EMPLOYMENT AND TRAINING ADMINISTRATION ADVISORY SYSTEM U.S. DEPARTMENT OF LABOR Washington, D.C. 20210	CLASSIFICATION Unemployment Insurance
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ADVISORY: **UNEMPLOYMENT INSURANCE PROGRAM LETTER NO.** 28-12

TO: STATE WORKFORCE AGENCIES

FROM: JANE OATES
Assistant Secretary

SUBJECT: Supplemental Funding Opportunity for the Establishment of an Unemployment Insurance (UI) Integrity Center of Excellence

1. **Purpose.** To notify State Workforce Agencies of the opportunity to apply for Fiscal Year (FY) 2012 funds as the lead state to establish, via a cooperative agreement with the U.S. Department of Labor's (Department) Employment and Training Administration (ETA), a national UI Integrity Center of Excellence (Center). The Center will develop and promote innovative UI program integrity strategies to reduce improper payments and prevent and detect fraud.

2. **References.**
   - Improper Payment Information Act of 2002 (IPIA), 31 U.S.C. 3321 note;
   - Improper Payments Elimination and Recovery Act of 2010 (IPERA), 31 U.S.C. 3301 note;
   - Executive Order (E.O.) 13520, *Reducing Improper Payments* (November 20, 2009);
   - Presidential Memorandum, *Enhancing Payment Accuracy Through a "Do Not Pay List"* (June 18, 2010);
   - Office of Management and Budget (OMB) Memorandum M-12-11, *Reducing Improper Payments through the Do Not Pay List* (April 12, 2012);
   - Unemployment Insurance Program Letter (UIPL) No. 19-11, *National Effort to Reduce Improper Payments in the Unemployment Insurance (UI) Program*;
   - UIPL No. 26-11, *Unemployment Insurance (UI) Supplemental Funding Opportunity for Program Integrity and Performance and System Improvements*;
   - UIPL No. 12-12, *Guidelines for Fiscal Year (FY) 2012 State Agency Unemployment Insurance (UI) Resource Allocations and Above-Base Funding*; and
   - UIPL No. 18-12, *Unemployment Insurance (UI) Supplemental Funding Opportunity for Program Integrity and Performance and System Improvements.*

3. **Background.** As part of its effort to reduce improper payments in the federal-state unemployment compensation program, ETA plans to fund a UI Integrity Center of Excellence that, while funded competitively through a single state, will be administered by a

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state consortium. This UIPL sets forth the requirements for grant applications, general design and activities of the Center, and mechanism for administering funds.

On November 20, 2009, President Obama signed E.O. 13520, *Reducing Improper Payments*. This Executive Order emphasized the need to eliminate payment error, waste, fraud, and abuse in federally administered programs while protecting access to these programs by their intended beneficiaries. Among other things, E.O. 13520, consistent with its broad-based approach, sought to improve incentives and accountability for state and local governments for reducing improper payments. In compliance with this Executive Order, OMB designated Unemployment Insurance and another 13 programs government-wide as "high priority"/"high error" programs required to take certain remedial and reporting actions due to their high improper payment rates.

In 2010, the IPERA amended the IPIA and instituted additional requirements to clarify and enhance the responsibilities of Federal agencies. Under the IPERA and governing OMB guidance, each covered agency must comply with a number of obligations, among them: conducting "periodic" reviews (at least once every three fiscal years) of programs and activities susceptible to "significant" improper payments (as defined by the statute); estimating and reporting improper payments; and, developing and implementing corrective action. Among its corrective actions, an agency must ensure, where appropriate, that states and localities are held accountable for reducing improper payments.

The IPERA requires, in relevant part, that the Inspector General of each agency report annually on whether the agency is in compliance with the statute. To be "in compliance," for purposes of this requirement, the IPERA and OMB guidance establish—and the Department's Office of Inspector General makes a determination on—seven separate elements. Among these elements, an agency will be in compliance if any program it administers that is susceptible to "significant" improper payments nonetheless keeps its annual improper payment rate to less than 10 percent of its outlays. An agency which reports an improper payment rate of 10 percent or above for a program will be out of compliance and will trigger additional oversight by Congress, OMB, and the Department's Office of Inspector General.

The UI program is currently out of compliance. The UI Benefit Accuracy Measurement (BAM) program, which provides the basis for assessing the accuracy of UI payments, estimated the UI national improper payment rate to be 12.0 percent for the 2011 reporting period (11.35 percent overpayment rate plus a 0.65 percent underpayment rate). This translates to approximately $13.6 billion in improper payments nationally.

In 2011, ETA issued UIPL No. 19-11, *National Effort to Reduce Improper Payments in the Unemployment Insurance (UI) Program*, to stress that UI integrity remains a top priority and to provide information regarding a national strategic plan to aggressively target UI overpayment prevention and detection. UIPL No. 19-11 also requested that states participate in a federal-state collaboration to reduce UI improper payments by implementing new strategies aimed at addressing root causes of overpayments. Later, UIPL Nos. 26-11 and 18-12 announced supplemental funding opportunities to help states develop their own state-

specific strategies to reduce the improper payment rate. States have demonstrated tremendous leadership in implementing these strategies, while balancing extraordinary workloads.

In addition to state-specific integrity strategies funded through these previous supplemental funding opportunities, the Department continues to explore new and innovative strategies and tools to support the prevention, detection, and recovery of UI improper benefit payments. Most recently, in collaboration with OMB, including the Partnership Fund for Program Integrity Innovation, and with advice from the President's Management Advisory Board, the Department has examined new approaches to address UI fraud and other integrity challenges for the UI program, centralized at the Federal level. A promising strategy the Department is interested in replicating is the use of predictive anti-fraud modeling techniques, such as the fraud prevention and automated screening systems employed by the U.S. Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS). These data analytics techniques supplement existing CMS fraud detection tools with a more advanced, customized analysis to identify trends, risks, and patterns of behavior and target agency resources for further review. Based on the initial success of these techniques, the Department believes that data analytics services such as these can benefit states' fraud prevention efforts in the UI program.

A June 2010 Presidential Memorandum, *Enhancing Payment Accuracy Through a "Do Not Pay List,"* stressed the importance of preventing improper payments before they occur; instructed Federal agencies to thoroughly review relevant databases before issuing payments or awards; and required agencies, at a minimum, to review a new network of databases to be known as the "Do Not Pay List." The Memorandum required agencies to access this information through a single web-based portal, which OMB and the U.S. Department of the Treasury (Treasury) have since established and are enhancing. OMB Memorandum M-12-11, published in April 2012, directed each Federal agency to develop a plan for using this solution for program benefit eligibility reviews in order to reduce and eliminate improper payment errors before they occur. The Department is finalizing its plan to apply the centralized tools offered through the Do Not Pay (DNP) solution to the UI program. One of the components of the DNP solution is a data analytics service. ETA seeks to leverage this service to support the implementation of a new UI Integrity Center of Excellence.

4. **Funding Opportunity.** This competitive funding opportunity is designed to establish, via a cooperative agreement between ETA and a lead state, a UI Integrity Center of Excellence. The Center's mission will be to develop, implement, and promote innovative integrity strategies, including the prevention and detection of fraud, in the UI program. The activities of this Center will supplement and support, not duplicate, the activities that states are already implementing to reduce improper payments.

   ETA will award the supplemental funds to a single lead state. However, we intend for the Center, once up and running, to be operated by a Steering Committee (as described in Section 5) that will serve all states in the UI program and will include representation from multiple states. We plan to use a cooperative agreement as the vehicle for administering the grant funds, outlining authorized activities, and defining the respective responsibilities of

ETA and the lead state. A key goal for the Center will be to actively explore the use of new technologies and new data sources to enable sophisticated data analysis and predictive modeling to improve prevention and detection of improper payments.

ETA plans to award up to $15 million in supplemental funding for a lead state to establish and operate the Center in collaboration with a formal Steering Committee, ETA, and the National Association of State Workforce Agencies (NASWA) for a minimum of two years. However, applicants are encouraged to propose a level of funding sufficient to implement their proposed Center design. ETA will consider applications that propose funding requests above the planned $15 million award amount with proper justification, and based on the availability of funds. By applying for supplemental funds, the lead state is agreeing that the proposed project will be completed with no additional Federal funding. However, ETA may elect to extend the grant for the Center beyond the original two-year term, contingent on availability of Federal funds to support Center operations.

The grant application will be expected to address the six key requirements identified below:

- The grantee will establish the UI Center led by a Steering Committee structure as described in Section 5 of this UIPL;

- The Center will work with Treasury, through the DNP initiative, to develop data analytics and predictive modeling methodologies and tools that are transferable and expandable for all states to improve UI fraud prevention and detection;

- The Center will develop a secure method to rapidly alert states to new fraud schemes, as they are identified;

- The Center will serve as a laboratory for innovation by supporting the development and piloting of new strategies and tools to combat improper payments and fraud, building on the work of states, other Federal government agencies and the private sector;

- The Center will support knowledge sharing among states by identifying and disseminating promising practices for state fraud prevention across the UI program; and

- The Center will increase staff capacity by developing and delivering training on fraud solutions and integrity strategies to all states.

5. **Allowable Activities.** The application must include a description of costs for this project and identify projected outcomes. Supplemental funding awarded through this solicitation may be used to finance the following activities:

   - **Merit staffing and securing contract support to support Center operations through September 30, 2014.** The state selected as the lead state will identify a merit-staffed senior project manager and will either identify or hire two to four state merit staff to carry out the work of the Center. The lead state must agree that the additional staff will be limited to this activity and that resources will supplement, not supplant, current levels

of staff and resources (maintenance of effort). In addition, with the concurrence of the Steering Committee, the lead state may procure the services of outside experts for the purpose of developing a predictive modeling methodology, in collaboration with Treasury's DNP solution. (NOTE: Consistent with ETA's previous guidance, contract staff funded under Federal UI administrative grants may only perform work that is "commercial" in nature; "inherently governmental" functions must be performed only by merit staff.)

- **Developing methodology and identifying new data sources and tools** for use in the detection and prevention of fraudulent UI claims, as well as non-fraudulent improper payments.

- **Communicating and disseminating information** on identified fraud schemes and promising practices across the UI program, leveraging open source technology.

6. **Project Organization.** Applicants must propose a Steering Committee structure that includes representation from at least three permanent partner states identified by NASWA, with ETA having voting membership, and describe how the Steering Committee's decision-making process will work. NASWA will be an ad hoc member to enable collaboration with related NASWA Center for Employment Security Education and Research projects, including those of the Information Technology Support Center. Each partner state will contribute program and technical expertise to the design and implementation of the Center. The Center will develop and implement a project management plan based on the direction of the Steering Committee.

   The proposal must identify a Center Director, or describe how one will be identified, selected through the lead state's merit staffing system. Within six weeks after the grant award, the applicant must select the Center Director (this may be an interim appointment pending hiring a permanent Director) and convene the first meeting of the Steering Committee to begin implementation of the project.

   The project design also may require the assistance of one or more contractors. The applicant must be willing to act as the lead contracting party for the Center for any contracts. The lead state will be responsible for developing, competing, and awarding a contract with the support and participation of the Steering Committee. The Steering Committee will work with the contract staff, as necessary, to provide information that the contractor needs to develop and plan an approach to implement the proposed project design.

   The Steering Committee will seek input from other interested states and ETA's regional and national office staff. The Steering Committee will be responsible for providing input on and reviewing the Request for Proposal(s) for any contract(s) and participating in or providing input on the vendor selection, helping to define appropriate activities for the contractor(s), and providing UI program and technical experts to support the Center's efforts.

   The Steering Committee will also identify project metrics and milestones to be included in the project plan for each Center activity. For example, the Center may choose to establish a

project outcome that specifies a certain number of states that will have the capacity to use data analytics to improve UI fraud prevention and detection due to the Center activities.

Examples of the lead state responsibilities:

- Coordinate all activities related to this effort with the partner states and NASWA;
- Develop and provide to ETA a detailed project management plan no later than December 31, 2012;
- Provide staff for the project management team, to support the overall effort, and to respond to requests for information; and
- Develop system(s), share products, and provide technical assistance, as appropriate, working together with other members of the Steering Committee.

Examples of the participating state responsibilities:

- Attend meetings/conferences with lead and participating states; and
- Assist in development and testing of deliverables for the project.

7. **Project Timeline and Deliverables.** Grant applications must include a timeline for the achievement of the Requirements in Section 4. Applicants are strongly encouraged to follow the tentative timeline for the achievement of specific milestones and identified deliverables provided below. The final timeline will be subject to negotiation with the Steering Committee.

Requirement 1: Establish the UI Center led by a Steering Committee structure	
Key Deliverables	**Target Completion Date**
Senior Project Manager assigned as Center Director	• No later than October 31, 2012
Two to three additional merit staff, as well as one administrative staff, assigned or hired and dedicated solely to the project	• All positions filled no later than March 31, 2013
Steering Committee members identified in partnership with NASWA and DOL	• No later than October 31, 2012
First Steering Committee meeting to establish detailed project plan responsibilities and regular meeting schedule	• Convened within first six weeks of grant award
Detailed Project Management Plan that identifies outcomes and metrics for each activity of the Center	• No later than December 31, 2012

Requirement 2: Work with Treasury and Do Not Pay solution to develop data analytics and predictive modeling methodologies	
Key Deliverables	**Target Completion Date**
Establish an agreement with Treasury to support the Do Not Pay solution's data analytics capabilities through the sharing of data and development of predictive modeling methodologies	• No later than December 31, 2012
Select contractor to support development of data analytic and predictive modeling methodologies	• No later than July 31, 2013
Develop a business requirements framework that states can use to incorporate new Do Not Pay data analytics into their existing business practices	• No later than July 31, 2014
Requirement 3: Develop secure method to communicate fraud schemes with states	
Key Deliverables	**Target Completion Date**
Secure contract support for development of secure portal	• No later than April 30, 2013
Portal in operation for the entire UI program	• Available to all states by December 31, 2013
Requirement 4: Develop and pilot strategies and tools to combat improper payments and fraud	
Key Deliverable	**Target Completion Date**
Secure contract support to assist with development of products and tools	• As proposed by the applicant and later, as determined by the Steering Committee
Requirement 5: Identify and disseminate promising practices across the UI program	
Key Deliverables	**Target Completion Date**
Develop plan to identify and disseminate best practices using tools such as the UI Community of Practice and the UI Improper Payments Web page at www.dol.gov	• Beginning no later than March 31, 2013, and ongoing
Conduct webinars to highlight best practices identified through the Center	• Beginning no later than September 30, 2013
Support planning and content for DOL's bi-annual Integrity Conference	• Conference to be held in spring 2014
Requirement 6: Develop and deliver training on fraud solutions and integrity strategies to all states	
Key Deliverables	**Target Completion Date**
Develp plan to identify state training needs	• Beginning no later than March 31, 2013 and ongoing
Comprehensive training plan developed	• No later than June 30, 2013
Secure contract support, as needed, to assist with development of training	• No later than September 30, 2013
Provision of training to states	• Beginning no later than December 31, 2013

8. **Cooperative Agreement.** The grantee will be required, upon award of the supplemental funding, to enter into a cooperative agreement with ETA for the joint management of the Center. ETA's active engagement with the Center's work will be critical to enable the Center to connect to and leverage advances made by other Federal agencies and the work of Treasury's Do Not PayDNP Solution. The proposal must be structured to ensure that ETA will:

   - Participate in the governance structure for the UI Center with ad hoc voting membership of the Steering Committee;
   - Support connections to Federal resources, such as the CMS's anti-fraud screening system and Treasury's Do Not Pay solution;
   - Leverage the UI Community of Practice in support of the Center's communication and dissemination activities; and
   - Provide oversight of the Center's use of the grant funds.

9. **Application Instructions.** To apply for supplemental funds, the lead state must submit an application package according to the formatting guidelines provided in Attachment A to this UIPL.

   Upon making its selection, ETA will issue a Letter of Award to the state agency listing the proposal and the total funding level under this solicitation. Upon receipt of the Letter of Award, the state agency must submit forms SF-424 (OMB No. 4040-0004) and SF-424A (OMB No. 4040-0006) covering the approved project.

10. **Availability of Funds.** These funds are available for obligation by the Department through September 30, 2012. A state awarded a grant under this solicitation must agree to fully obligate those funds as soon as practical, but no later than September 30, 2014. Upon written request, the Grant Officer may modify the grant to allow the state additional time to spend remaining funds.

11. **Project Modifications.** If, during the performance period, the lead state wishes to reallocate funds among categories within its SBR, it must submit a new SF-424A (OMB No. 4040-0006) to the regional office for approval, with a copy to the national office, if the amount to be moved exceeds 20 percent of any category of the initially awarded amount for the grant. The lead state must also submit a request for modification of the grant signed and dated by the state's signatory authority. This information will be submitted to the Grant Officer with a request for modification of the SBR grant to reflect the requested changes. The lead state may not elect to abandon an approved project and move funds to a different project. If the state fails to complete a project, funds for that project must be returned to the Department.

12. Action Requested. We request that State Administrators:

a) Review the funding opportunity and determine whether the state will apply for funds under this solicitation;
b) Work with the appropriate regional office to develop an application that will best serve the needs of the Center;
c) Submit the proposal by e-mail to OUI.IntegritySBRs@dol.gov by 11:59 p.m. EDT on Friday, September 7, 2012. **The subject line of the e-mail should include the name of the lead state and the title "Integrity Center SBR 2012"**; and
d) Submit an electronic copy of the proposal to the appropriate regional office(s).

13. Inquiries. Questions should be directed to the appropriate regional office(s).

14. Attachments.

Attachment A: Supplemental Funding Application Guidelines

Attachment A

Supplemental Funding Application Guidelines

Instructions: The state agency submitting an application must use this format to describe the activities for which it seeks funding. This document is to be combined into a single SBR with a SF-424 and an SF-424A.

Name of Project: Unemployment Insurance Integrity Center of Excellence

Amount of Funding Request for this Project: Provide the total amount of funds requested for the project.

State Contact: Provide name, telephone number, and e-mail address of the individual who can answer any questions relating to the proposal.

Project Description: Provide a description of the project for which the state is seeking funding and explain how the project will address each of the 6 requirements identified in Section 4.

The weight of this element is 20 percent of the total score.

Project Organization: Provide an explanation of how the state will implement the project organization and cooperative agreement described in Sections 5 and 7.

The weight of this element is 20 percent of the total score.

Project Timeline and Deliverables: Provide a timeline for completion of the deliverables for the project. This description should convey how the Center will achieve the deliverables included in Section 6.

The weight of this element is 20 percent of the total score.

Description of Costs: Provide an explanation of all costs included in the project.

Staff Costs for Agency and Contract Staff: Use the table format below to request state or contract staff. The application must clearly explain which costs are for state staff and which costs are for contract staff.

Type of Position	Total Hours	Cost Per Hour	Total

Hardware, Software, and Telecommunications Equipment: Provide an itemized list of hardware, software, and telecommunications equipment including the estimated cost per item and the number of each item required. A description of each item must provide any

information needed to identify the specific item and a description of the size and capacity of each item if applicable.

Other: Identify each item and provide the estimated cost per item. The need for each item must be explained.

The weight of this element is 20 percent of the total score.

Measurable Improvements Expected in UI Operations: Identify the areas in which fraud detection and prevention will be improved and improper payments reduced through implementation of the proposed project. All improvements must be explained in detail rather than generalized, and quantified where possible. For example, the development of a new secure method to communicate with states about fraud schemes when they are identified may require the identification of the number of states that will have access to this tool by what date for the prevention of UI fraud overpayments.

The weight of this element is 20 percent of the total score.