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ADVISORY: UNEMPLOYMENT INSURANCE PROGRAM LETTER No. 3-07

TO: STATE WORKFORCE AGENCIES

FROM: EMILY STOVER DeROCCO /s/
Assistant Secretary

SUBJECT: Use of National Directory of New Hires (NDNH) in Unemployment Insurance (UI) Benefit Accuracy Measurement (BAM) Audits

1. Purpose. To modify Employment and Training (ET) Handbook 395 to incorporate crossmatches with the NDNH as a mandatory part of the BAM case investigation methodology and to provide State Workforce Agencies with instructions on use of the NDNH as part of BAM audits.
2. References. Benefit Accuracy Measurement State Operations Handbook (ET Handbook No. 395, 4th ed.); Section 453 (j) of the Social Security Act (SSA).
3. Background. BAM has identified unreported or erroneously reported earnings while claiming UI benefits -- known as benefit year earnings (BYE) -- as the leading cause of UI overpayment errors. In calendar year (CY) 2005, BAM estimated that BYE issues accounted for \$877 million in overpayments, which represent nearly 30 percent of the \$3 billion total of UI benefits estimated to have been overpaid.

During Fiscal Year (FY) 2003, the U. S. Department of Labor (DOL) Office of the Inspector General (OIG) audited the BAM program. The OIG final report (Number 22-03-009-03-315, September 30, 2003) concluded that BAM is methodologically sound and accurately detects and reports UI payment errors, but that the BAM case investigation procedures potentially miss some overpayments caused by unreported earnings. The OIG recommended that DOL modify the BAM audit procedures to include crossmatching UI beneficiaries' Social Security Numbers (SSN) against the state's intrastate wage records or the State Directory of New Hires (SDNH).

RESCISSIONS None	EXPIRATION DATE None
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The use of state wage records was considered when BAM was designed but was not included in the methodology because employer reporting of wage data does not occur in time to insure the timely completion of BAM cases. Since August 2001, the Department has encouraged but not required states to use the SDNH in BAM investigations.

4. BAM Crossmatch Pilot. The Employment and Training Administration (ETA) conducted a pilot test that incorporated intrastate wage record and SDNH crossmatches into the BAM case investigation methodology. Seven states -- Alabama, Idaho, Illinois, Maine, Missouri, South Carolina, and Washington -- participated in the pilot and began their pilot activities in August/September 2004.

The purpose of the pilot was to:

- estimate the magnitude of overpayments attributable to unreported earnings that are not detected through current BAM audit methods but are detected through the use of SDNH or wage record crossmatches;
- identify other issues that might affect the claimant's eligibility for the compensated week selected for the BAM sample (for example, voluntary quit or discharge from employment in the benefit year);
- measure the additional cost to the BAM program of implementing these methods; and
- identify operational issues that would need to be addressed prior to national implementation, assuming that the cost-benefit analysis indicated that inclusion of these procedures as part of the BAM audit was justified.

The following table summarizes the effects on the UI payment accuracy rates of using either the wage record or SDNH crossmatches as part of the BAM audits. The complete BAM Crossmatch Pilot Final Report is available on the ETA Web site: http://workforcesecurity.doleta.gov/unemploy/pdf/xmatch_pilot_report.pdf.

Crossmatch	U.S. Annual Report Rate			U.S. Operational Rate		
	Percent of UI Benefits Overpaid (Percentage Point Increase)	Percentage Increase	Estimated Amount of Overpayment Increase (See Note)	Percent of UI Benefits Overpaid (Percentage Point Increase)	Percentage Increase	Estimated Amount of Overpayment Increase (See Note)
Wage Record	9.66% (+0.36)	3.85%	\$146.5 M	5.34% (+0.36)	7.37%	\$150.3 M
SDNH	9.71% (+0.45)	4.94%	\$154.2 M	5.20% (+0.45)	9.47%	\$151.6 M

Note: Wage record results apply to a full year (CY 2003) of BAM data; SDNH results apply to a six-month period beginning in August / September 2004, depending on the state. The increases in the estimated amounts of overpayments for a 12-month period using the SDNH as part of the BAM investigation are extrapolated from the six-month sample data.

The states that participated in the BAM crossmatch pilot reported no significant implementation or operational issues for either the wage record or SDNH crossmatch. Based on the results of the pilot, ETA concluded that of the two methods tested, crossmatching BAM cases with the new hire directories is superior for the following reasons.

- Use of new hire data is cost effective. Due to the large number of wage record matches requiring follow-up investigation, most of which yielded no information affecting the UI beneficiary's eligibility, the investigation costs for the wage record crossmatch were a little more than twice the costs of investigating cases identified by the new hire directory.
- New hire data are more effective in identifying payment errors. The new hire directory crossmatch resulted in an increase in the annual report and operational overpayment rates of 0.45 percentage points, while the wage record crossmatch resulted in an increase in the overpayment rates of 0.36 percentage points.
- Audits based on wage record crossmatch would delay publication of BAM data for several months after the 120-day close-out deadline for the original BAM investigations. In comparison, because the new hire directory crossmatches are concurrent with the rest of the BAM investigation, the BAM data publication schedule should not be adversely affected.
- Use of wage record crossmatch would also likely have a negative impact on BAM case completion timeliness. As each quarter's cases are crossmatched

with the most recent wage records, BAM investigators would have to follow up on matches for several completed cases while they are conducting audits for current cases. This would likely delay completion of the on-going sample cases. The pilot states that conducted new hire directory crossmatches as part of their BAM investigations reported no change in their case completion timeliness.

In August 2004, section 453(j) was added to the SSA to authorize use of the NDNH “for purposes of administering an unemployment compensation program under Federal or State law.” During FY 2005, the Texas, Utah, and Virginia workforce agencies participated in a pilot test which matched UI payments against the NDNH data. The results of this pilot indicated that because the NDNH includes data for out-of-state, Federal civilian and military employment, and in-state hires by some multi-state employers, it is a more effective tool in identifying potentially disqualifying employment than the SDNH, which includes only intrastate employment data.

5. Implementation. The Office of Management and Budget approved DOL’s request to incorporate crossmatches with the NDNH as a mandatory part of the BAM case investigation methodology on August 31, 2006.

In order to enhance the ability of BAM to detect erroneous UI benefit payments and to ensure that each state follows standard methods and procedures with respect to case investigations, ETA has modified ET Handbook No. 395, 4th ed., Chapter VI (Investigative Procedures), to incorporate crossmatches with the NDNH into the BAM case investigation methodology. Replacement pages for the handbook are provided in Attachment A.

This requirement will be effective with BAM batch 200801 (sampling week beginning December 30, 2007, and ending January 5, 2008). Some states have already integrated new hire directory crossmatches into their paid claims audits. DOL encourages states to use the NDNH crossmatch as part of their BAM paid claims investigations prior to the effective date. States not participating in the NDNH crossmatch prior to the effective date may crossmatch BAM paid claims sample cases with their SDNH. However, once the state begins to access the NDNH, it must use the NDNH as part of the BAM paid claims investigation instead of the SDNH. All BAM paid claims investigations must include the NDNH crossmatch by the effective date (BAM sampling batch 200801).

BAM auditors will conduct fact-finding, according to the procedures in ET Handbook No. 395, for those BAM cases in which the claimant’s SSN matches one or more records in the new hire directory to determine whether there are any issues affecting the claimant’s eligibility for UI benefits for the sampled week. Agencies

will take official action to establish overpayments or correct underpayments identified as a result of the investigations conducted subsequent to the new hire directory crossmatches if permitted by state law. New hire directory crossmatch procedures and BAM data collection instrument crossmatch codes are provided in Attachment B.

New hire directory file access and retention will vary by state. BAM program managers are responsible for identifying the organizational unit and staff within their state that manage their state's participation in the NDNH or administer their SDNH and determining the procedures needed to link BAM data with the new hire data in their state. States should direct technical questions regarding NDNH data submission procedures to their U. S. Department of Health and Human Services State Technical Support Liaison. A list of liaisons is available at the following Web site: <http://www.acf.hhs.gov/programs/cse/newhire/contacts/fcrtscontacts.htm>.

State agencies that currently use wage records as part of the BAM investigation may continue to do so in addition to the new hire directory. However, the use of wage records as part of the BAM investigation is not required.

6. Action. State Administrators are requested to provide the information contained in this advisory to the appropriate staff and to assure that systems are in place to implement the NDNH crossmatch no later than BAM batch 200801 (sampling week beginning December 30, 2007 through January 5, 2008).
7. Inquiries. Questions should be directed to the appropriate regional office.
8. Attachments.
 - A. Replacement pages for ET Handbook No. 395
 - B. New Hire Directory Crossmatch Procedures and BAM Data Collection Instrument Crossmatch Codes