



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**UNEMPLOYMENT INSURANCE PROGRAM,
DEPARTMENT OF LABOR,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 99-I-148
DECEMBER 1998**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

DEC 18 1998

Honorable Roy L. Schneider
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on the Unemployment Insurance Program, Department of Labor,
Government of the Virgin Islands (No. 99-I-148)

Dear Governor Schneider:

This report presents the results of our review of the Unemployment Insurance Program administered by the Department of Labor, Government of the Virgin Islands. The objective of the audit was to determine whether the Department (1) adequately enforced the collection of unemployment taxes from employers and deposited such collections in the appropriate accounts and (2) ensured that only qualified applicants received unemployment benefits.

Based on our review, we concluded that the Department's Division of Unemployment Insurance did not (1) effectively collect unemployment taxes from employers, (2) ensure that only qualified applicants received unemployment benefits, and (3) have an adequate level of administrative controls over its bank accounts. Specifically, we found that:

- The Division did not (1) issue unemployment insurance bills to employers in a consistent and timely manner, (2) ensure the accuracy of employers' unemployment accounts, (3) actively follow up with employers concerning delinquent unemployment taxes, (4) consistently assess interest and penalties against delinquent employers, and (5) maintain an adequate level of internal controls over computer operations. As a result, 43 employers overpaid their unemployment taxes and had to be issued refunds totaling about \$496,600, 21 employers underreported their unemployment taxes by about \$60,000, about 2,100 employers owed \$17.4 million in delinquent unemployment taxes and 80 government and nonprofit employers owed \$1.1 million for unemployment benefits paid to their former employees, interest and penalties totaling about \$16,400 were not assessed during fiscal years 1996 and 1997, and there was little assurance that the status of employers' unemployment tax accounts on the Division's computer system was reliable.

- The Division did not (1) ensure that only qualified applicants received unemployment insurance benefits and (2) adequately safeguard computer and hard copy files for all individuals who applied for unemployment benefits. As a result, 156 claimants received excess benefit payments of more than \$152,800, supporting records were not available for 183 additional claimants who received benefit payments of about \$400,400, and

there was little assurance that information on claimants and benefits payments on the Division's computer system was reliable.

- The Division did not ensure that (1) monthly bank reconciliations were performed and (2) blank, canceled, and voided checks were properly controlled and secured. As a result, discrepancies existed between bank and book balances for the Division's Unemployment Benefit Account, and 197 canceled checks for benefit payments could not be located.

We made 12 recommendations to the Governor of the Virgin Islands to improve the unemployment tax collection, unemployment benefit payment, and administrative oversight functions within the Division of Unemployment Insurance.

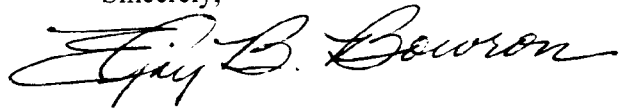
The October 8, 1998, response (Appendix 2) from the Commissioner of Labor indicated concurrence with all 12 recommendations and provided information on corrective actions that had been or were being taken. Based on the response, we consider three recommendations resolved and implemented and nine recommendations resolved but not implemented. Accordingly, the unimplemented recommendations will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Since the report's recommendations are considered resolved, no further response to this office is required (see Appendix 3).

The Inspector General Act, Public Law 95452. Section 5(a)(3), as amended requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of the staff of the Department of Labor in the conduct of our audit.

Sincerely,

A handwritten signature in cursive script that reads "Eljay B. Bowron". The signature is written in dark ink and is positioned above the printed name and title.

Eljay B. Bowron
Inspector General

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INTRODUCTION

BACKGROUND

The Unemployment Insurance Program in the Virgin Islands is a coordinated Federal-local program that operates under the provisions of Title 20, Chapter V, of the Code of Federal Regulations and Title 24, Chapter 12, of the Virgin Islands Code. The Code of Federal Regulations defines the Federal requirements under which state unemployment insurance programs must operate to be eligible for certification under the Federal Unemployment Tax Act. Such certification allows tax credits to be given to employers against unemployment taxes imposed by the Internal Revenue Code of 1954 and grants to be given to the states for administrative expenses of their unemployment insurance programs. The Virgin Islands Code defines the specific policies and procedures under which the Unemployment Insurance Program operates in the Virgin Islands.

According to the Governor's Executive Budget for fiscal year 1998, the Virgin Islands Department of Labor has the overall responsibility for "promoting and protecting the welfare of workers, and developing programs and services designed to alleviate labor problems which would interfere with business harmony and stability." The Department's Division of Unemployment Insurance provides temporary income to workers who are unemployed or underemployed through no fault of their own. In accordance with Title 24, Section 30 1, of the Virgin Islands Code, benefit payments to claimants are funded through "the systematic accumulation of funds [paid by employers] during periods of employment from which benefits may be paid [to individuals] during periods of unemployment."

The Division of Unemployment Insurance has a total staff of 38 employees and maintains an office on St. Thomas and two offices on St. Croix. The office on St. Thomas is the main office, and it processes all unemployment tax payments received from employers and all unemployment benefit payments made to claimants. This office also maintains all files related to employers in the Virgin Islands. All three offices accept applications for unemployment benefits and maintain files related to applicants in their respective geographic areas of responsibility. Interstate and combined wage claims (benefits paid to claimants who worked in the United States and the Virgin Islands during the benefit year) are processed by the office on St. Thomas.

The Division's records indicate that, during fiscal year 1997, there were about 3,400 Federal, local government, and private employers in the Virgin Islands. Private employers are required by the Virgin Islands Code and the Department of Labor's regulations to submit to the Division quarterly reports of all employees and their wages and to pay unemployment tax contributions based on tax rates assigned by the Division. Federal and local government agencies and nonprofit organizations may elect to reimburse the unemployment insurance program for benefits paid to their former employees in lieu of making quarterly unemployment tax payments, and all such entities in the Virgin Islands have chosen that reimbursement method. Unemployment tax collections from private employers totaled \$8.8 million during fiscal year 1996 and \$7.7 million during fiscal year 1997.

Under Federal law, the unemployment tax collections are deposited with the Treasury of the United States on account for the Virgin Islands. The Division makes drawdowns against this account to pay weekly unemployment benefits to claimants. The drawdowns from the Federal Unemployment Insurance Fund totaled \$9.9 million during fiscal year 1996 and \$7.4 million during fiscal year 1997.

To qualify for unemployment benefits, an applicant must meet certain eligibility requirements that are defined in the Virgin Islands Code and the Unemployment Benefit Manual. In general, a claimant must have qualifying wages, be unemployed or underemployed, be physically able to work, be available to work, and be actively seeking work. A claimant can receive benefits of as much as \$231 per week (depending on the total amount of qualifying wages) for an initial period of 26 weeks. Benefit amounts may be reduced or denied entirely if the claimant receives other forms of income. If an applicant is disqualified from receiving benefits and disagrees with this determination, the individual may appeal and ask for a hearing by an impartial examiner. About 11,000 claimants' received benefits totaling \$11.5 million during fiscal year 1996, and about 7,300 claimants received benefits totaling \$6.7 million during fiscal year 1997. Unemployment tax refunds to employers and other payments from the Unemployment Insurance accounts totaled about \$283,000 in fiscal year 1996 and \$828,000 in fiscal year 1997.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Department of Labor (1) adequately enforced the collection of unemployment taxes from employers and deposited such collections into the appropriate accounts and (2) ensured that only qualified applicants received unemployment benefits. The scope of the audit included a review of unemployment tax billing and collection practices and unemployment benefit payment practices that were in effect during fiscal years 1996 and 1997 and other periods as appropriate. The audit was performed at the offices of the Department of Labor on St. Thomas and St. Croix and the Department of Finance on St. Thomas.

Our review was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

We limited the evaluation of internal controls over operations of the Division of Unemployment Insurance to the extent that we considered necessary to accomplish the audit objective. The internal control weaknesses identified were related to the collection of insurance taxes from employers, the processing of unemployment benefit claims and payments, and the administrative controls over bank accounts. These weaknesses are discussed in the Findings and Recommendations section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

⁴The 11,000 claimants during fiscal year 1996 included individuals who were unemployed or underemployed in the aftermath of Hurricane Marilyn in September 1995.

PRIOR AUDIT COVERAGE

Neither the General Accounting Office nor the Office of Inspector General has conducted any prior audits of the Unemployment Insurance Program of the Virgin Islands Department of Labor.

FINDINGS AND RECOMMENDATIONS

A. UNEMPLOYMENT TAX COLLECTIONS

The Division of Unemployment Insurance did not effectively enforce the collection of unemployment tax contributions from employers. Specifically, the Division did not (1) issue unemployment insurance bills to employers in a consistent and timely manner, (2) ensure the accuracy of employers' unemployment accounts, (3) actively follow up with employers who had delinquent unemployment taxes, and (4) consistently assess interest and penalties against delinquent employers. Title 24, Section 309, of the Virgin Islands Code outlines the legal requirements related to the collection of delinquent and contested unemployment taxes. Section 3 10.8 of the Department of Finance's Government Accounting Manual requires that agencies keep an up-to-date record of issued bills and periodically follow up on those bills which are past due. The Department of Labor's Unemployment Tax Manual contains the procedures for the collection of unemployment taxes. However, the deficiencies existed because Division officials did not effectively supervise the collection process or organize available staff resources to ensure compliance with existing policies and procedures. In addition, the Division was dependent on an outdated computer system that did not have basic internal controls to ensure the integrity of data and the accuracy of the bills issued. As a result, 43 employers overpaid their unemployment taxes and had to be issued refunds totaling about \$496,600; 21 employers underreported their unemployment taxes by about \$60,000 because the incorrect tax rates were used; about 2,100 employers (who were subject to quarterly payment of unemployment taxes) owed \$17.4 million in delinquent unemployment taxes and 80 employers (who had elected to pay unemployment taxes on a reimbursable basis) owed \$1.1 million for unemployment benefits paid to their former employees; and interest and penalties totaling about \$16,400 were not assessed during fiscal years 1996 and 1997.

Issuance of Bills

The Division issued quarterly unemployment insurance report forms, which are used by the employers to report the names, Social Security numbers, and salaries of its employees and to determine the amount of unemployment taxes to be paid, to employers in a timely manner. Additionally, the Division issued up to two special notices to employers each year: one notice to inform them that a "delinquent tax rate" of 9.5 percent would be applied in the following year if any delinquent unemployment taxes were not paid by December 31 and the second notice to inform them, by January 31, of their unemployment tax rate for the current year.²

However, Part E-8c of the Unemployment Insurance Manual also requires that the Division issue statements of account (bills) to employers at other times during the year as needed to inform them of transactions related to their unemployment insurance accounts; missing

²The unemployment tax rates vary depending on the extent to which each employer's former employees received unemployment insurance benefits in the prior calendar year.

quarterly reports; and outstanding unemployment taxes, including interest and penalties. Our review disclosed that such bills were not issued to employers **after** 1994. Additionally, bills for the **first** quarter, which ended March 31, 1997, were not issued until May 1997, and bills for the second quarter, which ended June 30, 1997, were not issued until August 1997. Further, these bills were not subjected to the Division's normal process of printing an "edit run" to allow its **staff** to identify obvious errors prior to printing and issuing the bills. We also found that bills for the third quarter, which ended September 30, 1997, were not issued. The Division's Computer Manager told us that he was instructed by his supervisor not to issue the third quarter bills because the "edit run" would not be corrected and the issuance of inaccurate bills would result in "too many" inquiries from employers. However, the Computer Manager's supervisor said that a computer problem resulted in the incorrect calculation of interest due on outstanding balances and that the bills were therefore not issued.

Verification of Employer Payments

Part E-7b of the Unemployment Tax Manual requires the Division to contact employers by telephone to verify and/or correct the amount of unemployment tax payments received, and Part E-7g of the Manual requires the Division to send memoranda to employers who have underpaid or overpaid unemployment taxes, interest, or penalties. However, we found that the Division did not always perform these functions. As a result, some employers continued to make overpayments over a period of several quarters and eventually had to be refunded payments by the Division. For example, we found that at least 43 employers were issued refunds totaling about \$496,600 during the period of June 1995 to August 1997.

Additionally, we reviewed a sample of 60 employer accounts (35 on St. Thomas and 25 on St. Croix) and found that 21 employers who had delinquent unemployment taxes totaling \$961,000 had underreported their tax liabilities by about \$60,000 because they had used the incorrect unemployment tax rates. However, we found no evidence in the Division's files for these employers to indicate that they had been contacted regarding the underreported taxes or the delinquent balances. Therefore, we contacted the employers through site visits and telephone inquiries to determine the reasons for the delinquencies and/or the underreporting of taxes. In 12 cases, the employers stated that they had not been contacted by the Division concerning the unpaid or underreported taxes. For example:

- One business did not submit quarterly unemployment reports or make unemployment tax payments for calendar years 1993 through 1995 and had made only one payment for 1996. Although the business had an outstanding balance of more than \$130,000, the business owner had not been contacted by the Division, and no legal action had been taken to enforce collection of the delinquent amount.

- Another business did not make any unemployment tax payments in 4 years. Although the business had an outstanding balance of more than \$140,000, this business owner also had not been contacted by the Division, and no legal action had been taken to collect the delinquent amount.

Collection of Delinquent Taxes

The collection enforcement procedures established by the Virgin Islands Code and the Unemployment Tax Manual were not used by the Division to ensure the collection of delinquent unemployment taxes. Title 24, Section 309(b)(1), of the Virgin Islands Code states that if an employer defaults on unemployment tax payments **and/or** interest and penalties accrued on an outstanding balance, civil action should be taken against the employer. The Tax Manual also defines collection options that are available to the Division, including establishing an **8-month** installment payment plan, issuing demand letters, and seeking an injunction against the continued operation of the delinquent business. However, none of these collection options were used by the Division. As a result, as of July 1997, 2,099 employers who were subject to quarterly payment of unemployment taxes owed delinquent taxes of \$ 17.4 million, and 80 employers who had elected to pay unemployment taxes on a reimbursable basis owed an additional \$1.1 million as reimbursement for unemployment benefits paid to their former employees.

To test the level of collection enforcement activity by the Division, we reviewed the files for a sample of 60 employers (35 on St. Thomas and 25 on St. Croix). We found that 24 employees (8 on St. Thomas and 16 on St. Croix) had delinquent taxes of about \$988,500. However, the records maintained by **the** Division's revenue **officers** contained documentation of collection action for **only** 2 of the 24 delinquent employers (both on St. Thomas). For example:

- One business did not file unemployment reports or pay taxes for 11 consecutive quarters in 1995 through 1997. Despite attempts by Division officials, including an audit of the business in June 1996 which disclosed that the business owner had underreported wages paid to employees in 1992, 1993, and 1994, the business owner did not agree to an installment payment plan or otherwise pay the unemployment taxes of \$47,400 that were owed. However, the Division did not pursue more aggressive collection actions, such as seeking an injunction against further business activity or referring the case for legal action.

- Another business had not made any quarterly unemployment tax payments since September 1993 and owed \$590,000. Although the business agreed to an installment payment plan in 1995, it did not make regular payments against the delinquent amount. The business owner told us that the Government owed the business for two contracts and that it therefore did not have funds to pay the delinquent taxes. However, the Division did not pursue other available collection options, such as offsetting the delinquent taxes against the amounts that the Government may have owed the business.

The Division's Acting Chief of Tax told us that the three revenue officers on St. Croix did not perform collection activities because they had to routinely respond to inquiries from employers concerning errors in their accounts. The Chief stated, however, that during 1995 and 1997, the one revenue officer on St. Thomas contacted delinquent employers by telephone. Division officials also stated that **the** lack of more aggressive collection efforts was due to the lack of vehicles for site visits by revenue officers. At the July 23, 1998, meeting to discuss the preliminary draft of this report, the Commissioner of Labor noted that

an undetermined portion of the delinquent unemployment insurance taxes of \$17.4 million may be owed by employers who are no longer in business and therefore should be written off as uncollectible.

We also found that the Division was not effective in pursuing the collection of amounts owed by government and nonprofit employers who had elected to reimburse the Unemployment Insurance Program for unemployment benefits paid to their former employees in lieu of making quarterly unemployment tax payments. Specifically, as of September 30, 1997, 48 government employers owed \$936,500 and 32 nonprofit employers owed \$23 1,200, for a total of about \$1.1 million. Although Title 24, Section 308(e), of the Virgin Islands Code requires that nonprofit employers who elect to use the reimbursement method obtain surety bonds in the event that funds are not available to pay extended unemployment benefits to former employees, the Division did not ensure that such surety bonds had been obtained. We found that 5 of 10 employers contacted were not aware that they had outstanding balances.

Assessment of Penalties and Interest

Our review also disclosed that during fiscal years 1996 and 1997, Division employees backdated the receipts for 28 1 unemployment tax payments in order to prevent the Division's computer from automatically assessing penalties and interest on late payments, which resulted in the loss of penalties and interest totaling \$16,400. Although Division policy states that only the Director and the Chief of Tax are authorized to waive penalties and interest, Division officials told us that other Division employees were familiar with the procedures necessary to bypass the computerized assessment of penalties and interest. However, several employees told us that they were instructed by past and present supervisors to backdate the contribution payment receipts. We could not verify either explanation because there was no documentation as to who bypassed the process to automatically assess penalties and interest. When we told the Division's Director of the backdating, she developed a form to be used by the Division to approve and document the waiver of penalties and interest.

Use of Staff Resources. We believe that the principal cause of the collection enforcement deficiencies disclosed by our review was that the Division did not effectively supervise and use its available staff resources. Specifically, although most of the employer-related activity and record keeping took place on St. Thomas, the Division's Tax Contribution Section had six **staff positions** on St. Thomas (a collector, a fiscal assistant, two data entry operators, and two revenue officers) and six staff positions on St. Croix (the Acting Chief of Tax, an auditor, three revenue **officers**, and a computer programmer). Therefore, in addition to the revenue **officers** on both islands devoting a significant amount of time in responding to inquiries from employers instead of conducting collection enforcement activities, as discussed previously, we found that some of the staff members on St. Croix were not used appropriately as follows:

- The computer programmer on St. Croix was assigned as a collector, which we believe was not an effective use of the employee's computer programming expertise. Additionally, the presence of a computer programmer at the St. Thomas **office** would have

allowed the Division to segregate some of the computer-related responsibilities. Instead, the Division's Computer Manager on St. Thomas had no support staff and had unrestricted access to all computer operations.

- The auditor on St. Croix had completed only two audits of employers during the past 4 years, although many employers on St. Thomas who had large-dollar delinquencies had never been audited. Therefore, we believe that the auditor's expertise could have been more effectively used on St. Thomas.

Additionally, because the Acting Chief of Tax was located on St. Croix rather than on St. Thomas, where most of the employer-related activity and record keeping was centered, he could not provide adequate supervisory oversight over the activities of the Tax Contribution Section's staff on St. Thomas. The audit guide "Assessing Internal Controls in Performance Audits," issued by the US. General Accounting Office, states that a key element of an effective system of internal controls is that "qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved." Therefore, we believe that the allocation of the Division's staff, particularly with regard to the Tax Contribution Section, should be reviewed and revised to allow for more effective supervision and use of available staff resources.

Reliability of Computerized Data

The "Fraud Examiners Manual"³ includes a description of the general security controls that should exist within a computerized system. According to the "Manual," these controls include the following: (1) restricting programmers' access to input data and computer operations, (2) restricting computer operators' access to computer programs, (3) ensuring that only authorized people have access to the computer programs and data files by using password access restrictions, and (4) establishing emergency procedures for the backup and restoration of computer programs and critical data files. However, none of these control features were in place within the Division's computer operations unit. The Computer Manager worked alone and performed all administrative, programming, and operating tasks related to the computer system. Moreover, the Computer Manager told us that he had access to all employees' passwords and to the Chief of Security's main password, which gave him unlimited access to all of the system's capabilities and data. Although user passwords should be changed at least once a year, the Computer Manager used an option within the system to match passwords to specific screens/functions, which did not allow employees to set their own passwords. The Computer Manager also told us that after Hurricane Marilyn in September 1995, he entered information to establish new and update existing claimant accounts because of the increased number of unemployment claims received after the hurricane. We believe that all of these factors resulted in a major breakdown of internal controls over the Division's computer operations which placed the integrity of all unemployment insurance tax collection and benefit payment data, including confidential

³The "Fraud Examiners Manual" (second edition), Chapter 1.1600 ("Computer Fraud"), published by the Association of Certified Fraud Examiners, 1993.

employer and employee data, at risk. During our audit, we noted discrepancies between information in the Division's computer and in the related hard copy files as follows:

- The computer file for an employer showed that, as of November 18, 1997, the employer owed interest of \$984. However, because the business's "start" date was October 4, 1997, it was unlikely that interest of \$984 on unpaid unemployment taxes would have accumulated in the 6 weeks that the business was in operation. Therefore, we believe that either the interest due amount or the recorded business start date was incorrect.
- Similarly, the computer file for another employer showed that, as of November 18, 1997, the employer owed interest of \$27,783. However, the business's "start" date was June 2, 1997, and the employer was current in the payment of unemployment taxes for the second and third quarters of calendar year 1997. Therefore, we believe that either the interest due amount or the recorded business start date was incorrect.
- On June 8, 1995, one of the 43 employers discussed previously in this finding had made overpayments of unemployment taxes and received a refund payment of \$27,709 based on data contained in the Division's computer system. However, our review of the hard copy files for this employer indicated that the employer owed delinquent taxes of \$74,212 for the same time period and was therefore not entitled to the refund.
- Another employer's computer record showed a credit balance of \$9,285, which indicated an overpayment. However, our review of the hard copy files disclosed that the employer owed delinquent taxes of \$77,235. We found that the discrepancy occurred because of a data input error related to the settlement of an administrative appeal.

Because of the errors cited, we believe that unemployment insurance data on the Division's computer is not reliable.

As of February 1998, when our audit fieldwork was completed, Virgin Islands Department of Labor officials were in the process of finalizing a grant agreement with the U.S. Department of Labor that would provide \$2.9 million for the acquisition and installation of a new computer system for the Unemployment Insurance Program, which would allow the Division to improve its operations and also overcome "Year 2000 problems"⁴ in its computer system. However, we believe that the staffing and operating procedures of the Division's computer operations unit should also be analyzed and revised to provide a reasonable level of internal control and assurance that the unemployment insurance data are accurate and reliable.

In a July 21, 1998, memorandum to the Information Technology staff, the newly hired Assistant Director established interim procedures to (1) restrict computer programmers'

⁴The term "Year 2000 problems" is used to describe the potential failure of information technology systems, applications, and hardware that would make them unreliable because of their inability to correctly interpret dates after December 31, 1999. (That is, many computer systems that use two digits to keep track of the date will, on January 1, 2000, recognize "double zero" not as 2000 but as 1900.)

access to data input and computer operations functions, (2) restrict computer operators' access to computer programs, (3) ensure that system users had active passwords to restrict unauthorized access to the system, (4) establish emergency procedures for off-site backup of important computer files, and (5) maintain an audit history of all computer accesses. At the July 23, 1998, meeting to discuss a preliminary **draft** of this report, the Commissioner stated that the Department had received a portion of the U.S. Department of Labor grant to upgrade its computer operations and had begun negotiations to acquire a new unemployment insurance software system from a state whose unemployment insurance program was similar to that of the Virgin Islands.

Recommendations

We recommend that the Governor of the Virgin Islands direct the Commissioner of Labor to:

1. Enforce existing procedures contained in the Unemployment Tax Manual which require the Division of Unemployment Insurance to issue periodic (such as quarterly) statements of account to employers that are delinquent in the payment of unemployment insurance taxes.

2. Enforce existing procedures contained in the Unemployment Tax Manual which require the Division of Unemployment Insurance to contact employers that are delinquent in the filing of quarterly unemployment insurance tax reports or that have overpaid or underpaid unemployment taxes.

3. Enforce existing procedures contained in the Unemployment Tax Manual which require the Division of Unemployment Insurance to follow up with delinquent employers to ensure that they make arrangements to pay outstanding balances. For those employers who do not respond to initial collection efforts, other enforcement collection options should be used. After all available collection options have been made, accounts for employers that are no longer in operation should be written off as uncollectible.

4. Establish formal procedures to ensure that waivers of penalties and interest on delinquent unemployment taxes are made only with the written approval of authorized Division of Unemployment Insurance **officials**.

5. Perform an analysis of the work load and **staffing** to identify the **staffing** needs of the Tax Contribution Section of the Division of Unemployment Insurance and restructure the Section to achieve better supervision and use of staff **resources**.

6. Ensure that Division of Unemployment Insurance officials adequately plan for the acquisition and installation of the new computer system so that the system will meet the Division's long-term data processing needs, provide an adequate level of internal controls and segregation of duties, and provide accurate and reliable data.

Commissioner of Labor Response and Office of Inspector General Reply

The October 8, 1998, response (Appendix 2) to the draft report from the Commissioner of Labor concurred with the six recommendations and indicated that corrective actions either had been or would be taken. Based on the response, we consider Recommendations 1, 4, and 6 resolved and implemented and Recommendations 2, 3, and 5 resolved but not implemented (see Appendix 3).

B. UNEMPLOYMENT BENEFIT PAYMENTS

The Division of Unemployment Insurance did not (1) ensure that only qualified applicants received unemployment insurance benefits and (2) adequately safeguard computer and hard copy files for all individuals who applied for unemployment benefits. Title 24, Sections 304 and 305(d)(2), of the Virgin Islands Code contains the basic eligibility requirements for unemployment benefit applicants, and Section 3 12 of the Code makes the Commissioner of Labor responsible for providing regulations for the destruction of agency records. The Unemployment Benefit Manual contains specific procedures for processing claims. However, there were insufficient management controls to ensure that these requirements were complied with by the staff of the Division's Benefit Claim Section. As a result, 156 claimants received excess benefit payments of more than \$152,800, and supporting records were not available for 183 additional **claimants** who received benefit payments of about \$400,400.

Processing of Benefit Applications

According to the Unemployment Benefit Manual, each applicant for unemployment benefits is required to complete an initial claim form and provide the reason for separation from the last employer. If the reason given on the initial claim form is "lack of work," the claim is automatically accepted without being forwarded to one of the Division's **adjudicators**.⁵ If the applicant does not provide a letter of separation from the last employer, a copy of the initial claim form must be sent to the last employer for verification of the reason for separation. Additionally, the last employer is to be notified when benefits are paid to a former employee.

However, based on our review of a sample of 3 1 applicant tiles, we found that 3 applicants had received unemployment benefits, although they had listed "lack of work" as the reason for separation from the last employer and their files did not contain documentation verifying that the reason for separation had been obtained from their last employer. One applicant had voluntarily quit his job but received unemployment benefits of \$345, which had not been recovered by the Division at the time of our review. When the employer was notified that unemployment benefits had been paid to the former employee, the employer contacted the Division to explain that the employee had voluntarily quit his job.

The Unemployment Benefit Manual also requires that applicants submit a copy of their Social Security card with their initial claim forms. The Division's Chief of Benefits told us that verification of Social Security numbers was given "special attention." However, we found that the numbers were not always verified in that our review of the Division's benefit payment list disclosed that the Social Security numbers provided by four applicants were not valid. In one instance, the applicant's file contained a copy of the individual's Social

⁵According to Department **officials**, the function of the adjudicators is to gather additional information and make an unbiased decision as to a claimant's eligibility when the reason for separation **from** the last employer is an issue in the case.

Security card, but the number on the benefits list and on benefit checks issued to the individual was different,

The Unemployment Benefit Manual further requires that benefits be reduced or denied if an individual receives any earnings, earning substitutes, or replacements such as back pay and pensions. Each new applicant should be interviewed by Benefit Claim Section personnel to verify information on the initial claim form and to obtain additional information as necessary about any additional income reported by the applicant. However, based on our review of 25 files for applicants who had been overpaid, we found that in six instances, the individuals received additional income that would have made them ineligible for unemployment benefits. However, this additional income was not identified at the time of processing of the initial claim. For example:

- An applicant received unemployment benefits of about \$4,500 for a 5-month period during which he also received workman's compensation benefits. The Division had not recovered improper payments of about \$3,600 at the time of our review.
- Another applicant received unemployment benefits of about \$2,080 for a 2-month period during which he also received severance and vacation pay. The Division had not recovered improper payments of about \$1,900 at the time of our review.

The Unemployment Benefit Manual further requires an applicant who is certified as eligible for benefits to perform weekly job searches and submit job search reports as a condition of continuing to receive weekly benefit payments. The job search reports are to be mailed to the Division by unemployed individuals and hand carried to the Division by underemployed individuals. The form used for the job search reports contains the notices "Your job search[es] are subject to verification" and "It is necessary that you answer the questions on this form and return it." However, the Chief of Benefits told us that the job search reports were not reviewed and/or verified because there was "no one on staff" to perform such reviews. Additionally, there was no followup to ensure that all benefit claimants submitted the job search reports as required. We found that, as a result, applicants continued to receive unemployment benefits after obtaining full-time employment. For example:

- A claimant received unemployment benefits of about \$2,450 for a 4-month period during which he was employed on a full-time basis. The entire overpayment amount was outstanding.
- Another claimant received unemployment benefits of \$3,440 for a 3-month period during which she was employed on a full-time basis. The individual became unemployed again, and deductions were being made from her current unemployment benefits to liquidate the \$3,000 balance that was outstanding.

Supervisory Oversight

Based on our review, we believe that the deficiencies cited in the benefit payment process occurred because of an insufficient level of supervisory oversight of the Benefit Claim

Section staff, Specifically, although the Section had five employees on St. Thomas and nine employees on St. Croix, the Chief of Benefits, who was responsible for supervising the Benefit Claim Section staff on both islands, was located on St. Thomas. Further, the Benefit Claim Section's two claim adjudicators on St. Thomas told us that their recommendations to approve applicants' claims for unemployment benefits were not reviewed by a supervisor before being approved and processed for payment. The Chief of Benefits told us that she did not review the decisions of one of the claim adjudicators. Of 25 overpayment cases reviewed, we found that in 8 **cases**, totaling \$14,100, **the** overpayments resulted from the subsequent reversal of the decisions made by the claim adjudicators. In these cases, we believe that supervisory reviews prior to approving the claims could have prevented the overpayments.

We also believe that the lack of adequate supervisory oversight contributed to the Benefit Claim Section's inability to consistently meet the **14-day** processing time **frame** established in the Unemployment Insurance Appraisal Manual. In the 1997 Unemployment Insurance Program and Budget Plan, the former Commissioner of Labor stated that only 4 1.9 percent of 1996 unemployment benefit cases were resolved within 14 days. Our review disclosed that only 17 (34.7 percent) of 49 cases processed by the intrastate adjudicator during 1997 were resolved within the established time frame. In the 1997 budget plan, the former Commissioner of Labor recommended that the vacant position of Local Office Manager on St. Thomas be filled to give **the** Chief of Benefits the opportunity to effectively monitor all **office** functions on both islands. However, the Chief of Benefits was located on St. Thomas, and there was no budgeted position for a Local Office Manager on St. Croix to supervise the staff on that island.

We also found that the lack of segregation of duties in the Benefit Claim Section compromised the integrity of the entire benefit payment process. Specifically, the Chief of Benefits was personally involved in key phases of the benefit payment process, including performing data entry of claimant information and printing, signature stamping, and mailing benefit payment checks. The U.S. General Accounting Office's guide "Assessing Internal Controls in Performance Audits" states that "key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals."

Collection of Benefit Overpayments

Title 24, Section 305(j)(1), of the Virgin Islands Code requires that claimants repay any overpayments of unemployment benefits within 2 years of the date of final determination of their case. The Code also provides that no repayment will be required if the overpayment was not the fault of the claimant. However, our review of the Division's benefit payment process disclosed that 156 unemployment benefit claimants (including the specific examples discussed earlier in this finding) received benefit overpayments totaling \$152,800 based on claims that originated during the period of 1984 to 1997. The overpayments were for individual amounts that ranged from \$61 to \$5,590, and 65 of the 156 overpayments remained outstanding longer than the 2-year limit stated in the Virgin Islands Code. Based on our review of the case files for a sample of 25 overpayments, we found that 15 overpayments (\$2 1,840) resulted from improper claims by the applicants, 8 overpayments

(\$14,190) resulted from errors by the Division, and 2 overpayments (\$460) were for reasons that were undeterminable because of incomplete files. We also found that the Division's Benefit Claim Section had not made a reasonable level of effort to contact the claimants and to arrange for repayment of the overpayments which did not result from errors by the Division. Specifically, 20 of the 25 claimants had never been contacted, and repayment agreements were negotiated with only 2 of the 15 claimants whose claims were improper. In one of those cases, the claimant made only four payments, totaling \$200, during the period of June 1995 to December 1997 and owed about \$2,730 at the time of our review. In the other case, the claimant was unemployed, and deductions were being made from her benefit payments to liquidate the \$3,000 outstanding balance of her overpayment. In November 1997, two other cases were referred to the Attorney General for **legal** action, although the Division had not used all available administrative enforcement actions. Further, the Division had not written off the eight overpayments, totaling \$14,190, that resulted from errors made by the Division.

Reliability of Computer and Hard Copy Files

We found that significant internal control weaknesses in the Division's computer operations compromised the integrity and reliability of data related to the unemployment benefit payment process (also see Finding A). The Computer Manager had complete and unrestricted access to all computer operations and passwords, which included the ability to enter and revise claimants' data files and the responsibility to print unemployment benefit checks. In addition, the Division did not have any contingency plans for backing up critical files.

On July 8, 1997 (the start date of this audit), the records for 1,031 benefit claimants were deleted from the computer master file. The Computer Manager initially told us that erroneous dates entered into some of the claimant records by a summer student had caused the system to fail during the printing of benefit checks, thus resulting in the records that were processed being deleted. However, the Computer Manager later told us that the problem occurred because one of the computer's 10 disks had become warped because of the excessive heat in the computer room. In a memorandum to the Director of the Division of Unemployment Insurance, the Computer Manager identified all of the deleted records by Social Security number and requested that the related hard copy files be used to reenter the deleted claimant information into the system to rebuild the master file. However, the hard copy files for 192 St. Thomas claimants could not be located. Benefit payment records indicate that the 192 claimants had been paid a total of \$4 18,700 in unemployment benefits during the period of July 1995 to June 1997. As of February 1998, the files for 183 of the 192 claimants had not been located. Therefore, there was no support for the benefit payments of about \$400,400 that had been made to these 183 individuals.

As discussed in Finding A, Virgin Islands Department of Labor officials were in the process of finalizing a grant agreement with the U.S. Department of Labor that would provide \$2.9 million for the acquisition and installation of a new computer system for the Unemployment Insurance Program. In addition to our recommendation (No. A.6) that the staffing and operating procedures of the Division's computer operations unit should be

analyzed and revised to provide a reasonable level of internal controls and assurance that unemployment insurance data are accurate and reliable, we believe that the Department should establish formal records retention and disposal procedures for computer and hard copy records related to the Unemployment Insurance Program, including the backup of critical computer files.

Recommendations

We recommend that the Governor of the Virgin Islands direct the Commissioner of Labor to:

1. Enforce existing procedures contained in the Unemployment Benefit Manual which require the Division of Unemployment Insurance to **verify** claimants Social Security numbers and statements regarding termination of employment, sources of income, and results of job searches.

2. Perform a work load and **staffing** analysis to **identify** the **staffing** needs of the Benefit Claim Section of the Division of Unemployment Insurance and restructure the Section to achieve better use of **staff resources**, a greater level of supervisory oversight of daily operations, and an adequate level of segregation of duties.

3. Enforce existing procedures contained in the Unemployment Benefit Manual which require the Division of Unemployment Insurance to take collection enforcement action to recover overpayments and other improper payments to claimants except for those that were caused by errors made by Division **staff**, which should be written off in accordance with program requirements.

4. Develop and implement formal records retention and disposal procedures for the Division of Unemployment Insurance which will ensure that permanent computer and hard copy records are maintained for all active unemployment insurance taxpayers and benefit claimants. The records retention and disposal plan should also be in compliance with any records retention requirements of the Federal Unemployment Tax Act and provide for secure backup copies of critical computer files.

Commissioner of Labor Response and Office of Inspector General Reply

The October 8, 1998, response (Appendix 2) to the **draft** report **from** the Commissioner of Labor concurred with the four recommendations and indicated that corrective actions would be taken. Based on the response, we consider Recommendations 1,2, 3, and 4 resolved but not implemented (see Appendix 3).

C. ADMINISTRATIVE CONTROLS

The Division of Unemployment Insurance did not maintain an adequate level of administrative control over the Unemployment Insurance Program's bank accounts. Specifically, the Division did not ensure that (1) monthly bank reconciliations were performed and (2) blank, canceled, and voided checks were properly controlled and secured. Good business practices dictate that bank accounts be periodically reconciled and that blank, canceled, and voided checks be properly controlled and secured. The deficiencies occurred because the Division did not have formal policies and procedures for reconciling bank accounts and controlling blank, canceled, and voided checks. As a result, discrepancies existed in the cash balances recorded in the bank statements and the Division's internal records for the Unemployment Benefit Account, and 197 canceled checks for benefit payments could not be located.

Reconciliation of Bank Accounts

The Division had not reconciled the Clearing Account and Unemployment Benefit Accounts (both checking accounts) in more than 20 years. Although Division personnel verified the posting of drawdowns from the U.S. Treasury, they did not verify the posting of deposits of unemployment tax collections, canceled benefit checks, or other bank transactions. Instead, Division staff maintained an internal register for the Unemployment Benefit Account that listed all drawdowns as "debits" and all issued benefit checks as "credits." However, the balances shown on the internal register did not match the bank statements because the register did not take into consideration outstanding checks, bank service charges, and other "in transit" transactions. The Division employee who maintained the internal register said that the procedures she used were based on supervisory instructions provided to her about 20 years ago. The Division did not have any formal procedures for performing formal reconciliations between the balances shown on the internal register and on the bank statements.

In March 1997, the Director of the Division instituted a computerized reconciliation program for the Division's bank accounts. However, this program was only a check reconciliation process because it did not include a reconciliation of deposit information or of the final monthly account balances. Further, the computerized check reconciliation program was stopped in April 1997 because of a situation in which 89 unemployment benefit checks had duplicate check numbers (see the section "Control of Checks"). Although this problem was subsequently corrected, the check reconciliation program was not reactivated.

We also found that there was inadequate supervisory oversight of the bank account reconciliation process. For example, the Director told us that she was not aware that formal reconciliations were not performed between the Division's internal register and the bank statements. Further, there was a lack of proper segregation of duties related to the maintenance of the Division's bank accounts. Specifically, the same employee who requested drawdowns from the U.S. Treasury also prepared the internal bank account registers, prepared monthly reports to the U.S. Department of Labor on the status of the accounts, stored canceled checks, and had the authority to issue "hand drawn" unemployment

benefit checks. We believe that the absence of monthly bank reconciliations, the lack of internal procedures for the processing of drawdowns from the U.S. Treasury, and the lack of segregation of duties constituted a serious breakdown in basic internal controls that put Unemployment Insurance Program funds at the risk of loss or misuse. As noted in Finding B, the U.S. General Accounting Office's guide "Assessing Internal Controls in Performance Audits" states that "key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals."

Control of Checks

The Division did not have formal policies and procedures related to the handling of unemployment benefit checks. As a result, control over blank, canceled, and voided checks was inadequate. For example, although the Division used prenumbered blank checks, computer-generated numbers were also printed on the checks during the check printing process. During April 1997, the computer-generated numbers on 89 checks were different from the preprinted numbers. This duplication caused the Division's automated check reconciliation program to malfunction (see the section "Reconciliation of Bank Accounts"). Further, although the bank used the preprinted numbers in its bank statements, the Division used the computer-generated check numbers in all of its internal record keeping. We also found that a record was not maintained of the sequence of preprinted numbers on the batches of blank checks provided to the Division's Computer Manager for the printing of benefit checks. Therefore, there was no control over the use of the blank checks. Additionally, the Division did not maintain a register or otherwise control the issuance of "hand drawn" checks.

Control over canceled and voided checks was also inadequate. Specifically, we found that canceled checks were stored in unlocked cabinets which were easily accessible to all of the Division's employees and that voided checks were kept in various locations, including employees' desks. We performed a numerical trace of all checks issued from the Unemployment Benefit Account during fiscal year 1996 and were unable to locate 159 checks among either the canceled or voided checks. This number included 31 checks that were not listed in the internal check register. We also were unable to locate 38 checks, totaling about \$7,800, that were issued to benefit claimants in 1997 under the special Disaster Unemployment Assistance program which was instituted after Hurricane Bertha in July 1997. Also, during our review of the case files for benefit claimants, we found six checks, totaling about \$1,570, that had not been either voided by the Division or mailed to the claimants.

Recommendations

We recommend that the Governor of the Virgin Islands direct the Commissioner of Labor to:

1. Develop and implement formal policies and procedures to ensure that the Division of Unemployment Insurance reconciles its bank accounts on a monthly basis; provides an adequate level of supervisory oversight of the bank reconciliation process; and

maintains an adequate level of segregation of duties for functions related to the physical handling, record-keeping, and supervisory oversight of the Division's resources.

2. Develop and implement formal policies and procedures to ensure that the Division of Unemployment Insurance maintains an adequate level of control over blank, canceled, and voided checks. The procedures should ensure that a record is maintained of the numerical sequence of blank checks issued to the computer operations unit, the preprinted check numbers are used for all internal record-keeping functions, a record is maintained of all voided checks and all "hand drawn" checks, and all voided and canceled checks are stored in a secure area which is accessible only to authorized Division personnel. The procedures should also establish controls to ensure that "hand drawn" checks are properly authorized and supported.

Commissioner of Labor Response and Office of Inspector General Reply

The October 8, 1998, response (Appendix 2) to the draft report from the Commissioner of Labor concurred with the two recommendations and indicated that corrective actions would be taken. Based on the response, we consider Recommendations 1 and 2 resolved but not implemented (see Appendix 3).

CLASSIFICATION OF MONETARY AMOUNTS

Finding	Unrealized Revenues*	Unsupported costs*
A. Unemployment Tax Collections		
Verification of Employer Payments	\$60,000	
Collection of Delinquent Taxes	18,500,000	
Assessment of Penalties and Interest	16,400	
B. Benefit Payments		
Collection of Benefit Overpayments	152,800	
Reliability of Computer and Hard Copy Files		\$400,400
C. Administrative Controls		
Control of Checks	_____	7,800
Totals	\$18,729,200	\$408,200

*Amounts represent local collections processed through the Unemployment Trust Fund in the Treasury of the United States in accordance with Sections 903 and 904 of the Social Security Act and the Federal Unemployment Tax Act.



Office of the Commissioner

THE VIRGIN ISLANDS OF THE UNITED STATES
DEPARTMENT OF LABOR

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October 8, 1998

Mr. Arnold E. van Beverhoudt, Jr.
Director of insular Area Audits
Office of the Inspector General
Federal Building – Room 207
Charlotte Amalie, Virgin Islands 00802

Dear Mr. van Beverhoudt:

Enclosed you will find the response of the Virgin Islands Department of Labor to your August 1998 Draft Audit Report V-In-VIS-004.97.

Sincerely,

Carmelo Rivera
for: Carmelo Rivera
Commissioner of Labor

Enclosures (5)

[NOTE: ENCLOSURES/ATTACHMENTS NOT INCLUDED BY
OFFICE OF INSPECTOR GENERAL.]

xc: Assistant Commissioner Encarnacion
Assistant Commissioner Roberts
Director of Unemployment Insurance (UI)
Director of Information Technology
Director of Business Administration
Assistant Director of Business Administration
Assistant UI Director
internal Security Officer

UNEMPLOYMENT INSURANCE PROGRAM,
DEPARTMENT OF LABOR,
GOVERNMENT OF THE VIRGIN ISLANDS
ASSIGNMENT NO. V-IN-VIS-004-97
AUDIT FINDING RESPONSE

UNEMPLOYMENT TAX RECOMMENDATIONS	RESPONSE / ACTION TAKEN
<p>Recommend that the Governor of the Virgin Islands direct the Commissioner of Labor to</p> <ol style="list-style-type: none"> 1. Enforce existing procedures contained in the Unemployment Tax manual which require the Division of Unemployment Insurance to issue (such as quarterly) statements of account to employers who are delinquent in the payment of unemployment taxes. 	<p>This administration found that from calendar years 1993-1996 quarterly statements to delinquent employers was not mailed out due to a computer glitch charging incorrect penalties and interest. The problem was corrected and notices are mailed on a quarterly basis, effective the 1st quarter of 1997.</p> <p>In order that the two data entry operators in the Central Office would have sufficient time to enter quarterly wage report data for 30,000+ employees, and to ensure the accuracy of employer account balances, bills cannot be mailed less than 45 days <u>after</u> the due dates of the quarterly reports. Data entry is also responsible for stuffing and mailing all employer statements.</p> <p>A written request was forwarded to the</p>

	<p>Division of Personnel to fill the vacant Chief of Tax Position on St. Thomas. (See Attachment No. 1) The Director and the individual in this position is responsible for directing and enforcing all the activities of the Tax Unit.</p>
<p>2. Enforce existing procedures contained in the Unemployment Tax Manual which require the Division of Unemployment Insurance to contact employers who are delinquent in the filing of quarterly unemployment insurance tax reports or who have overpaid or underpaid unemployment taxes.</p>	<p>The addition to the Tax staff of one revenue officer on St. Thomas has resulted in a decrease in the number of delinquent employers from 850 on January 1997 to 509 in January 1998, a decrease of 7.3%.</p> <p>The Department's collection efforts was set back due to the breakdown of vehicles or revenue officers. The Department expects to procure two new vehicles for revenue officers on St. Jhomas to do follow-up and for collection purposes, not later than the end of the second quarter of fiscal year 1999.</p> <p>The Director will enforce existing procedures and the Chief of Tax is responsible for directing the activities of the Tax Unit.</p>
<p>3. Enforce existing procedures contained in the Unemployment Tax Manual which require the Division of Unemployment Insurance to follow up with delinquent employers to ensure that they make arrangements to pay outstanding balances. For those employers who do not respond to initial collection efforts, other enforcement collection options should be used. After all available collection options have been exhausted, accounts for employers who are no longer in operation should be written off as uncollectible.</p>	<p>The Director will enforce existing procedures and the Chief of Tax is responsible for directing the activities of the Tax Unit.</p> <p>The Department's collection efforts was curtailed due o the breakdown of vehicles or revenue officers.</p> <p>The Department expects to procure wo new vehicles for revenue officers on St. Thomas to do follow-up and for collection purposes, not later than the end of the second quarter of fiscal year 1999.</p> <p>Collection of delinquent employer</p>

	<p>contributions will be conducted in accordance with the procedures outlined in Section 309, Chapter 12, Title 24, VI Code, and the VI Tax Manual.</p>
<p>4. Establish formal procedures to ensure that waivers of penalties and interest on delinquent unemployment taxes are made only with the written approval of authorized Division of Unemployment Insurance officials.</p>	<p>On October 2, 1997 the UI Director amended Rules and Regulations and official form was adopted which requires the reason for the waiver and approval of the Director before waiver of interest and/or penalties is deleted from the employer account. (See Attachments No. 2 & 3) The new regulations also requested that any account adjustments or refund of contributions will be handled by the Fiscal Assistant only, with written approval signature of Director or Chief of Tax (See Attachment No. 4)</p>
<p>5. Perform an analysis of the workload and staffing to identify the staffing needs of the Tax Contribution Section of the Division of Unemployment Insurance and restructure the Section to achieve better supervision and use of staff resources.</p>	<p>The Director of Unemployment Insurance is directed to conduct staffing analysis and workload of Tax staff and confer with the Director of Personnel Services and Chief of Tax regarding reorganization and restructuring of human resources for a more efficient and effective operation.</p> <p>Analysis is due from Director not later than March 31, 1999.</p>
<p>6. Ensure that Division of Unemployment Insurance officials adequately plan for the acquisition and installation of the new computer system so that the system will meet the Division's long-term data processing needs, provide an adequate level of internal controls and segregation of duties, and provide accurate and reliable data.</p>	<p>The Department of Labor received a grant from US Department of Labor to acquire a new UI computer system. The Department is negotiating with the Employment Security Commission of North Carolina for importation of their system for the Virgin Islands, with modifications. The new system, when acquired, will have all internal controls in place.</p> <p>On June 22, 1998 the Department acquired and installed an IBM AS400 to replace the 20 year old UI System 36.</p>

	<p>The functions of computer operations are segregated with the recent appointment of Director and an Assistant Director for Information Technology Unit. In addition, cross-training of computer operations manager and the programmer on UI functions have already taken place.</p>
<p>BENEFIT PAYMENTS RECOMMENDATIONS</p>	<p>RESPONSE / ACTION TAKEN</p>
<p>1. Enforce existing procedures contained in the Unemployment Benefit Manual which require the Division of Unemployment Insurance to verify claimants' Social Security numbers and statements regarding termination of employment, sources of income, and results of job searches.</p>	<p>The Commissioner of Labor has directed the Director of the Division of Unemployment Insurance to ensure that established Rules and Regulations are adhered to. The Assistant Director for Benefit Claims Administration has been directed to revise and amend the Benefit Claims Administration Manual not later than April 1, 1999. The manual will be a valuable tool to all local office associates for proper procedures for claims processing.</p>
<p>2 Perform a workload and staffing analysis to identify the staffing needs of the Benefit Claim Section of the Division of Unemployment Insurance and restructure the Section to achieve better use of staff resources, a greater level of supervisory oversight of daily operations, and an adequate level of segregation of duties.</p>	<p>The Director of Unemployment Insurance is directed to conduct staffing analysis and workload of benefit claims offices and confer with the Personnel Administrator and Assistant UI Director regarding reorganization of human resources for a more effective and efficient operation.</p> <p>The analysis and recommendations will be completed by the Director of Unemployment Insurance and forwarded to the Commissioner of Labor, not later than March 31, 1999.</p>
<p>3. Enforce existing procedures contained in the Unemployment Benefit Manual which require the Division of Unemployment Insurance to take collection enforcement action to recover overpayments and other improper payments to claimants except for those that were caused by errors committed by the Division, which</p>	<p>The Commissioner of Labor has directed the Director of the Division of Unemployment Insurance to prepare a Benefit Payment Control Technical Assistance Guide, not later than the end of December 31, 1998, for use by Benefit payment control unit staff who are responsible for promoting and maintaining integrity of the program through prevention, detection, recovery</p>

<p>should be written off in accordance with program requirements.</p>	<p>and prosecution of fraud and abuse. The focus of the unit will be on preventing overpayments from occurring in the first place, rather than detecting overpayments <i>after</i> they have occurred. Staff will be trained in investigation and recovery techniques to collect benefits overpaid.</p>
<p>4. Develop and implement formal records retention and disposal procedures for the Division of Unemployment Insurance which will ensure that permanent computer and hard copy records are maintained for all active unemployment insurance taxpayers and benefit claimants. The records retention and disposal plan should also be in compliance with any records retention requirements of the Federal Unemployment Tax Act and provide for secure backup copies of critical computer files.</p>	<p>The Commissioner of Labor directs the Director of Unemployment Insurance to confer with Internal Security to implement records retention procedure in accordance with Federal guidelines. The federal guidelines will be followed until local procedures are implemented.</p> <p>The UI computer mainframe is backed up weekly and diskette sent to off-site location. The Director of Unemployment Insurance will confer with the Director of Information Technology (IT) is directed by the Commissioner to submit formal written policies and procedures regarding secured backup of all computer files by December 31, 1998. The Director of UI is responsible for the information from IT by the due date.</p>
<p>ADMINISTRATIVE CONTROLS RECOMMENDATIONS</p>	<p>RESPONSE / ACTION TAKEN</p>
<p>1. Develop and implement formal policies and procedures to ensure that the Division of Unemployment Insurance reconciles its bank accounts on a monthly basis; provides an adequate level of supervisory oversight of the bank reconciliation process; and maintains an adequate level of segregation of duties for functions related to the physical handling, record keeping, and supervisory oversight of the Division's resources.</p>	<p>The Commissioner of Labor has directed the Director of Unemployment Insurance to confer with the Director of Business Administration and Finance To review existing accounting procedures for UI bank account reconciliation. The Director of UI will submit formal written procedures, not later than January 31, 1999. The procedures should include, but is not limited to, oversight authority designation of individual responsible for UI record-keeping functions.</p>
<p>2. Develop and implement formal policies and procedures to ensure</p>	<p>The Commissioner of Labor has directed the Director of the Division of</p>

<p>that the Division of Unemployment Insurance maintains an adequate level of control over blank, canceled, and voided checks. The procedures should ensure that a record is maintained of the numerical sequence of blank checks issued to the computer operations unit, the preprinted check numbers are used for all internal record-keeping functions, a record is maintained of all voided checks and all "hand drawn" checks, and all voided and canceled checks are stored in a secure area which is accessible only to authorized Division personnel. The procedures should also establish controls to ensure that "hand drawn" checks are properly authorized and supported.</p>	<p>Unemployment Insurance to confer with the Internal Security Officer to implement formal "written" policies and procedures to be implemented not later than December 31, 1998. The Director will produce the written policy to adequately control the check processing and storage of blank checks, hand-drawn checks, and ensure that the preprinted check number is used for all recordkeeping.</p> <p>Division personnel continue their search for the claimants files in question. Our research indicated that the majority of these files were all disaster assistance records that were kept separate from regular benefit files.</p> <p>The Administrator of Plants & Facilities will identify off property storage area for UI records by December 31, 1998.</p>
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STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A. 1, A.4, and A.6	Implemented.	No further action is required.
A.2, A.3, and A.5	Resolved; not implemented.	The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when corrective actions have been completed, appropriate supporting documentation should be provided to our office .
B.1, B.2, B.3, and B.4	Resolved; not implemented.	The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when corrective actions have been completed, appropriate supporting documentation should be provided to our office.
C.1 and C.2	Resolved; not implemented.	The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, when corrective actions have been completed, appropriate supporting documentation should be provided to our office.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL**

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www.oig.doi.gov

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