



**Testimony of Secretary Julia K. Hearthway
Pennsylvania Department of Labor & Industry
before the Ways and Means Subcommittee on Human Resources
United States House of Representatives**

regarding Unemployment Compensation Integrity Efforts

**Washington, D.C.
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Chairman Reichert, Ranking Member Doggett and members of the Subcommittee, thank you for the opportunity to testify at this hearing regarding unemployment compensation (UC) integrity.

The Corbett administration strongly believes that taxpayer dollars must be managed with the utmost integrity and that appropriate safeguards be in place so that benefits go to individuals who are eligible and in need. In regards to UC, we all agree that individuals who lose their job through no fault of their own should be provided with a safety net to bridge the gap between losing that job and finding gainful employment. However, when I talk to business owners or the public, the frustration-level is quite high when cases arise where individuals fraudulently collect benefits to which they are not entitled. This drains money from the system that is very hard to recover and hurts those who are lawfully eligible for benefits. Further, when the public constantly hears of misuse and mismanagement of tax dollars at all levels of government, they become disheartened, cynical and ultimately disengaged.

To combat the loss of confidence in the integrity of government programs, it is incumbent upon stewards of taxpayer dollars, myself included, to ensure safeguards are in place. We cannot afford to leave the “barn door wide open.” All too often, government programs are rushed without appropriate or effective checks and balances. This creates a system that is ripe for waste, fraud and abuse.

Office of Integrity. I appreciate that the theme of this hearing involves “integrity” of government programs. My background as a prosecutor in the Pennsylvania Attorney General’s Office supervising insurance fraud investigations has equipped me to recognize when an entity lacks appropriate checks. When I became Secretary of the Department of Labor & Industry (L&I), one of my first acts was to establish an Office of Integrity to combat waste, fraud and abuse. I hired a career law enforcement official with a record of accomplishment to head up that office. Up until the creation of this office, L&I had no office or staff member accountable for the

integrity and accountability of the programs we administer. I am proud to say that over the past two years, the Office of Integrity has put in place nationally-recognized programs to ensure that services and benefits get to the right people. It is estimated that their efforts have saved taxpayers well more than \$100 million dollars annually.

Pennsylvania Justice Network (JNET). One example of how the Office of Integrity is using technology, at minimal cost, to weed out fraud is through a cross-match system aimed to identify and stop receipt of UC benefits by individuals incarcerated in state and county prisons. The system, known as JNET, operates in real-time to stop payments when UC claimants are incarcerated. When a new inmate enters a county prison that participates in JNET, the individual's information is automatically compared against the UC rolls maintained by L&I. After L&I receives and verifies the report, the individual is immediately removed from active UC benefit status, saving the UC Trust Fund and the commonwealth's businesses and employees millions of dollars.

Currently, the Office of Integrity administers the program in cooperation with the Pennsylvania Office of Administration (OA), which is home to JNET. The system became fully functional statewide January 2013. For the first quarter of 2013, incarceration stops were placed on just over 4,000 claims. Because the JNET program is largely a preventive strategy, aimed at stopping the fraud before the funds go out, it is difficult to measure the exact savings incurred. However, L&I's Center for Workforce Information Analysis was able to use the average duration of a UC claim and the average weekly benefit amount to calculate an average savings for every 1,000 claims stopped. Using the first quarter 2013 figures, the annual savings can be estimated at \$104 million.

Foreign IP Address Blocking. To collect on a UC claim in Pennsylvania, a claimant must be "able and available" for work for the week of the claim. The likelihood of a claimant filing a legitimate claim from an unauthorized internet provider, foreign IP address, or a foreign area code, is remote. In November 2011 the Office of Integrity enlisted the assistance of the state of New York, where an established foreign IP blocking program is in place, to run a sample of Pennsylvania UC claims through their software to gauge the extent of Pennsylvania's problem. The results revealed approximately 1,000 hits for foreign IP internet claims from 115 different countries over a 30-day period. We felt that the problem was significant enough to support an investment in software to identify claims coming from foreign internet connections. A pilot program began in March 2012 with several adjustments being made until it became fully functional on October 18, 2012. From January 1 to June 30, 2013, 3,975 foreign IP addresses have been blocked, producing an estimated annual savings of approximately \$9.2 million to the UC Trust Fund.

UC Solvency. As you look at integrity in government programs in general, I would also encourage you to consider the solvency of programs to ensure they are fiscally sound. When I took office in June 2011, I was immediately tasked with fixing a UC system that was structurally insolvent and, at one point, close to \$4 billion in debt to the federal government. Re-payment of this debt was solely on the backs of business. Furthermore, UC taxes are per employee, the more employees an employer hired the more taxes the employer would have paid. Governor Corbett was extremely concerned about the impact this onerous tax would have had on employment in Pennsylvania.

Adding to the challenges, the recession depleted all of Pennsylvania's UC reserves. The amount of unemployment benefits paid exceeded the amount of taxes collected. In 2011, the amount of regular unemployment benefits paid totaled \$3.028 billion while the amount of taxes collected totaled only \$2.686 billion.

For nearly a year and a half, L&I worked tirelessly with lawmakers and stakeholders to create a bi-partisan legislative package that re-financed the debt to the federal government, did not increase costs to job creators or employees, fixed the structural imbalance of revenue and benefits, mitigated the impact to future UC claimants, and brought fairness to the whole system. The enactment of this legislation (Act 6 of 2011 and Act 60 of 2012) provided for the development and implementation of innovative solutions to solidify the UC Trust Fund for individuals in need. Those legislative provisions have brought about an estimated savings to the UC Trust Fund of over \$385 million annually and an estimated savings to business of over \$350 million through interest and restoration of the FUTA credit for 2012.

Treasury Offset Program (TOP). Part of the solvency package was language to codify TOP, a partnership between the United States Department of Treasury and L&I to reclaim millions of dollars in UC benefits collected by means of fraud. TOP allows Pennsylvania to intercept the federal income tax refunds of individuals who collected benefits to which they were not entitled. In an effort to build awareness, L&I notified claimants whose federal income tax refund could be affected. Nearly 9,400 individuals were notified, representing fraudulent UC overpayments totaling \$50.8 million. From implementation in 2012 to August 28, 2013, over \$26 million has been recovered.

UC Amnesty. The legislative package also allowed L&I to implement a three-month UC amnesty program, which we believe is the first of its kind nationally. The program goals work much like popular tax amnesty programs. Over the course of forty-plus years, L&I accumulated a massive number of cases of fraud overpayment from individuals and non-payment of taxes from employers with little to no enforcement mechanisms to collect the money due. More than 130,000 individual claimants and nearly 50,000 employers owed money to the state. As the Office of Integrity was looking at ways to recoup these lost dollars through enhanced enforcement efforts, we felt it was appropriate to put in place an amnesty period to allow

employers with tax liabilities and individuals with overpayments an opportunity to repay what they owed at a discount.

The amnesty program began June 1 and concluded on August 31. Now that the deadline has expired, claimants and employers who have not paid their obligation will incur additional financial penalties and could face possible legal action including lien filings and criminal prosecution. At this time, L&I has no intentions to extend or repeat the program.

As you can see, Pennsylvania is working aggressively to ensure taxpayer dollars are spent wisely and properly. Part of my job as secretary is to ensure that recipients of government services are provided with the best possible customer service, receive the benefits they deserve in a timely manner, and have a positive experience. We will continue to strive toward that goal.

Mr. Chairman, this concludes my testimony. Again, thank you for the opportunity to testify.