



Testimony before the Subcommittee on  
Human Resources, Committee on Ways  
and Means, House of Representatives

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# UNEMPLOYMENT INSURANCE

## Enhancing Program Performance by Focusing on Improper Payments and Reemployment Services

Statement of Sigurd R. Nilsen, Director  
Education, Workforce, and Income Security Issues





Highlights of [GAO-06-696T](#), a testimony before the Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

## Why GAO Did This Study

Unemployment Insurance (UI) has been a key component in ensuring the financial security of America's workforce for over 70 years. In fiscal year 2004, UI covered about 129 million wage and salary workers and paid about \$41 billion in benefits to nearly 9 million workers who lost their jobs. The Department of Labor (Labor) and states have a shared responsibility to enhance UI program performance by ensuring that only eligible individuals receive benefits while on the UI rolls and fostering reemployment. Labor's Office of Inspector General and others have found that aspects of UI may be vulnerable to fraud and improper payments, and despite the size and scope of UI, there has been little national information to fully assess states' efforts to foster reemployment. This testimony draws upon results of several GAO reports on (1) Labor's efforts to identify, estimate, and prevent improper benefit payments and (2) federal and state efforts to help speed UI claimants' return to work.

We are not making new recommendations at this time. Labor generally agreed with the UI findings in our referenced reports, but took issue with our recommendation that the Secretary work with states to consider collecting more comprehensive information on UI claimants' services and outcomes. We continue to believe this information is needed.

[www.gao.gov/cgi-bin/getrpt?GAO-06-696T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-696T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd Nilsen at (202) 512-7215 or [nilsens@gao.gov](mailto:nilsens@gao.gov).

# UNEMPLOYMENT INSURANCE

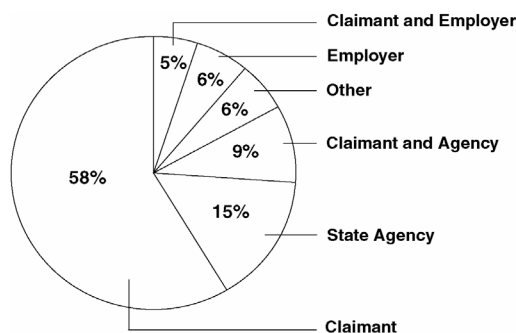
## Enhancing Program Performance by Focusing on Improper Payments and Reemployment Services

### What GAO Found

Labor estimates that about \$3.4 billion in UI benefits was overpaid nationwide in calendar year 2004, but is taking actions to help states improve their ability to detect and prevent overpayments. According to Labor's Benefit Accuracy Measurement program, in 2004 claimants were responsible for a majority of the overpayments. Claimants may fail to report their work as required, or may use Social Security numbers that did not exist or belonged to other individuals to fraudulently obtain UI benefits, resulting in overpayments. Actions by state agencies and employers may also contribute to overpayments. Labor has introduced a number of initiatives to help states improve their ability to detect and prevent overpayments, including new computer matches with federal databases, a new core performance measure intended to provide states with added incentives for detecting and preventing overpayments, and additional funding for states' overpayment detection efforts. Labor's budget request for fiscal year 2007 includes funding to continue some of these efforts.

In our review of states' efforts to help UI claimants quickly return to work, we found that states most often made use of federal UI program requirements to help connect claimants with reemployment. All federally approved state UI programs must include able-to-work and available-for-work requirements that claimants must meet in order to receive benefits. In many states, these requirements also serve to link claimants to reemployment opportunities and services. In addition, states provide targeted reemployment services to particular groups of UI claimants, most often through federally required claimant profiling. However, despite states' efforts to design systems that link UI claimants to reemployment services, few data are available to gauge whether or not their efforts are having the intended result. Labor has some initiatives that may begin to shed light on claimant outcomes, but they fall short of providing a comprehensive understanding of services and outcomes for UI claimants. Labor's fiscal year 2007 budget request does not include funding for additional evaluations on federally required efforts to target reemployment services.

Responsibility for UI Overpayments (Calendar Year 2004)



Source: Labor.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to assist you in your deliberations on Unemployment Insurance (UI) program performance issues as they relate to the Department of Labor's (Labor) \$2.7 billion fiscal year 2007 budget request for the UI program. My testimony will focus primarily on the results of our past work in UI benefit overpayment and reemployment services. The UI program has been a key component in ensuring the financial security of America's workforce for over 70 years. The UI program is a federal-state partnership designed to partially replace lost earnings of individuals who become unemployed through no fault of their own and, which in turn, helps to stabilize the economy in times of economic downturn. In fiscal year 2004, the UI program covered about 129 million wage and salary workers and paid about \$41 billion in benefits to nearly 9 million workers who had lost their jobs. Labor and states have a shared responsibility to enhance UI program performance by ensuring that only eligible individuals receive benefits while on the UI rolls and to foster reemployment. However, Labor's Office of Inspector General (OIG) and others have found that numerous aspects of the UI program may be vulnerable to fraud and to improper payments to claimants, and, despite the size and scope of this program, there has been little information at the national level to fully assess states' efforts to foster reemployment.

Today, I will draw upon results of recent reports we have completed that provide information on UI program performance issues. In particular, I will discuss in relation to Labor's budget request (1) Labor's efforts to identify, estimate, and prevent improper benefit payments, and (2) what is being done at the state and federal levels to help speed UI claimants' return to work. To address the first question, we drew upon two of our recent studies. In the first study, we reviewed Labor guidance, data, and reports and interviewed Labor officials and groups involved in unemployment insurance.<sup>1</sup> In the second study, which reviewed states' efforts to estimate improper payments on state-administered federal programs, including UI, Food Stamps, Medicaid, and other programs, we primarily conducted surveys of state officials, interviewed federal and state officials, and reviewed performance and accountability reports and

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<sup>1</sup>GAO, *Unemployment Insurance: Increased Focus on Program Integrity Could Reduce Billions in Overpayments*, [GAO-02-697](#) (Washington, D.C.: July 12, 2002).

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our prior reports.<sup>2</sup> To address the second question, we drew upon the results of another of our previous study, where we had conducted telephone interviews with UI and workforce development officials in 50 states; sent a follow-up questionnaire to gather information on the strategies states use to collect data on UI claimants who receive reemployment services; interviewed state and local program officials during site visits in Georgia, Maryland, Michigan, and Washington; and interviewed Labor officials and other experts in the area of UI and reemployment services.<sup>3</sup>

In summary, Labor estimates that about \$3.4 billion in UI benefits was overpaid nationwide in calendar year 2004, but is taking actions to help states improve their ability to detect and prevent overpayments. Labor attributes a majority of overpayments to improper actions taken by claimants, although states and employers can also contribute to overpayments. Labor has introduced a number of initiatives to help states improve their ability to detect and prevent overpayments, including new computer matches with federal databases, a new core performance measure intended to provide states with added incentives for detecting and preventing overpayments, and additional funding for states' overpayment detection efforts. Labor's budget request for fiscal year 2007 includes funding to continue some of these efforts. As annual overpayments reach the billions, it will be important for federal and state stakeholders to take the necessary action to address the overpayment issue. Avoiding improper payments may do more to enhance program performance in the long term than detecting and collecting overpayments after they have occurred. To help UI claimants return to work quickly, states most often make use of federal UI program requirements to connect claimants with available services at various points in their claims. In addition, states provide targeted reemployment services to particular groups of UI claimants. The federal requirement of claimant profiling is typically the primary mechanism for targeting reemployment services to specific claimants. However, despite states' efforts to design systems that link UI claimants to reemployment services, few data are available to gauge the extent to which their efforts are having the intended result.

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<sup>2</sup>GAO, *Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs*, [GAO-06-347](#) (Washington, D.C.: Apr. 14, 2006).

<sup>3</sup>GAO, *Unemployment Insurance: Better Data Needed to Assess Reemployment Services to Claimants*, [GAO-05-413](#) (Washington, D.C.: June 24, 2005).

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Labor's current and planned initiatives may help fill the information gap, but they fall short of providing a comprehensive understanding of services and outcomes for UI claimants.

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## Background

The UI program was established by Title III of the Social Security Act in 1935 and is a key component in ensuring the financial security of America's workforce. The program serves two primary objectives: (1) to temporarily replace a portion of earnings for workers who become unemployed through no fault of their own and (2) to help stabilize the economy during recessions by providing an infusion of consumer dollars into the economy. UI is made up of 53 state-administered programs that are subject to broad federal guidelines and oversight. In fiscal year 2004, these programs covered about 129 million wage and salary workers and paid benefits totaling \$41.3 billion to about 8.8 million workers.

Federal law provides minimum guidelines for state programs and authorizes grants to states for program administration. States design their own programs, within the guidelines of federal law, and determine key elements of these programs, including who is eligible to receive state UI benefits, how much they receive, and the amount of taxes that employers must pay to help provide these benefits.<sup>4</sup> State unemployment tax revenues are held in trust by the federal government and are used by the states to pay for regular weekly UI benefits, which typically can be received for up to 26 weeks.

To receive UI benefits, an unemployed worker must file a claim and satisfy the eligibility requirements of the state in which the worker's wages were paid. Generally, states require that workers must have a minimum amount of wages and employment over a defined base period, typically about a year before becoming unemployed, and have not already exhausted the maximum amount of benefits or benefit weeks to which they would be entitled because of other recent unemployment. In addition workers must have become unemployed for reasons other than quitting a job or being fired for work-related misconduct, and be able and available to work. In order to demonstrate that they are able to work and available for work and

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<sup>4</sup>In accordance with federal law, all state UI systems are experience rated so that employers' contribution rates vary on the basis of their experience with unemployment. In practice, this typically means that an employer who lays off many workers that claim unemployment insurance benefits will pay more in taxes than an employer that lays off fewer workers.

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are still unemployed, claimants must submit a certification of continuing eligibility—by mail, telephone, or Internet, depending on the state—throughout the benefit period. This practice is usually done weekly or biweekly. States may continue to monitor claimant eligibility through an eligibility review program, in which certain claimants are periodically contacted to review their eligibility for benefits, work search activities, and reemployment needs.

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## UI Performance Measurement

Labor has the responsibility under Title III of the Social Security Act for ensuring that states operate effective and efficient UI programs. Various provisions of federal law require that certain UI activities be performed promptly and accurately. Section 303(a)(1) of the Social Security Act requires, as a condition of a state's receiving UI administrative grants, "such methods of administration . . . as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due." Labor uses various administrative data to provide information on the functioning of all UI program activities. Labor divides the measures into two categories: core measures, which entail oversight on key performance areas representative of the UI program, and management information measures, which facilitate the analysis of performance and to assist in planning corrective activities when necessary.

One of Labor's performance measurement efforts is the Benefit Accuracy Measurement (BAM) program, which is designed to determine the accuracy of paid and denied claims in the UI program. It does this by reconstructing the UI claims process from samples of weekly payments and denied claims using data verified by trained investigators. For claims that were overpaid, underpaid, or improperly denied, the BAM program determines the cause of and the party responsible for the error, the point in the UI claims process at which the error was detected, and actions taken by the agency and employers prior to the error. For erroneously paid claims, the BAM program determines the amount of benefits the claimants should have received, which becomes the basis for subsequent recovery efforts. BAM provides two rates of improper payments. The first, the Annual Report Overpayment Rate, includes estimates of nearly every divergence from what state law and policy dictate the payment should have been. The second rate, the Operational Overpayment Rate, includes only recoverable overpayments states are most likely to detect through ordinary overpayment detection and recovery procedures. Operational overpayments are the most likely to be detected and established for eventual recovery and return to the UI Trust Fund.

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## Reemployment Services

Since UI was established, there have been two major changes in the nation's workforce development system that have directly affected states' UI programs. Specifically, in November 1993, Congress enacted legislation amending the Social Security Act to require that each state establish a Worker Profiling and Reemployment Services (WPRS) system and implement a process typically referred to as claimant profiling. The claimant profiling process uses a statistical model or characteristics screen to identify claimants who are likely to exhaust their UI benefits before finding work. Claimants identified through this process are then referred to reemployment services while they are still early in their claim. For profiled claimants, participation in designated reemployment services becomes an additional requirement for continuing eligibility for UI benefits. The second major change was the enactment of the Workforce Investment Act of 1998, which requires states and localities to bring together about 17 federally funded employment and training services into a single system—the one-stop system. State UI programs are mandatory partners in the one-stop system. Another mandatory partner is the federal Employment Service, established by the Wagner-Peyser Act in 1933 to link job seekers with job opportunities. The Employment Service (ES) has historically been colocated with state UI offices to facilitate UI claimants' access to federally funded labor exchanges, job search assistance, job referral, placement assistance, assessment, counseling, and testing.

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## Labor's 2007 Budget Request

For UI, Labor's fiscal year 2007 budget includes a request for \$2.7 billion. This amount is about \$101 million higher than the fiscal year 2006 enacted level. This request, according to Labor's budget overview, funds projected workloads and includes several UI program increases. First, Labor is proposing a \$30 million increase in fiscal year 2007 for the amount available to states to conduct reemployment and eligibility reviews. Labor notes that the reviews—which entail in-person interviews with claimants at one-stop centers—can reduce overpayments as well as speed reemployment. Second, Labor is proposing a \$10 million UI program increase to prevent and detect fraudulent claims due to identity theft. Labor proposes to use the new funding for staff to investigate and reconcile potential identity theft identified through data cross-matching.

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## More than \$3.4 Billion in Overpayments Estimated in 2004, but Labor is Taking Some Actions to Enhance Program Integrity

Labor estimates that about \$3.4 billion in UI benefits was overpaid nationwide in calendar year 2004, but is taking actions to help states improve their ability to detect and prevent overpayments. According to Labor's Benefit Accuracy Measurement program, in 2004 (the most recent year for which we could obtain specific data) claimants were responsible for a majority of the overpayments. Claimants may fail to report their work as required, or may use Social Security numbers (SSN) that did not exist or that belonged to other individuals to fraudulently obtain UI benefits, resulting in overpayments. State agencies may also contribute to overpayments if they fail to properly record eligibility information. In addition, employers may contribute to UI overpayments if they fail to report required information to states in a timely manner. Labor has introduced a number of initiatives to help states improve their ability to detect and prevent overpayments, including new computer matches with federal databases, a new core performance measure intended to provide states with added incentives for detecting and preventing overpayments, and additional funding for states' overpayment detection efforts. Labor's budget request for fiscal year 2007 includes funding to continue some of these efforts.

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## The Majority of Overpayments Are Attributable to Claimants

Of the \$3.4 billion in overpayments identified nationwide by the BAM program in calendar year 2004,<sup>5</sup> almost \$2 billion (58 percent) was attributable to UI claimants alone, while state agency errors and employers were responsible for overpayments by others (see fig. 1). With respect to claimants, overpayments may occur because individuals work while receiving benefits, fail to register with employment services (as required in most states), fail to look for a new job, or misrepresent their identity. In calendar year 2004, the most common cause of overpayments was unreported or erroneously reported earnings and income, accounting for almost 28 percent of overpayments in that year. The second-leading cause of overpayments—constituting 21 percent of all overpayments—was payments to individuals who are not entitled to UI benefits because of the circumstances under which they became unemployed (separation issues). Other sources of overpayments were attributable to individuals who failed to look for work (16 percent) and individuals who did not register for employment services (10 percent). Federal and state officials have

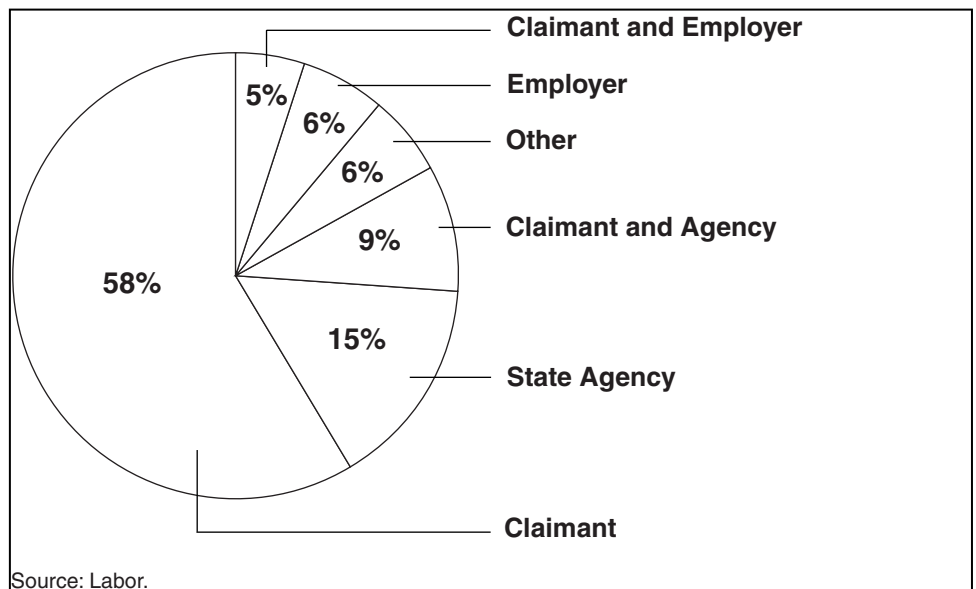
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<sup>5</sup>Of this amount, Labor officials told us that the states could have potentially detected and recovered \$1.8 billion, or about 53 percent of the total overpayments it estimated occurred, using current procedures.



reported that some types of overpayments are more difficult to detect than others. For example, in a prior report, some officials told us that it could be difficult for states to accurately determine, in a cost-effective manner, if a claimant was actively searching for work (an eligibility requirement in some states).

**Figure 1: Responsibility for UI Overpayments (Calendar Year 2004)**



**Note: Percentages do not add to 100 percent because of rounding.**

Other sources of overpayments include state agency errors and inaccurate or untimely information provided by employers. Labor's BAM program shows that state agency errors, such as failing to properly record important eligibility information such as wages, accounted for about 15 percent of all estimated overpayments in 2004. Employers accounted for about 6 percent of the total estimated overpayments in 2004. Employers and their agents do not always comply in a timely manner with state

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requests for information needed to determine a claimant's eligibility for benefits. For example, one Labor OIG audit found that \$17 million in overpayments occurred in four states because employers did not respond to the states' request for wage information. Our work suggests that employers may resist requests to fill out paperwork from states because they view the process as time-consuming and cumbersome. In addition, because employers are unlikely to experience an immediate increase in the UI taxes they pay to the state as a direct result of overpayments, they do not see the benefit in complying with states' requests for wage data in a timely manner.

Our prior work and work by Labor's OIG also shows that some UI overpayments result from identity-related violations. For example, our prior work shows that in 2001, Labor identified about \$1.4 million in UI overpayments resulting from Social Security violations.<sup>8</sup> Labor determined these overpayments to be the result of fraud. More recently, in its fiscal year 2007 budget justification, Labor estimated that approximately \$313 million in overpayments results from identity theft each year. Labor's OIG has documented identity theft schemes as a major management challenge. For example, in its semiannual report to Congress, the OIG reported on a case in which individuals used more than 200 stolen identities to file 222 UI claims and obtain more than \$693,000 in UI benefits from February 2001 through February 2005.<sup>9</sup>

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## Labor is Taking Actions to Help States Detect and Prevent Overpayments

Labor has introduced several initiatives to help states improve their ability to detect and prevent overpayments in the UI program. First, Labor has initiated a pilot using the National Directory of New Hires (NDNH) to further assist in identifying and preventing improper payments, including overpayments. The NDNH is a database, maintained by the Department of Health and Human Services' Office of Child Support Enforcement, that contains information on all newly hired employees, quarterly wage reports for all employees, and UI claims nationwide. The NDNH enhances states' ability to detect unreported work violations by UI claimants working in other states or for certain employers that operate in multiple states. In addition, the NDNH can help improve the accuracy of Labor's error

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<sup>8</sup>GAO, *Unemployment Insurance: Increased Focus on Program Integrity Could Reduce Billions in Overpayments*, [GAO-02-697](#) (Washington, D.C.: July 12, 2002).

<sup>9</sup>Department of Labor, Office of Inspector General, *Semiannual Report to the Congress*, April 1, 2005–September 30, 2005, Vol. 54.

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estimates. Information from the NDNH cross-match can be readily integrated into Labor's BAM program by cross-matching the SSNs of the claimants against the NDNH. In fiscal year 2005, three states (Texas, Utah, and Virginia) participated in the pilot. According to Labor, initial results of the pilot show that overpayment detections increased 114 percent in Texas, 41 percent in Utah, and 73 percent in Virginia. The Texas Workforce Commission also reported that using the national cross-match in combination with the existing statewide cross-match helped detect 50 percent more cases of potential fraud in one quarter than it would have detected otherwise. In addition, on the basis of its NDNH pilot results, Labor reported in its fiscal year 2005 performance and accountability report that a substantial amount of additional overpayments could be detected using the database. Labor reported that it is moving ahead with full implementation of the NDNH cross-match with 5 states (Connecticut, Texas, Utah, Virginia, and Washington), and expects 29 states to use the NDNH by the end of fiscal year 2006.

In addition to its NDNH pilot, Labor is also pursuing the use of other data sources to improve UI program integrity. In particular, Labor continues to promote states' data sharing with other agencies, such as the Social Security Administration (SSA), to identify and prevent overpayments. According to Labor's fiscal year 2005 performance and accountability report, the department has funded states to exchange data with SSA on a real-time basis, giving states the ability to verify claimants' identity and prevent most overpayments due to fraudulent or mistaken use of SSNs. Labor's fiscal year 2007 budget request includes \$10 million in funding to detect and prevent fraudulent UI benefit claims that use personal information stolen from workers. Labor estimates that the requested funds could generate savings of at least \$77 million to the UI Trust Fund by preventing erroneous payments caused by the use of stolen identities.

Along with efforts to enhance states' use of data sharing to detect and prevent overpayments, Labor has taken other steps to enhance UI program integrity, including the development of a new core performance measure for overpayment detection at the state level. More specifically, Labor has announced that states will be given an additional incentive to prevent and detect overpayments by implementing core measures in states' performance budget plans based on the level of overpayments the states have detected. While Labor has established overpayment detection as one of its core measures, it has not yet specified the level of performance that states will be required to meet under this measure. In addition, Labor's fiscal year 2006 budget request contained a legislative proposal designed to give states the means to obtain funding for program integrity activities,

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including additional staff to enhance recoveries and prevent overpayments. Moreover, to reduce overpayments, Labor awarded Reemployment and Eligibility Assessments grants to 21 states during fiscal year 2005. The grants have been used to conduct in-person claimant interviews to assess claimants' continued eligibility for benefits and to ensure that individuals understand that they must stop claiming benefits upon their return to work.<sup>10</sup> Labor's fiscal year 2007 budget request includes \$30 million in additional funding to continue this effort. Labor estimates that these funds could be used to conduct an additional 539,000 interviews and could save the UI Trust Fund as much as \$151 million by reducing the average duration of UI benefits for claimants who are interviewed.

In addition to the initiatives contained in its budget request, Labor plans to submit a legislative proposal in the near future that includes several initiatives to further help states detect and recover overpayments.<sup>11</sup> Among other things, this proposal may include suggestions to allow the Department of the Treasury to garnish federal income tax refunds to recover UI overpayments as a means of improving overpayment recoveries. The proposal may also allow states to use a small percentage of recovered overpayments to fund their benefit payment control and program integrity activities as an incentive to focus their efforts on those activities. In addition, the proposal may seek to provide employers with a stronger incentive to inform the state when inappropriate UI claims are made. More specifically, the proposal could require states to charge employers a higher UI tax rate when claimants are overpaid, if it is determined that the overpayment was the employer's fault (such as when an employer fails to provide wage information to the state in a timely manner). Such additional charges could lead to an increase in the UI tax rate for affected employers.

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<sup>10</sup>These interviews would also promote use of reemployment services available in One-Stop Career Centers to assist claimants to become reemployed more quickly.

<sup>11</sup>According to Labor, this proposal will be similar to the 2005 legislative proposal (the Unemployment Compensation Program Integrity Act of 2005).

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## States Make Use of Federal Requirements to Help Speed Reemployment of UI Claimants, but Knowing More about Outcomes Could Enhance Program Performance

In our review of states' efforts to help UI claimants quickly return to work, we found that states most often make use of federal UI program requirements to help connect claimants with reemployment services at various points in their claims, usually beginning at the time their initial claim is filed. All federally approved state UI programs must include able-to-work and available-for-work requirements that claimants must meet in order to receive benefits. In many states, these requirements also serve to link claimants to reemployment opportunities and services. In addition, states provide targeted reemployment services to particular groups of UI claimants. The federal requirement of claimant profiling is typically the primary mechanism for targeting reemployment services to specific claimants. Despite states' efforts to design systems that link UI claimants to reemployment services, few data are available to gauge the extent to which their efforts are having the intended result. Moreover, Labor's fiscal year 2007 budget request does not include funding specifically designated for conducting evaluations of federally required efforts to target reemployment services.

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## States Use Compliance with Work Requirements and Target Services to Particular Groups of Claimants to Help Speed Reemployment

Although all UI claimants can access the range of reemployment services through the one-stop system at any time, UI program requirements often provide the context for states' efforts to link claimants to reemployment services. Specifically, all federally approved state UI programs require that claimants be able and available to work. To meet these conditions, 44 states require that UI claimants register with the state's labor exchange—that is, job-matching services provided through the Wagner-Peyser-funded Employment Service—in order to be eligible for UI benefits. In addition, 49 states impose a work search requirement as a condition for continuing UI eligibility, and claimants must document that they are meeting their state's work search requirement in a number of ways. Most commonly, claimants are required to keep a log of work search activities that may be subject to review, or they must certify that they are able and available to work through the process of filing for a continuing claim.

These work registration and work search requirements often serve to link claimants to reemployment services. The process of registering for work with the state's labor exchange, for example, may bring claimants into an Employment Service office or one-stop center where reemployment services are delivered.

Some states also use their processes for monitoring compliance with the work search requirement to direct claimants to reemployment services. Officials in 39 of the 49 states that require claimants to actively seek

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employment told us that telephone or in-person interviews with claimants may be used to monitor compliance with this requirement. In over two-thirds of these states, officials told us that some information on job search strategies or reemployment services is provided during the interview.

States also engage some claimants in reemployment services directly through programs that identify certain groups for more targeted assistance. States primarily target reemployment services to claimants identified through federally required claimant-profiling systems—a process that uses a statistical model or characteristics screen to identify claimants who are most likely to exhaust their UI benefits before finding work. While claimants identified and referred to services through profiling can access the services available to all job seekers through the one-stop system, participation in the services they are referred to—most often orientation and assessment services—is mandatory for profiled claimants. In addition, many officials told us that the services profiled claimants received depended on their individual needs following an assessment, the development of an individual plan, or the guidance of staff at a one-stop center. While failure to report to required reemployment services can result in benefits being denied, states vary in the conditions that prompt denying benefits.

Maryland, for example, targets reemployment services to profiled claimants through its Early Intervention program. This program, which began in 1994, offers an interactive, 2-day workshop, addressing self-assessment, job search resources, resume writing and interviewing skills, and other community resources available to job seekers. Profiled claimants selected for the workshop who fail to attend are given one opportunity to reschedule; after that, their failure to participate is reported to the UI program and their benefits may be suspended. When claimants complete the workshop, they are registered with the Maryland Job Service, they receive an individual employment plan, and the workshop facilitator may refer them to additional services. Officials told us that although they currently do not have data to show the impact of this program, they have received very positive feedback about the quality and effectiveness of the workshops.

Some states have developed additional methods to target reemployment services to particular groups of UI claimants. For example, one-stop staff in Washington have the ability to identify various subgroups of claimants using a tracking device called the Claimant Progress Tool. Officials told us that one-stop staff typically use this tool to identify claimants who are about 100 days into their claim, and then contact them for targeted job

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search assistance and job referrals. This process was developed to help the state achieve a goal of reducing the portion of its UI benefits that unemployed workers claim. Georgia's state-funded Claimant Assistance Program identifies claimants who are seen to be ready for employment and requires them to participate in the same services required of profiled claimants. This program is designed to help the state achieve its goal of generating savings for the UI Trust Fund.

During fiscal years 2001 through 2005, states often made use of Labor's Reemployment Services Grants—totaling \$35 million per year—to fund some of the targeted services. Officials in the majority of the states we interviewed told us their states had used the Reemployment Services Grant funds to hire staff to provide reemployment services to UI claimants. For example, Maryland state officials said they used their funds to hire staff for the Early Intervention program, enabling them to run more workshops in areas that needed them and to make further improvements in the program. Some states also used these grants to direct reemployment services to claimants beyond those who have been profiled and to support other enhancements in the provision of reemployment services to claimants. For example, Washington state officials told us they used funds from these grants to support the development of the Claimant Progress Tool. Beginning in fiscal year 2005, Labor began shifting its focus away from these grants that funded direct reemployment services for UI claimants toward the Reemployment and Eligibility Assessment Grants. These new grants focus states' efforts on providing face-to-face eligibility interviews with claimants as a way to ensure compliance with work search requirements. As part of these interviews, eligibility workers may refer claimants to reemployment services funded by Employment Services, the Workforce Investment Act (WIA), or the Trade Adjustment Assistance (TAA) program.

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### Little Information Exists to Assess whether States' Efforts Are Achieving the Intended Outcomes

Despite states' efforts to design systems that link UI claimants to reemployment services, little is known about the extent to which claimants receive reemployment services or about the outcomes they achieve. Although states must meet a number of federal reporting requirements for their UI and employment and training programs, including reporting on the outcomes of profiled claimants, none of these reports provide a complete picture of the services received or the outcomes obtained by UI claimants. Labor only recently began to require that states provide information on the reemployment outcomes of UI claimants, and the ongoing evaluations of claimant profiling are limited.

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States must track and report annually on several performance measures considered key indicators of UI program performance, but these measures largely focus on benefit and tax accuracy, quality, and timeliness. In addition, states must also report to Labor on their claimant-profiling process, but information in these reports represent only a portion of all UI claimants the state has served, a proportion that can vary from place to place and from month to month depending on available resources.

UI claimants may access other federally funded reemployment assistance through the Wagner-Peyser Employment Service, WIA Adult or Dislocated Worker programs, and, if they are laid off because of trade, the Trade Adjustment Assistance program. To monitor the performance of these programs, Labor requires states to meet a number of reporting requirements, but these reports are submitted on a program-by-program basis, and none provide a complete picture of the services received or the outcomes obtained by all UI claimants.

Having data that show the degree to which reemployment services are reaching UI claimants is key to good program management and provides a first step toward understanding the impact of these programs. However, knowing how many claimants may be accessing reemployment services and the type of outcomes they may be achieving has proven difficult for state and local officials. We found that only 14 states go beyond the federal reporting requirements to routinely track the extent to which UI claimants receive services from the broad array of federally funded programs that are designed to assist them, and only 6 states routinely monitor outcomes for UI claimants who receive reemployment services. States most often told us that tracking claimant services across multiple programs was made difficult by the fact that reemployment services and UI claimant data were maintained in separate data systems—systems that were either incompatible or difficult to link.

Labor has some initiatives that may begin to shed light on claimant outcomes, but these efforts may not go far enough. Labor recently modified its UI performance measures to require states to track a reemployment rate for their UI claimants—defined as the percentage of UI claimants who are reemployed within the quarter following their first UI payment. This change will help focus efforts on speeding reemployment and will improve the understanding of how many UI claimants are quickly reemployed nationwide, but it will not allow for an assessment of the outcomes of claimants who access reemployment services compared to those who do not. Furthermore, states must meet federal requirements to target reemployment services using the claimant-profiling process, but



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little is known about the effectiveness of their efforts. Labor funded an evaluation of the claimant profiling system in 8 states beginning in 1996, including an assessment of UI benefit duration, employment, and earnings. The current evaluation of the profiling process focuses exclusively on how well the models are able to predict whether a claimant will exhaust UI benefits, not on whether the process results in shorter benefit duration or better employment outcomes for claimants. Budget authority to conduct the current evaluation expires at the end of fiscal year 2006, and no additional funds have been requested in the fiscal year 2007 budget specifically to conduct further evaluations on profiling.

Labor is also developing a system to consolidate performance reporting for Labor's Employment and Training Administration (ETA) programs. This system—ETA's Management Information and Longitudinal Evaluation (EMILE) system—would consolidate reporting across a range of Labor programs including WIA, Employment Service, and TAA. Current plans do not include incorporating UI reporting into EMILE. Last year, we recommended that Labor work with states to explore the feasibility of collecting more comprehensive information on UI claimants' services and outcomes. Although Labor generally agreed with our findings, Labor commented that current and planned data collection efforts would provide sufficient information to policy makers. While Labor's new initiatives, in combination with current reporting requirements, will provide valuable information on the reemployment activities of some UI claimants, these efforts will not allow for a comprehensive, nationwide understanding of claimants' participation in the broad range of reemployment services designed to assist them. Furthermore, these efforts will not move states in the direction of having the data they need to better manage their systems.

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## Concluding Observations

UI's size and importance make it critical that the program is performing at a peak level. With annual overpayments reaching the billions, it will be important for federal and state stakeholders to take the necessary action to address this issue. Labor's current initiatives and its proposed action contained in the fiscal year 2007 budget request could help, but work remains. In the long run, program performance can be enhanced by avoiding improper payments rather than trying to detect and collect them. Labor's initiatives to help states detect and prevent overpayments represent a positive step toward improving UI program integrity. In particular, Labor's initiative to promote states' use of the NDNH database and its continued effort to encourage states' use of SSA's data for verifying the identity of claimants appear promising. However, to maximize the effectiveness of these initiatives, it is important for as many states as

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possible to participate. In addition, while Labor's development of a new core performance measure on payment accuracy has the potential to facilitate states' focus on detecting and preventing overpayments, it is premature to evaluate the effectiveness of this effort. Moreover, although Labor continues to fund grants for states to conduct in-person reemployment and eligibility assessments, more time is needed to fully assess how effective these initiatives will ultimately be. Finally, while Labor's June 2005 legislative proposal to charge employers for UI payments to ineligible individuals could result in UI tax rate increases for those employers, such a change merits further consideration.

To help claimants get the reemployment services they need, states have often designed their processes to make use of federal UI program requirements in linking claimants with services. However, knowing whether their efforts are actually resulting in better employment outcomes and reduced UI benefit payments has proven difficult for federal, state, and local officials. Findings from evaluations are limited, and most states lack much of this information, arguably critical for good program management—often because data reside in separate systems that cannot be easily linked. In the new environment created under the Workforce Investment Act, where claimants may be served by a range of programs that go beyond UI and ES, it becomes increasingly important to find new ways to link program data across a broader range of programs. Doing so is an essential step in understanding what's working and what's not. Labor's current and planned initiatives may help fill the information gap, but they fall short of providing a comprehensive understanding of services and outcomes for UI claimants.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other members of the subcommittee may have at this time.

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## GAO Contacts and Staff Acknowledgments

For information regarding this testimony, please contact Sigurd R. Nilsen, Director, Education, Workforce, and Income Security Issues, at (202) 512-7215. Individuals who made key contributions to this testimony include Dianne Blank, Jeremy Cox, Brett Fallavollita, Michael Hartnett, Margaret A. Holmes, and Carla Lewis.

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