rate.xlsx](#)

Overpayment Cause by Integrity Rate

The Unemployment Insurance initial qualification and continuing eligibility requirements are complex. Benefit payments are limited to weekly and maximum benefit amounts. Benefits are restricted to a specific time period (benefit year). Claimant turnover is high with finite duration and opportunities to return to employment. This complexity lends itself to improper payments; therefore the causes of these improper payments are diverse. Errors can occur at any of the process points discussed below. However, an error may or may not make the key week improperly paid.

All states require that a claimant must have earned a specified amount of wages or must have worked a certain number of weeks or calendar quarters in covered employment, or must have met some combination of the wage and employment requirements within his/her base period, to qualify for benefits. The purpose of such qualifying requirements is to restrict benefits to covered workers who are genuinely attached to the labor force.

All state laws provide that, to receive benefits, a claimant must be free from disqualification for actions such as voluntary leaving work without good cause, or discharge for misconduct connected with the work, or refusal of suitable work. Such disqualifying actions may occur prior to the initial application or claim for benefits or at any point during the benefit year. The purpose of these provisions is to limit payments to workers unemployed primarily as a result of economic causes.

All state laws provide that, to receive benefits, a claimant must meet week-to-week eligibility requirements. The general rule is that claimants must be able to work, available for work, registered for employment services, report when directed to the agency, and actively seek work. Some states provide dependent allowances in certain instances. Finally claimants may be subject to a reduction in benefit amounts payable based on any benefit year earnings (partial employment) or deductible income received. Claimants certify their weekly eligibility status when claiming benefits.

To determine improper payments and their causes, the BAM program - as a statistical survey - uses standardized questionnaires to gather information. The BAM investigator applies all facets of state law, administrative code and official policy to the case findings to determine whether a key week payment is proper or improper. Although the legal basis for determining whether a payment is proper or improper may be different from state to state, the causes of errors are common across the nation. The BAM program relies on a standardized coding system to categorize improper payments⁵ into major categories.

Codes	Cause Group Description	Codes	Cause Group Description
100 - 119; 150 -159	Benefit Year Earnings	420 - 429	Work Search Issues
120 -149	Deductible Income	460 -469	Employment Service Reg.
200 - 259	Base Period Wage Issues	430 - 459; 470 - 489	Other Eligibility Issues
300 - 329	Separation Issues	500 - 519	Dependents' Allowances
400 - 419	Able & Available Issues	600 - 639	Other Issues

The distribution of the causes for UI overpayments varies considerably among the four overpayment integrity rates.

CY 2011 Overpayment Cause By Integrity Rate Percent of the Estimated Dollars Overpaid				
Cause	Annual Rate	Operational Rate	Fraud Rate	Agency Responsible
Benefit Year Earnings	32.00%	55.69%	64.48%	7.71%
Separation Issues (Iss.)	21.08%	26.38%	24.26%	34.82%
Work Search Iss.	19.08%	N/A	1.69%	11.89%
ES Registration Iss.	8.85%	N/A	0.10%	24.78%
Base Period Wage Iss.	5.63%	N/A	0.25%	3.29%
Able & Available Iss.	5.29%	9.75%	4.80%	3.78%
Other Eligibility Iss.	3.02%	4.43%	1.66%	5.00%
Other Issues	2.46%	N/A	2.07%	5.82%
Deductible Income Iss.	2.13%	3.00%	0.53%	2.49%
Dependents	0.47%	0.75%	0.16%	0.42%
Total \$ Overpaid by Rate	\$5,097,816,028	\$2,925,274,740	\$1,400,514,126	\$1,471,269,341

⁵ http://wdr.doleta.gov/directives/attach/ETHandbook_395_Ch5_acc.pdf, Chapter V, pp. V-5 through V-7

The elements included or excluded from the various rates influence this distribution (See [Methodology and Program Description](#) Integrity Rate definitions for inclusion or exclusion from various rates).

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages): [CY 2011 Integrity Rates x Cause.xlsx](#)

Unemployment Insurance Program Letter No. 21-11 requires states to analyze their BAM data to identify the top root causes for improper payments and develop strategies that will be effective in reducing or recovering improper payments. Additional analysis follows for the top three causes nationally.

Benefit Year Earnings

Cause Benefit Year Earnings	Annual Rate	Operational Rate	Fraud Rate	Agency Responsible
Estimated Amount by Cause	\$1,631,133,304	\$1,629,137,518	\$903,087,548	\$113,414,540
Estimated \$ Overpaid by Rate	\$5,097,816,028	\$2,925,274,740	\$1,400,514,126	\$1,471,269,341
Percent of Total \$ Overpaid	32.00%	55.69%	64.48%	7.71%

As displayed in the CY 2011 Overpayment Cause By Integrity Rate table, unreported or misreported benefit year earnings are the leading cause of UI overpayments. They account for slightly less than 64.5 percent of UI fraud overpayments, over half (55.7 percent) of the overpayments defined by the operational rate, and almost a third (32.0 percent) of the overpayments included in the annual report rate, but only 7.7 percent of the amount overpaid for which the agency had full or partial responsibility.

The UI system is designed to maintain and to encourage claimant attachment to workforce overall and/or to their previous employers in particular. The system does this by allowing partial payments, which are reduced for benefit year earnings (weekly benefit amount reduced as a result of wages, commissions, bonuses, tips or gratuities, odd jobs or self-employment income) and through workshare programs⁶ Because UI benefits only replace a portion of the claimant's previous base period wages, states have devised various earnings disregard and benefit reduction provisions. Ultimately, these payment adjustments require accurate reporting of these benefit year earnings.

Generally claimants are required to report this income when earned - not when paid, and claimants are required to report gross earnings - not net earnings. This benefit year earnings reporting procedure is part of the continued claimstaking process (See claim filing methods by state [CY 2011 Claim Filing Methods.xlsx](#)).

BAM collects data for several important UI eligibility criteria before and after the BAM investigation. Claimant earnings and adjustments to the claimant's weekly benefit amount (WBA) for the paid week (referred to as the key week) investigated by BAM can produce useful

⁶ Work Share: An alternative to employee layoffs, whereby a group of workers simply work shorter work weeks and are compensated for their lost work time with partial benefits. Workshare program payments are excluded from the BAM sample because many of the normal eligibility requirements are waived.

information related to benefit year earning (BYE) improper payments. The following two tables summarize the earnings and adjustments data before the BAM investigation, that is, at the time the claimant received benefits. In CY 2011, the BAM program reviewed 24,676 key weeks. For these 24,676 paid weeks, 2,746 or 11.1 percent of the weeks investigated had benefit year earnings reported at the time of payment.

Earnings Before Investigation	Cases	%
No Earnings Reported	21,930	88.87%
Earnings Reported	2,746	11.13%
Total	24,676	100.00%

Only 2,105 or 8.5 percent of 24,676 paid weeks had reduced benefit amounts based on the earnings initially reported.

Adjustments Before Investigation	Cases	%
No Adjustments	22,571	91.47%
Adjustments	2,105	8.53%
Total	24,676	100.00%

BAM investigations gathered additional information that affected the accuracy of the initial earnings and adjustments information. The following table summarizes changes in claimant earnings data.

Earnings After Investigation	Cases	%
No Earnings Initially Reported	21,930	
No Earnings After Investigation	20,999	95.75%
Had Earnings After Investigation	931	4.25%
Total		100.00%
Earnings Initially Reported	2,746	
Earning Accurately Reported	1,388	50.55%
Earning Under Reported	992	36.13%
Earning Over Reported	366	13.33%
Total		100.00%

Investigators found 931 paid weeks (4.25 percent) of the weeks with no initial benefit year earnings actually had earnings income. Just over 50 percent (1,388 weeks) of the 2,746 weeks with benefit year earnings initially reported actually had the earnings reported accurately. However, 992 weeks, representing 36.1 percent of the weeks with earnings initially reported, had under reported earnings (claimant earned more than reported), and 366 weeks (13.3 percent) of the weeks had over reported earnings.

These findings with respect to claimant earnings affect the accuracy of adjustments to the claimant's WBA.

Adjustments After Investigation	Cases	%
No Initial Adjustments	22,571	
Payment Reduced (Overpayment)	924	4.09%
Payment Increased (Underpayment)	266	1.18%
Initial Adjustments	2105	
Further Reductions	747	35.49%

BAM investigators found that the WBA should be reduced for 924 (4.1 percent) of the 22,571 weeks having no earning adjustment before investigation. On the other hand, investigators found that 266 claimants were underpaid, because their wages had been initially over reported. Finally, BAM investigations found that WBAs should be reduced further for 747 (35.5 percent) of the 2,105 paid weeks for which benefits had already been initially reduced.

Accurate reporting of claimants' benefit year earnings and timely earning verification by employers are essential in preventing and identifying these types of issues. States report all weeks compensated and weeks compensated for total unemployment on the ETA 5159 Claims and Payment Activities report. From these numbers the number of weeks compensated requiring additional adjustments to the weekly benefit amount due to unreported or underreported earnings can inferred.

CY 2011 ETA 5159 Report

All weeks paid (c38)	Total Unemployment weeks paid (c39)	UCFE / UCX weeks paid (c41)	Total Weeks Paid (c38)+(c41)	% Weeks adjusted Partial employment ((c38 -c39) /c38)	Total weeks paid with BYE adjustments	Total weeks without BYE adjustments
165,489,351	148,546,576	3,887,414	169,376,765	10.24%	17,340,768	152,035,997

If the 35.49 percent improper rate of paid weeks with initial earning adjustments that required additional adjustments due to underreported earnings is applied to the population of 17,340,768 total weeks paid with BYE adjustments, then further reductions should be applied to an additional 6,153,707 weeks compensated. If the 4.09 percent improper rate paid weeks having no earning adjustment before investigation that required the WBA to be reduced after investigation is applied to the 152,035,997 total weeks paid without BYE adjustment, then states should have reduced benefits for an additional 6,218,272 weeks. Wage benefit and new hire crossmatching are necessary to detect these types of benefit earning errors and employers must respond to these earnings audits. Additionally, clear and concise claimstaging protocols are necessary for capturing benefit year earnings information.

The attached excel spreadsheet summarizes the findings for these elements: (Click on the following link; note: the spreadsheet may have several pages):

[CY 2011 Benefit Year Earnings Counts.xlsx](#)

Separation Issues

Cause Separation Issues	Annual Rate	Operational Rate	Fraud Rate	Agency Responsible
Estimated Amount by Cause	\$1,074,579,537	\$771,634,813	\$339,701,855	\$512,328,936
Estimated \$ Overpaid by Rate	\$5,097,816,028	\$2,925,274,740	\$1,400,514,126	\$1,471,269,341
Percent of Total \$ Overpaid	21.08%	26.38%	24.26%	34.82%

As displayed in the CY 2011 Overpayment Cause By Integrity Rate table, separation issues are the second leading cause of UI overpayments. They account for nearly 21.1 percent of the annual report rate, 26.4 percent of the operational overpayments, and 24.3 percent of the fraud overpayments. However separation issues are the leading cause (34.8 percent) of the amount overpaid for which the agency had full or partial responsibility.

Being involuntarily unemployed – that is, unemployed through no fault one’s own - is a basic eligibility requirement. All state laws provide that, to receive benefits, a claimant must be free from disqualification for such acts as voluntary leaving work without good cause, or discharge for misconduct connected with the work. Such disqualifying acts may occur prior to the initial claim for benefits or at any point during the benefit year. The SWAs have the crucial responsibility of identifying and pursuing separation issues, conducting fair and impartial fact finding hearings, and determining whether the employment separation is disqualifying. Separation fact finding hearings involve input from both employers and claimants and the facts may be disputed. The Benefits Timeliness and Quality (BTQ) [guide sheets 1 and 2](#) in the ET Handbook No. 301, 5th Edition, show the complexities of fact finding and the central role SWAs play in determining eligibility. However, the process demands employers and claimants provide complete and timely facts to separation adjudicators so the state can appropriately apply the law.

The SWA’s central role in separation eligibility determinations is reflected in the agency responsible rate. BAM investigators found separation errors in 704 of the 24,676 cases investigated. In 305 of those 704 cases, the SWA’s action or inaction contributed to the error. But in only 105 of the 305 cases did the agency have exclusive responsibility; in the remaining 200 cases the agency shared responsibility with another party.

Further insight is gained on separations by examining the sections Agency Action Prior to Sample Selection for Overpayments, Employer Action Prior to Sample Selection for Overpayments, and Claimant Action Prior to Sample Selection for Overpayments. The BTQ program, although not designed to provide payment accuracy information, looks at the SWA’s role in obtaining information and providing due process in separation hearings. In CY 2011 BTQ found more than a quarter of 3,810 separation determinations allowing payments reviewed had inadequate information or information not obtained from the employer or claimant or third parties. These determinations to allow payment based on inadequate separation information become weeks compensated which are included in the BAM population. In addition, BAM also detects separation issues not adjudicated by the state agency or arising from concealed employment.

The attached excel spreadsheet summarizes these BTQ findings:

[CY 2011 BTQ Allow Separation Determinations Adequacy of Information.xlsx](#)

Work Search Issues

Cause Work Search Issues	Annual Rate	Operational Rate	Fraud Rate	Agency Responsible
Estimated Amount by Cause	\$972,463,953	N/A	\$23,685,745	\$174,899,434
Estimated \$ Overpaid by Rate	\$5,097,816,028	\$2,925,274,740	\$1,400,514,126	\$1,471,269,341
Percent of Total \$ Overpaid	19.08%	N/A	1.69%	11.89%

As displayed in the CY 2011 Overpayment Cause By Integrity Rate table, work search issues are third leading cause for the broadest measure of overpayments, the annual report rate (19.1 percent), but are not a significant cause of either fraud overpayments (1.7 percent) or overpayments for which the agency had full or partial responsibility (11.9 percent). As discussed above in the operational rate section, work search issues are excluded from that rate.

The UI program helps workers to weather economic downturns by providing wage replacement benefits to eligible individuals. The program is designed to be a temporary support until workers are able to find new employment. A key assumption of the program is, therefore, that claimants are actively attempting to obtain employment. However, the Department's contemporaneous interpretation of the original Social Security Act (SSA) in 1935 was that federal law does not require a work search for the regular UC program.⁷ In fact, current federal work search regulation in 20 CFR 604.5(h) provides: "The requirement that an individual be available for work does not require an active search for work on the part of the individual. States may, however, require an individual to be actively seeking work to be considered available for work, or States may impose a separate requirement that the individual must actively seek work."⁸

Therefore, in absence of a federal standard, states have independently established laws, administrative codes and official policies which maintain that providing benefits to claimants who have no likelihood of re-employment and are not actively seeking employment is, therefore, a violation of the availability tenet of the UI program. In addition, some states and many employers believe a failure to conduct an active search for work may increase benefit duration and contribute to the strain on the financial integrity of the system. The BAM program estimates the improper payments due to work search. The improper payment can be seen in the annual report section of the excel spreadsheet, [CY 2011 Integrity Rates x Cause.xlsx](#).

States have devised numerous work search standards. In many states, claimants must make a minimum number of employer contacts each week. Within a state there may be differences on the number contacts required based on labor market characteristics while in other states the number of contacts is standard throughout the SWA. Some of these states may allow certain activities such as completing job search seminars or networking to substitute for employer contacts. Depending on occupation some states require claimants to contact the

⁷ Federal Register /Vol. 72, No. 9 /Tuesday, January 16, 2007 /Rules and Regulations p. 1891

⁸ Congress passed and the President signed the Middle Class Tax Relief and Job Creation Act of 2012 (Pub.L. 112-96), on February 22, 2012 which amended section 303(a), SSA to add as a condition of states receiving federal grants to administer the state UI law "(12) A requirement that, as a condition of eligibility for regular compensation for any week, a claimant must be able to work, available to work, and actively seeking work."

employer in person. As a condition of eligibility many states require a claimant to maintain a log of weekly work search contacts and provide the record for verification purposes. Some states allow a claimant to simply attest without presenting any tangible evidence that they have made an active search for work. A few states use a work search standard of what a reasonable and prudent person situated in similar situation would do in order to return to work. As with the work search standards, enforcement varies considerably from state to state.

As a result of these diverse work search eligibility standards, there is tremendous work search error rate variability among states. A lower error rate could reflect a higher rate of work search compliance within the state (which in turn could be due either to greater search efforts by claimants or to less stringent requirements for work search), greater leniency by an SWA in the circumstances under which it considers claimants' lack of compliance in work search or reporting as constituting an improper payment, varying SWA standards for verification of claimant provided contacts /activities, differences in how BAM audits are conducted, or the SWA BAM program's failure to consistently apply state laws in evaluating its cases.

The BAM program captures seven data elements to assist the state investigators in determining claimant work search compliance. Claimants are asked about their work search efforts in question 42 on the claimant questionnaire (ET Handbook No. 395, 5th Edition, Appendix B, page 5). Detailed listings of these elements for each state (for those claimants are required to actively seek work) can be found in the attached spreadsheet. (Click on the following link; note: the spreadsheet may have several pages):

[CY 2011 Work Search Verification Outcomes.xls](#)

Several things are apparent in the detail data:

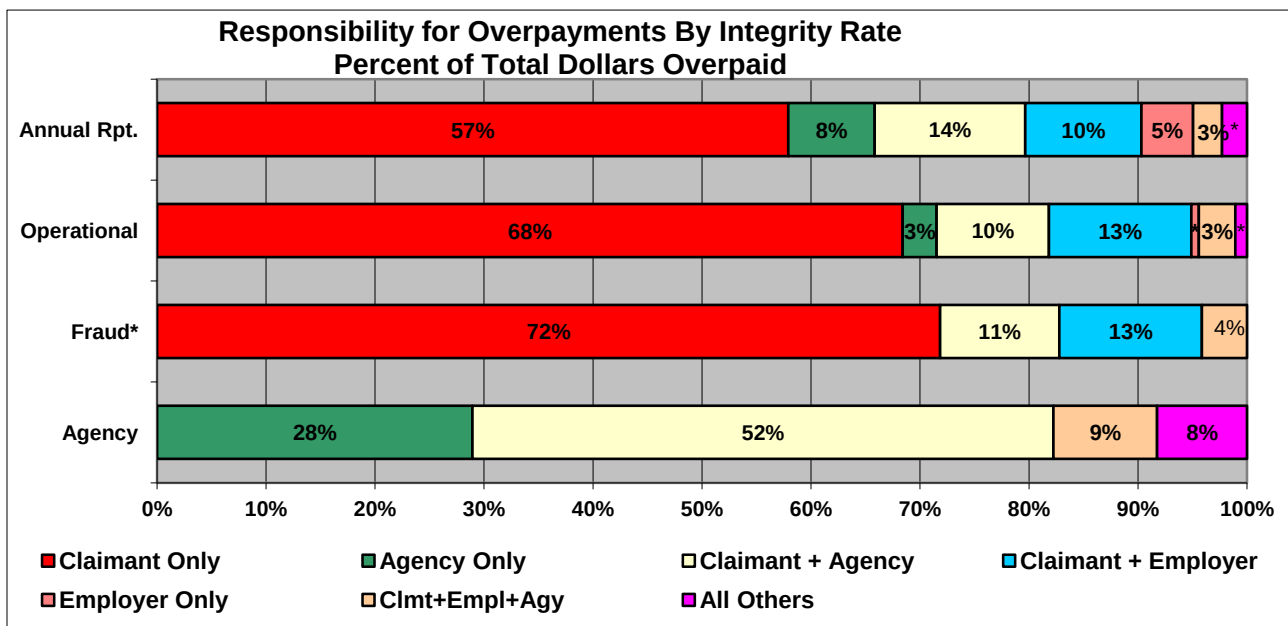
- For over a third of all key weeks investigated where the claimants were required to conduct an active work search, the claimants did not or could not provide employer contacts or activities for verification.
- For eligibility determination purposes it appears that claimants are often given the benefit of doubt when they indicate they do not know the contacts made or activities completed for the week being reviewed.
- Many states do not reach a conclusion about whether the claimant made an active work search when they fail to respond to the BAM investigation.
- Some states are not complying with state law, administrative code / rules and policies dealing when coding work search compliance and improper payments.

It is important to note that the data set does not provide a comprehensive description of variation in states' work search policies. States differ in their policies and practices regarding work search. These differences include definitions of the work search effort that UI claimants are required to undertake, requirements to record and report their efforts, and SWAs' efforts to verify and enforce adherence to requirements. They also differ in the conditions under which they categorize a claimant's noncompliance with work search requirements as an improper payment. Those policies and practices are complex, nuanced, and not always well documented.

Overpayment Responsibility by Integrity Rate

BAM identifies the party or parties responsible for all payment errors. As with cause, the distribution of overpayment responsibility varies considerably by integrity rate; however, claimants are central. A fundamental aspect of payment "when due," for purposes of Section 303(a)(1), SSA, is that UC is due to claimants who are eligible under State law. Eligibility for UC is determined on a week-by-week basis. During a continued claim series, a claimant must certify as to continuing eligibility for each week. If information provided by the claimant or others establishes eligibility, the State agency manifests its determination of eligibility for that week by issuing compensation to the claimant. Only when a question concerning continued eligibility for benefits for a given week arises does the SWA conduct an investigation of the facts and makes a determination of eligibility or ineligibility; otherwise payment is made.⁹

Because claimants control much of the information used to determine weekly eligibility, they alone were responsible for 57 percent of the dollars overpaid included in the annual report rate. Errors resulting in overpayments that were attributed exclusively to the SWA accounted for 8 percent of the amount overpaid. The claimant and agency were jointly responsible for an additional 14 percent of the dollars that were overpaid and the claimant and employer were jointly responsible for an additional 10 percent of the annual rate overpayments.



* Less than 3 percent of the overpayments were classified as this responsibility.

Claimants alone were responsible for 68 percent of the amount overpaid included in the operational rate. The claimant and agency were jointly responsible for 10 percent of the UI benefits overpaid under the operational rate definition, and the claimant and employer were jointly responsible for an additional 13 percent of the operational rate overpayments.

⁹ Unemployment Insurance Program Letter No. 04-01, "Payment of Compensation and Timeliness of Determinations during a Continued Claims Series"

Claimants alone were responsible for 72 percent of the fraud overpayments. Claimants along with employers or agencies were responsible for nearly all of the remainder.

The agency rate is defined by responsible party. The SWA was solely responsible for 28 percent of the amount overpaid included in this rate. Agencies shared responsibility with claimants, employers, or third parties for the remainder.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Integrity Rates x Responsibility.xlsx](#)

[CY 2011 Annual Report Rate Cause and Responsibility.xlsx](#)

Claimant Action Prior to Sample Selection for Overpayments

In the case of payment errors, BAM identifies the action that the claimant took prior to the sample's selection. Prior claimant action provides additional details on improper payment responsibility and helps prioritize ways to prevent, reduce, or detect overpayments.

Claimants provide most of the information that agencies use in determining eligibility for UI benefits. Initial eligibility is determined using claimant and/or employer information to establish monetary eligibility. Claimants must have had sufficient employment attachment and wages to be monetarily eligible. Along with monetary requirements, each state's UI law requires workers to meet nonmonetary requirements. Federal law mandates some of these requirements. The general rule is that workers must have lost their jobs through no fault of their own and must be able, available, and actively seeking work.

Continuing eligibility for UI is determined on a week-by-week basis. During a continued claim series, a claimant must certify their continuing eligibility for each week.

Errors can occur anywhere in this business process. BAM assigns a code to indicate action(s) taken by the claimant affecting the payment error issue by recording the following actions:

- Claimant provided adequate and timely information to SWA for determination.
- Claimant provided adequate information to SWA after due date for determination.
- Claimant provided timely but inadequate information to SWA for determination.
- Claimant provided inadequate/incorrect information to SWA after due date for determination.
- Claimant did not respond to SWA request for information.
- SWA did not request the claimant to provide information.

Depending on the cause, BAM often finds claimants responsible for overpayments because they are a principal source of information. Prior claimant action provides insight into this coding. For example, in 88.3 percent of the benefit year earnings overpayments and 59.3 percent of the separation overpayments, the claimant provided inadequate but timely information contributing to \$2.05 billion overpaid in these two cause categories. Also, this shows the importance of verifying separation and earnings information with employers.

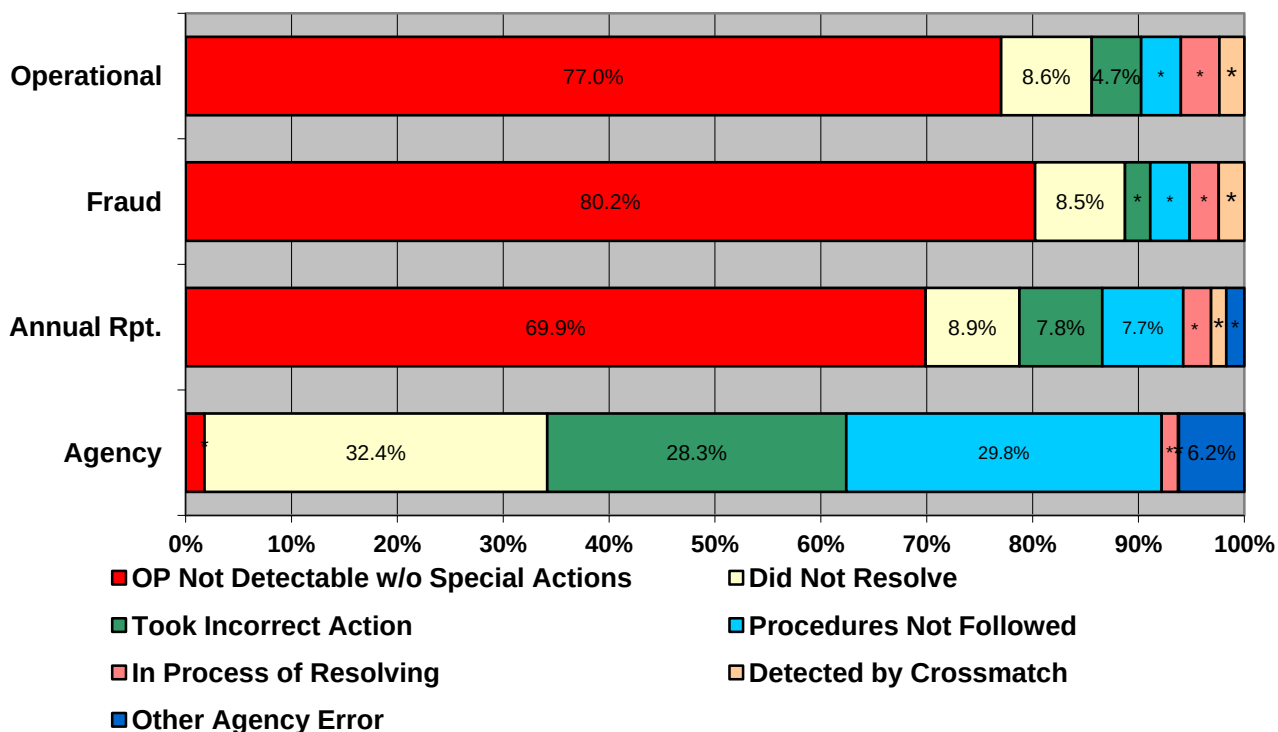
For a detailed listing of this rate, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Cause x Prior Claimant Action.xlsx](#)

Agency Action Prior to Sample Selection for Overpayments

In the case of payment errors, BAM identifies the action that the SWA took prior to the sample's selection. Prior agency action provides additional details on improper payment responsibility and helps prioritize ways to prevent, reduce, or detect overpayments. At the time the SWA made payment, BAM found most overpayments were not detectable through normal agency procedures. For example, without special actions 77.02 percent of the operational rate's \$2.93 billion overpaid were not detectable without special actions.

Agency Action Prior to Sample Selection for Overpayments
Percent of Total Dollars Overpaid



*Less than four percent of total dollars overpaid were identified with this prior agency action.

However, BAM determined that 22.97 percent of the operational overpayments were detectable at the time the payment was made. BAM found that at the time the sample was selected the agency had resolved or was in the process of resolving just under 3.65 percent of the operational overpayments and identified an additional 2.35 percent of benefit year earnings overpayments through crossmatch with new hire or wage records investigation. For the remainder (16.97 percent or \$496.5 million) of the operational dollars overpaid, the agency had sufficient information to identify the overpayment issue but did not resolve the issue, identified

the overpayment issue but took the incorrect action, or did not follow the prescribed procedures thereby precluding the SWA's ability to detect the error.

Eighty percent of the overpayments determined to be due to fraud were not detectable through normal agency procedures at the time the payment was made. Again, BAM found that special agency actions (e.g. crossmatching with the National Directory of New Hires or taking additional steps to secure employer information) were required to prevent or detect these overpayments. The remaining fraud overpayments were distributed among the other prior agency action categories similar to the operational overpayments.

For overpayments included in the annual report rate, just slightly less than 69.9 percent of the amount of UI benefits overpaid was not detectable through normal agency procedures. The agency had sufficient information but did not resolve the issue for 8.9 percent of the amount overpaid, and the agency identified the overpayment issue but took the incorrect action for 7.8 percent of dollars overpaid. The agency failed to follow its own procedures, which precluded the ability to prevent the overpayment, for 7.7 percent of the annual rate dollars overpaid. At the time BAM selected the sample, the agency had resolved or was in the process of resolving improper payments constituting 2.6 percent of the amount overpaid. Additionally, the agency identified 1.4 percent of these overpayments using crossmatches. Finally, a small portion of dollars overpaid are caused by another SWA.

BAM determined SWAs were responsible (agency rate) for \$1.47 billion because they had full or partial responsibility for the overpayment. Of these, the agency had sufficient information to identify the overpayment issue but did not resolve the issue for 32.4 percent of the amount overpaid; took the incorrect action for 28.3 percent, and did not follow procedures thereby precluding the SWA's ability to detect the payment error for 29.8 percent of the amount overpaid. The remaining overpayments for which the agency had full or partial responsibility were either not detectable through normal procedures at the time the payment was made or the agency had resolved or was in the process of resolving improper payments or the error was committed by another SWA.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Prior Agency Action All Integrity Rates.xlsx](#)

[CY 2011 Cause x Prior Agency Action.xlsx](#)

Employer Action Prior to Sample Selection for Overpayments

In the case of payment errors, BAM identifies the action that the employer took before the payment was selected for the BAM sample. Prior employer action provides additional details on improper payment responsibility and helps prioritize ways to prevent, reduce, or detect overpayments. As discussed in the previous section, BAM considers a large majority of the overpayments included in the annual report, operational, and fraud rates to be undetectable by the agencies during their usual payment administration processes, and thus prohibitively expensive for the agency to prevent. However, BAM detects the majority of its payment errors through the verification of claim information with employers.

Although claimants provide most of the information that agencies use in determining eligibility for UI benefits, employers also provide critical information to the agencies. For example, employers provide wage information, which is used to calculate the claimants' weekly benefit payments; respond to notices of new initial and additional claims by providing information on the reason for the claimant's separation; submit notices of new hire, which agencies use to detect claims filed by individuals who have returned to work; and provide detailed information that may corroborate or contradict claimant provided information on issues that affect eligibility, such as availability for work, work search, job refusal and benefit year earnings.

BAM data show that prior employer action is a critical factor in the agency's ability to prevent or detect many overpayments. BAM assigns a code to indicate action(s) taken by the employer affecting the payment error issue and records the following employer actions:

- Employer provided adequate information to SWA in a timely manner for the payment determination.
- Employer provided adequate information after due date for payment determination.
- Employer provided inadequate/incorrect information in a timely manner for payment determination.
- Employer provided inadequate/incorrect information after due date for payment determination.
- Employer did not respond to request for information.
- Employer did not report claimant as a "New Hire" as required by law.
- Employer, as an interested party, was not requested by agency to provide information for determination.
- Not an employer-related issue.

Because the state agency uses employer provided information in its eligibility determinations, the accuracy and timeliness of this information affect whether benefits were properly paid. Five of these actions may lead to improper payments. The following table displays prior employer actions for each of the integrity rates.

BAM estimates that employer actions may contribute to 20.2 percent of the overpayments included in the annual report rate, 17.9 percent of the operational rate dollars overpaid, 16.6 percent to the fraud rate dollars overpaid, and 17.3 percent of the overpayments included in the agency responsible rate. The highlighted sections show estimated overpayments where a different employer action in response to a claim may have produced a different outcome. For example, over \$482 million overpaid in the annual rate involved verification difficulties dealing with employment separations. An additional \$141 million overpaid involved employer verification problems and benefit year earnings. This is shown in a cross tabulation of [CY 2011 Cause x Prior Employer Action.xlsx](#). These overpayments may have been prevented or reduced if timely or accurate information had been provided.

CY 2011 Integrity Rates - Dollars Overpaid by Prior Employer Action				
Employer action as of the time that the payment was selected for audit	Annual Report Overpayments by Prior Employer Action	Operational Rate Overpayments by Prior Employer Action	Fraud Rate Overpayments by Prior Employer Action	Agency Responsible Rate Overpayments by Prior Employer Action
Not An Employer Iss.	\$2,303,115,192	\$919,322,824	\$433,355,371	\$670,936,048
Agency Did Not Request	\$866,584,151	\$824,444,124	\$452,010,472	\$129,816,988
Adequate & Timely	\$840,201,224	\$656,779,475	\$282,980,514	\$408,211,323
Did Not Respond	\$463,997,095	\$299,700,530	\$155,372,471	\$151,554,069
Inadequate	\$372,848,350	\$90,217,268	\$17,945,095	\$90,256,616
Not Timely	\$58,948,273	\$38,122,996	\$16,334,193	\$10,309,004
Inadequate & Untimely	\$34,004,570	\$11,742,942	\$4,934,662	\$2,873,773
Did Not Report New Hire	\$85,197,269	\$84,944,578	\$37,581,347	
Estimated dollars overpaid where a different employer action may have produced a different outcome	\$1,014,995,557	\$524,728,314	\$232,167,768	\$254,993,462
Percent of Total Dollars overpaid where a different employer action may have produced a different outcome	20.20%	17.94%	16.58%	17.33%
Total Estimated Overpaid	\$5,024,896,124	\$2,925,274,737	\$1,400,514,125	\$1,471,269,340
Total Benefits Paid	\$47,874,770,344	\$47,874,770,344	\$47,874,770,344	\$47,874,770,344
% of Benefit \$ Overpaid	10.50%	6.11%	2.93%	3.07%
Sample	24,676	24,676	24,676	24,676

One element stands out in the agency responsible error rate. For 8.8 percent of the total dollars overpaid or approximately \$129.8 million, BAM found that the SWAs did not request information from employers who were an interested party to a determination.

Overall, BAM data shows that prior employer participation is an essential factor in the prevention or detection of many overpayments.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Prior Employer Action All Integrity Rates.xlsx](#)

[CY 2011 Cause x Prior Employer Action.xlsx](#)

Point of Detection

BAM records the point in its audit process at which it first detects a payment error. BAM detects most payment errors by verifying base period wages, benefit year earnings, and separation information with employers. The data suggest that taking additional steps to secure employer information or to conduct more in-depth claimant interviews may influence overpayment amounts. For example, a cross tabulation displaying the joint distribution of the point of detection and overpayment cause shows that BAM found significant errors when

payment information is corroborated with employers and through extensive claimant interviews.

Point of Detection - Annual rate	Benefit Year Earnings	Separation Issues
Wage/ Earnings/ Separation Verification	\$1,049,241,109	\$549,312,067
Claimant Interview	\$154,118,951	\$102,614,238

BAM identified an additional \$826,792,454 of overpayments in agency "UI Records." Such overpayments may be displayed as erroneous prior agency actions.

Agency Actions	SWA identified KW issue prior to KW selection but took incorrect action.	SWA had sufficient documentation to identify that there was a KW issue but did not resolve the issue.
\$ by Prior Agency Action	\$393,222,011	\$445,345,341

This information taken together suggests that inadequate staff training and insufficient investigational time may be issues contributing to benefits being improperly paid. Also, benefit system limitations might influence these agency actions.

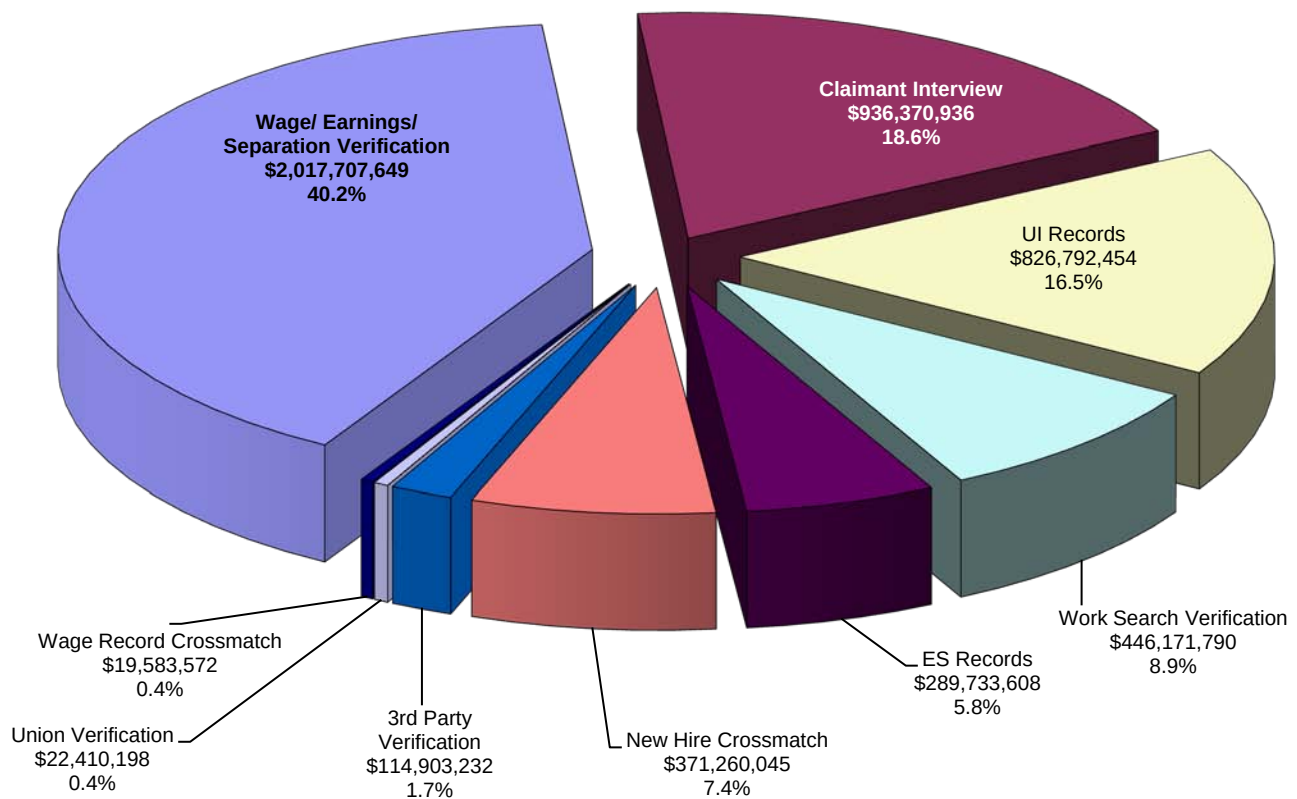
Within this framework, it is important to note that the audit process differs substantially from normal UI operations in terms of cost, time, and effort. BAM exhausts all avenues in obtaining information while UI operations make reasonable attempts. This procedural difference may contribute to BAM identifying some of these overpayments. However, Section 303(a)(1) of the SSA requires "[s]uch methods of administration . . . to insure full payment of unemployment compensation when due." Application of this "when due" provision requires the balancing of the dual concerns of promptness and accuracy. As well as promptness, the Department has always interpreted "when due", to require accuracy to ensure that payments are not made when they are not due.

BAM identified an estimated \$283.4 million in benefit year earnings and \$57.3 million in separation overpayments using the National Directory of New Hires (NDNH) crossmatch. These overpayments are identified with a specific detection point code. BAM also captures whether the agency had identified the overpayment at the time of sample selection. In many cases, the SWA has not taken action on the new hire hit when BAM selects its case. This strongly suggests that SWA should review and improve their crossmatch workflow processes and adjust their crossmatch parameters. The follow attached excel spreadsheet shows these results by state for benefit year earning and separation overpayments.

[CY 2011 BAM & SWA NDNH-SDNH Crossmatch Detections on cases.xlsx](#).

Aggregate CY 2011 Point of Detection data for all states are displayed in the following chart.

Annual Report Overpayments by Point of Detection -- CY 2011



Finally, in a number of states there appears to be systemic problems with information technology processes or standard operational procedures for enforcing ES registration requirements. BAM estimates that \$289.7 million in benefits were paid to ineligible claimants because they had failed to register with ES or the claimant's registration had expired and concludes that this information was readily available to the state SWA in the ES records.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Integrity Rates x Point of Detection.xlsx](#)

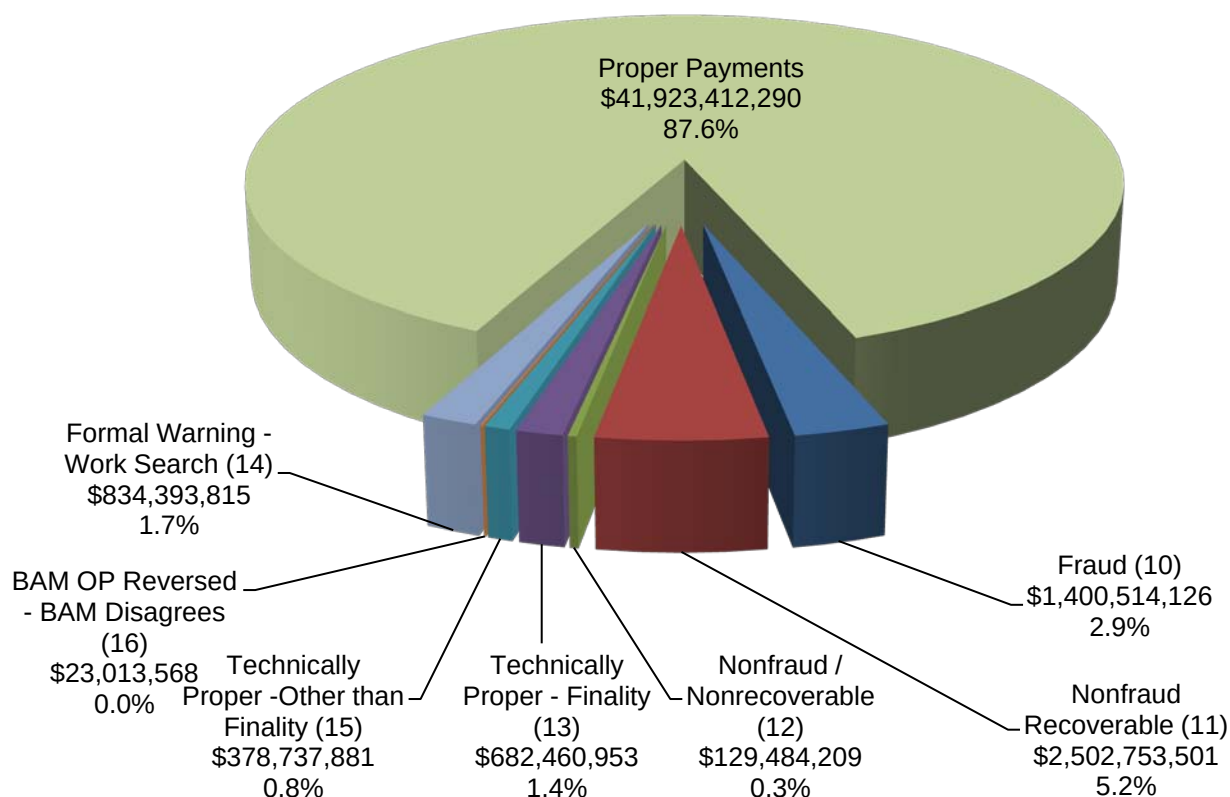
[CY 2011 Integrity Rates Cause x Point of Detection.xlsx](#)

Key Week Action Rates

For each paid UI week investigated, referred to as the Key Week (KW), BAM records whether the payment was proper or improper and, if improper, the type of erroneous payment. The coding of BAM audit findings must be consistent with the laws, rules and written policies of the SWA. The Department uses these KW action codes to develop the payment integrity rates discussed throughout this analysis. These integrity rates are defined in [Methodology and Program Description](#).

Differences in state laws are highlighted by the KW action rates. For example, work search requirements differ significantly in that some states require a formal warning before holding a claimant ineligible. In other states, after a given period, legal provisions for making determinations final or unchangeable may apply. States may also differ in the way they interpret and apply seemingly identical work search and other UI eligibility requirements. SWA administrators and legislators may use KW action error overpayment rates in setting policy priorities or identifying procedural constraints that affect claimstaking or limit overpayment establishment. Aggregate CY 2011 data for all states are displayed in the following chart.

CY 2011 Key Week Action Rates



Key Week Action state-level data highlights how state laws vary and why integrity rates are displayed with warnings not to compare individual state rates.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages): [CY 2011 Key Week Action Improper Payments.xlsx](#)

II. Underpayments and Denied Claims Accuracy

Underpayment Rate

IPIA requires estimates of underpayment rates, as well as overpayments. BAM estimates that \$308.9 million was underpaid in CY 2011, compared with \$334.1 million underpaid in CY 2010. As a percentage of UI benefits paid, the CY 2011 national underpayment rate of 0.65 percent is slightly higher than the CY 2010 rate of 0.58 percent. State underpayments ranged from 0.08 percent in Arizona to 1.85 percent in Iowa.

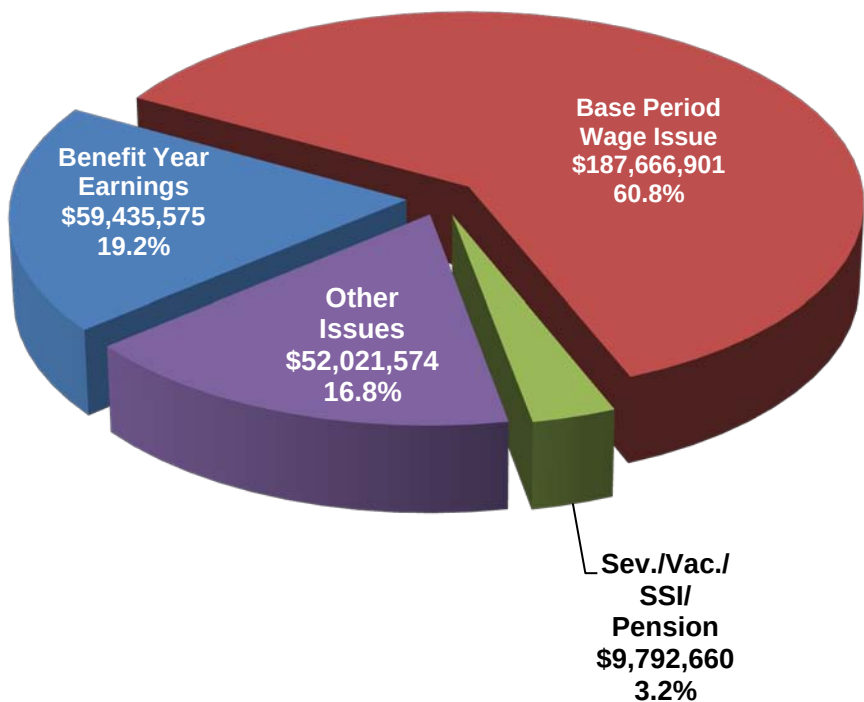
Errors in reporting or recording base period wages accounted for just over 60 percent of the amount underpaid, and represented 0.39 percent of the amount of UI benefits paid. Employers report employee wages to SWAs each calendar quarter. SWAs use these wages to establish a claimant's base period, which in turn is used in the calculation of weekly benefit amounts and maximum benefit amounts

([Base Period Wage Report.xls](#) for individual state findings).

Errors in reporting or recording benefit year earnings were the second leading cause of underpayments – 19.2 percent of all underpayments and 0.12 percent of UI benefits paid.

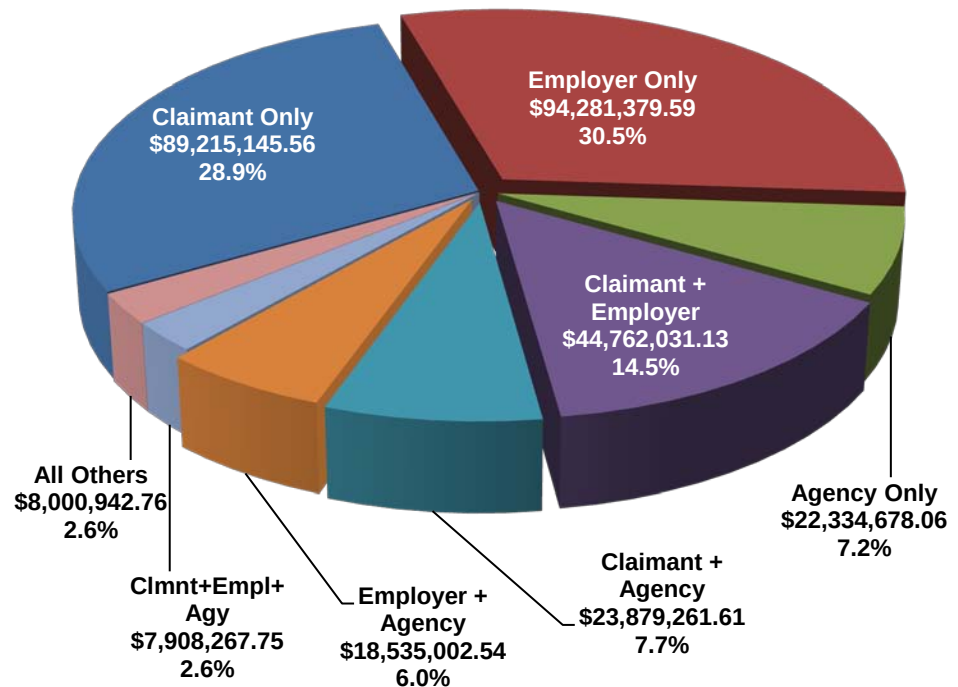
Generally, claimants can work and earn wages while collecting UI benefits as long as they report their earnings. However, weekly UI payments may be adjusted downward based on claimant reported earnings. For many of these underpayments, the claimant may have over reported their weekly earnings and because of this error, BAM found that UI benefit amount paid was too small.

CY 2011 Underpayments by Cause



Employers alone were responsible for slightly more than 30 percent of amount underpaid, which represented 0.20 percent of the amount of UI benefits paid. Claimants alone were responsible for an additional 28.9 percent of the amount underpaid, which represented 0.19 percent of the amount of UI benefits paid. Because SWAs often send out confirmations to the claimant and base period employers at the time of monetary determination, responsibility for these types of underpayments are highly distributed.

CY 2011 Underpayments by Responsibility



For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Underpayment Rates & US Cause and Responsibility.xlsx](#)

The underpayments estimated from BAM paid claims samples represent underpayments only for those claimants eligible for UC. Underpayments also result when claims for UI are erroneously denied. Each week, BAM units in the SWAs select samples of denied UI claims from three populations, defined by the type of issue on which a benefit denial was based -- monetary, separation, and nonseparation (continued claim filing eligibility). Denied Claim Accuracy (DCA) measures the accuracy of disqualifying monetary, separation, and nonseparation determinations for both intrastate and interstate claims.

Denied Claims Accuracy Rates

Unlike the investigation of paid claims, in which all prior determinations affecting claimant eligibility for the compensated week are evaluated, the investigation of denied claims is limited to the issue upon which the denial determination is based. DCA investigators verify facts contained in the case file, obtain any missing information, as well as conduct new and original fact-finding that may be relevant to the denials determination. The DCA audits record error information in a manner similar to paid claim accuracy: Dollar Amount of Error, Error Issue Action Code, Error Cause, Error Responsibility, Error Detection Point, Prior Agency Action, Prior Employer Action, DCA Action Appealed, and Prior Claimant Action.

Monetary Denials

SWAs determine the monetary eligibility of claimants when they file a new initial claim or a transitional claim (to establish a new benefit year). In CY 2011, SWAs determined that 80.18 percent of the 15.82 million new initial and transitional claims were monetarily eligible.

BAM estimates that 9.30 percent of the 2.36 million monetary denials included in the BAM DCA population were improper. This compares to an improper denial rate of 9.36 percent in CY 2010. These UI claims were denied because the agency had initially determined that the claimant had not earned sufficient wages in employment prior to being unemployed or failed to meet other requirements for monetary eligibility, such as sufficient earnings in a minimum number of weeks. The BAM DCA audit identified additional wage credits or an alternate or extended base period for these claimants that had not been included in the original monetary determination or identified other errors in the original determination.

For many of these improper monetary denials, the SWA had identified the additional wages and issued a redetermination establishing eligibility independent of the BAM investigation, or the initial denial was reversed on appeal. When the improper monetary denial rate is adjusted for these agency initiated redeterminations or appeals reversals, the improper denial rate for monetary determinations drops to 7.00 percent. This represents approximately 165,284 of the 2.36 million claimants who were monetarily denied. This rate is slightly higher than the adjusted improper denial rate of 6.69 percent in CY 2010.

Separation Denials

In order to be eligible for UC, claimants must be unemployed due to no fault of their own, discharged for non-disqualifying reasons, or must have voluntarily left employment for a non-disqualifying reason provided in state law, such as workplace harassment, unsafe working conditions, domestic violence, or to relocate with a spouse. Agencies conduct determinations of eligibility when a separation issue has been identified. The agency gathers information from the claimant, employer, and relevant third parties. Based on the findings of fact and the application of state laws, SWAs issue a determination of eligibility.

Separation issues normally are identified when a new initial claim or an additional claim is filed. In CY 2011, there were approximately 12.69 million monetarily eligible new initial claims and approximately 7.77 million additional claims. No separation determinations were conducted for nearly 78 percent of these claims, because the reason for separation was lack of work or reduction in workforce. SWAs completed just over 4.46 million separation investigations and found disqualifying circumstances in 2.24 million of these determinations that resulted in denial of benefits.

In CY 2011, BAM estimated that 9.63 percent of the 2.09 million separation denials included in the BAM DCA population were improper, compared with 9.38 percent estimated for CY 2010. When redeterminations and appeals reversals are taken into account, the improper denial rate for separations decreases to 6.41 percent, compared with 6.14 percent in CY 2010. Neither difference is statistically significant. Nationally, BAM estimates that approximately 133,949 of the 2.09 million separation denials subject to audit were incorrectly decided.

Nonseparation Denials

Nonseparation issues include the claimant's ability to work and availability for work, disqualifying and unreported earnings and income during the benefit year, failure to meet work search requirements, and failure to report as required by the SWA to provide information related to the UI claim or to receive reemployment services. There is often a distinction between issues that result in disqualification and issues that result in a specific number of weeks of ineligibility. A disqualified claimant has no right to benefits until s/he requalifies, usually by obtaining new work or by serving a set disqualification period. In some cases, benefits and wage credits may be reduced. An ineligible worker is prohibited from receiving benefits until the condition causing the ineligibility ceases to exist. Eligibility issues are generally determined on a week-by-week basis. Although nonseparation issues can be detected at various points in the UI claims taking process, these issues generally affect the claimant's eligibility for continued claims of UI.

In CY 2011 claimants requested payment or "claimed" 187.35 million weeks of benefits. Approximately 8.08 percent of UI weeks claimed were not paid, and no nonseparation determination was conducted. These unpaid weeks primarily involve claims where the claimant earnings from work exceeded SWA payment limits¹⁰ SWAs made payments for 169.43 million weeks. SWAs completed 3.56 million nonseparation determinations and concluded that 2.78 million of those investigations should result in denial of benefits.

For the 2.36 million nonseparation denials included in the DCA population, BAM estimates an improper denial rate of 16.25 percent and when redeterminations and appeals reversals are taken into account, the adjusted improper denials rate is 12.57 percent.

Overpayments and Proper Denials

BAM determined that small percentages of the separation (0.16 percent) and nonseparation (1.37 percent) denials resulted in overpayments. Overpayments can occur if the period of disqualification for UI benefits was less than it should have been, and the claimant received compensation during the period that he or she should have been ineligible for benefits. Overpayments can also occur if the claimant received a partial payment that was too large. A partial payment is a reduction in the claimant's weekly benefit amount and is issued when the claimant has earnings or other deductible income (such as pension, vacation, severance, and SSI) for weeks that he or she claims UI benefits. For some of these compensated weeks, the BAM audit identified additional income that reduced benefits further or in some cases eliminated eligibility for benefits entirely.

For small percentages of all three types of denials, BAM concluded that the claimant was properly denied but the agency committed a procedural error, such as basing the determination on the wrong reason or section of the law or applying incorrect dates to the period of denial. For example, a claimant may have been denied because of a monetary determination that the claimant had earned insufficient wages in the minimum number of weeks required by state law. The BAM audit determined that the claimant did meet the minimum weeks test, but was still ineligible due to insufficient total wage credits earned in the base period. For separation and nonseparation determinations, these errors typically involve

¹⁰ A nonmonetary determination may be issued only when there is a question on whether for a particular week: a) the claimant's activities or status constitutes "service" or "employment," or b) the claimant earns "wages" or receives "remuneration," resulting in ineligibility as "not unemployed," or only partially unemployed.

citing the wrong issue or the wrong section of the law in the determination (for example, quit versus fired or availability versus reporting).

DCA Rate Table

The following table summarizes the DCA rates for the three denial categories described.

CY 2011 US Denied Claims Accuracy Rates

Denial Type	BAM Population of Denials	Sample of Denials	Improper Rate*	Adjusted Improper Rate**	Over-Payment	Proper Denial***
Monetary	2,361,195	10.30%	9.30%	7.00%	0.00%	1.03%
Separation	2,089,685	17.45%	9.63%	6.41%	0.16%	7.81%
Nonseparation	2,368,396	23.73%	16.25%	12.57%	1.37%	6.39%

DCA Rate Table Notes:

In several states, the population from which the BAM DCA samples were selected may not include all of the determinations that meet the definition for inclusion in the DCA population. This limits the degree to which inferences about the population can be made from BAM DCA data. States are in the process of resolving these population issues.

* Improper rate is the percentage of denied claims that BAM DCA concluded were erroneous, whether or not official agency action was taken to issue payment or increase claimant's WBA, MBA or remaining balance.

** Adjusted improper rate excludes erroneous denials that were corrected by the agency and claims for which eligibility was established on appeal prior to DCA case completion.

*** Properly denied, but BAM identified a procedural error, such as basing the determination on the wrong reason or section of the law or applying an incorrect period of denial.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Denied Claims Accuracy & Error Rates.xlsx](#)

Monetary Denials and Alternative Base Period Redeterminations

All states use a base period, or base year, to determine whether unemployed persons have earned enough wages to qualify for UI benefits. A base period is typically four calendar quarters. Most states define their base periods as the first four of the last five completed quarters. Depending on when a UI claim is first filed and how the state defines its base period, the quarters of wages considered may include earned wages up to 18 months back. Using a typical base period definition, a worker filing a UI claim cannot use wages earned in the current calendar quarter (filing quarter) or the most recent completed quarter (lag quarter) toward monetary eligibility or in calculating his or her UI weekly benefit amount. When states use the alternative base period (ABP), the worker who fails to qualify using the typical base period can use his or her more recent wages to meet the base period earnings requirement.

Through the enactment of the American Recovery and Reinvestment Act of 2009 (Pub.L. 111-5) on February 17, 2009, 41 SWAs (including the Virgin Islands) received incentive funding for implementation of ABPs. Each state's application for incentive payments contained a

certification that the application was submitted in good faith with the intention of providing benefits to unemployed workers who meet the eligibility provisions on which the application was based.

For a state to qualify for a UI Modernization incentive payment, the state must determine whether an individual is eligible under an ABP if they do not have sufficient wage credits using the regular base period. Section 2003 of Pub. L. 111-5 says:

The State law of a State meets the requirements of this paragraph if such State law—

“(A) uses a base period that includes the most recently completed calendar quarter before the start of the benefit year for purposes of determining eligibility for unemployment compensation ; or

(B) provides that, in the case of an individual who would not otherwise be eligible for unemployment compensation under the State law because of the use of a base period that does not include the most recently completed calendar quarter before the start of the benefit year, **eligibility shall be determined** [emphasis added] using a base period that includes such calendar quarter.”

Because the law says "eligibility **shall** be determined", it is the agency's responsibility to make the determination and the agency cannot put the onus on the individual to request that they do so. Furthermore, one would expect the standards for a claim determination¹¹ to be applied to alternative base period determination in the same manner that it applies to regular base period monetary determinations. However, BAM monetary denial reviews have revealed that SWAs have adopted standards which vary from this requirement. Less than one-third of those claimants who were monetarily denied received alternative base period consideration.

The attached excel spreadsheet examines monetary determinations and redeterminations issued by SWAs receiving incentive funds during the fourth quarter 2011. In an effort to ensure BAM coding consistency and the inclusion of all 40 SWAs receiving incentive payments (excludes the Virgin Islands, which does not conduct BAM audits), data is limited to the fourth quarter only.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 4th Quarter Agency Monetary Determinations.xlsx](#)

Agency Action for Improper Denials

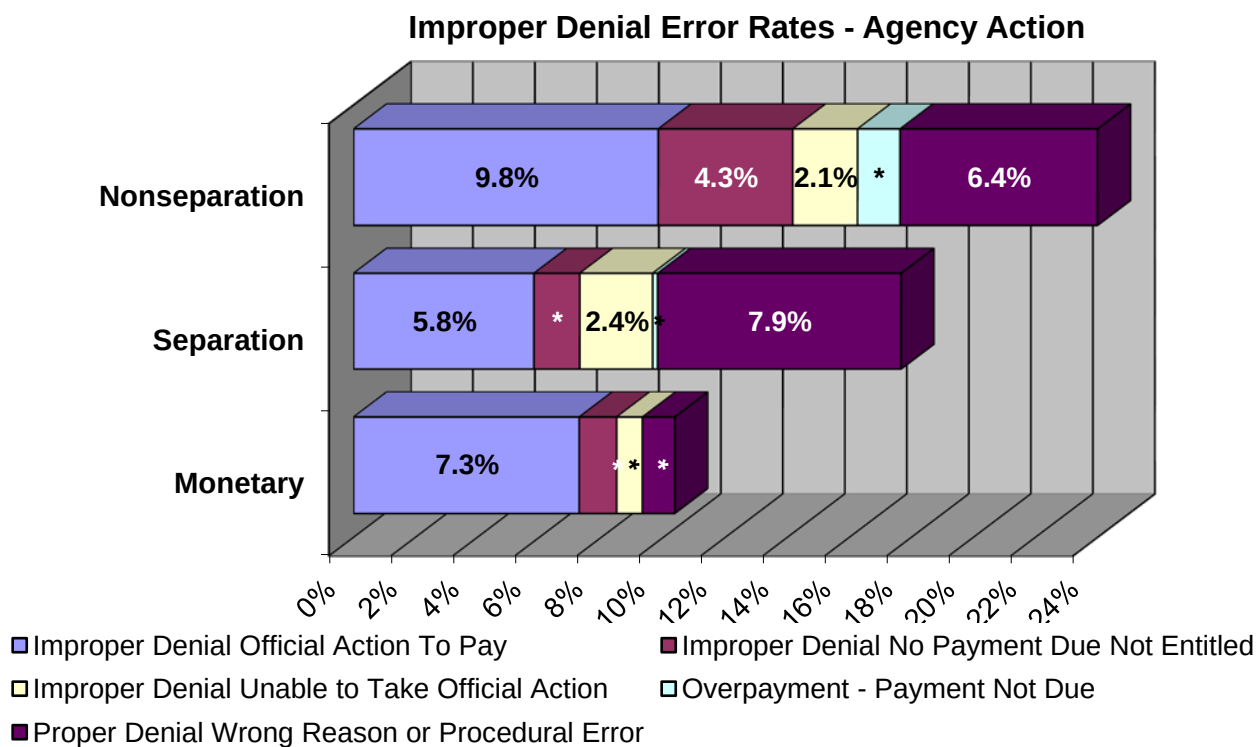
Not every improper denial results in the agency issuing a payment to the claimant (or increasing the claimant's weekly benefit amount, maximum benefit amount, or dependents' allowance). Agencies or BAM took action to insure that benefits were paid for just over 70.2 percent of the improper monetary denials. However, 32.9 percent and 40.9 percent of the

¹¹ Employment Security Manual (Part V, Sections 6010–6015), which is attached as Appendix A or B to the Code of Federal Regulations (20 CFR Parts 602, 614, 617, 625) “Standard for Claim Determination”

claimants improperly denied for separation and nonseparation issues respectively, received benefits. In some cases, claimants are ineligible for payment due to other disqualifying issues. In other cases, the agency is precluded from taking action because of the time that has elapsed since the denial was issued (determination finality rules) or by other provisions of the law. BAM records the following agency actions:

- Official Action - Agency or BAM took action to issue payment;
- No Payment Due - Claimant was not entitled to payment due to other disqualifying issue or the claimant did not file a claim for the week(s), which were improperly denied;
- Other Improper - No official action could be taken due to finality or other provisions of state law prohibiting redetermination;
- Overpayment - Claimant received payment for weeks of unemployment to which he or she was not entitled;
- Procedural Error - Claimant properly denied, but BAM identified a procedural error on the part of the agency such as applying the wrong section of the law.

The following graph summarizes the denial error rates by outcome and whether agency action was possible.



For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Agency Action for Improper Denials.xlsx](#)

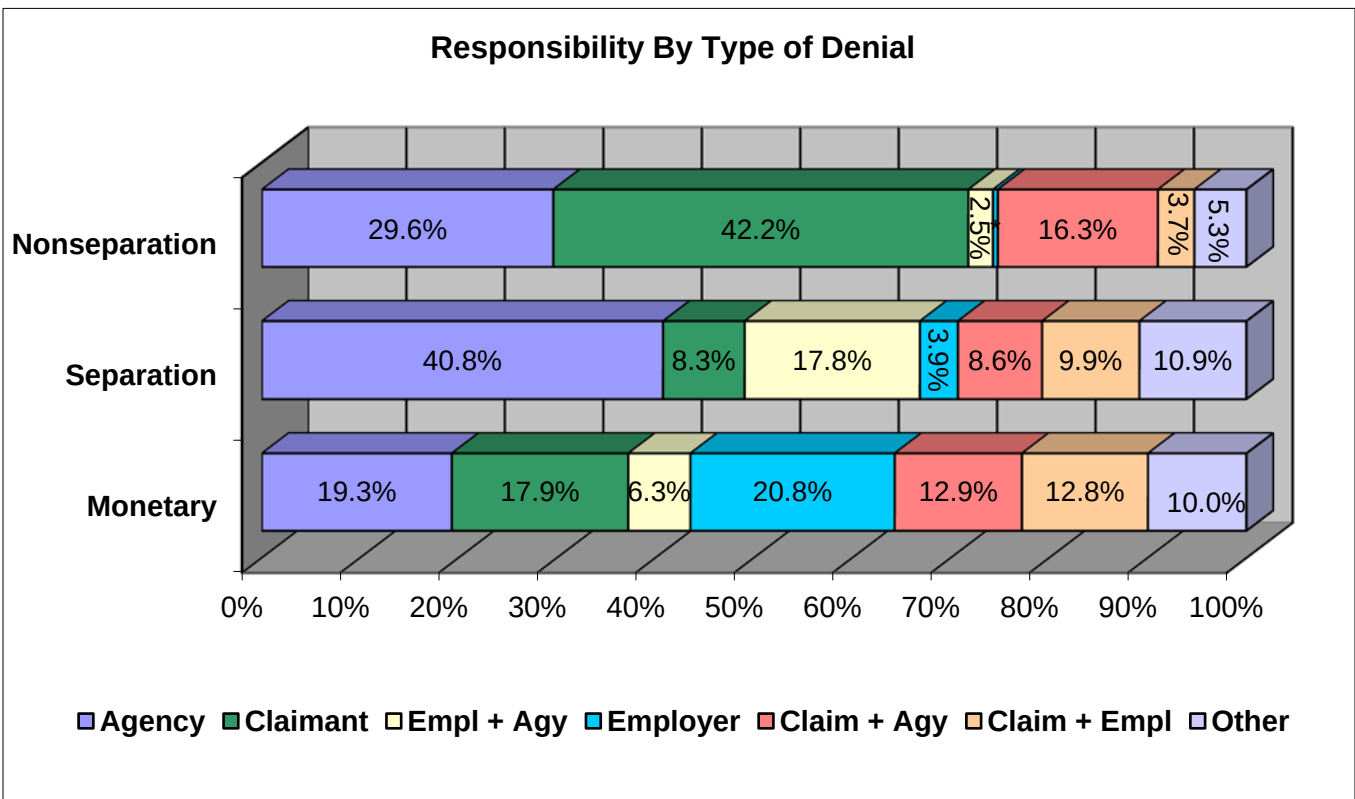
Cause for Improper Denials

The distribution of the causes of improper denials varies considerably among the three denial rates. The elements included or excluded from the various rates are controlled by business process definitions, and this influences the distribution.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages): [CY 2011 Improper Denials Causes.xlsx](#)

Responsibility for Improper Denials

The party responsible for erroneous denials varies by type of denial determination. Employers were solely responsible for almost 20.8 percent of the erroneous monetary denials due to misreporting or underreporting employees' wages. A small percentage of these improper monetary denials involved employers misclassifying claimants as independent contractors during the base period. Claimants were responsible for another 17.9 percent of the erroneous monetary denials, and agency error accounted for approximately 19.3 percent of the improper monetary denials.

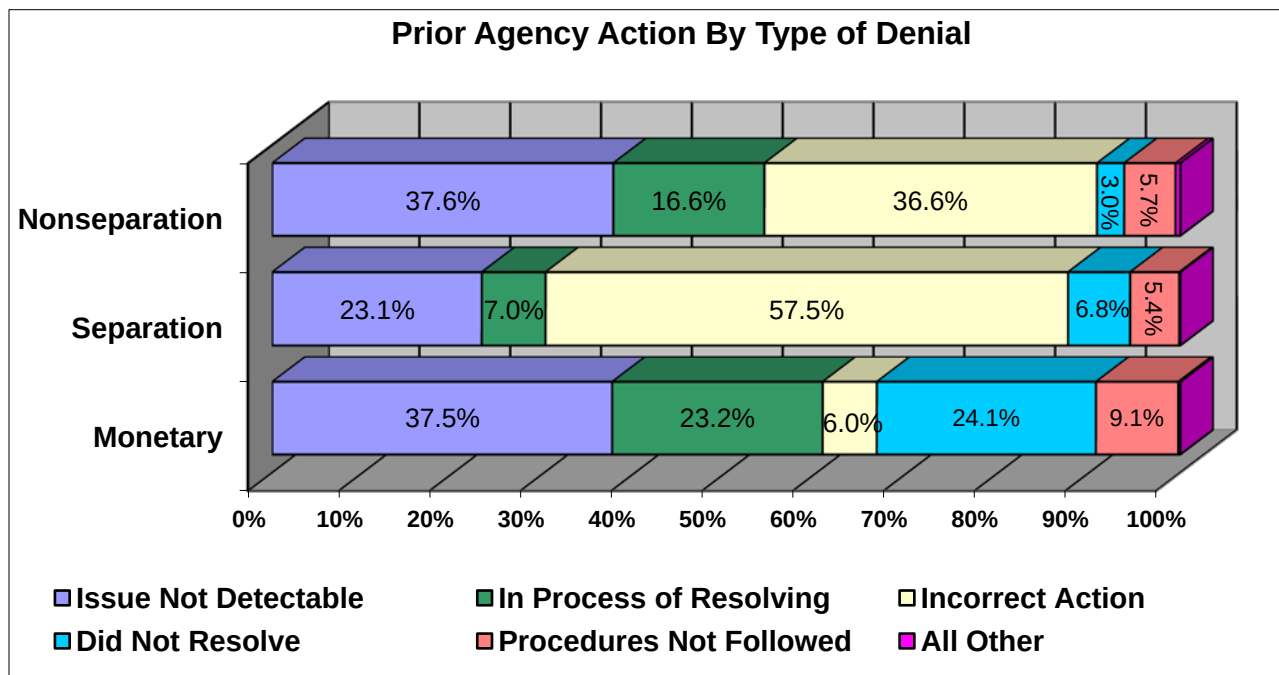


The SWAs were solely responsible for 40.8 percent of the incorrect separation denials and 29.6 percent of the improper nonseparation denials. Employers and the SWAs were jointly responsible for just under 18 percent of the erroneous separation denials. Claimants were responsible for approximately 42 percent of the erroneous nonseparation denials.

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages): [CY 2011 Improper Denials Responsibility.xls](#)

Prior Agency Action for Improper Denials

Because the SWAs, either solely or jointly with other parties, are responsible for the majority of the erroneous nonmonetary denials and for a significant proportion of the monetary denials, it is instructive to examine agency action prior to the DCA investigation. Agencies had resolved or were in the process of resolving 23 percent of the erroneous monetary denials. However, 38 percent of the improper monetary denials could not be detected through the normal claims taking procedures. Typically, these are claims for which the employer incorrectly reported the wages or the claimant failed to inform the agency that he or she had out-of-state wage credits. Therefore, the agency issued the monetary denial based on the best information available at the time of the initial determination. For improper nonmonetary denials, the agency identified the issue but took the incorrect action for 58 percent of the improper separation determinations and 36 percent of the erroneous nonseparation determinations.



*All other includes detected by crossmatch, agency provided incorrect information, and other SWA errors.

Although the agency followed its procedures, the issue or information was undetectable for 23 percent of the improper separation determinations and slightly less than 38 percent of the erroneous nonseparation determinations. For these claims the agency issued its determination to deny eligibility based on information that, although incomplete, was the best available under normal procedures at the time of its decision.

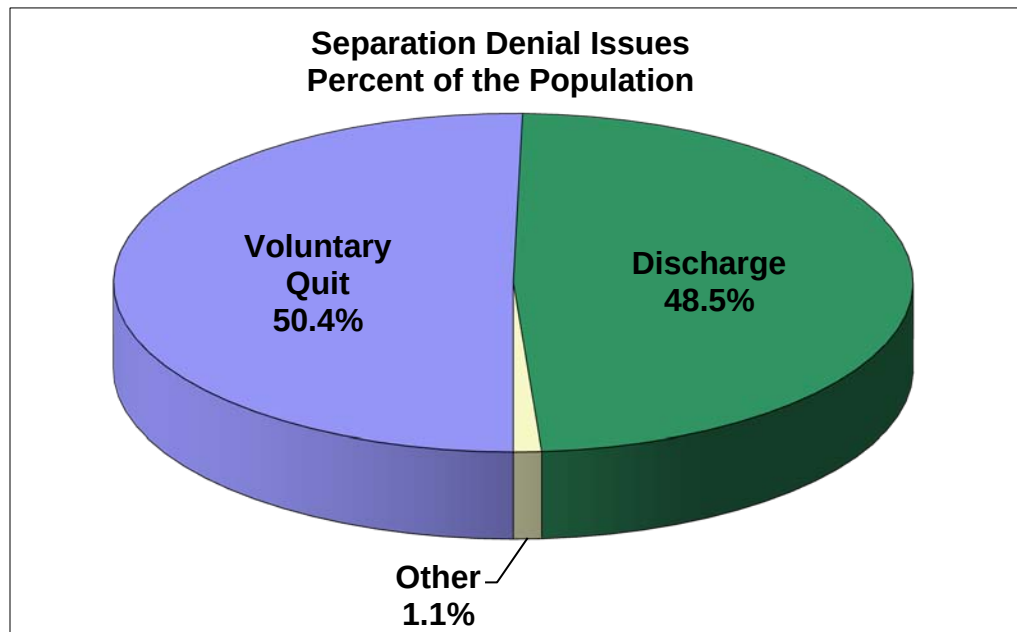
For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Denied Claims Prior Agency Action.xlsx](#)

Separation Issues

A majority of the separation denials concerned voluntary quits (VQ) representing 50.4 percent of the population, while discharges accounted for most of the balance. “Other” separation denials include a small number of labor disputes, military separations, or claimants who were still job attached (partial unemployment).

Claims that were denied for VQ issues were somewhat less likely to be in error (9.24 percent) than denials issued for discharge (10.04 percent). Separation denials that were based on “Other” issues were incorrect at similar rates.



The following table displays these separation error rates by type.

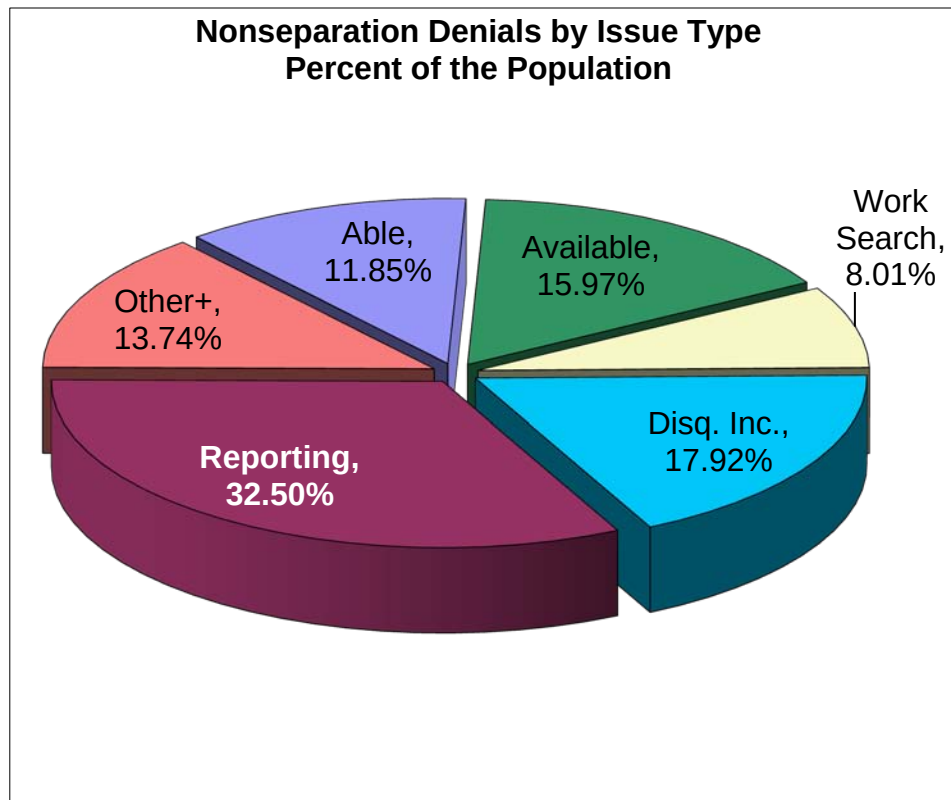
Separation Type	Sample Cases	Population of separation type denial	Percentage of Type in Population	Improper Denials
Voluntary Quit	4,250	1,052,495	50.37%	9.24%
Discharge	3,689	1,013,510	48.50%	10.04%
Other	119	23,680	1.13%	9.25%
Total	8,058	2,089,685	100.00%	
% Improper				9.63%

For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Denied Claims Accuracy Separation Determinations.xlsx](#)

Nonseparation Issues

The claimant's failure to report as required by the SWA and provide information related to the UI claim or to receive reemployment services constituted the largest category of nonseparation denials in CY 2011. This is followed by issues involving disqualifying income. The remaining nonseparation denials are distributed among several issues, with able and available issues, work search, and other.



+Other includes refusal of suitable work, alien, athlete, school, seasonality issues.

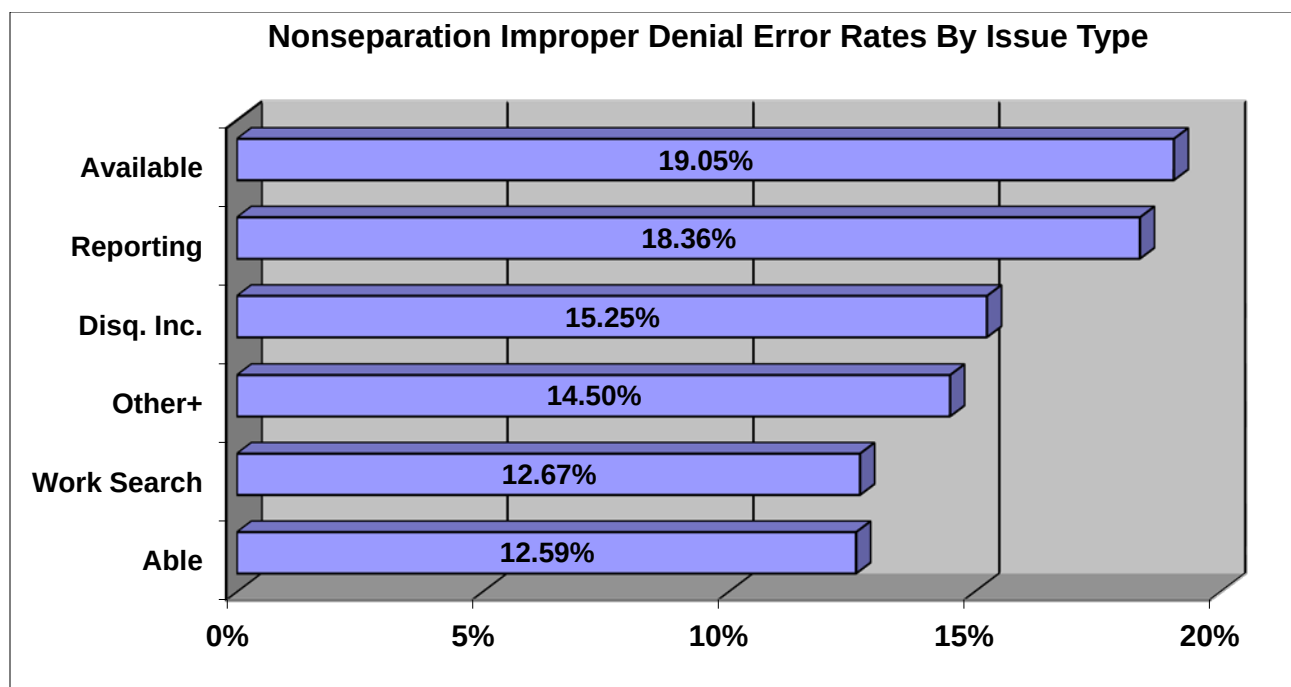
The following table displays these nonseparation determination error rates by type.

Nonseparation Denial Type	Sample Cases	Population of Denials	Percentage of Denial Type in Population	Improper Denials
Able	907	280,546	11.85%	12.59%
Available	1,272	378,143	15.97%	19.05%
Work Search	508	189,758	8.01%	12.67%
Disq. Inc.	1,984	424,507	17.92%	15.25%
Reporting	2,302	769,618	32.50%	18.36%
Other+	1,089	325,525	13.74%	14.50%
N/A	1	299	0.01%	100.00%
Total	8,063	2,368,396	100.00%	
% Improper				16.25%

Determinations that denied eligibility because the claimant failed to meet the state's availability requirements had the highest error rate (19.05 percent), although available issues constitute

less than 16 percent on the nonseparation denials. Denials based on the claimant's ability to work had the lowest error rate (12.59 percent).

The following chart shows improper nonseparation denial error rates by the type of issue.



For a detailed listing of these rates for each state, click on the following link (note: the spreadsheet may have several pages):

[CY 2011 Denied Claims Accuracy Nonseparation Determinations.xlsx](#)

Links to Additional BAM Paid and Denied Claims Data and BAM Methodology

Integrity Rates*

- [CY 2011 Integrity Rates all states.xlsx](#)
- [CY 2011 CY 2010 Integrity Rate Changes.xlsx](#)

Integrity Rates - Cause / Responsibility*

- [CY 2011 Integrity Rates x Cause.xlsx](#)
- [CY 2011 Overpayment Causes Included & Excluded from the Operational Rate.xlsx](#)
- [CY07-CY11 Annual Report & Operational Overpayment Rates by Quarter & State.xlsx](#)
- [CY 2011 Benefit Year Earnings Counts.xlsx](#)
- [CY 2011 BTQ Allow Separation Determinations Adequacy of Information.xlsx](#)
- [CY 2011 Work Search Verification Outcomes.xlsx](#)
- [CY 2011 Integrity Rates x Responsibility.xlsx](#)
- [CY 2011 Annual Report Rate Cause and Responsibility.xlsx](#)

Integrity Rates - Prior Action / Point of Detection*

- [CY 2011 Prior Agency Action All Integrity Rates.xlsx](#)
- [CY 2011 Cause x Prior Agency Action.xlsx](#)
- [CY 2011 Cause x Prior Claimant Action.xlsx](#)
- [CY 2011 Prior Employer Action All Integrity Rates.xlsx](#)
- [CY 2011 Cause x Prior Employer Action.xlsx](#)
- [CY 2011 Integrity Rates x Point of Detection.xlsx](#)
- [CY 2011 Integrity Rates Cause x Point of Detection.xlsx](#)
- [CY 2011 BAM & SWA NDNH-SDNH Crossmatch Detections on cases.xlsx](#)
- [CY 2011 Claim Filing Methods.xlsx](#)

Key Week Action Rates*

- [CY 2011 Key Week Action Improper Payments.xlsx](#)

Underpayments and Denied Claim Accuracy*

- [CY 2011 Underpayment Rates & US Cause and Responsibility.xlsx](#)
- [CY 2011 Base Period Wages Report.xlsx](#)
- [CY 2011 Denied Claims Accuracy & Error Rates.xlsx](#)
- [CY 2011 4th Quarter Agency Monetary Determinations.xlsx](#)
- [CY 2011 Agency Action for Improper Denials.xlsx](#)
- [CY 2011 Improper Denials Causes.xlsx](#)
- [CY 2011 Denied Claims Prior Agency Action.xlsx](#)
- [CY 2011 Denied Claims Accuracy Separation Determinations.xlsx](#)
- [CY 2011 Denied Claims Accuracy Nonseparation Determinations.xlsx](#)
- [CY 2011 Improper Denials Responsibility.xls](#)

BAM Methodology

- [BAM Methodology.pdf](#)
- [CY 2011 Method Information obtained.xlsx](#)
- [BAM State Contacts](#)
- [ET 395 Handbook 5th Edition BAM State Operations Guidance](#)
- [Code of Federal Regulations-Quality Control in the Federal State UI System](#)

Other References

- [Comparison of State Unemployment Insurance Laws CY 2011](#)

- [Significant Provisions of State UI Laws](#)
- [ET 301 Handbook 5th Edition - nonmonetary determination guide sheets](#)

Performance Measures which use the BAM Operational Rate

- GPRA Measure- <http://www.workforcesecurity.doleta.gov/unemploy/gpra.asp>
- Core Measure - http://www.workforcesecurity.doleta.gov/unemploy/3yr_overpay.asp
- [Detection of Overpayments Core Measure and Computation](#)

*** Note: the spreadsheets may have several pages**

Prepared by:

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Office of Unemployment Insurance
Division of Performance Management
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