REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

THE EMPLOYMENT DEVELOPMENT DEPARTMENT NEEDS TO IMPROVE ITS DISABILITY INSURANCE PROGRAM

P-430

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Thomas W. Hayes
Auditor General

December 11, 1986 P-430

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the need for the Employment Development Department to improve the operations of its disability insurance program. We found that the department was slow to pay initial disability insurance benefits to claimants, slow to pay claimants after administrative law judges' decisions, and slow to collect overpayments.

We conducted this audit to comply with Chapter 1226, Statutes of 1983.

Respectfully submitted,

THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

The Employment Development Department (department) was slow to pay benefits and slow to collect overpayments for its disability insurance program. In fiscal year 1985-86, the department processed over 802,000 new claims and disbursed over $1 billion in benefits. In 79 of the 526 cases that we reviewed, the department could have expedited payments. The department also was slow in issuing 23 of 59 payments to claimants following decisions of administrative law judges. The department took between 8 and 32 days to issue payments for these 23 cases. Because payments were slow, claimants suffered unnecessary financial hardship. Finally, in 93 of 201 cases in which claimants were overpaid, the department was slow to collect overpayments. As a result, collecting overpayments was delayed.

BACKGROUND

The department is responsible for administering the State's disability insurance program. The purpose of disability insurance is to protect workers against the loss of their wages when they are unable to perform their usual work because of an illness or injury not related to their jobs. The program is financed by workers through a payroll tax on their earnings. Applications for benefits and payments of benefits are made by mail through 21 field offices.

PRINCIPAL FINDINGS

The Department Can Improve Its Review Of Field Offices' Initial Payments

When the department assessed the field offices' performance in issuing initial disability insurance payments, it did not identify instances when the field offices could expedite payments to claimants. The department identified instances when it could not make payments within the statutory 14-day requirement and concluded that it had little or no control when information was needed from outside sources. However, we found that the department contributed to delays in 79 of 526 cases by not ensuring that claims examiners followed existing procedures for acquiring additional information.

The Department Can Improve Its Process For Handling Claimants' Appeals

Although department policy requires field offices to transmit appeals to an appeals office of the California Unemployment Insurance Appeals Board within seven working days, the field offices we reviewed did not transmit 15 (17.6 percent) of 85 appeals within the required time limit. Therefore, some claimants entitled to receive benefits waited longer to receive them.

Furthermore, five of the six disability insurance field offices that we reviewed did not issue immediate payments to claimants in 23 of 55 cases following decisions of administrative law judges. The delays ranged from 8 to 32 days.

The Department Is Slow In Recovering Some Overpayments

If a claimant has been overpaid disability insurance benefits, the department requires field offices to initiate action to collect overpayments within 30 days of the date that the field office notifies the claimant of an overpayment. None of the field offices in our sample always followed this procedure. The department was late in initiating action to collect overpayments in 93 of 201 cases. These 93 cases represent $49,190 of the total overpayments that had not been collected. For example, two of the field offices did not initiate action to collect overpayments until four months after notifying the claimant of the overpayment. Because the field offices do not follow the department's procedures, collecting overpayments of disability insurance benefits is delayed.

CORRECTIVE ACTION

To improve the operations of the disability insurance program, the department is taking corrective action. First, according to the deputy division chief, on July 1, 1986, the department revoked all waivers allowing field office supervisors to discontinue their evaluations of the claims examiners' performance. Second, recognizing that the computer equipment in the field offices is not reliable, the department has prepared a feasibility study report which addresses the automation requirements and telecommunications needs of the disability insurance program.

RECOMMENDATIONS

To improve the operations of the Disability Insurance Program, the Employment Development Department should do the following:

- Improve its review of initial disability insurance payments by identifying when the field offices could expedite payments to claimants;

- Ensure that field offices follow procedures to issue immediate payments to claimants following administrative law judges' decisions; and

- Ensure that field offices adhere to the department's procedures on recovering overpayments.

AGENCY COMMENTS

The Employment Development Department agrees with the results of our review of its disability insurance program and is taking corrective actions in response to the report's recommendations.

INTRODUCTION

The Employment Development Department (department) is responsible for statewide employment services, the unemployment insurance program, and the disability insurance program. The department collects taxes and issues benefit payments under the unemployment insurance and disability insurance programs, and it collects personal income taxes withheld by employers.

Administration of the disability insurance program is one of the department's major responsibilities. The purpose of disability insurance is to protect workers against losing their wages when they are unable to perform their usual work because of illness or injury not related to their jobs. Most wage earners under the unemployment insurance provisions of the California Unemployment Insurance Code are also covered under the disability insurance provisions of this code. Workers not covered by the program include such groups as public school employees, employees of state funded institutions of higher education, other governmental entities, and individuals who file religious exemption certificates.

The disability insurance program is funded through a payroll tax on employee earnings. In 1985, employees paid a state disability tax of 0.6 percent of the first $21,900 in annual wages. In fiscal year 1985-86, the department collected over $1 billion to finance the disability insurance program. In addition, the department processed

over 802,000 first claims and paid over $1 billion in benefits. The current maximum weekly benefit amount is $224, with a maximum yearly benefit award of 52 times the weekly amount.

The disability insurance program is primarily administered by mail and over the phone through 21 disability insurance field offices located throughout the State. Claimants mail their claims for disability insurance benefits to the appropriate field office. The first claim must be supported by a medical certificate that states the medical facts about the disability and the physician's opinion of the disability's probable duration. The claims examiners use information furnished on the first claim certificate to determine the claimant's eligibility for benefits.

Each of the 21 field offices maintains separate computers to process claims for disability and to make payments. As of January 1, 1986, state law requires the department to make payments for initial claims within 14 days of receipt of a properly completed claim.

SCOPE AND METHODOLOGY

The purpose of this audit was to evaluate the operations of the department's disability insurance program. We focused on the department's promptness in processing first claims for disability insurance payments and the department's adherence to policy and procedures for processing appeals, for collecting overpayments, and for

conducting performance evaluations of work done by program staff. In addition, we evaluated the department's compliance with statutory requirements that it report on its efforts to automate the field offices and central operations. The appendix presents the results of our review of the department's compliance with these requirements.

To evaluate the department's disability insurance program, we visited 6 of the 21 disability insurance field offices. We visited the offices in Oakland, Sacramento, San Bernardino, San Francisco, Santa Ana, and Santa Rosa. These offices handled 36.7 percent of the total disability insurance claims processed in fiscal year 1985-86. In each of these offices, we reviewed a random sample of claim files to assess the offices' promptness in paying first claims for disability insurance. Out of the 5,444 claims processed by the six offices during a one week period in April 1986, we reviewed 526 claims. In addition, we reviewed 144 of 944 cases in which claimants appealed the field offices' decisions regarding their disability insurance payments during fiscal year 1985-86. We also reviewed 270 of 3,034 cases in which the department overpaid the claimants. Furthermore, we reviewed performance evaluations of claims examiners' work. These evaluations were conducted by supervisors in the field offices. Finally, we interviewed field office managers and staff about the operations we reviewed.

To evaluate the department's compliance with statutory reporting requirements on its automation efforts, we reviewed reports issued by the department in 1984, 1985, and 1986. We also interviewed central office staff involved in preparing the automation reports.

CHAPTER I

THE EMPLOYMENT DEVELOPMENT DEPARTMENT NEEDS TO IMPROVE ITS DISABILITY INSURANCE PROGRAM

The Employment Development Department (department) did not identify instances when field offices could have expedited payments to claimants. In its report to the Legislature in June 1986, the department reported issuing payments to 83.7 percent of claimants within the statutory 14-day requirement and identified reasons explaining why some payments could not be made within that period. The department concluded that its ability to promptly pay claimants was limited when it needed information from outside sources, over which the department has little or no control. We found, however, that even though more information was needed in some cases, the department could have exercised more control in expediting payments to claimants. Because the department did not ensure that claims examiners followed existing procedures for issuing payments, the department contributed to longer delays than necessary in issuing payments.

The department also needs to improve its processing of appeals concerning claimant eligibility for disability insurance benefits. The field offices in our sample did not always promptly transmit appeals to an appeals office within the California Unemployment Insurance Appeals Board, nor did they always promptly issue payments to claimants following the appeals offices' decisions. As a result, some claimants suffered unnecessary financial hardship.

Furthermore, field office supervisors are not always evaluating the performance of claims examiners. Supervisors should conduct these evaluations to identify problem areas, to determine when claims examiners need training, and to help identify and correct payment errors. Finally, the field offices did not always follow departmental procedures requiring prompt action to recover overpayments. As a result, collection activities were delayed.

THE DEPARTMENT CAN IMPROVE ITS REVIEW OF FIELD OFFICES' INITIAL PAYMENTS

The State's disability insurance program compensates eligible claimants for wages lost because they are unable to perform their usual work due to illness or injury not related to their jobs. To collect disability insurance benefits, a person must submit a claim to a disability insurance field office within 41 days of the first compensable day of the disability. A claims examiner at the field office reviews the claim to ensure that the claimant meets all the eligibility requirements of the disability program. Information from the claim is entered into the field office's data base. An award request is transmitted via a telecommunications device to the Health and Welfare Data Center in Sacramento where wage information for all the State's employees is stored. Previously earned wages determine the amount of weekly benefits paid to the claimant. In addition to the wage information, the claims examiner may have to request additional information from the claimant, the claimant's employer, or the claimant's physician to establish the claimant's eligibility.

Section 2701.5 of the Unemployment Insurance Code, which became effective January 1, 1986, states that field office staff must issue initial payment to eligible claimants within 14 days following the date the first disability claim is received. The law also requires the department to submit a report to the Legislature by June 30, 1986, on its promptness in issuing first payments on disability claims.

Based on studies conducted by all 21 field offices during April 1986, the department, in its June 1986 report to the Legislature, reported that it issued initial disability insurance payments to 13,372 claimants. According to the department, field offices paid 11,192 (83.7 percent) claimants by the 14th day; the field offices took longer than 14 days to determine the eligibility of 2,176 (16.3 percent) claimants.*

Fifteen of the 21 field offices reported the reasons that the initial payment for 1,161 claims could not be made within 14 days. The department divided the reasons into six categories. For each of these categories, the department stated that claims examiners needed to obtain more information from outside sources to determine the claimant's eligibility for, or the proper amount of, disability insurance benefits. These six categories are the following:

*The sum of the subtotals reported by the department is less than the total number of claimants who were issued payments.

- Workers' compensation--The claims examiner must ensure that disability insurance benefits do not duplicate the benefits paid by the workers' compensation insurance provider.

- Wage/salary continuation (sick leave)--The claims examiner must verify with the employer the amount of compensation paid by the employer following the onset of the disability to ensure that the claimant does not receive more money per week than allowed by the Unemployment Insurance Code.

- Unemployment-disability overlap--The claims examiner must verify with an unemployment insurance field office the exact dates that the claimant collected unemployment benefits so that the claimant does not receive unemployment and disability benefits for the same period.

- Wage credit investigation--If the wage history form initially received from the Health and Welfare Data Center contains inaccuracies, the claims examiner must request an amended wage history form to calculate the correct amount of weekly benefits to pay the claimant.

- Labor market attachment--The claims examiner must ascertain whether the claimant had actually suffered a loss of wages by verifying that he or she either had worked for an employer or was actively seeking such employment at the time the disability began.

- Other--The claims examiner must solicit more information from outside sources for reasons other than those listed above.

The department concluded in its report that the "prompt adjudication and payment of those claims will still be limited by the need for information from outside sources over which the department has little or no control." Therefore, according to the department, "some claims will continue to take more than fourteen days to pay in order for the Department to insure accurate payment of claims." However, the department did not discuss how field offices could improve their performance in issuing payments within 14 days.

The Department Does Not Identify Unnecessary Payment Delays

To assess the department's performance in issuing disability insurance payments, we reviewed a total of 526 claims from six field offices. These claims represented approximately 10 percent of the claims reviewed for the six field offices in the department's April 1986 study. Field offices paid 384 (73 percent) of the 526 claims in our sample within 14 days of the date the claim was received.

We investigated the process used by the field offices to pay each of the remaining 142 claims. Management in the field offices could not explain the delayed payment for 9 of these claims. The remaining 133 claims fell into one of the six categories identified by the department in its report to the Legislature. (See page 8.) The

persons and agencies that provided information to claims examiners contributed to delaying payment of claims because they did not always respond promptly to requests for information. However, although the claims examiners had to obtain more information for the 133 claims, the department contributed to delays in issuing payments for 79 of those claims by failing to ensure that claims examiners followed existing procedures for acquiring the additional information.

The following examples illustrate some of the ways that the department's performance contributed to delays in paying disability insurance benefits. In one case, a claimant did not receive benefits for 35 days because the department waited for notification from the employer that the claimant had received sick leave pay. The department requires information from the employer on the amount of sick leave paid. If the information has not been received within 10 days of the request for it, the claims examiner should contact the employer. In this example, the claims examiner did not take any follow-up action to obtain the information. In another case, a claimant had to wait 22 days to receive benefits. Although the claimant provided the necessary information to show that his disability benefits would not duplicate his worker's compensation benefits, the claims examiner did not immediately pay the claimant. The field office manager could not explain this delay.

In another instance, a field office did not issue payment to a claimant for 34 days because the wage history form sent by the Health

and Welfare Data Center showed wages for the claimant's social security account number under three different names. One of the names was the same as the claimant's, but the other two were completely different. The department's procedures instruct claims examiners to attempt to contact the claimant by phone to confirm which wages belong to the claimant. If the claims examiner cannot make contact, the claims examiner should calculate a temporary benefit payment amount based on verifiable wages. In this case, the claims examiner wrote to the claimant asking for an explanation of the name differences but did not issue payment until the claimant came to the office 33 days after her claim was processed. During this visit, the claimant informed the claims examiner that only the wages reported under her name were actually hers. However, the wages reported under the claimant's name on the original wage history form qualified the claimant for benefits. The assistant manager of the field office where the payment occurred said the claims examiner could have issued payment to the claimant based on a temporary benefit amount when the claims examiner first received the wage history form.

Finally, a claimant waited 27 days to receive payment because a notice from the Health and Welfare Data Center informed the field office that the claimant had filed for unemployment insurance benefits before filing a disability insurance claim. In such cases, the department must then immediately request from the appropriate unemployment insurance field office the dates that it paid benefits. The department's procedures manual instructs the claims examiner to

telephone the unemployment insurance field office if the information is not received within seven days. In this instance, there was no evidence in the file to indicate that the claims examiner attempted to contact the unemployment insurance field office.

Delays in issuing benefit checks by the disability insurance field offices can cause serious financial difficulty for claimants. For example, one claimant in our sample waited 29 days for the field office to issue a payment after receiving her claim. She said that she was a cancer patient with little money and that the wait caused her hardship. Another claimant had to resort to drawing money from his savings account while waiting 21 days for the disability insurance program to begin issuing benefits. He stated that he did not know how he would have managed if he had not had money in his savings account.

Other Factors Contributing to Payment Delays

According to the department's July 1986 report on the automation of its disability insurance program, telephone calls from claimants impede claims examiners' efforts to pay claims. The department estimated that the 21 disability insurance field offices receive a total of approximately 2 million telephone calls per year.

As part of our review, we administered questionnaires to managers, supervisors, and claims examiners in five field offices. In these offices, 63 of the 75 employees responding to the questionnaire

stated that telephone calls from claimants interrupted them while they were processing claims. Thirty-five of 54 employees in four offices, indicated that they would like to try some system of responding to telephone calls that would allow individual claims examiners to work for long periods without interruption from telephone callers. The fifth office, San Bernardino, already uses such a system of handling telephone calls. In its system, some claims examiners answer telephone calls all day while the other examiners in the office only process claims. Sixteen of the 18 staff members interviewed in the San Bernardino field office reported that they liked the system. In addition, the office's determinations unit supervisor reported that the field office's backlog of claims had declined from 8,000 to 3,000 since implementing its new telephone system.

It appears, however, that the San Bernardino field office cannot answer all incoming telephone calls. A General Telephone Company study of incoming telephone calls at the San Bernardino field office from September 4 through September 10, 1986, revealed that for the hour with the highest number of telephone calls, only 66 of 12,626 incoming calls were answered by office personnel. The other calls received busy signals.

A second reason for late payments was the unreliable computer equipment used by the six field offices. All of the offices in our sample experienced computer breakdowns, and some of the breakdowns lasted for extended periods. For example, the Santa Ana and Oakland

field offices each suffered computer breakdowns that prohibited computer use for periods of three and four days, respectively. In addition, the breakdown in the Oakland field office destroyed all the data entered during the four days before the breakdown.

A department assessment of computer equipment in the field offices concluded that both equipment failure and operator error can destroy data in field office data bases. With the current equipment, data loss sometimes requires that data be manually re-entered to reconstruct the lost data. Furthermore, during the manual re-entry process for reconstructing lost data, no other production can be done. In addition, the risk of losing data requires extensive back-up procedures, which make the computer system unavailable for claims processing. Maintenance procedures, the need to take safety precautions when running certain jobs, and the inability of the system to run jobs simultaneously also reduce the amount of time that claims examiners can use the computer systems. The lack of access to the computer system reduces claims examiners' productivity.

THE DEPARTMENT CAN IMPROVE ITS PROCESS FOR HANDLING CLAIMANTS' APPEALS

Although department policy requires transmittal of appeals within seven working days, field offices did not transmit 15 (17.6 percent) of 85 appeals in our sample within the required time limit. The field offices took between 10 and 39 days to process these 15 appeals. In addition, not all of the field offices issued payments

immediately to claimants after they were ordered to do so by administrative law judges (judges). Field offices also did not promptly pay claims for 23 (39 percent) of 59 cases in which a judge ordered that the claimant be paid. The field offices took longer than seven days to issue payments for these 23 cases. According to the department, such payments should be made within 24 hours.

Section 2707.2 of the Unemployment Insurance Code states that claimants may appeal determinations of eligibility made by the department's disability insurance field offices. In addition, Section 2707.4 of the code states that claimants may appeal the dollar amount awarded, and Section 2737 of the code states that claimants may appeal a field office's determination that the department has overpaid them.

When a field office receives an appeal from a claimant, a claims examiner must review the appeal to decide whether to change the field office's original eligibility determination or to send the appeal to the department's appeals office to be heard before a judge. The department's procedures manual states that field offices should either redetermine the appeal or transmit the appeal to the appeals office within seven working days after the appeal is received. The judge can affirm, reverse, or modify the office's eligibility determination. The procedures manual further states that if the judge's decision reverses the field office's original eligibility determination and the decision requires the field office to issue a payment to the claimant, the field

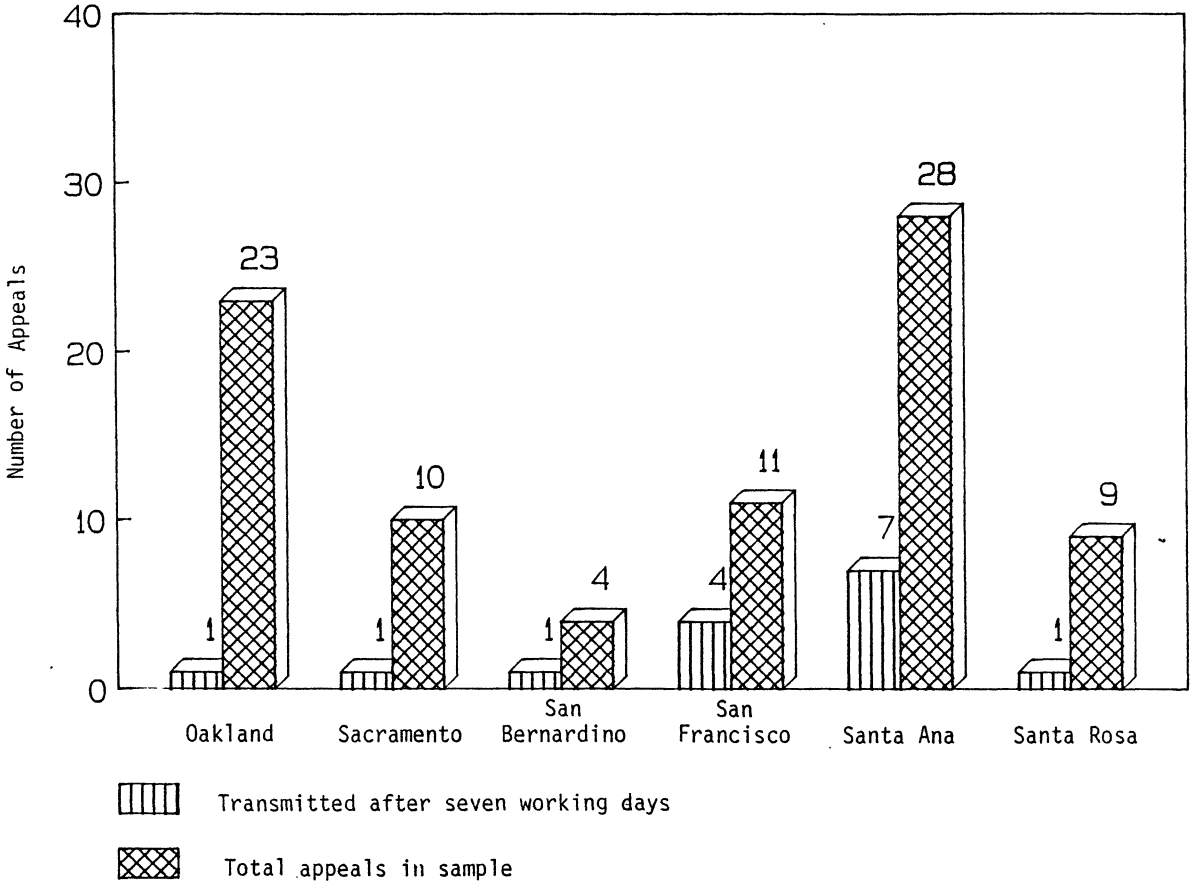
office must issue payment to the claimant immediately if the claimant is the only interested party.

The Department Does Not Always Promptly Transmit Appeals to the Appeals Office

To determine whether the field offices transmit appeals to the appeals office within seven working days, we reviewed a sample of 85 of 944 appeals processed by the six field offices during fiscal year 1985-86. The field offices did not transmit 15 (17.6 percent) of the 85 appeals to the appeals office within seven working days. Figure 1 shows that 11 of the 15 appeals that the field offices did not transmit in seven working days occurred in two field offices: seven in Santa Ana and four in San Francisco. The delays for transmitting appeals ranged from 10 days to 39 days.

FIGURE 1

APPEALS TRANSMITTED BY SIX FIELD OFFICES AFTER SEVEN WORKING DAYS DURING FISCAL YEAR 1985-86



The assistant manager of the Santa Ana field office told us that staff sometimes delayed processing appeals until the field office finished investigating the appeal. However, the department's procedures manual states that field offices must transmit appeals within seven working days after the appeal is received regardless of whether or not the investigation is complete. If further investigation of the appeal shows that the field office should change its determination, the field office can later withdraw the appeal.

The lack of prompt transmittal in the San Francisco field office resulted from the lack of effective controls for tracking appeals through the office. The office's former assistant manager stated that when he assigned the investigation of an appeal to a claims examiner, he wrote on his calendar the date the appeal was due to be transmitted to the appeals office. However, he stated that he lost track of some of these appeals. For example, he stated that one appeal was not transmitted for 38 days because the claims examiner did not follow the assistant manager's instructions.

At the other four field offices, we reviewed 46 appeals; these offices transmitted 42 of 46 appeals within seven working days and could explain why 3 of the other 4 appeals were delayed. These four field offices used a control mechanism to ensure that appeals were processed promptly. For example, at the San Bernardino, Santa Rosa, and Oakland field offices, supervisors maintained an appeals log, which identified the appeals received by the office and either the date on which each appeal was received or the date on which the office had to transmit the appeal. That information provides supervisors with a method for easily identifying late appeal transmittals and for following up with individual claims examiners. At the Sacramento field office, either the office manager or the manager's designee had to initial all appeal transmittals before the mail clerk could post them. These two control methods held claims examiners accountable for the prompt processing of appeals assigned to them for investigation. Moreover, the control methods allowed management to be aware of the status of each appeal.

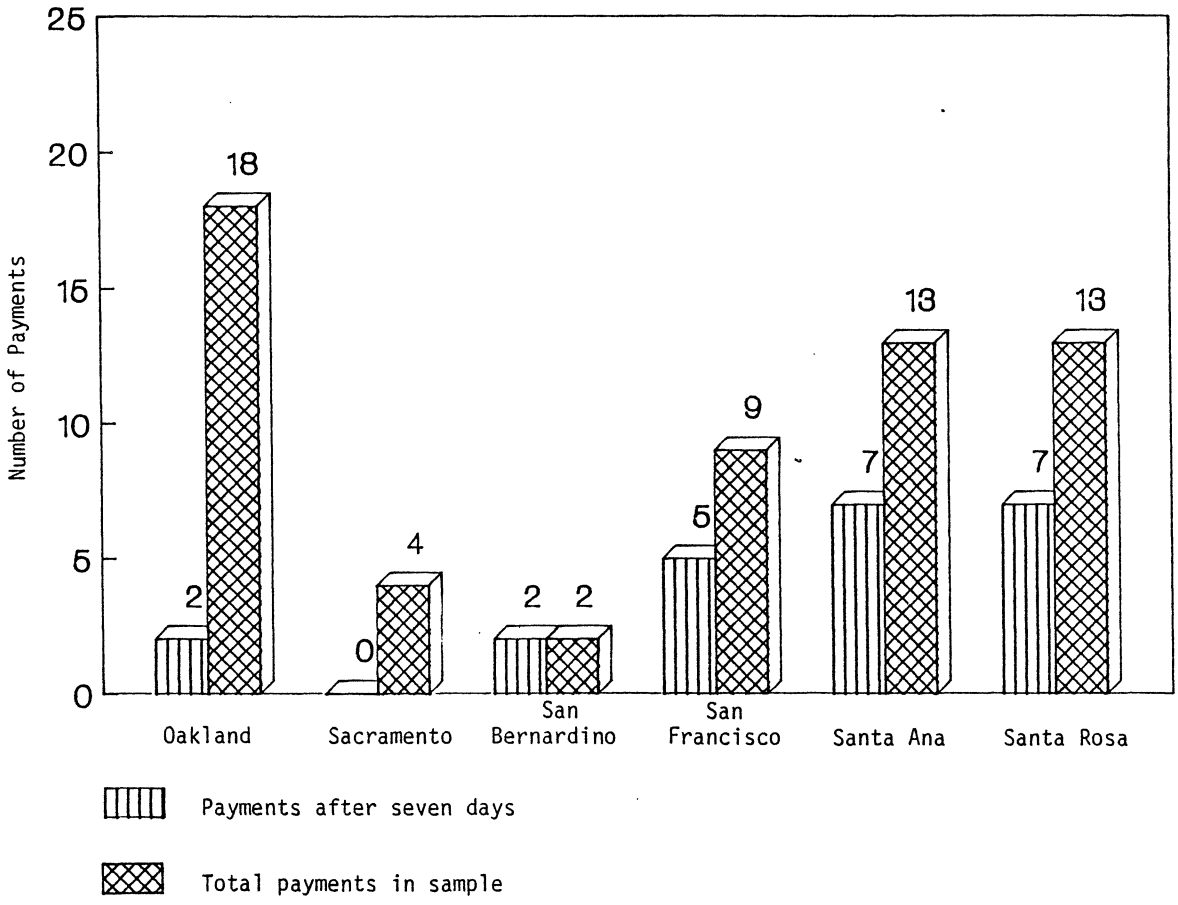
The Department Does Not Always Issue Immediate Payments Following Administrative Law Judge Decisions

At the six field offices, we reviewed 59 appeals from fiscal year 1985-86. In these appeals, the judge's decision required a field office to resume or initiate payment to a claimant. Five of the field offices did not issue 23 of 55 payments within seven days of the date the appeals board mailed the judge's decision to the field office.* The sixth field office made prompt payments for all four of its appeals in our sample. Figure 2 shows the performance of six field offices in issuing payments within seven days following receipt of the judges' decisions.

*The procedures manual requires field offices to issue payments immediately following judges' decisions. For our review, we used seven days as criteria for the requirement that field offices make payment immediately. We used a lenient criteria because most field offices did not stamp the date of receipt on the decisions, and we could not accurately determine when the decision was received. The deputy division chief of the disability insurance program stated that the department interprets "immediately" to mean "within 24 hours of receipt of the decision."

FIGURE 2

PAYMENTS ISSUED BY SIX FIELD OFFICES MORE THAN SEVEN DAYS AFTER THE ADMINISTRATIVE LAW JUDGE'S DECISION DURING FISCAL YEAR 1985-86



Supervisors in both the Sacramento and Oakland field offices followed procedures requiring supervisors to take responsibility for instructing claims examiners to pay claimants immediately. As a result, these field offices paid only 2 of 22 decisions late. The San Bernardino, San Francisco, Santa Ana, and the Santa Rosa field offices, however, did not follow procedures to ensure prompt payments. As a result, these field offices paid 21 of 37 decisions late. The delays in payments ranged from 8 to 32 days.

The appeals process contains many separate steps. As delays occur at each stage of the process, eligible claimants may wait unnecessarily to receive benefits. For example, the Santa Ana field office paid one claimant 21 days after the judge's decision to award the claimant $1,568 in benefits. In addition, the San Francisco field office paid one claimant 27 days following the judge's decision to award the claimant benefits of $3,828.

THE DEPARTMENT IS NOT ALWAYS CONDUCTING EVALUATIONS OF CLAIMS EXAMINERS

The disability insurance office manager's manual states that supervisors in the field offices should conduct Field Office Basic Evaluation Systems (evaluations) every month. The purpose of the evaluations is to review the performance of claims examiners and to detect "error patterns and problem areas." If the evaluations show that a claims examiner's work is of high quality, the field office manager can waive further evaluations for that claims examiner for the remaining two months of the quarter. However, the evaluations should be conducted for all claims examiners at least the first month of every quarter.

We reviewed the evaluations of claims examiners performed in the six field offices from January 1986 through June 1986. Three of the six field offices did not follow the department's procedures for conducting the evaluations. The Oakland field office did not conduct any evaluations on a monthly basis during that period. Furthermore,

the Oakland field office has not conducted any evaluations since August 1985. Supervisors at the Oakland field office did not conduct the evaluations because the field office's manager issued a memorandum instructing the supervisors to postpone the evaluations until the department's procedures for conducting the evaluations were updated to include provisions for the computerized processing of claims. According to the department's deputy division chief, this directive was not appropriate. In addition, supervisors at the Santa Ana field office did not evaluate the performance of claims examiners during the month of April 1986. The determinations unit supervisor at the Santa Ana field office stated that the supervisors did not conduct the evaluations because the workload for processing disability insurance claims was too large and because the supervisors did not have enough time to conduct the evaluations.

Even though the San Francisco, Santa Ana, and Santa Rosa field offices had conducted some evaluations, these offices did not review all the claims examiners each month. For example, from January 1986 through June 1986, the Santa Ana field office employed an average of 20 claims examiners. Over this six-month period, the field office supervisors should have conducted 120 evaluations. However, the supervisors in the Santa Ana field office conducted only 76 evaluations. Furthermore, during the same period, the San Francisco field office employed 16 claims examiners who would require 96 evaluations over a six-month period. The supervisors in this office conducted only 29 evaluations.

The manager at the San Francisco field office and the determinations unit supervisor at the Santa Ana field office stated that the supervisors did not conduct the evaluations for all the claims examiners because the workload for processing claims was too large and the supervisors did not have time to conduct the evaluations. In addition, they stated that the evaluations were not conducted because of supervisor turnover and employee sick leave. The Santa Rosa field office did not conduct monthly evaluations for all the claims examiners because the field office manager waived the requirement for those claims examiners who had low error rates during the first month of the quarter. These waivers were appropriate because the office manager's manual states that managers can waive evaluations for claims examiners whose work is of high quality.

Finally, in addition to not evaluating each claims examiner, the Santa Ana field office did not review the correct number of claims for each claims examiner. The office manager's manual requires supervisors to review 5 percent of the active claims for each claims examiner. To determine the number of claims to review for each claims examiner, the supervisor should determine the average number of claims processed by the field office each month. Then, the supervisor should compute 5 percent of the average number of claims processed and divide the result by the number of examiners. For example, if a field office has 4,000 claims and 20 examiners, the supervisors would be required to review a total of 200 claims, which equals ten claims per claims examiner.

From January 1986 through June 1986, the supervisors in the Santa Ana field office reviewed 820 claims when they should have reviewed 1,064 claims. The manager of the field office stated that the supervisors did not review the correct number of claims for each claims examiner because the district administrator for the field offices in southern California issued a waiver to the Santa Ana field office excusing it from conducting the evaluations from January through August 1986. However, the assistant district administrator for the field offices in southern California could not provide the waiver for the Santa Ana field office for this period.

By not always conducting evaluations of the performance of claims examiners, supervisors may not identify problem areas, and claims examiners may not receive needed training. Furthermore, payment errors may go undetected. Two cases in our sample illustrate the effectiveness of the evaluation system. In one case, a supervisor evaluating a claims examiner's files determined that a claimant's benefits had been incorrectly delayed for five weeks because the form certifying that the claimant was disabled was not in the file. Upon reviewing the file, the supervisor found the physician's certification and instructed the claims examiner to resume issuing payments to the claimant. The total amount of benefits that the claimant had been denied over the five-week period was $512. In another instance, by conducting the required evaluations a supervisor identified an overpayment of $728. Moreover, if the evaluation had not been conducted, the claimant would have continued to receive benefits, and

the overpayment would have been even larger. In these instances, appropriate monitoring was essential in detecting payment errors. As shown in these examples, appropriate evaluations of the claims examiners' performance decrease the number of payment errors, thereby improving the overall performance of claims examiners.

THE DEPARTMENT IS SLOW IN RECOVERING SOME OVERPAYMENTS

Section 2735 of the Unemployment Insurance Code states that a person who is overpaid any amount in benefits is liable for the amount overpaid unless (1) the overpayment was not due to fraud, misrepresentation, or a willful nondisclosure by the recipient and (2) the overpayment was received without fault of the recipient and its recovery would be against equity and good conscience. According to the disability office procedures manual, unless the claimant has already reimbursed the disability insurance fund, the field offices should begin efforts to collect overpayments after notifying the claimant of the overpayment. The field offices should begin actions to recover an overpayment within 30 days of the date the field office mailed the notice of overpayment to the claimant.

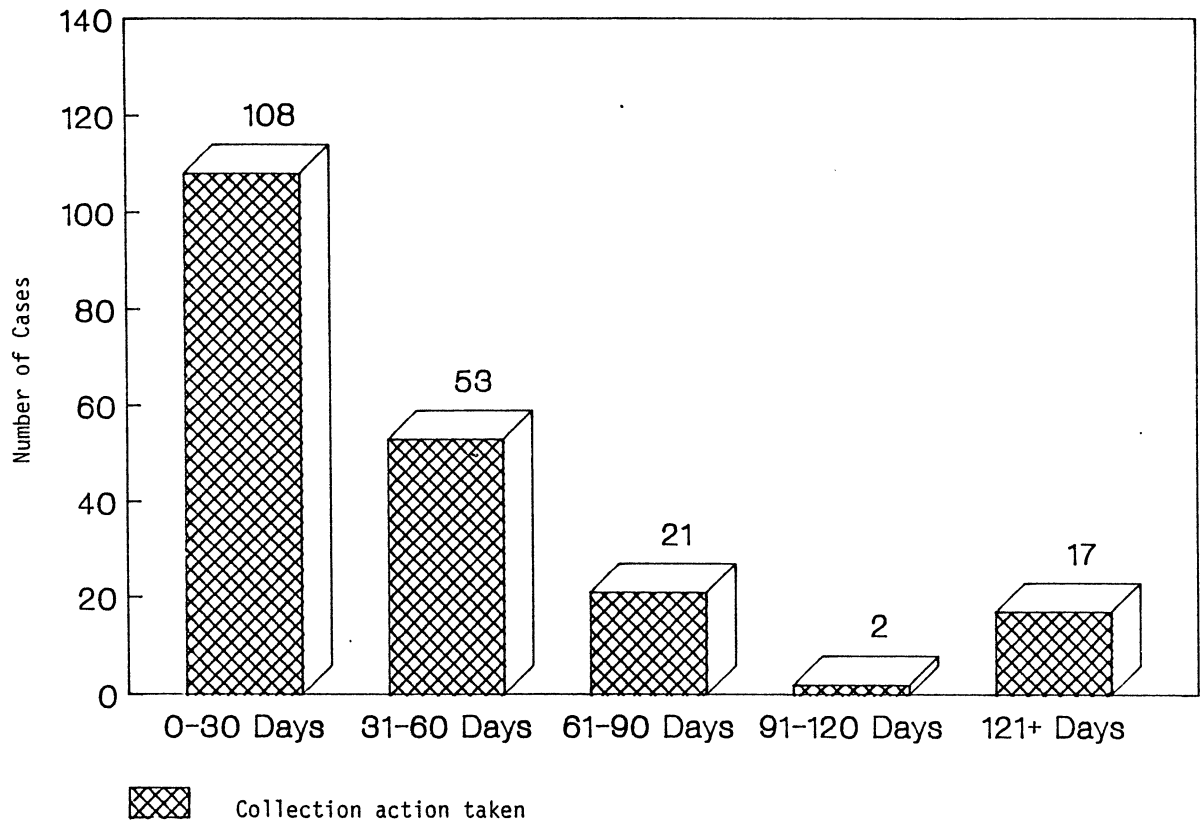
None of the six field offices in our sample are completely following departmental procedures to recover overpayments. We reviewed 270 overpayment cases totaling over $164,000 in six field offices. In 69 of these cases, claimants sent in a payment after receiving the notice of overpayment. The field offices received 11 (16 percent) of

the 69 payments more than 30 days after the field office had mailed the notice of overpayment. Although the field offices should have followed up on these 11 cases, the field offices did not take any action to recover overpayments before receiving payments. For example, the San Francisco field office had not taken any action to collect an overpayment before receiving a payment 56 days after the field office sent the notice of overpayment. Also, the San Bernardino field office had not taken any action to collect an overpayment before receiving a payment 50 days after mailing the notice of overpayment to the claimant. According to the disability office procedures manual, these field offices should have taken action to collect the overpayments 30 days after sending the first collection notice.

For the remaining 201 cases, in which the claimants had not sent in payments after receiving the notice of overpayment, the field offices had to initiate follow-up actions to collect overpayments. For these cases, the field offices should have initiated follow-up action within 30 days of mailing the notice of overpayment. Figure 3 shows that of the 201 cases requiring action to collect overpayments, the field offices did not initiate action to collect overpayments in 93 (46 percent) of the cases within 30 days following the date the field offices mailed the notices of overpayment. These 93 cases represent $49,190 of overpayments that had not been collected. Furthermore, the field offices took more than 120 days to initiate action to collect overpayments in 17 of the 93 cases. One field office did not initiate action to collect overpayments in 16 of the 17 cases.

FIGURE 3

NUMBER OF DAYS FIELD OFFICES TOOK
TO INITIATE ACTION TO COLLECT OVERPAYMENTS
AS OF MARCH 1986



In each of the six field offices we reviewed, we found there were between 250 and 900 overpayment cases each. The overpayment supervisors in the six field offices stated that they could not comply with the department's procedures for collecting overpayments because of a backlog of cases and the lack of available staff to handle the overpayment workload.

When the department takes action to collect overpayments, some claimants send in their payments. For example, after sending out the 201 collection notices, the department received payments from 23 percent of the claimants. By not initiating action to collect overpayments within 30 days, the department delays possible collection of overpayments.

Corrective Action

To improve the operations of the disability insurance program, the department is taking corrective action. First, according to the deputy division chief, on July 1, 1986, the department revoked all waivers allowing field office supervisors to discontinue evaluations of claims examiners' performance. As a result, supervisors in all the field offices are now required to review 5 percent of all the claims processed by each claims examiner once every month.

The department has prepared a feasibility study report which addresses the automation requirements and telecommunications needs of the disability insurance program. The report describes the current disability insurance systems, identifies problems, and recommends alternative solutions. According to the deputy division chief of the disability insurance division, as of October 1, 1986, this report had not been approved by the Department of Finance or the governor.

CHAPTER II

CONCLUSION AND RECOMMENDATIONS

The Employment Development Department does not identify the means its field offices should use to expedite disability insurance payments to claimants. In 79 of 526 claims, the department could have expedited the payment of benefits to claimants. Furthermore, the field offices do not promptly transmit claimant appeals to the appeals office, nor do they promptly issue payments to claimants following administrative law judges' decisions. As a result, benefit payments are delayed, and claimants may suffer financial hardship.

In addition, supervisors in the field offices do not always evaluate the performance of claims examiners. Because the field office supervisors do not complete these evaluations, additional training for claims examiners may not be identified and payment errors may go undetected. Finally, the field offices are not following departmental procedures for recovering overpayments. As a result, collection efforts are delayed resulting in delays in collecting disability insurance overpayments.

RECOMMENDATIONS

To improve paying benefits, the Employment Development Department should do the following:

- Improve its review of initial disability insurance payments by identifying when the field offices could expedite payments to claimants;

- Develop a telephone answering system that will enable claims examiners to process claims without constant interruptions from claimants' phone calls; and

- After proper approval by the Department of Finance and the governor, expedite the implementation of the solutions recommended by the Employment Development Department's July 31, 1986, Feasibility Study Report for Disability Insurance Phase II Automation.

To improve the processing of appeals, the Employment Development Department should do the following:

- Develop control procedures to ensure that the field offices can trace the progress of all the appeals filed by claimants;

- Ensure that the field offices follow established procedures for processing appeals; and

- Ensure that field offices follow procedures to issue immediate payments to claimants following administrative law judges' decisions.

To improve the performance of the claims examiners in the field offices, the Employment Development Department should do the following:

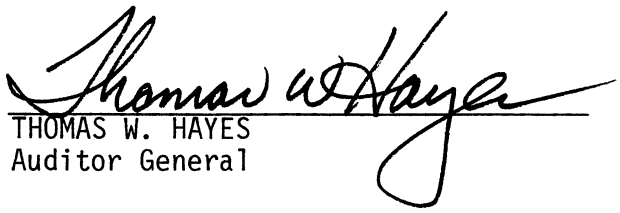
- Ensure that the supervisors in the field offices evaluate the performance of all the claims examiners every month; and

- Ensure that supervisors evaluate at least 5 percent of each claims examiner's claims.

To improve the recoveries of overpayments by the field offices, the Employment Development Department should ensure that the field offices follow departmental procedures in recovering overpayments.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Date: December 8, 1986

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THE EMPLOYMENT DEVELOPMENT DEPARTMENT'S COMPLIANCE WITH PROVISIONS OF THE UNEMPLOYMENT INSURANCE CODE

In 1983, the Legislature found that automating the field offices and central operations of the Employment Development Department (department) would provide a benefit to the citizens of California by improving services and reducing costs. As a result, the Legislature added Sections 330, 331, 333, and 334 to the Unemployment Insurance Code to require the comprehensive automation of the department.* The legislation also required the department to prepare an annual report on the automation of the department's programs. These programs include Job Service Order Sharing, Unemployment Insurance, Disability Insurance, Internet, Tax Accounting System, Employment Tax District Offices, Benefit Overpayment Control and Job Training Partnership Act. In its 1984 and 1985 reports, the department included plans for telecommunications improvements as part of its discussion of program improvement. Additionally, the Legislature required the Auditor General to report on the department's progress in implementing the amendments to the Unemployment Insurance Code.

The department is required to submit a copy of the annual reports to the Department of Finance's Office of Information Technology (office) for its review and comment. The office has reviewed the reports and has commented on them according to the guidelines required by the law. The office concluded that the department has generally complied with statutory requirements but found some of the reports deficient in some areas. For example, the office stated that the 1984 and 1985 reports do not fully describe benefits to be realized from the automation projects and do not quantify service improvements.

Our review of the department's annual reports disclosed that the department has complied with Chapter 1226, Statutes of 1983. However, we found that the reports do not fully describe the benefits of automation or the use of personnel and cost savings resulting from automation. Table 1 on page 35 shows whether the department fully met the requirement of the law for the programs to which it applied.

*Effective September 15, 1986, Sections 330 and 331 were repealed by Chapter 799, Statutes of 1986.

In addition, as part of the legislation requiring the automation of the department, the Legislature required the department to place a high priority on the automation of its benefit payment control program. The original implementation schedule in the 1984 report shows that the project should have been started on October 1, 1984, and completed on October 15, 1985. According to the chief of the department's benefit charges section, the project has been delayed due to the department's rejection of the original bid to automate the programs. The chief stated that only one contractor bid on the original Request for Proposal (RFP) with a total projected cost of $10 million. Since the original RFP budget for automating the benefit payment control program was only $2.2 million, the RFP was cancelled in February 1985. A decision was made to apply the $2.2 million to automating the central office accounting operation, and a new RFP was prepared in August 1985. The chief stated that a new contract was awarded in November 1985, and work was started on the project on January 6, 1986.

According to the chief of the department's benefit charges section, as of September 2, 1986, there was no implementation date for the benefit overpayment project. However, the completion of a pilot program for automating a payment authorization center for the disability insurance program is tentatively scheduled for April 1987 and for the unemployment insurance program, in July 1987. The chief indicated that a tentative date for completion of the entire project is January 1988.

TABLE 1

THE EMPLOYMENT DEVELOPMENT DEPARTMENT'S COMPLIANCE WITH PROVISIONS OF THE UNEMPLOYMENT INSURANCE CODE

Statutory Report Requirements	1984 Report*	1985 Report*	1986 Report*
A. Identify all operations to benefit from automation:			
1. Estimate one-time and ongoing costs.	These costs were identified for all eight programs which applied.	These costs were identified for all seven programs which applied.	These costs were identified for only four of the six programs that applied. Costs were not stated separately for some operations.
2. Project benefits, including improvements in services, reduction in personnel and operating costs, and continued or ceased use of data processing systems.	This requirement was fully met for one of the eight programs to which it applied. It was partly met for seven programs. Benefits were generally described, but more quantification of cost savings was needed.	This requirement was only partly met for the seven programs to which it applied. Benefits were generally described, but more quantification of benefits, personnel reductions, and cost savings were needed.	Benefits were fully described and quantified for only one of the seven programs that applied. Benefits were partially described for the other six. More quantification of future cost savings was needed and all benefits should have been listed separately for each program.
3. Identify how personnel and cost savings will be used.	This requirement was fully met for only one of the eight programs to which it applied.	This requirement was not addressed for six out of the seven programs to which it applied. It was only partly addressed for one program.	Utilization of cost savings was fully described for only one of the six programs that applied. For the other five programs, savings were more fully identified, but no description of how they will be used was included.
B. Establish a three-year plan for all operations mentioned in (A).	The report provides a five-year plan for automation.	The report provides a three-year plan for automation.	The report provides a three-year plan for automation.
1. Determine priorities for automation with specific attention to unemployment and employment services in field offices.	Priorities and requirements for automation were fully discussed for all nine programs.	Priorities and requirements for automation were determined for all eight programs that applied.	Priorities for automation were fully described for all seven programs that applied.
2. Establish time lines for automation.	Implementation schedules were provided for all eight programs that applied.	Implementation schedules were provided for all six programs that applied.	Implementation schedules were provided for all six programs that applied.
3. Identify existing funds or funds needed for automation.	Sources of funds were identified for all nine programs.	Sources of funds were identified for all six programs that applied.	Sources of funds were identified for all six programs that applied.
C. Identify opportunities to coordinate with other state entities, including the Health and Welfare Data Center, in the use of automated data processing and telecommunications technology.	This requirement was partially met for all nine programs. More discussion of telecommunication possibilities by program was needed.	Telecommunication and coordination possibilities were fully discussed for six out of eight programs. This issue was partly discussed for two of the eight programs that applied.	Telecommunication and coordination were fully discussed for all programs either in this report or in the 1984 and 1985 reports.

*In 1984 and 1985, the EDD identified eight programs which would benefit from automation. The department has also addressed the implementation of new telecommunication operations for a total of nine programs.

EMPLOYMENT DEVELOPMENT DEPARTMENT (916) 445-9212
P.O. Box 942880, Sacramento, CA 94280-0001

.December 2, 1986

REFER TO:
78:51:nf

Mr. Thomas W. Hayes, Auditor General
Office of the Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Mr. Stockdale has asked me to respond to your report entitled, "The Employment Development Department Needs To Improve Its Disability Insurance Program". Our comments are organized by Principal Recommendations as stated in the draft report.

- The Employment Development Department (EDD) can improve its review of initial disability insurance payment by identifying when the field offices could expedite payments to claimants.

  We agree with the Audit report that strict adherence to published procedures for follow up actions and information requests would reduce those delays caused by claims examiners' non-compliance with existing procedures. The Department will require field offices to develop a corrective action plan that ensures individual follow-up will be made on claims that were not paid on a timely basis. In addition, managers and supervisors will be instructed to routinely review suspense files to ensure timely actions are taken on claims. District Administrators will include the review of corrective actions during their official reviews of field offices. Subsequent to the implementation of Phase II of the Automation Plan, offices will receive monthly data reports on the timeliness of payments to ensure the Department will improve its performance in issuing payments within 14 days.

- The EDD can improve the processing of appeals, by developing procedures to ensure that field offices issue immediate payments to claimants following administrative law judges decisions.

  The Department has developed and implemented control procedures for this objective which have been discussed with the staff from the Office of the Auditor General. They have agreed to change their recommendation from

"develop procedures to ensure that field offices issue immediate payments to claimants following administrative law judges' decision" to "ensure that field offices adhere to the Department's procedure on the immediate issuance of payments to claimants following administrative law judges' decisions".*

To ensure that field offices follow these established procedures, the Department will revise its Field Office Appeals Register to provide for a visual tracking of the appeal process and require District Administrators' review and reporting during their official reviews of field offices.

- o The EDD is to ensure that field offices adhere to the Department's procedure on recovering overpayments.

  The Department will emphasize to the field offices the necessity of taking prompt overpayment collection action. Field offices will be required to complete weekly backlog reports. District Administrators will be required to follow-up with field offices and report monthly on timeliness of overpayment collection actions.

The Department is taking several corrective actions in response to three recommendations proposed in the draft audit report which are:

- o "Develop a telephone answering system that will enable claims examiners to process claims without constant interruptions from claimant phone calls".

- o "After proper approval by the Department of Finance and the Governor, expedite the implementation of the solutions recommended by the Employment Development Department's July 31, 1986 Feasibility Study Report for Disability Insurance Phase II Automation".

- o "Ensure that the supervisors in the field offices evaluate the performance of all the claims examiners every month. In addition, the Department should ensure that the supervisors evaluate at least 5% of each claims examiner's claims".

The Department's corrective actions for these items are stated in the draft audit report. As these actions were accepted by the staff of the Office of the Auditor General, we believe these plans meet the recommendations to improve the operations of the disability insurance program.

We noted minor discrepancies which need correction in the Appendix section of the report. These are referenced by page, paragraph and line as follows:

Page 33, fourth paragraph, seventh line:

"benefit changes section" should be changed to "benefit charges section".*

Auditor General's Comment:

*Text changed.

Page 34, first paragraph, seventh line:

"central office operation" should be changed to "central office accounting operation". *

Page 34, first paragraph, fourth, fifth and sixth lines:

"Since the department's budget for automating the benefit payment control program was only $2.2 million, the RFP was cancelled in February 1985". This should be changed to, "Since the original RFP budget for automating the benefit payment control program was only $2.2 million, the RFP was cancelled in February 1985". *

Thank you for the opportunity to respond to this audit report. If we can provide additional information or assistance, please contact Stan Quon, Chief, Audit Division, at (916) 322-6106.

Sincerely,

K.R. KIDDOO
Director

Auditor General's Comment:

*Text changed.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps