Attachment to UIPL No. 2-85

UNEMPLOYMENT INSURANCE QUALITY CONTROL SYSTEM POLICY RECOMMENDATIONS

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Executive Summary

Introduction

The Federal/State unemployment insurance (UI) program has two major functions -- the collection of employer payroll taxes and the payment of UI benefits to eligible workers. State employment security agencies collect employer taxes and determine individual eligibility for benefits in accordance with State unemployment insurance laws. Provisions in the Social Security Act and the Federal Unemployment Tax Act set requirements for State laws.

Statement of Problem

Available information indicates dollar losses from UI Trust Funds are occurring through overpayment of UI benefits, undercollection of UI taxes and lost interest on revenues. Random Audit 1/ results from 15 States show that nationwide an estimated 12.5 percent of benefit payments for calendar year 1982 were in error. Only partial data is available as to the magnitude of the revenue problem. These data indicate sizable lost revenue resulting from delinquent employer contributions, delayed identification of new employers, and untimely deposit of employee taxes. These losses are occurring at the same time that the UI system is heavily in debt. As of August 31, 1984 outstanding loans totaled $9.7 billion.

QC Objective

Simply stated, the UI QC objective is to support the development and execution of corrective action plans to reduce inappropriate benefit payments and improve revenue

1/ Under the Random Audit Program, States select a small sample of intrastate claims paid each week and determine the accuracy of the payment.

collections. Key to the attainment of this objective is the collection and analysis of data that is timely and detailed. The QC principles address known limitations of Random Audit and reflect considerations as to appropriate Federal/State roles as well as resource, timing and capacity constraints.

QC Specifications

Within the framework of QC objectives and principles, the QC Task Force developed the policy specifications which would form the foundation for the detailed QC design and implementation activity planned for the next several years. In summary, UI QC will have the following major characteristics:

- States will have primary responsibility for drawing samples, calculating error rates and initiating corrective action.

- There will be a strong Federal oversight role to ensure consistency of procedures and integrity of data.

- Sample sizes will be increased incrementally, beginning in FY 1985, to increase the precision and confidence of the data. Alternative data collection and sampling methods will be tested to reduce costs and improve precision.

- Within resource and benefit/cost considerations, QC will target its resources on the permanently authorized programs of greatest size, on programs which are the Secretary's special responsibility and programs funded from Federal or federally collected funding resources.

- Pilot tests will be conducted for the revenue and interstate programs, not currently measured by Random Audit.

- QC will be phased-in incrementally over 3 years consistent with resource, timing and capacity constraints.

The attached chart outlines QC processes and Federal/State responsibilities.

QUALITY CONTROL PROCESSSES

FEDERAL-STATE ROLES

Activity	Federal	SESA
PROCESS		
Establish Uniform Methodology and Procedures	X	
Pull Sample of Cases		X
Investigate Sample Cases		X
Determine Accuracy of Payments		X
Code Payment Errors		X
Transmit Data to Regional & National Data Base		X
Calculate Error Rate		X
OVERSIGHT		
Review SESA Samples	X	
Validate SESA Sample Methodology	X	
Insure Uniform QC Methodology	X	
Provide Technical Assistance on QC Process	X	
RESULTS UTILIZATION		
Analyze QC Data	X	X
Devise Corrective Action Plan		X
Submit Error Rate Analysis Report		X
Utilize QC Data Base for Legislative, Regulatory, Policy Initiatives and Economic Forecasting	X	X
Analyze Impact of QC Effort on SESA Operations	X	X
Operate Clearinghouse for SESA Corrective Action Strategies	X	
Advise SESAs on Efficiencies in UI Program Operations Using QC Results	X	

QUALITY CONTROL IN UNEMPLOYMENT INSURANCE

POLICY RECOMMENDATIONS

Introduction

The Federal/State unemployment insurance program has two major functions -- the collection of employer payroll taxes and the payment of benefits to eligible unemployed workers. The basic framework of the system, established by the Social Security Act of 1935, has remained intact despite numerous legislative changes to Federal and State laws. But over the years the scope and size of the program has changed as coverage has been extended to more workers and as other related benefit programs have been enacted.

The State employment security agencies administer the State unemployment insurance laws, and also administer, through agreement with the Secretary of Labor, various Federal benefit programs. States determine employer liability for taxes, and collect and deposit these taxes in the State's account in the Federal UI Trust Fund. Employer taxes collected by the States finance payment of regular State UI benefits and one-half of Federal/State extended benefits (EB), payable during periods of high unemployment. Employers also pay a Federal unemployment tax which is used to finance administrative costs and the Federal share of EB. Individual eligibility for benefits is determined under the provisions of State laws.

Provisions in the Social Security Act and the Federal Unemployment Tax Act set requirements for State laws. It is these requirements which define Federal and State roles in the unemployment insurance program. A fundamental responsibility of the Secretary of Labor is to provide States with amounts "necessary for proper and efficient administration" of the State law. Thus, the Federal Government has broad authority to determine whether States comply with Federal law requirements and to promote proper and efficient administration of State law.

Description of Problem

Available information indicates that substantial dollar losses from UI trust funds are occurring through overpayment of UI benefits, undercollection of UI taxes and lost interest on revenues. The Random Audit (RA) program has provided preliminary data on the size of the UI overpayment problem. Under this program, States select a small sample of intrastate claims paid each week and determine through field investigation the accuracy of the payment. Forty-six States are now

participating in RA. RA results from 15 States show that an estimated 12.5 percent of dollars paid nationwide for calendar year 1982 were paid in error -- 10 times higher than earlier estimates.

Since no comparable error measurement tool now exists for the UI tax program, only partial data is available as to the magnitude of the revenue problem. However, States report delinquent employer taxes exceed $920 million. Reports issued by the Office of Inspector General estimate that delayed identification of new employers resulted in $45 million in lost revenues in 1982. In addition, untimely deposit combined with early withdrawal of employer tax funds cost UI trust funds $25 million in lost interest.

Trust fund losses are occurring at the same time the system is faced with critical solvency issues. Twenty-five States have had to borrow from the Federal Government to pay benefits. The total debt owed is $9.7 billion.

QC Objectives

Simply stated, UI/QC is the central diagnostic tool for State use in identifying, analyzing and reducing errors in the payment of UI benefits and collection of UI revenues. Key to the attainment of this objective is the collection and analysis of data that is timely and detailed. QC's guiding principles address known limitations of RA, and reflect considerations as to appropriate Federal/State roles as well as resource, timing and capacity constraints. Basically, this means:

- States will have primary QC responsibility for drawing samples, identifying errors, computing error rates, analyzing QC data and initiating corrective action.

- There will be uniform methodology and mechanisms for insuring QC system and operations integrity.

- QC's scope will be broad to cover major UI programs and activities not currently measured by RA.

- Sample sizes will be increased to provide detailed and precise enough information to support State responsibilities and to track the impact of QC on error rates.

- QC components will be phased-in incrementally based on resource, timing, and capacity constraints.

QC Design Specifications

The QC program will build upon the RA program but will overcome the following identified limitations of RA:

- Incomplete coverage of benefit programs, no coverage of revenue (tax) part of the process.

- Insufficient sample size and precision/confidence level of the data constrains the ability of program managers to analyze type and cause of payment errors. This in turn, constrains development of State corrective action.

- Program is voluntary on the part of the States.

- No capacity to develop benchmarks for acceptable error rates.

Following is a summary of QC decisions and the principles which guided them, grouped by subject matter.

Corrective Action. Corrective action is the key to error reduction. Since States have primary responsibility for proper and efficient administration of the program, corrective action must be a State-initiated program management approach to reducing errors. The approach to corrective action also recognizes that QC principles demand uniformity in methodology and adequate oversight of operations to insure integrity at the same time that States have responsibility for initiating corrective action. Key elements of this approach are:

- o States perform their own data analysis and then develop, implement, and evaluate corrective actions.

- o ETA requires periodic State error rate analysis reports which must include descriptions of planned and completed corrective actions. These will be public reports.

- o ETA publishes an error rate analysis, based on State submitted reports. Publication of this information will create incentives for State initiated error rate reduction efforts.

- o ETA assists States in performing analysis and planning actions as Federal resources are available and as the States request.

Oversight. The QC will use uniform definitions and methodologies nationwide. Such uniformity is essential to insure data accuracy and consistency among the States. Data accuracy is important because of the reliance on a small sample to generalize to a large population.

States will follow uniform methodology and procedures, and analyze error rates to determine appropriate corrective action. Therefore, QC will require a strong Federal oversight role consisting of:

- Promulgation of Federal regulations addressing key elements of QC are planned. The regulations would be supplemented by handbooks containing detailed operating procedures.

- Prescription of a methodology and Federal oversight of State responsibilities for drawing samples, investigating cases and calculating error rates.

- Federal direction to correct problems in the implementation of the QC system.

Scope

The need for a comprehensive QC program must be weighed against resource and cost/benefit considerations. The UI program consists of 11 separate programs or aspects of programs 1/. Some of these programs are federally funded; these programs are the Secretary's special responsibility. However, only regular UI and, at present, the Federal Supplemental Compensation (FSC) are major program in terms of outlays. The FSC is scheduled to expire in March of 1985. The EB program has the potential to be of major significance but under current law and projected level of unemployment, it is relatively small and not expected to increase in the foreseeable future.

Given these considerations, QC will target its resources on the

1/ Regular UI, Unemployment Compensation for Federal Employees (UCFE), Unemployment Compensation for Ex-Servicemen (UCX), Interstate Benefit Program (IB), Combined Wage Claims (CWC), Extended Benefits (EB), Federal Supplemental Compensation (FSC), Trade, Disaster, Redwood, and Airline Employee Protection.

permanently authorized regular program and on programs which are the Secretary's special responsibility and/or are funded from Federal or federally collected funding resources. These permanent programs will be grouped together in the population from which the QC sample is drawn, yielding a single error rate.

The universe from which the QC sample will be drawn is compensated claims for benefits. 2/

Survey Design. The principle framing issue of survey design is the need for QC to produce representative and precise enough information to support State corrective action planning and sensitive enough to track the impact of State corrective action. Survey design encompasses data elements and collection as well as sampling methodology and size. Changes in sample size have resource implications. In addition, staff capacity both at the Federal and State levels become factors in determining increases in sample size and changes in design. Decisions made with respect to survey design are described below:

Data to be Collected and Published. Adequate and reliable data will be collected to produce measures of error rates, and causes of errors, which can support the design of State Corrective Action Plans.

Data Collection Methods. Data will be gathered from claimants, work search and base period employers, and "third parties" (e.g. labor unions, employment agencies) to verify actions taken on sampled claims. Initially, QC will rely on the RA method of in-person interviews, and review of case review files, modified to incorporate any efficiencies which may be identified before initial QC implementation. This will be combined with a program of pilot testing and evaluation of alternative data collection methods to reduce costs while maintaining or increasing accuracy.

2/ Claims which are denied (negative case actions) will not be reviewed until the technical and conceptual difficulties of such a sample can be examined and overcome. QC will begin to study these issues in FY 1985. This means that for the short run, only the accuracy of benefits paid will be examined while the accuracy of benefit denials will not be measured.

Sample Design. Systematic random sampling will be implemented until an extensive review and pilot testing of alternative sample design procedures is completed. After test results are in, those alternatives which prove to be most efficient and effective will be implemented as soon as resource limitations allow. Pilot tests of alternative data collection methods and more complex sampling designs (e.g. stratified, cluster and/or augmented) are expected to yield an optimum design which will lower costs and partially offset the expense of larger sample sizes.

Sample Size. In 1985, the sample size will average 600 per State which is consistent with resource and design limitations. Further increases will be phased in during 1986 and 1987, leading to the expected optimum average of 1200-1600. Increases in sample size are necessary to provide the precision and confidence in data needed to support corrective action planning.

Implementation Strategy. The QC will be phased in incrementally. Pilot tests must be conducted in those areas for which there are no error measurements (the interstate benefit program and the revenue side). Pilot tests are also planned to refine data collection methods and on sample frame and design. These pilots are aimed at improving the precision of the data and reducing the cost of data collection. Capacity constraints, i.e., the need for developmental work and staff training, also dictate that QC will be phased-in over 3 years. The following order of priorities will be implemented in FY 1985. These are the minimum necessary to implement QC in the States and to provide the foundation for further expansion:

- A new data collection instrument in 1985 and develop and purchase ADP software, acquire ADP hardware in FY 1984 to support 1985 implementation.

- Implement QC in the remaining six States which do not have the RA program (Virgin Islands will be omitted from QC because of the small size of the agency).

- Increase sample size to an average of 600 in all States (this means phasing-in additional sample size increases in FY's 1986 and 1987 also, as described in the Survey Design section above).

- Implement pilot tests for: a) revenue; b) interstate; and c) alternative data collection techniques. (This means deferring other pilots on sample frame and design until FY 1986. Decisions on data elements and data collection alternatives made in FY 1985 are logical predecessors to work on sample design.)