



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**Department of Labor and
Workforce Development
Unemployment Insurance Services**

July 1, 2004 to January 31, 2006

**Richard L. Fair
State Auditor**

2004-2005

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New Jersey State Legislature

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Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Joseph J. Roberts, Jr.
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Department of Labor and Workforce Development, Unemployment Insurance Services for the period of July 1, 2004 to January 31, 2006. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in cursive script, appearing to read "Richard L. Fair".

Richard L. Fair
State Auditor
May 17, 2006

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**Department of Labor and
Workforce Development
Unemployment Insurance Services**

Scope

We have completed an audit of the Department of Labor and Workforce Development, Unemployment Insurance Services for the period July 1, 2004 to January 31, 2006. Our audit included financial activities accounted for in the Unemployment Compensation Fund.

The prime responsibility of the unemployment insurance (UI) program is to provide wage replacement benefits to workers who have become involuntarily unemployed. Expenditures for unemployment insurance benefits were \$1.9 billion in fiscal year 2005.

Objectives

The objectives of our audit were to determine whether the expenditure transactions were related to the unemployment insurance program, were reasonable, and were recorded properly in the accounting systems.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of expenditure transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal controls.

A nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Some sample populations were sorted and transactions were judgmentally selected for testing.

Conclusions

We found that the expenditure transactions included in our testing were related to the unemployment insurance program, were reasonable, and were recorded properly in the accounting systems. In making these determinations, we noted certain internal control weaknesses and matters of compliance with laws and regulations that merit management's attention.

Base Weeks Reporting Errors

Employer reporting errors caused \$20 million in net benefit overpayments.

New Jersey's unemployment insurance (UI) benefits are calculated using a formula based on a claimant's earnings divided by the number of weeks they worked during the qualifying period (base weeks). The department relies on information regarding wages and the number of base weeks as reported by employers on their quarterly Employer Report of Wages Paid (WR-30). These forms are processed by the Department of the Treasury, Division of Revenue and an electronic file is sent to the department where it is uploaded to the systems used to process UI claims.

The WR-30 forms often contain incorrect information regarding base weeks, and as a result inaccurate benefit payments occur. One type of error occurs when employers report that their employees worked 12 weeks during a quarter when they actually worked 13 weeks. This commonly occurs in quarters that have six biweekly pay periods. We also found some employers reporting wages correctly, but entering zero base weeks on the WR-30. This results in overpayments when claims are processed because the denominator of the UI formula is understated.

The department detects some overpayments and underpayments during its federally mandated testing of claims. These results are reported to the U.S. Department of Labor on the Benefit Accuracy Measurement (BAM) report. This document details the types of errors occurring and whether the department, the employer, or the claimant is responsible. For calendar year 2005, the department reported an overpayment rate of 12.6 percent. Approximately 19 percent of these overpayments resulted from base weeks errors made by employers. The BAM report also shows an underpayment rate of 1.7 percent with 76 percent resulting from employer base weeks errors. If these statistically valid error rates are

applied to total claims, we estimate base weeks errors caused the department to make overpayments of \$44 million and underpayments of \$24 million during 2005. Although the department pursues collection of all overpayments it detects, we were unable to determine how much of this related to base weeks errors.

Recommendation

We recommend the Department of Labor and Workforce Development continue to educate employers regarding the proper preparation of the WR-30 and develop edits that identify potential errors, such as reporting wages with zero base weeks.

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Additional Benefits while in Training

Overpayments were made to ABT claimants.

N.J.S.A. 43:21-3 entitles claimants to collect total benefits of no more than 26 times their weekly benefit rate. This amount can be increased by an additional 26 times if claimants enroll in a qualified training program approved by the department. Once these additional benefits while in training (ABT) are exhausted, claimants must reestablish eligibility by working at least 20 weeks or by earning more than 12 times the statewide average weekly remuneration (wages) paid to employees.

We noted overpayments totaling \$67,000 to four claimants enrolled in these training programs. Payments were made after new claims were processed even though the claimants had not reestablished eligibility. The processors did not recognize the claimants had not reestablished eligibility since the system does not contain adequate edits to alert them to these types of claims. The billing and collection of overpayments places an additional administrative burden on the department.

Recommendation

We recommend computer edits be designed and set in place to aid claims examiners in recognizing possible ineligible claims. We also recommend that claims examiners receive additional training specifically related to ABT claims.

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Intermittent Unemployment Clerks

The department should improve monitoring of their own employees' claims.

The department hires intermittent clerks to assist local offices in processing UI claims when volume increases. These employees are eligible for UI benefits while not working and they may continue to receive a reduced benefit when they return to work, provided they do not exceed certain earnings limits. According to N.J.A.C. 12:17- 8.5 any income earned while collecting UI benefits shall be reported to the department and included in a reduced benefit calculation.

The department's policies require intermittent employee's supervisors to input their department wages, and review and approve their claim. We found there was no independent monitoring of this activity which increases the risk of overpayments.

Recommendation

We recommend someone independent of the claims processing function monitor the intermittent clerks' claims.

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State of New Jersey

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
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JON S. CORZINE
Governor

DAVID J. SOCOLOW
Acting Commissioner

May 12, 2006

Mr. Richard L. Fair
State Auditor
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125 South Warren Street
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Trenton, New Jersey 08625-0067

Dear Mr. Fair:

We have received your audit report on the Department of Labor and Workforce Development Unemployment Insurance Services for the period July 1, 2004 to January 31, 2006.

As you are aware, Unemployment Insurance is a significant and complex program. Operating the program effectively and assuring proper accountability is a top priority of our Department. We are pleased that your audit verified that expenditures were reasonable and properly recorded in our accounting systems.

We also note those areas where your report recommends possible improvements to our internal controls. The attachment to this letter addresses those issues.

Thank you for the opportunity to respond to this report and for the recommendations which are intended to further improve the operation of this essential service to the workers and employers of New Jersey.

Sincerely,

ACTING COMMISSIONER

Attachment

New Jersey Is An Equal Opportunity Employer

**NEW JERSEY DEPARTMENT OF LABOR
AND WORKFORCE DEVELOPMENT (NJDLWD)
RESPONSE TO AUDIT OF
UNEMPLOYMENT INSURANCE SERVICES
JULY 1, 2004 TO JANUARY 31, 2006**

Finding and Recommendation – Base Week Reporting Errors

Base weeks are improperly reported by employers, resulting in over and under payment of benefits. We recommend continued education of employers regarding the proper preparation of the WR-30 and develop edits that identify potential errors.

NJDLWD Response

New Jersey law requires base weeks to be used in the calculation of Unemployment Benefits. Federally mandated audits conducted by the Benefits Accuracy Measurement (BAM) unit have found that employers and their agents repeatedly report base weeks incorrectly.

We concur with your recommendation, and are continuing to educate employers regarding proper base week reporting. Computer edits designed to identify potential problems with employers who report “zero” base weeks provide us with an opportunity to reach out to those employers for correct information.

We are also educating our claims takers in our three UI Call Centers. They have received training that focused on ways that these front-line staffers can detect potential problems early in the claims process and prevent improper benefit payments.

Finding and Recommendation – Additional Benefits While in Training

While in training, overpayments were made to four claimants, who did not reestablish eligibility. It is recommended that edits be designed to recognize possible ineligible claims caused by ABT and that additional training be provided to claims examiners regarding the ABT claims.

NJDLWD Response

We concur. Although the number of such errors is not material in relation to the Unemployment Insurance Fund, we will comply with the audit recommendation. Automatic computer edits will be developed as part of the NJ SUCCESS system which should eliminate this type of error.

Finding and Recommendation – Intermittent Unemployment Clerks

The Department does not independently monitor benefit payments made to intermittent clerks. Such monitoring is recommended to reduce the risk of overpayments.

NJDLWD Response

We believe the Department has very strong internal controls over the payment of benefits to intermittent clerks. This is evidenced by the fact that no such overpayments were noted. However, in order to strengthen controls, we will give consideration to providing some independent monitoring in this area.