

GAO

United States General Accounting Office

Report to the Honorable  
Patricia Schroeder, House of  
Representatives

August 1996

# UNEMPLOYMENT INSURANCE

## Millions in Benefits Overpaid to Military Reservists



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**75** *years*  
1921 - 1996





Health, Education, and  
Human Services Division

B-258100

August 5, 1996

The Honorable Patricia Schroeder  
House of Representatives

Dear Ms. Schroeder:

The Congress established the national Unemployment Insurance (UI) system in the 1930s to provide partial income assistance to many temporarily unemployed workers with substantial work histories. Today, UI is the major federal program providing assistance to the unemployed. Many workers covered by the UI system are also among the 1.1 million personnel currently participating in the national Reserve forces.<sup>1</sup> The Reserve augments the active military services, providing trained troops for active duty in time of war or national emergency or at such other times as national security requires.

Most UI claimants are required to report the income they receive while in the Reserve so that state UI programs can reduce their benefits accordingly. You were concerned that some claimants may not be complying with this requirement. Because noncompliance can result in UI benefit overpayments and may contribute to a weakening of the fiscal integrity of the UI system, you requested that we determine the following:

- How much Reserve income is not reported by UI claimants, and what are the implications in terms of federal and state UI trust fund losses?
- Why do UI claimants not report Reserve income?
- What administrative or legislative options are available to prevent future losses?
- How will these options affect Reserve force retention, if at all?

To estimate the amount of nonreported Reserve income, benefit overpayments, and losses to federal and state UI trust funds, we matched fiscal year 1994 UI claimant data from seven selected states with Reserve

<sup>1</sup>The Reserve has seven components across all the major military services and the Coast Guard: the Army National Guard, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve, and the Coast Guard Reserve. Reservists receive income for participation in monthly weekend Reserve drills, week-long annual training duty, and the deployment of Reserve units in the event of a national crisis or domestic emergency.

force payroll and personnel data.<sup>2</sup> To identify explanations for the nonreporting of Reserve income and possible options to enhance reporting, we interviewed UI Service officials from the Department of Labor's Employment and Training Administration (ETA) to obtain information on the operation and structure of the federal-state UI system. We also held discussions with state UI program officials to obtain information on claimant eligibility procedures and their treatment of claimants with income from the Reserve. In addition, we met with Department of Defense officials representing numerous Reserve operations, Department of Transportation officials representing the Coast Guard Reserve, and officials from the state National Guard Bureaus to obtain their views on Reserve personnel compliance with UI program requirements and the potential impact of reporting enhancement options on Reserve force retention. We conducted our audit work between August 1994 and May 1996 in accordance with generally accepted government auditing standards. For additional information on our methodology, see appendix I.

## Results in Brief

Our analysis of benefit and Reserve data from seven states shows that some Reserve personnel are receiving improper benefit payments from state UI programs. In the seven states included in our analysis, we estimate that UI claimants who were active participants in the Reserve failed to report over \$7 million in Reserve income in fiscal year 1994. This led to UI benefit overpayments of approximately \$3.6 million, of which federal trust fund losses were about \$1.2 million. We expect that the federal and state trust fund losses from all UI programs are much greater, because the seven states we reviewed account for only 27 percent of all reservists.

Program officials from the seven states we visited and Labor identified several reasons why some claimants who are reservists did not comply with program reporting requirements. First, many UI claimants participating in the Reserve may be unaware of their reporting duties. For example, some UI claimants may believe that Reserve participation is a civic duty rather than employment covered by the UI program. In addition, many UI programs do not inform UI applicants or claimants about their reporting requirements. Federal and state UI program officials told us that in most states, program procedures, application forms, and informational

<sup>2</sup>The seven states were California, Colorado, Florida, Georgia, Massachusetts, Pennsylvania, and Texas. We selected these states based on their average state unemployment rate during fiscal year 1994, the percentage of the nation's total Reserve personnel based in each state, their geographic balance, and their previous experience with matching the benefit and payroll records of state UI program claimants with income from Reserve force participation. We did not independently verify the data provided to us by the states or by federal agencies. (See app. I.)

materials either do not inquire specifically about Reserve income or do not inform claimants about these requirements.

State programs we visited also do not affirmatively attempt to discover that a claimant has nonreported Reserve income. Because reporting Reserve income will often reduce their weekly UI benefit amounts, knowledgeable claimants may be reluctant to volunteer this information. However, those few states that have attempted to systematically detect overpayments of UI benefits to reservists have had difficulty verifying claimant reports of Reserve income because they cannot obtain automated Reserve payroll data from Defense. This requires them to resort to more labor-intensive manual audits. Our own matching effort suggests that this inability to effectively obtain automated data may be related to possible deficiencies in Defense's payroll information system.

Among the options identified by Labor and state UI officials for improving the reporting of Reserve income are better informing program claimants of their reporting responsibilities and improving state UI program access to Reserve personnel and payroll data. Most Reserve officials we interviewed did not believe that increased efforts to identify nonreported income would affect service retention rates.

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## Background

The UI system is a federal-state partnership. Within overall federal guidelines, states operate their own UI programs, levy and collect their own payroll tax, and determine the level and duration of benefits and the conditions for benefit eligibility. However, the federal government, through the UI Service, a part of ETA, is responsible for maintaining the fiscal integrity of the system, including the individual state UI program trust funds. The UI Service provides information, guidance, and technical assistance to programs in the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands. ETA officials reported that the UI Service also monitors state methods for implementing administrative procedures, comments on revised state procedures and revisions to the states' Handbook of Operating Procedures, and reviews one-third of the states' programs annually for compliance with program requirements for the payment of benefits to exservice personnel and other federal employees.

The UI system includes several programs that cover most public and private sector workers. The regular UI program provides for up to 26 weeks of benefits to qualifying unemployed private sector and state and local government employees. Under this program, each state maintains an

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account in the U.S. Treasury, which is funded by state payroll taxes on most private sector employers and by payments from state and local government and some nonprofit employers reimbursing the fund for benefits paid to former employees. The Unemployment Compensation for Federal Employees (UCFE) program is completely federally financed and provides benefits to qualifying unemployed civilian federal employees. The Unemployment Compensation for Ex-Servicemen (UCX) program is also completely federally financed and provides benefits to service members after their discharge from active duty as well as Reserve and National Guard personnel who have been on active duty for 90 days of continuous service before their release from active duty. The UCFE and UCX programs are administered by the states under agreements with the Secretary of Labor.<sup>3</sup>

Eligible claimants may receive benefits from any one or a combination of these funds on the basis of the nature of the claimant's prior employment. Most states reduce or offset the weekly benefit amounts paid to a claimant by a percentage of any income earned by the claimant during that week of program-covered unemployment. The type and amount of income used to offset benefits varies by state but typically consists of wages from part-time employment, including income received from a claimant's active participation in the Reserve. In 1994, 48 states,<sup>4</sup> the District of Columbia, Puerto Rico, and the Virgin Islands offset UI benefits by a portion of the income claimants received from Reserve service.

Under current state UI laws, only private employers—because they pay a tax on some fraction of each employee's wages—are required to regularly report wage information on their employees to states. In addition, states can impose financial penalties on private employers who fail to comply with wage-reporting requirements. Unlike private employers, however, because federal, state, and local government and some nonprofit employers are not assessed a payroll tax but rather reimburse state UI programs for any benefits disbursed to their former employees, they are

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<sup>3</sup>In addition, claimants may be eligible for extended UI benefits under the Federal/State Extended Unemployment Compensation program—commonly called the extended benefits (EB) program. EB was enacted by the Congress in 1970 to provide for a permanent extended benefits program. This program provides 13 weeks of additional benefits to UI claimants following the exhaustion of the 26 weeks of regular UI benefits. States pay EB at the same rate as the weekly benefit amount received by claimants under state law. However, EB is financed equally by federal funds and state tax revenues.

<sup>4</sup>Oregon and Maine are the only states that exempt Reserve pay from their UI offset provision in all instances. In May 1995, Colorado exempted Reserve pay for weekend drill and annual training participation from its UI program offset requirements, leaving offset coverage only in cases of participation during a national emergency.

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not required to report employee wage information to the states and other jurisdictions that operate UI programs.

Personnel and payroll data for the Reserve forces are maintained at six different locations. Each of the four military services (Army, Air Force, Naval Reserve, and Marine Corps) collects and processes personnel and payroll information from their respective active and Reserve units at one of the four centers operated by the Defense Finance and Accounting Service (DFAS) throughout the nation; the Coast Guard maintains its data at the Department of Transportation's United States Coast Guard (USCG) Pay and Personnel Center. Although the DFAS centers and the USCG Pay and Personnel Center are responsible for collecting and maintaining current data, aggregate historical payroll and personnel information for all services is maintained by a central repository at the Defense Manpower Data Center (DMDC) in Seaside, California.

Some of our previous audits have repeatedly identified problems associated with Defense's military pay systems. In particular, we have cited the payroll systems operated by the DFAS centers as inaccurate, unreliable, and duplicative, resulting in a waste of federal resources and an impairment of Defense operations.<sup>5</sup> For example, we found that the DFAS payroll system for active duty Army military personnel did not accurately summarize and report payroll information. Thus, DFAS has been unable to ensure that it reports accurate information to the Army, much less to the Internal Revenue Service (IRS) and other federal and state agencies. Part of the problem may stem from each service maintaining a unique and independent payroll system.

As a result of our earlier findings and recommendations in reports citing weaknesses in Defense's financial management systems, DFAS has been tasked with integrating the individual services' personnel and payroll systems into one standardized system. However, the Military Pay Directorate at DFAS stated that the Marine Corps is the only service that has made any progress toward this goal and that this integration effort will take several years to implement. Furthermore, this effort may still not include the standardization of all the payroll and personnel systems once it is completed.

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<sup>5</sup>See Financial Management: Defense's System for Army Military Payroll Is Unreliable (GAO/AIMD-93-32, Sept. 30, 1993) and Financial Management: Financial Control and System Weaknesses Continue to Waste DOD Resources and Undermine Operations (GAO/T-AIMD/NSIAD-94-154, Apr. 12, 1994).

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## Nonreporting of Reserve Income Results in Large UI Benefit Overpayments

Our analysis of Reserve payroll and UI benefit data for seven states that account for 27 percent of all Reserve personnel shows that UI claimants who have been active participants in the Reserve did not report over \$7 million in fiscal year 1994 program-covered Reserve income.<sup>6</sup> This nonreporting resulted in estimated UI benefit overpayments of \$3.6 million to over 11,500 Reserve personnel during fiscal year 1994.<sup>7</sup> Thirty-two percent or \$1.2 million were federal trust fund losses primarily from the UCX program.<sup>8</sup> According to Labor officials, this suggests that exservice personnel who were active in the Reserve accounted for a disproportionate amount of nonreported income detected compared with reservists separated from private or other public employers.

Although we did not examine programs in the remaining states, the District of Columbia, Puerto Rico, and the Virgin Islands, there are several reasons to expect that the total federal trust fund losses are much higher than \$1.2 million. First, these remaining programs cover about 73 percent of the nation's reservists. Most of these programs treat Reserve income under their laws and program procedures in a manner similar to the seven states we reviewed. In addition, we used an extremely conservative method for estimating the nonreporting of Reserve income and associated overpayments in the seven states. For example, we excluded from our analysis all reservists who reported any earnings. Thus, we did not estimate the nonreported income and benefit overpayments generated by claimants in the Reserve who may have declared income to their UI program from some source but who did not report all or part of their Reserve income (that is, declared income from their annual training period but not their weekend drills). For more information on our methodology, see appendix I.

Although the amount of nonreported income and associated trust fund losses may be small in comparison with the billions of dollars in total

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<sup>6</sup>Among the seven states we examined, the average amount of nonreported income per claimant varied from \$273 in Texas to \$959 in California.

<sup>7</sup>California had the largest average benefit overpayment per claimant, \$543. Although a larger portion of total overpayments went to members of the Army Reserve, probably because the Army comprises 64 percent of all reservists, the average overpayment among all reservists did not vary significantly across services.

<sup>8</sup>Although we calculated the amount of nonreported income and the associated benefit overpayments for all members of the Naval, Marine, and Coast Guard Reserves in the seven states, neither DMDC nor DFAS was able to provide us with accurate data for the Army and Air Force Reserve components. After a delay of 8 months, we developed a methodology for obtaining data on a sample of cases to complete our analysis. Thus, the estimates for the Air Force Reserve and National Guard and the Army Reserve and National Guard are based on a statistical sample. (See app. I.)



annual program benefits,<sup>9</sup> the existence of overpayments is enough to raise concerns about the effectiveness of the fiscal control exercised over the UI system. According to state and federal program officials we interviewed, the integrity of the UI system is adversely affected whenever claimants are improperly paid benefits, either through oversight or fraud. These unnecessary payments erode the UI system's ability to provide benefits to those workers who are unemployed through no fault of their own. They contribute, if only marginally, to higher state employer payroll taxes and federal outlays and possibly lower claimant benefit levels than would otherwise prevail.

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## Why Claimants Do Not Always Report Reserve Income

State officials cited various reasons why claimants may not be reporting their Reserve income while receiving UI benefits. According to state officials, the claimants may not understand the reporting responsibilities, are not specifically informed of these responsibilities, and may have incentives not to report all Reserve income—incentives that are amplified by the states' limited ability to detect nonreporting.

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## Many UI Claimants May Be Unaware of Requirements to Report Reserve Income

Many claimants may be unaware or have misconceptions about their UI program's income-reporting requirements. Some federal and state UI program officials told us that many claimants believe that Reserve participation does not affect their ability to seek work or to fill their "regular hours of duty"—a key condition for UI benefit eligibility. Thus, they may believe that Reserve participation does not constitute employment with reportable income.<sup>10</sup> For most claimants, income from Reserve service is often earned part-time on weekends, rather than through full-time employment Monday through Friday. Thus, reservists may also believe that the small amount of earnings from Reserve participation they receive relative to their primary employment earnings may not be regarded as reportable income. State program officials also believe that some participants view their Reserve service as an instance of civic duty and patriotism rather than employment; thus, they do not consider compensation received from Reserve participation to be reportable income. DFAS officials noted that they could help notify Reserve personnel of their income-reporting responsibilities regarding state UI

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<sup>9</sup>In 1994, the UI system paid over \$25 billion in benefits and received over \$26 billion in state and federal unemployment tax revenues.

<sup>10</sup>In most states, to maintain eligibility, UI claimants must be able to do and be available for full-time work, registered with the state's job service, and actively seeking work.

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benefits by informing them of their duties in a note on their leave and earnings statements.

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### UI Claimants Not Specifically Asked to Report Reserve Income

Most UI programs throughout the nation require prospective claimants to report all expected earnings—including Reserve income—received during the benefit period as well as all earnings received during the base period.<sup>11</sup> However, state program claims processors in the states included in our review told us that they do not specifically ask claimants whether they are receiving Reserve income and most do not inform claimants of the Reserve income-reporting requirement in writing. Federal and state program officials we interviewed believe that procedures in these seven UI programs were typical of the procedures and materials used in UI programs generally, with most programs not providing explicit information to claimants about their reporting responsibilities regarding Reserve income.

None of the UI application forms in the seven states inquired about applicants' receipt of Reserve income. For example, although the application forms for five of the seven states contained questions relating to military service, none included a question regarding Reserve income. California and Georgia forms asked if the prospective claimant had served in the Armed Forces during the past 18 months. Florida and Texas forms asked if the prospective claimant was in the military service. Massachusetts asked if the prospective claimant was a veteran and about active duty. Colorado and Pennsylvania forms did not contain any questions regarding military service.

Though all seven states provided illustrations in their UI program brochures and handbooks of the type of earnings claimants must report, only two states—Colorado and Massachusetts—provided any material that explicitly mentioned that claimants must report Reserve income. In addition, the UI handbook, a key source of program information provided to all prospective claimants by the UI offices in all the states we reviewed, generally did not elaborate on the types of income that need to be reported. Only the Massachusetts handbook specifically addressed Reserve pay, stating that this income must be reported. To maintain continuation of their benefits, state UI offices routinely ask claimants to recertify their unemployment status and to report any income they receive during their benefit period. None of the recertification forms for the seven

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<sup>11</sup>The base period is typically the year before the year in which the initial benefit claim is made. Income earned during a claimant's base period determines a claimant's weekly benefit amount.

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states we visited specifically asks claimants whether they are receiving Reserve income.

Some state UI officials explained that they do not believe the application forms are a reason for reservists not reporting income. They said that these application forms have been streamlined over the years and that they believe the current questions on active military service are sufficient to remind an applicant to report Reserve pay. However, most of them also agreed that their handbooks could be more specific in instructing the applicants to report Reserve income. ETA officials believed that including questions on the application forms that only refer to military service is not sufficient to identify Reserve income. In particular, they were concerned that state UI workers may incorrectly assume that claimants include information on Reserve income when they answer the written application questions regarding active military duty and not pursue this issue further when initially screening prospective claimants. ETA officials were also concerned that because Reserve income is not derived from active military duty, applicants may knowingly or unknowingly evade disclosure of Reserve income when answering the questions on military service.

ETA officials regarded the application procedures and guidance used in the seven states we visited as typical of most states and thought that most programs' procedures should be more specific to elicit information about Reserve income. They believed that more states should list Reserve pay specifically as a type of income that needs to be reported at the time of application and that this income should be listed in the UI handbook provided to prospective claimants.

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### Incentives Not to Report Reserve Income Amplified by the States' Limited Ability to Detect Nonreporting

In most states, income earned by UI claimants above a minimum level, including wages from Reserve service, offsets or reduces their weekly UI benefit amounts. Because claimants will receive reduced UI benefits by reporting Reserve income, there is an incentive not to report this income. For example, a claimant who is eligible to receive the maximum weekly benefit amount of \$250 under the Florida UI program and who also receives \$100 in weekend Reserve drill pay would see his or her weekly UI benefit reduced by \$66 and receive \$184 for that week.<sup>12</sup> In addition, in Florida as in most states, a claimant participating for a full week of annual Reserve training would be completely ineligible for UI benefits during that week.

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<sup>12</sup>The Florida program's offset provision is triggered when earnings exceed \$34 per week, specifying a dollar-for-dollar benefit reduction for earnings above that level.

Further, claimants appear to face little risk of detection if they do not report Reserve income. Despite state penalties for fraud, including reduction or loss of benefits,<sup>13</sup> state UI officials believed that in many states claimants face little risk of detection if they do not report Reserve income. To enforce such penalties, state UI programs must match reported claimant income with Reserve earnings. However, unlike private employers who must routinely report quarterly wage and employment information on all employees when they remit their payroll taxes, federal employers such as the Reserve have no such requirements because they reimburse states for UI benefits paid as they occur. Thus, although UI programs have on-line access to private sector employee wage data to verify benefit levels and duration, they have no comparable access to federal wage records. Without ongoing access to federal wage data for all reservists, states must conduct periodic matches<sup>14</sup> of UI claimant data with Reserve personnel and payroll information to detect the nonreporting of income.<sup>15</sup>

#### State Program Matching Efforts Constrained by Limited Access to Reserve Payroll Data

In our discussions with state UI program officials we found that states face several obstacles to conducting effective matching operations. These obstacles include UI programs' lack of awareness of the availability of automated Reserve personnel records, difficulties in obtaining Reserve payroll records from the DFAS centers, and limited assistance from Labor. DFAS' inability to provide payroll information may actually reflect deficiencies in its automated payroll data system.

Few states have attempted to detect the nonreporting of Reserve income in any systematic manner. Our discussions with federal and state UI program officials identified only three state programs—Colorado, Pennsylvania, and Texas—that have conducted such efforts in recent

<sup>13</sup>State UI laws provide for penalties against claimants who fraudulently or otherwise fail to report all covered income earned. For example, in many states, once it is determined that claimants have been overpaid benefits as a result of their nonreporting of income, the state can withhold a portion or all of any future benefits owed the claimants until the overpayments have been repaid. In other states, claimants found to be reporting only a part of their earnings may lose their current benefits and become ineligible for future benefit claims for some time. See table II.2.

<sup>14</sup>A state program would typically match its UI claimant list with the roster of active Reserve personnel for the same time period. For all claimants who are also identified as active reservists, the state program would then review payroll data on those claimants for the period in which benefits and Reserve participation overlap. For Reserve income that was not reported, the state UI program could then recalculate the weekly benefit amount and associated overpayment. (See app. I.)

<sup>15</sup>Although it was outside the scope of this report, the nonreporting of claimant income appears to be a broader problem involving all UI claimants who were former federal civilian and military employees, rather than just those participating in the Reserve. Officials from many of the state programs we visited reported general difficulties in monitoring reported income from claimants who were former federal employees.

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years and no program that has attempted to detect nonreported Reserve income on a routine basis.

Two of the state programs that matched UI program and Reserve personnel and payroll data indicated that they were unaware of the availability of automated information from DMDC that could have expedited their effort. Without this information, these states resorted to slower, manual matches of information. Pennsylvania and Colorado—unaware that automated Reserve personnel rosters were available from DMDC—requested printed personnel rosters. State program analysts then manually matched Reserve personnel rosters with state UI claimant files—a time-consuming and labor-intensive procedure. (See app. II.)

State officials also told us of their difficulties in obtaining payroll records from DFAS. For example, Colorado requested automated payroll records for all reservists from DFAS but never received them. The state then asked the individual DFAS centers responsible for Army and Air Force payment data for Reserve files; eventually the state received printed leave and earnings statements, which necessitated a manual file match. The Texas state UI program experienced similar difficulties.<sup>16</sup>

States' experiences in working with DFAS in the past are similar to our own efforts to obtain Reserve payroll information to match fiscal year 1994 state UI claimant data with Reserve personnel and payroll records for seven states.<sup>17</sup> Although the centers for the Coast Guard and the Marines Corps provided us with complete Reserve wage data within 1 month, we experienced great difficulty obtaining comparable data for the other Reserve services. It took almost 5 months before we received limited data on Naval Reserve personnel; the Cleveland DFAS center was unable to provide the actual wages for the Naval Reserve personnel. The center provided us with the dates worked and the military pay grade for each reservist. Because actual wages earned were not provided by the Cleveland DFAS center, we had to reconstruct the amount of wages, using pay charts that showed monthly wages by pay grade, to determine the amount of wages that reservists earned on a specific date. Despite three attempts over 8 months, DFAS was never able to provide us with automated wage information for the Army and Air Force—about 70 percent of total

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<sup>16</sup>Pennsylvania did not attempt to obtain files from the DFAS centers. (See app. II.)

<sup>17</sup>The DFAS centers provided payroll information for the Air Force, Army, Naval Reserve, and the Marine Corps. We received Coast Guard Reserve wage data from the USCG Pay and Personnel Center in Topeka, Kansas, that maintains payroll and personnel information for the Department of Transportation. The Coast Guard Reserve accounts for about 1 percent of all Reserve personnel.

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Reserve personnel. The Denver and Indianapolis DFAS centers together were unable to create for us a data tape linking the amount of wages earned by Army and Air Force reservists to any of the specific dates we requested. For this reason, we ultimately had to rely on data that the DFAS centers' staff manually extracted from printed and microfiche payroll records. The Military Pay Directorate at DFAS stated that the lack of an integrated personnel and payroll system contributed to its difficulties in providing us accurate and timely wage data for the time periods and individual reservists we identified.<sup>18</sup>

According to DFAS officials, we did not receive payroll data for the Army and Air Force Reserve personnel requested because they were no longer available. Officials said that the centers typically maintain the payroll information we requested for about 400 days, after which time it is downloaded onto microfiche. Although we had requested our information well within the period during which the information was accessible, by the time DFAS said it was prepared to provide the data to us, officials stated that Reserve data files had already been downloaded. We ultimately obtained payroll data for a sample of matches, which DFAS center personnel constructed from microfiche and printed records.

Labor has generally not facilitated the matching of Reserve and UI data and does not assist states in obtaining payroll data from the DFAS centers or DMDC. ETA officials told us that they have not received requests from states to assist in matching Reserve income and UI benefit data and they have concentrated on providing assistance in other areas, such as compliance with federal requirements regarding the payment of UCFE claims. However, they acknowledged that this is an important area and one where they could provide additional assistance to the state programs.

Although the three states conducting matches were ultimately able to detect nonreported Reserve income and UI benefit overpayments, the difficulties they encountered in doing so led to their decision to discontinue these efforts.<sup>19</sup> Although none of the officials we talked to in these states had plans to continue matching, they said they would likely

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<sup>18</sup>Although DMDC provided us with automated lists of Reserve personnel, the agency only maintains aggregate monthly payroll data. Because UI benefits are generally paid on a weekly or biweekly basis, we had to ask DFAS to provide us with comparable Reserve wage information.

<sup>19</sup>Colorado also discontinued its manual matching effort because in May 1995 the state legislature exempted from the UI definition of reportable wages income earned from weekend Reserve drill and annual training exercises. However, officials remarked that the matching effort was extremely labor-intensive and if they had initially realized the level of difficulty involved they would have reconsidered the project for that reason alone.

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reconsider their decision if either better guidance and assistance from Labor or increased responsiveness from DFAS was forthcoming.

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## Reducing Nonreporting of Reserve Income Could Prevent Future Losses

State and federal UI program officials and Defense officials suggested several options to reduce the nonreporting of Reserve income, which could prevent future trust fund losses. These options focus on more effective ways to inform claimants about their reporting responsibilities and proposals to improve the detection of nonreported income. Most federal and state program officials believe that these options could be implemented administratively.

Defense, Labor, and state UI officials suggested several ways to improve claimant awareness of their responsibility to report Reserve-related income. For example, DFAS officials suggested that their agency could help notify Reserve personnel of their income-reporting responsibilities administratively by informing them of their duties in a note on their leave and earnings statements. Labor and state UI officials mentioned that programs could improve claimants' awareness of their reporting responsibilities by revising their application forms and handbooks to specify clearly their programs' treatment of Reserve pay.

State UI program officials generally agree that acquiring access to Reserve personnel and payroll data could facilitate the detection of nonreported Reserve income, although they identified a variety of suggestions on the best way to obtain such access. For example, some officials suggested that states obtain automated records of Reserve personnel and payroll data annually from DFAS to enable matching on a regular basis. Other officials believe that such regular data access is unnecessary as long as the appropriate Defense agencies—DMDC and DFAS—respond quickly when the states request wage information. The most frequent alternative suggested by federal and state officials is to require Defense to report Reserve payroll and personnel data to states on a quarterly basis, as private sector employers are required to do, to permit verification of claimant income on a regular basis. Officials agree that this change could be implemented as an administrative action; no legislative change would be needed.

Some Labor officials believe that providing states with wage records should be a requirement for all federal employers.<sup>20</sup> They believe that the nonreporting of program-covered income by federal employees generally is a far greater and more serious problem than nonreporting by reservists alone. Thus, state access to federal wage and personnel information could significantly reduce the amount of nonreported income and the associated benefit overpayments by claimants separated from any federal employer.

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## Reducing Nonreporting of Reserve Income Is Not Expected to Affect Personnel Retention Levels

Almost all the Department of Defense officials we interviewed, including those representing the various Reserve components, do not believe that the reporting of Reserve wage income for UI benefit computation purposes would have a detrimental effect on their ability to recruit and retain effective Reserve forces. However, they also prefer that states exempt Reserve income from any UI offset requirements. Despite the revenue loss to state UI programs, they believe that reservists should not be penalized through the reduction of UI benefits paid for an otherwise legitimate claim, because reservists are performing an important national public service. They note that although most states have not exempted Reserve income in calculating UI benefits, some states have; Colorado, for instance, has exempted Reserve weekend drill and annual training income from state UI program offset provisions.

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## Conclusions and Recommendations

The nonreporting of Reserve income results in the annual loss of millions of dollars in state and federal UI benefit overpayments. Some nonreporting is attributed to claimants being unaware of their reporting responsibilities. To better inform claimants of their reporting responsibilities, we recommend that the Secretary of Defense direct the four DFAS centers to notify all reservists of their income-reporting responsibilities with respect to state UI benefits in a message included on their leave and earnings statement.

We also recommend that the Secretary of Transportation direct the USCG Pay and Personnel Center to notify all reservists of their income-reporting responsibilities with respect to state UI benefits in a message on their leave and earnings statement.

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<sup>20</sup>As part of Labor's efforts to improve UCFE claims processing, ETA contracted with the Information Technology Support Center, a public-private consortium, to explore the feasibility of providing states with on-line access to federal wage data. Under the project, states will be able to electronically request claimant payroll information. The U.S. Postal Service, one of the participants, has projected a potential annual cost savings of about \$1 million from the effort. Most of the savings accrue from freeing up resources now allocated to respond to the large number of state program requests for wage and employment verification.



ETA, in meeting its oversight responsibility for the financial integrity of the UI system and in providing guidance and technical assistance to the state UI programs to enhance their operations, can also help to improve compliance with state income-reporting requirements. In particular, we recommend that the Secretary of Labor direct ETA's UI Service to provide assistance and encourage state UI programs to review the administrative forms or procedures used to gather information about a prospective or continuing claimants' wages, making revisions as necessary to clearly identify to claimants the types of Reserve income they must report for the offset of benefits.

To reduce income nonreporting and the associated benefit overpayments effectively, states also need better and more timely access to Reserve payroll and personnel data. Obtaining such data could help detect nonreported Reserve income. In addition, Transportation, Defense, and state UI program officials believe that providing states with Reserve data would have little or no impact on service retention rates.

We recognize that to be successful in this effort Defense agencies must be able to provide accurate payroll and personnel information in a timely fashion. For this reason, we recommend that the Secretary of Defense direct the DMDC and the four DFAS centers to develop a process for giving states Reserve personnel and payroll data in a timely, economical, and efficient manner. In doing so, they should coordinate with Labor's UI Service to identify states' needs.

In addition, we recommend that the Secretary of Transportation direct the USCG Pay and Personnel Center to develop a process for giving states Coast Guard Reserve personnel and payroll data in a timely, economical, and efficient manner. In doing so, it should coordinate with Defense's DMDC and with Labor's UI Service to identify states' needs.

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## Agency Comments and Our Evaluation

We obtained comments on our draft report from the Departments of Labor, Defense, and Transportation. Labor and Defense provided written comments, which appear in appendixes III and IV.

Labor generally agreed with the information provided in the report and noted that it was already taking steps to implement our recommendation to assist states in their review of procedures identifying prospective or continuing claimant's wages. The Assistant Secretary of Labor also provided technical comments that have been incorporated into the

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background section of this report. The Department of Labor did question how improper benefit payments could contribute to higher state employer payroll taxes and possibly lower claimant benefit levels. Although we stated that such effects would be quite marginal, to the extent that overpayments were reduced, state legislatures could choose to use those savings to incrementally raise claimant benefit levels or reduce employer taxes.

The Department of Defense also generally concurred with the findings and agreed to take actions to implement our recommendations and provided methodologies and completion dates for accomplishing these actions.

Department of Transportation officials representing the Coast Guard did not take issue with the overall findings of the report. The Transportation Program Manager for the USCG Pay and Personnel System and other officials agreed that some steps could be taken to assist states in detecting overpayments to reservists. They stressed, however, that actions taken in response to the recommendations should be cost-effective. This concern is addressed in our recommendation to the Secretary of Transportation to direct the USCG Pay and Personnel Center to develop a process for giving states Coast Guard Reserve personnel and payroll data in a timely, economical, and efficient manner. Transportation's suggested approach could address the concerns raised by our recommendations.

Transportation officials also indicated that on the basis of the data presented in the draft of our report, it could be inferred that no UI reporting concerns were identified for about 95 percent of all reservists. Officials suggested that the report could explicitly mention the cooperation of the vast majority of reservists with the UI program. One Transportation official also stated that the report does not offer a basis of comparison for the unfamiliar reader to evaluate and understand the relative significance of the issues identified. For example, he stated that the data presented indicate that the UI overpayments of \$3.6 million identified in our sample were spread over about 275,000 reservists in the seven states we reviewed. As a result, the average overpayment per reservist is about \$13 per year. A similar calculation for the federal share of UI overpayments results in an average share of about \$4.25 per reservist per year. He stated that these calculations are not to trivialize the significance of the overpayments, but rather to provide perspective that could be useful in identifying appropriate remedial actions.

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Regarding reservists' compliance with UI program reporting responsibilities, we focused only on those reservists receiving UI benefits who did not report any Reserve income. We did not analyze those reservists receiving UI benefits who only partially reported Reserve income nor those in full compliance with income-reporting requirements. Consequently, although it is likely that most reservists are in compliance, our data do not permit us to say that no UI reporting concerns would be identified for the remaining reservists.

Finally, we believe our findings of \$7 million in nonreported income and \$3.6 million in overpayments represent absolute amounts and actually understate the loss because the seven states account for only 27 percent of all reservists. Also, we do not believe that the average overpayment per reservist is a meaningful statistic for assessing the significance of the problem. The existence of overpayments is enough to raise concern about the effectiveness of the fiscal control exercised over the UI program. Failure to rectify the problem erodes the integrity of the UI program and it is important that action be taken to correct the problem.

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We are sending copies of this report to the Secretaries of Labor, Transportation, and Defense and UI program directors in California, Colorado, Florida, Georgia, Massachusetts, Pennsylvania, and Texas. Major contributors to this report are listed in appendix V. If you have any questions concerning this report, I can be reached at (202) 512-7014.

Sincerely yours,

A handwritten signature in black ink that reads "Carlotta Joyner". The signature is written in a cursive, flowing style.

Carlotta C. Joyner  
Director, Education and  
Employment Issues

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**Abbreviations**

EB	extended benefits
ETA	Employment and Training Administration
DFAS	Defense Finance and Accounting Service
DMDC	Defense Manpower Data Center
IRS	Internal Revenue Service
UCFE	Unemployment Compensation for Federal Employees
UCX	Unemployment Compensation for Ex-Servicemen
UI	Unemployment Insurance
USCG	United States Coast Guard

# Methodology for Matching State UI Claimant Data With Reserve Payroll Data

We matched fiscal year 1994 UI claimant data from seven selected states with Reserve force payroll and personnel data to estimate the amount of nonreported Reserve income and benefit overpayments and associated losses to the federal and state UI trust funds. Although we did not independently verify the accuracy of the data provided to us by DMDC, the DFAS centers, the USCG Pay and Personnel Center, or the seven state UI programs, we believe that this does not affect our results. The data sources we used were the only ones available, and state UI programs would rely on these data sources to calculate any benefit overpayments. We obtained data on all persons who received some UI benefit payment (regular, UCX, or UCFE) between October 1, 1993, and September 30, 1994,<sup>21</sup> from seven state UI programs—California, Colorado, Florida, Georgia, Massachusetts, Pennsylvania, and Texas.<sup>22</sup> We judgmentally selected these states using a variety of characteristics including

- a high unemployment rate during fiscal year 1994 (California),
- a large number of reservists (Georgia, Texas, Pennsylvania, Florida, and California),
- previous experience with matching UI claimants and Reserve force data (Colorado, Pennsylvania, and Texas),<sup>23</sup> and
- geographic balance.

We requested most of the states' UI claimant tape files before our site visits to these states. To assist them in their preparation of these tapes, we held discussions with state officials and provided them a structured protocol listing the types of data and the magnetic tape format they would need to provide us. The tapes we received contained the names of UI claimants, their social security numbers, and other information related to the benefits paid.

We created tapes containing only the social security number extracted from the original state data tapes. Consistent with the requirements of the

<sup>21</sup>Texas only provided data on claims initiated during fiscal year 1994, excluding information on claimants who were receiving benefits during fiscal year 1994 but who initiated their claim during fiscal year 1993. Thus the Texas file is a proportionately smaller file than the other states we reviewed.

<sup>22</sup>See app. II for a detailed discussion of the characteristics of each of the seven state programs and the interviews we had with state UI program officials.

<sup>23</sup>We chose states—Colorado, Pennsylvania, and Texas—with past experience in matching UI claimant data with Reserve payroll information because we believed that they could provide a greater understanding of the problems of matching such data and of the options available to address them. We chose states with generally higher numbers of reservists and higher unemployment rates during fiscal year 1994 because we believed that these factors might increase the likelihood that we would detect the nonreporting of Reserve income.

Computer Matching and Privacy Protection Act of 1988,<sup>24</sup> we sent the tapes to and worked with officials from DMDC in Seaside, California, to match the seven state data tapes of UI claimants with Defense's Reserve personnel and payroll records.<sup>25</sup> DMDC agreed to match these tapes (with our on-site supervision) with Reserve personnel employment data to identify UI claimants who were in the Reserve. Before the visit, we worked with DMDC technicians to coordinate tape format between DMDC and the seven state programs. We developed a computer program that would identify those persons who received UI benefits for the same period as they received Reserve pay but who did not declare such income for benefit offset.

Once matches were identified, DMDC segregated the data and placed the information on tapes according to the military service branch in which reservists were employed. Because DMDC does not maintain payment data on the dates of service for when payments are earned, to facilitate our match, it sent the tapes to the particular payroll centers responsible for the payroll of these personnel's respective service branch. In total, we requested payroll information on the number of personnel in each Reserve component from the payroll centers listed in table I.1.

**Table I.1: Number of UI Claimants Who Concurrently Received Reserve Income, by Reserve Component at Each Payroll Center, Fiscal Year 1994**

<b>Reserve component</b>	<b>Claimants matched to Reserve payroll data</b>	<b>Payroll center</b>
Army National Guard and Army Reserve	7,459	Indianapolis DFAS center
Air National Guard and Air Force Reserve	2,002	Denver DFAS center
Naval Reserve	1,569	Cleveland DFAS center
Marine Corps Reserve	416	Kansas City DFAS center, Missouri
Coast Guard Reserve	83	USCG Pay and Personnel Center, Topeka, Kansas
<b>Total</b>	<b>11,529</b>	

<sup>24</sup>The Computer Matching and Privacy Protection Act of 1988 (5 U.S.C. 552 (a)) authorizes agencies to disclose records to GAO. The act also imposes safeguards on the federal government's use of computer records pertaining to individuals' income, employment, and other personal matters. As a third party, GAO cannot compare various sets of data and release the results of such comparisons for purposes of enforcement actions against individuals.

<sup>25</sup>The National Guard office of each respective state also maintains current personnel records for the Reserve components in that state but does not collect payroll information.

Most of the state UI programs were able to provide us with the tapes within a month and DMDC was able to perform the matches within a few weeks after our request. In helping us match fiscal year 1994 state UI claimant data with Reserve personnel and payroll for seven states, only the USCG Pay and Personnel Center and the Kansas City DFAS center were able to provide complete automated information for the Coast Guard and the Marine Corps components, respectively.<sup>26</sup> However, it took almost 5 months for the Cleveland DFAS center to respond to our request for fiscal year 1994 Naval Reserve personnel payroll data. Then, the DFAS center was unable to provide the actual wages for the Naval Reserve personnel and instead provided pay scales that we had to convert to wage amounts. Despite three attempts over an 8-month period, the Denver and Indianapolis DFAS centers representing the Air Force and Army Reserve components were never able to provide us with accurate and complete payroll information on personnel matched. Thus, to complete our assignment we developed an alternative methodology relying on a sample of these Reserve components and based on data that DFAS center staff manually extracted from printed and microfiche payroll records.

To estimate the amount of nonreported income and benefit overpayments to UI claimants in the Army and Air Force Reserve components, we selected a random sample of matched personnel—UI claimants from each of the seven states who also were employed by the Army or Air Force Reserve during the same period of time. We then provided the social security numbers and dates of wages received for each of these reservists to the DFAS centers that manually reconstructed, by searching microfiche, the corresponding payroll information.

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## **Overpayment Calculation Method**

We appended the associated DFAS or USCG centers' payroll data to each matched UI claimant (a particular Reserve member identified as receiving both UI benefits and Reserve income for a certain time period). We then applied the appropriate state UI program offset provision to calculate the amount of nonreported program-covered income and, using the claimant's eligible weekly benefit amount, we estimated the magnitude of the overpayment. Through this process, we estimated the cumulative amount of nonreported Reserve income and UI benefit overpayments for fiscal year 1994.

From our analyses, we estimated that the seven states we reviewed made millions of dollars in UI overpayments to UI claimants who were active

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<sup>26</sup>These two components represent only 5 percent of the Reserve force.



Reserve participants. Table I.2 shows the breakdown of nonreported income and overpayments by branch of service.

**Table I.2: Nonreported Income and Overpayments for UI Reserve Personnel in the Seven States, Fiscal Year 1994**

<b>Reserve component</b>	<b>Nonreported reserve income</b>	<b>Overpayments (total UI benefits)</b>	<b>Federal loss (UCFE, UCX, and EB)<sup>a</sup></b>	<b>State loss (UI)<sup>b</sup></b>
Army National Guard and Army Reserve	\$4,291,282	\$2,181,163	\$750,426	\$1,430,737
Naval Reserve	903,521	494,108	138,570	355,538
Marine Corps Reserve	142,005	61,722	14,771	46,951
Air National Guard and Air Force Reserve	1,610,025	871,317	259,233	612,084
Coast Guard Reserve	62,245	34,773	4,700	30,073
<b>Total</b>	<b>\$7,009,078</b>	<b>\$3,643,083</b>	<b>\$1,167,700</b>	<b>\$2,475,383</b>

Note: Because the overpayment amount and nonreported income for the Army and Air Force were estimated from samples, these amounts and the associated estimates of federal and state loss are subject to sampling error. The sampling errors, calculated at the 95-percent confidence level, range from  $\pm 16.7$  percent for federal losses due to Army overpayments to  $\pm 5.2$  percent for federal losses due to Air Force overpayments.

<sup>a</sup>We included extended benefits (EB) overpayments for three states (California, Georgia, and Massachusetts) that provided extended benefits during fiscal year 1994. We recognize that a portion—less than \$73,000—should be attributed to state losses but the data did not permit us to apportion these funds exactly.

<sup>b</sup>We included in the state fund losses joint UI/UCX and UI/UCFE overpayments of which a portion should be attributed to the federal losses.

## Some Matches Excluded From Analyses

Although we did not examine programs for the remaining states, the District of Columbia, Puerto Rico, and the U.S. territories, there are several reasons to expect that the total federal trust fund losses are much higher than \$1.2 million. First, these remaining programs cover 73 percent of the nation's reservists. Most of these programs treat Reserve income under their laws and program procedures in a manner similar to the seven states we reviewed.<sup>27</sup>

<sup>27</sup>We have little reason to believe that reservists' behavior regarding the reporting of income is systematically different in these remaining programs compared with the seven states we reviewed. In addition, although 1994 state unemployment rates—a primary factor influencing the total number of program claimants and thus the pool of possible claimants with nonreported income—tend to be higher in the seven states we reviewed, they are fairly high in many of the other UI programs as well.

In addition, we used an extremely conservative method for estimating the nonreporting of Reserve income and associated overpayments in our seven states. In calculating the amounts of nonreported earnings and UI overpayments, we excluded from our analysis all Reserve claimants who reported any earnings. About one-third of the reservists receiving UI during fiscal year 1994 reported some earnings. However, we were unable to determine if these earnings were Reserve pay or other types of income because state UI program data files do not include the source of income listed on the application form. Thus, we did not estimate the nonreported income and associated benefit overpayments generated by claimants in the Reserve who may have declared income to their UI program from some source but who did not report all or part of their Reserve income (that is, declared income from their annual training period but not their weekend drills).

# Summary of Case Studies of State UI Programs

To identify explanations for the nonreporting of Reserve income and possible options to enhance reporting, we spoke with UI officials from seven states: California, Colorado, Florida, Georgia, Massachusetts, Pennsylvania, and Texas.<sup>28</sup> These officials include UI program directors and administrators, benefit payment and quality control unit staff,<sup>29</sup> application clerks and reviewers, and computer staff who conduct matches of UI program information with claimant income and other data. In addition, state officials provided us with copies of their programs' benefit applications and continued claims forms as well as handbooks and other publications used to explain program eligibility and benefit payment requirements.

## States Generally Reduce UI Benefits by a Portion of Reserve Income

Reservists receive pay for several types of activities, including monthly weekend drill sessions and a 2-week annual training session. In addition, reservists can be activated for indefinite periods of time during a designated national crisis or domestic emergency.

States offset UI weekly benefit amounts by certain types of income earned, including Reserve wages earned during the period of benefit receipt. Of the UI programs in the 50 states, the District of Columbia, the Virgin Islands, and Puerto Rico, only Oregon and Maine completely exclude all Reserve wages from benefit computation.<sup>30</sup> State program requirements, including those of the seven states we visited, vary in the type of Reserve pay claimants must report and in the formula used to offset this income against weekly benefit payments (see table II.1). Although all seven states we visited offset weekly benefit amounts by a claimant's earnings for the 2-week annual training session, only five states offset benefits for income earned from the monthly weekend drill sessions. For instance, although California requires that claimants report all income received from Reserve participation, the claimant's benefit amount is not offset by income from monthly weekend sessions, according to state officials.

<sup>28</sup>We judgmentally selected these states according to a combination of criteria, including a state's average unemployment rate, its percentage of total Reserve personnel, and its previous matching experiences. For a discussion of our methodology, see app. I.

<sup>29</sup>Among the responsibilities of benefit payment and quality control staff are claimant enrollment and eligibility determination, benefit certification, and the detection of benefit overpayments.

<sup>30</sup>In May 1995, Colorado exempted Reserve pay for weekend drill and annual training participation from its UI program offset requirements.

**Appendix II**  
**Summary of Case Studies of State UI**  
**Programs**

**Table II.1: State Program Variations in the Treatment of Reserve Income and in Benefit Calculations, as of January 1995**

State	Type of Reserve pay included for offset calculation <sup>a</sup>	Earnings allowed before UI benefit offset calculation <sup>b</sup>	Maximum weekly benefit amount <sup>c</sup>
California	Annual training, national crisis, and domestic emergency	\$25 up to \$100, then 25% of wages over \$100	\$230
Colorado	All <sup>d</sup>	1/4 of the weekly benefit amount	\$267
Florida	All	\$34 flat amount	\$250
Georgia	Annual training, national crisis, and domestic emergency	\$30 flat amount	\$195
Massachusetts	All	1/3 of the weekly benefit amount	\$336
Pennsylvania	All	40% of the weekly benefit amount	\$340
Texas	All	25% of the weekly benefit amount	\$252

<sup>a</sup>Reserve income includes pay for (1) monthly weekend drills, (2) annual training, and (3) national crisis or domestic emergency deployments.

<sup>b</sup>The amount of income from employment earned while receiving benefits that a claimant can earn before benefit offset is calculated.

<sup>c</sup>As of January 1995; these figures do not include any dependent allowance benefits.

<sup>d</sup>Colorado excluded weekend Reserve drill and annual training pay from its UI program offset provision beginning in May 1995.

States also allow claimants to earn a certain amount of income from part-time employment before reducing their UI benefits, disregarding certain amounts of part-time income in their offsetting of benefits. The exact amount varies by state; California, for example, disregards \$25 of the first \$100 per week of income earned and excludes 25 percent of earnings above \$100 per week. Thus, a California UI claimant who received weekly part-time earnings of \$150 would have \$38 disregarded from any offset to his or her UI benefits (that is, \$25 of the first \$100, plus 25 percent, or \$12.50—rounded to \$13—of the remaining \$50, or a total disregard of \$38); thus his or her benefits would be reduced by \$112 (\$150-\$38).

## Explanations for the Nonreporting of Reserve Income

Officials from all seven state UI programs and the Department of Labor told us that the nonreporting of claimant income from Reserve participation was a serious problem, even though they did not know the magnitude of the total dollars involved. These officials believe that they

are responsible for preventing improper payments of UI benefits to claimants who are ineligible for such benefits or to claimants whose benefits should be reduced because of nonreported earnings. Accordingly, they believe that the integrity of the UI program is adversely affected when claimants receive improper benefits. These officials view their efforts to detect such overpayments as a means to deter future program abuses.

State UI officials identified several explanations for the nonreporting of Reserve income and subsequent benefit overpayment. First, many claimants may not understand their responsibility to report Reserve income. Second, state efforts to inform claimants about UI program income-reporting requirements may be inadequate. Third, claimants may have incentives not to report all Reserve income.

State officials also acknowledged that many UI programs could take additional steps to ensure that claimants are aware of program requirements regarding Reserve earnings. Most recognize that they have an opportunity to inform claimants of reporting responsibilities during the initial benefit application and the weekly or biweekly claim recertification. When applying for benefits, most applicants are required by states to report all expected earnings, including Reserve wages, to be received during the benefit period. However, during the application interview, state program officials generally do not ask claimants whether they are receiving income from Reserve participation. Also, because such wages are not included in any determination of an initial weekly benefit amount, applicants may leave UI interviews believing that they do not have to report Reserve income during subsequent periods for which they will be receiving weekly benefits. Nevertheless, only two states—Colorado and Massachusetts—explicitly asked that Reserve income be reported.<sup>31</sup> In the remaining states we visited, no mention was made on the application form, recertification notice, handbook, or any of the other information or guidance given to the claimant of the requirement or need to report Reserve income.

UI program officials also noted the financial incentives for claimants not to report any Reserve income, because such reporting will reduce weekly UI benefits in most UI programs. In cases where UI claimants deliberately fail to comply with state reporting requirements, states may invoke fraud statutes that allow them to attach financial penalties to money owed them.

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<sup>31</sup>In Colorado, a handbook prepared for UCX claimants cited Reserve pay as income to be reported to the UI office at the time of application or when such pay is earned while the claimant is receiving benefits. In the informational brochure distributed to applicants, Massachusetts lists Reserve drill pay as income that must be reported.

(See table II.2.) Once states determine that claimants have been overpaid as a result of their nonreporting of income, most states can withhold a portion or all of any future benefits owed the claimants until the overpayments have been paid back. Besides reclaiming overpayments from future benefits, one state—California—attaches a 30-percent penalty to fraudulent overpayments, and claimants are expected to pay this penalty in cash. Another state—Texas—discontinues benefit payments to claimants for the remainder of the benefit period and can disqualify claimants for benefits for up to 52 weeks after discovering that an overpayment has been made due to fraud.

**Table II.2: State UI Program Penalties for Fraud and Nonreporting of Program-Covered Income**

<b>State</b>	<b>Nonfraud penalty for failure to report income</b>	<b>Fraud penalty for failure to report income</b>
California	25% deducted from weekly benefit payments until overpayment repaid	100% deducted from weekly benefit payments until repaid plus 30% of overpayment amount as a penalty to be paid in cash
Colorado	100% deducted from remaining weekly benefit payments until overpayment repaid	100% deducted from remaining weekly benefit payments until repaid plus a 50% penalty of overpayments; in addition, forfeiture of 4 weeks of benefits for every week of overpayment
Florida	100% deducted from remaining weekly benefit payments until overpayment repaid	100% deducted from remaining weekly benefit payments plus a 52-week disqualification from future benefits
Georgia	50% deducted from remaining weekly benefit payments until overpayment repaid	100% deducted from remaining weekly benefits until repaid plus a 10% penalty; forfeiture of up to 52 weeks of future benefits
Massachusetts	50% deducted from remaining weekly benefit payments until overpayment repaid	Total overpayments repaid plus 12% annual interest charge on overpayment amount
Pennsylvania	30% deducted from remaining weekly benefit payments until overpayment repaid	100% deducted from remaining weekly benefit payments until repaid; a lien can be attached
Texas	100% deducted from remaining benefit payments until overpayment repaid	Remainder of benefit period forfeited; disqualified from benefits for 52-week period

Despite penalties for nonreporting of income, state UI program officials and Labor officials reported that enforcement was difficult because Reserve wage and employment information is not readily available to

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states for use in verifying claimants' earnings. Unlike private employers, who must routinely report quarterly wage and employment information for all employees (thus permitting states to determine whether claimants are accurately reporting their employment status and wages for UI benefit calculation), federal employers, including the Department of Defense and other civilian federal employers, are not required to do so. Without this information, states are unable to identify income being received from a federal employer when claimants apply for or receive UI benefits.

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## States Use Matching to Ensure Program's Fiscal Integrity

In an effort to reduce overpayments and identify program fraud and abuse, all seven states we visited matched UI program data with other sources of claimant earnings information. For example, they all conducted computer matches of UI claimant files with state wage record files submitted by private employers. In addition, several states, including Florida, Texas, and Pennsylvania, conduct targeted matches to certain claimant groups. For example, Texas matches UI program data with private sector wage information on longshore workers and employees who work for large manufacturers who periodically initiate large layoffs. States also conduct quality assurance reviews to validate the continued eligibility of UI claimants generally.<sup>32</sup> However, according to state quality assurance officials, such reviews are unable to identify the nonreporting of Reserve income unless claimants have already listed this type of employment on their initial applications or continued claims processing forms.

State program officials told us that matches are an essential internal control mechanism for maintaining the financial integrity of their programs. Although most of the state officials we interviewed said that they have not conducted explicit cost-benefit analyses of their matching efforts, they viewed these efforts as an effective tool to deter future program abuse. However, UI officials from California reported that the revenue recovered from overpayments identified by their automated matches was greater than the cost of detecting and recovering these overpayments. Most program officials from other states told us that the costs of conducting automated matches themselves were fairly small, though the costs of actually recovering overpayments were much higher.

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<sup>32</sup>During a quality assurance review, a state typically selects a sample of claims from UI, UCX, and UCFE programs for an extensive review, including an interview with the claimant or a questionnaire that is sent to all of the employers listed on the claimant's application forms.

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## States Encountered Difficulties in Matching UI Benefit Data With Reserve Personnel and Payroll Records

Three of the seven states we visited—Colorado, Pennsylvania, and Texas—have conducted matches to identify the nonreporting of Reserve income received by UI claimants. Each of the states had initiated the matches after receiving reports of UI claimants not reporting their Reserve income. However, the UI programs' lack of awareness of the availability of automated Reserve personnel records, difficulties in obtaining Reserve payroll records from DFAS, and limited assistance from Labor hampered the progress of each match. By June 1995, all three states had discontinued their matching efforts before they were completed.

Two of the state programs we visited that matched UI program and Reserve personnel and payroll data indicated that they were unaware of the availability of automated information from DMDC that could have expedited their efforts. Although Colorado and Pennsylvania both determined that DMDC had records of Reserve personnel, neither state was aware it could obtain this information in automated form, which would have expedited the matching process considerably. For example, after obtaining printed Reserve personnel listings containing over 13,000 names, Colorado employed about six full-time staff to match those names with its UI claimants list. The manual matching continued for more than a year before the state closed the project.

The Texas state UI program, after some delay, received automated personnel lists from DFAS through the state's National Guard unit. However, because it did not believe that the state of Texas had authority to request such information, DFAS would not release the payroll information on Reserve personnel that the UI program needed for matching. Because of the lack of payroll information, Texas corresponded with the individual reservists receiving UI benefits and requested their voluntary reporting of Reserve income. In many cases, Texas sent several requests before claimants provided the appropriate wage information and because the Texas UI program was unable to verify the information, the accuracy of responses and the results of the match were questionable.<sup>33</sup>

State officials told us that they have also received little assistance from Labor's ETA with their efforts to identify nonreported Reserve income. Texas officials did report that ETA regional officials successfully interceded with the Texas state National Guard in obtaining automated Reserve personnel records. However, while ETA hired a contractor to develop a technical assistance guide to help state benefit payment control units

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<sup>33</sup>Officials reported that some claimants might be hesitant to respond because claimants believed that they could be liable for UI benefit overpayments.



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develop matching techniques, the contractor provided an inadequate description of how these units could identify the nonreported Reserve income. ETA officials, on the other hand, claim that they have not generally received any requests from states asking for their assistance in conducting matches; the agency has concentrated on providing assistance in other areas, such as compliance with federal requirements regarding the payment of UCFE claims. Officials from Pennsylvania and Texas have reported that they would not initiate future matches without access to automated Reserve personnel and payroll records and assistance from Labor.<sup>34</sup>

Because each state discontinued its matching efforts before completion, the amount of detected nonreported Reserve income and associated benefit overpayments was very incomplete. Nevertheless, each state identified overpayments. For example, state officials reported that Colorado identified over \$280,000 in benefit overpayments on the basis of about 200 cases with nonreported Reserve income; Pennsylvania projected about \$96,000 in overpayments for 339 cases; and Texas detected \$124,000 for 416 cases. The Texas and Pennsylvania overpayment totals were derived from information self-reported by claimants, which likely understated benefit overpayments.

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## Summary of States' Matching Efforts

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### Colorado

Started in August 1993, Colorado's matching effort initially included all Reserve components and was later narrowed to the Army and Air Force National Guard. Unaware of DMDC's automated records, Colorado asked DMDC for a printed roster of Reserve personnel and conducted a manual match of the Reserve personnel roster with state UI records. DFAS failed to provide Colorado with payroll records on matched personnel, requiring data requests to the individual DFAS centers. The state manually matched each UI case file against the Reserve payroll record, a time-consuming, labor-intensive effort. Colorado identified overpayment cases and initiated recovery actions. The state stopped its matching effort in May 1995 after passing legislation to eliminate inclusion of Reserve income in the offset of UI benefits.

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<sup>34</sup>In May 1995, Colorado's legislature exempted Reserve weekend drill and annual training income from offset considerations, thereby eliminating the need for the state to identify this type of nonreported income.

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Pennsylvania

Initiated in May 1994, Pennsylvania's matching effort included all Reserve components. The state learned about the matching procedure from Colorado officials. Like Colorado, it requested a printed roster of Reserve personnel from DMDC instead of automated files. Pennsylvania conducted a time-consuming manual match of the Reserve personnel roster to state UI records. It did not attempt to obtain payroll records from DFAS. As of May 1995, only one of its eight regional offices had completed its time-consuming investigations and the state suspended the initiative in June 1995.

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Texas

Initiated in February 1990, Texas' matching effort included the Air Force and Army National Guard. Texas asked the state National Guard to coordinate personnel information collection from DMDC, which did so. Labor's ETA facilitated procurement of automated Reserve personnel records for the state's Air Force and Army National Guard. Texas conducted automated matches of its UI claimant files with Reserve personnel records. DFAS was unwilling to provide Texas with automated or printed payroll records for matched files. Consequently, Texas relied on personal UI claimant responses for the verification of Reserve income. It has not compiled complete results and has no plans to do so or to conduct future matches.

Although all state program officials identified better monitoring and matching of claimants' earnings as a solution, such efforts have been seriously hindered, they told us, by a lack of automated payroll and personnel information on reservists who receive UI benefits.

# Comments From the Department of Labor

U.S. Department of Labor

Assistant Secretary for  
Employment and Training  
Washington, D.C. 20210



JUN 3 - 1996

Ms. Carlotta C. Joyner  
Director  
Education and Employment Issues  
United States General Accounting Office  
Washington, D.C. 20548

Dear Ms. Joyner:

This responds to your May 20 inquiry to the Secretary of Labor to review and comment prior to its release, on the draft report to Congresswoman Schroeder entitled Unemployment Insurance: Millions in Unemployment Insurance Benefits Overpaid to Reservists (GAO/HEHS-96-101). I appreciate the opportunity to comment on the draft report.

According to our review, most of the information in the draft report is correct as far as content and accuracy; however, we have identified a few nonsubstantive comments on pages 5 and 9. In addition, we noted that the footnote on page 5 of the draft report is inaccurate. Reference to the "Extended Unemployment Compensation (EUC) program" should be changed to read "the Federal/State Extended Unemployment Compensation program (commonly known as the extended benefits (EB) program)" instead. Copies of our comments pertaining to pages 5 and 9 are enclosed.

If you have any questions, please call Bob Gillham at 219-5626.

Sincerely,

A handwritten signature in cursive script that reads "Timothy M. Barnicle".

Timothy M. Barnicle  
Assistant Secretary of Labor

Enclosures

# Comments From the Department of Defense



FORCE MANAGEMENT  
POLICY

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WASHINGTON, DC 20301-4000



JUN 7 0 1996

Ms. Carlotta C. Joyner  
Director, Education and Employment Issues  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Ms. Joyner:

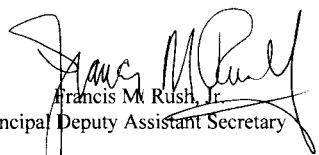
This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report dated May 20, 1996, "UNEMPLOYMENT INSURANCE: Millions in Unemployment Insurance Benefits Overpaid to Reservists" (GAO code 205275/OSD Case 1156). The DoD generally concurs with the report.

The Department has no major disagreement with any portion of the report. It is our opinion that the most productive approach to reducing overpayments due to the nonreporting of reserve earnings is for States to clearly inform benefit claimants of the requirement to report such earnings. The Department agrees that the Defense Finance and Accounting Service (DFAS) could assist in this effort with a periodic notice on Leave and Earnings Statements.

Problems that the states, or the GAO, may have faced in obtaining earnings data on reservists is considered to result from the lack of a clear requirement to provide such information and the absence of a standard reporting format. A clear communication of requirements and responsibility needs to be provided to the Department of Defense through the Department of Labor. DoD will work with the Department of Labor and the states to provide the automated data in an economical manner within the scope of existing law.

Specific DoD comments on GAO's recommendations are enclosed. Several technical and clarifying corrections have been provided separately. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

  
Francis M. Rush, Jr.  
Principal Deputy Assistant Secretary

Enclosure:  
As stated



GAO DRAFT REPORT DATED MAY 20, 1996  
(GAO CODE 205275) OSD CASE 1156

“UNEMPLOYMENT INSURANCE: MILLIONS IN UNEMPLOYMENT  
INSURANCE BENEFITS OVERPAID TO RESERVISTS”

RECOMMENDATIONS

- **RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct the four Defense Finance and Accounting Service (DFAS) centers to notify all Reservists of their income reporting responsibilities with respect to state Unemployment Insurance (UI) benefits in a message included on their leave and earnings statement. (p.21/GAO Draft Report)

DOD RESPONSE TO THE DRAFT REPORT: The Department agrees that the Leave and Earnings Statement for Reservists can periodically include a standard notice that they should disclose their Reserve affiliation and earnings when filing a claim for unemployment benefits. Estimate completion in January - March 1997.

- **RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct the Defense Manpower Data Center (DMDC) and the four centers to develop a process for giving states Reserve personnel and payroll data in a timely, economical and efficient manner. In doing so, they should coordinate with the Labor's UI Service within the Employment and Training Administration (ETA) to identify states' needs. (P.22/GAO Draft Report).

DOD RESPONSE TO THE DRAFT REPORT: The Department agrees to work within its resources and in coordination with the Department of Labor to develop a suitable process to provide the states automated data on Reserve earnings by economical means in a standard format within the provisions and requirements of law. Estimate completed plan of action for this process on or about January 1, 1997.

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

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C. Robert DeRoy, Assistant Director (Data Analysis and Evaluation Support), (202) 512-6859

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## Acknowledgments

In addition to those named above, the following individuals made important contributions to this report: J. William Hansbury, Steven R. Machlin, Lori Rectanus, and Carol L. Patey.

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