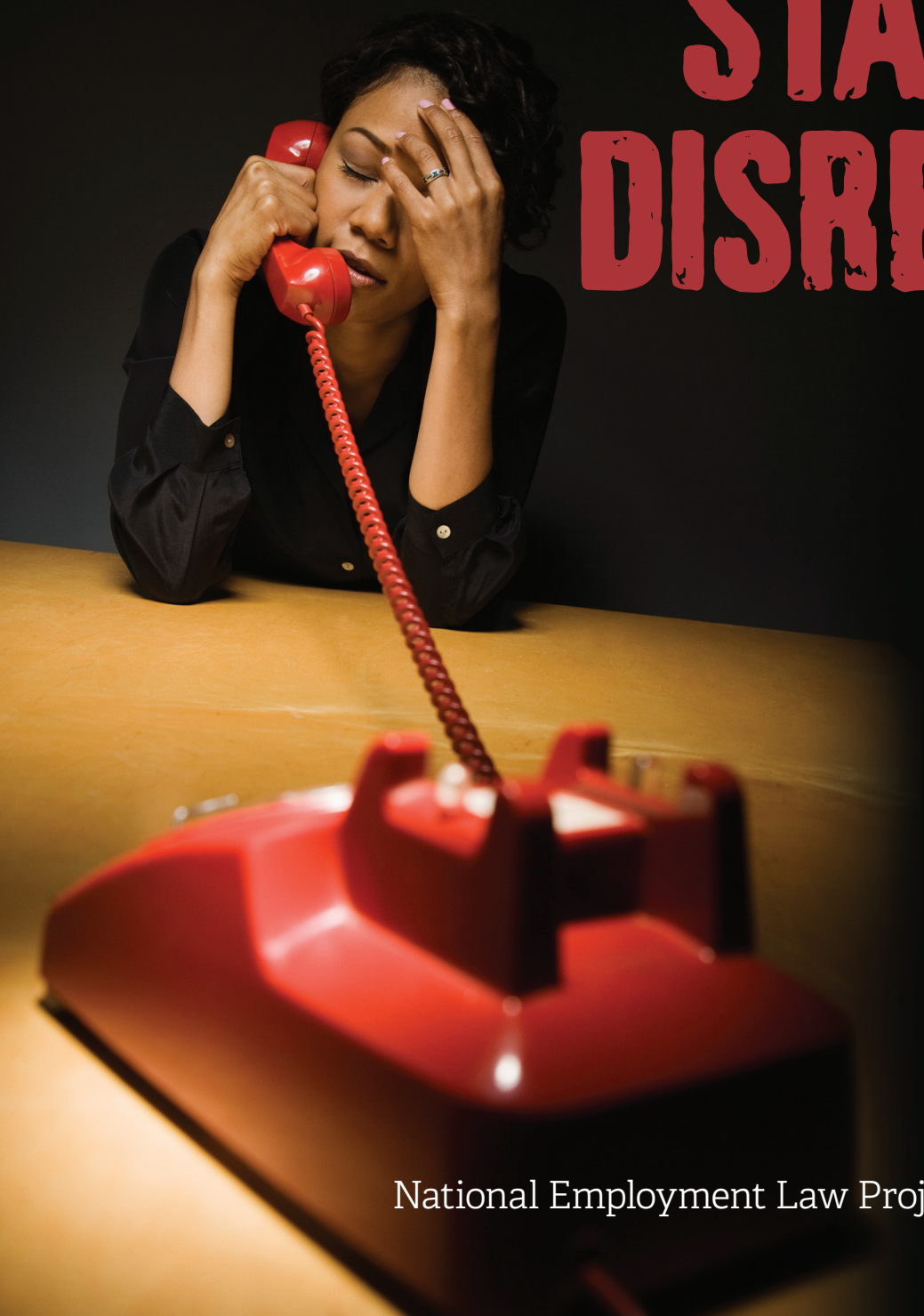
Federal Neglect Leaves State Unemployment Systems in a

STATE OF DISREPAIR



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About the National Employment Law Project

The National Employment Law Project is a non-partisan, not-for-profit organization that conducts research and advocates on issues affecting low-wage and unemployed workers. In partnership with grassroots and national allies, NELP promotes policies to create good jobs, enforce hard-won workplace rights, and help unemployed workers regain their economic footing.

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I Introduction

The Unemployment Insurance (UI) system has been put to the test by the Great Recession and the ensuing slow economic recovery. The prolonged duration of historically high unemployment and long-term unemployment has required state UI programs to process record numbers of claims in spite of chronic federal underfunding and long-outdated technology.

These challenges have exposed a UI benefit system in a state of disrepair — a system that forces laid-off workers already struggling to find work to navigate extensive backlogs, jammed phone lines and often-unreliable online claims systems. These breakdowns threaten to undermine the most basic tenets of the program — accessible, efficient claim-filing and timely eligibility determinations and payments.

The federal government bears much of the blame for the poor condition of the state UI administrative system that processes UI claims. For decades, Congress has neglected to adjust state administrative funding for inflation, employment growth, or the need for continuing capital investments such as information technology (IT) infrastructure upgrades. In fact, budget requests that were based on workload needs have often been reduced by Congress. This underfinancing has occurred despite the fact that state administration of the UI program has its own dedicated funding stream from the unemployment insurance taxes collected by the IRS.[1] This lack of federal attention, investment, and oversight for UI administration has severely impacted the capacity of states to properly

Findings and Recommendations

- This report documents a UI system in a state of disrepair, with the average state benefits technology 26 years old and 9 out of 10 states still using legacy COBOL systems and other outdated program languages.
- In unprecedented numbers, laid-off workers already struggling to find work have been forced to navigate a claims process plagued with extensive backlogs, jammed phone lines and major interruptions of online claims systems . These system failures also make the program more vulnerable to waste, fraud, abuse and major cost overruns for IT repairs.
- These breakdowns result in large part from chronic underfunding of the system by Congress. Federal administrative funding has not kept pace with claims caseloads in recent decades. For example, in 2012, caseloads were 155 percent higher than they were when the recession began, but federal funding in 2012 was only 45 percent above the 2007 pre-recession levels.
- This report recommends the following federal and state reforms to help put the system back on track and become better prepared to meet the challenges of 21st century economy.
  - Repeal the federal budget sequester, which cuts federal unemployment benefits and funding for program administration.
  - Cushion the blow of funding reductions with a $600 million multi-year funding appropriation.
  - Provide a one-time $300 million appropriation to upgrade state UI technology.
  - Increase federal oversight through customer service standards and targeted enforcement.

administer their UI programs, thereby frustrating the purpose of the program to soften the economic blow of job loss for workers, their families and hard-hit communities. And now, Congress is compounding the situation by imposing nearly $200 million in new cuts to the program as a result of the recent federal "sequester" of administrative funding to the states.[2]

In addition, as recent examples have shown, when states do move to modernize and upgrade outdated computer systems for their UI programs, or make changes to their phone systems, too often they experience significant disruptions of service, systems breakdowns and further claims backlogs and delays. With the average state UI systems technology now 26 years old, states should be encouraged to upgrade outmoded technologies — but they should have the level of funding and expertise to do so in a manner that does not, even temporarily, disrupt the intended functions of their UI programs for claimants or agency personnel. That is a goal that should be attainable, but it has too often evaded the state UI programs. In contrast, one doesn't hear banks or credit card companies saying they are not able to process checks or transactions for a number of days due to an upgrade of their computer systems.

The neglected state of the UI system, which has been prominently featured in local press accounts across the country, harshly affects millions of unemployed workers and their families when hard times hit.[3] Yet, the problem persists but has gained little attention from policymakers at the national level, where Congress and the executive branch determine the fate of the program. This report documents the escalating severity of the crisis of a system pushed to its limits by inadequate federal funding and support and provides a series of modest recommendations for reform to help put the system back on track and better prepare it to meet the challenges of a 21st century U.S. economy.

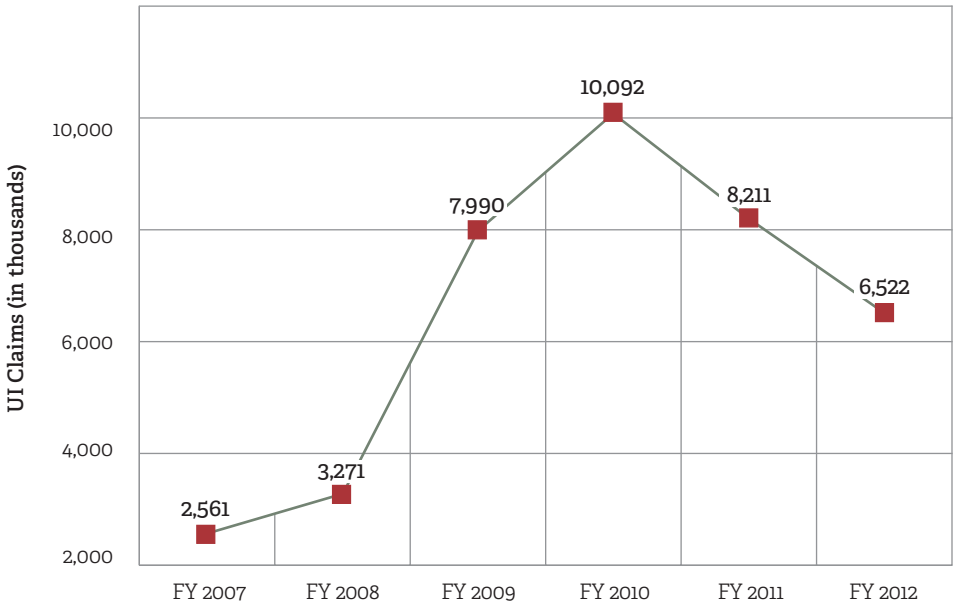
II. Limping Along: Performance Suffers as Claims Increase During Downturn

In 2007, before the recession began, 2.6 million workers were claiming UI benefits. As the economy hemorrhaged jobs over the next few years, that number nearly quadrupled, rising to 10 million in 2010.[4] States worked hard to pay claims as quickly possible despite chronic underfunding, outdated technology, and numerous changes to the federal extension program that required extensive reprogramming.

More than five years after the recession began, unemployment has not returned to pre-recession levels, nor have UI claims. In 2012, states were still processing an average of 6.5 million claims, a 155 percent increase from 2007. See Figure 1.

Processing such an enormous volume of claims was not without problems, as outdated technology buckled under pressure. During the claims surge, states needed to quickly hire staff and expand their phone system capacity. Customer service broke down in many states as phones lines were jammed and UI IT systems crashed, making it nearly impossible for some individuals to file for benefits.[5] States fell behind in getting payments into the hands of claimants.

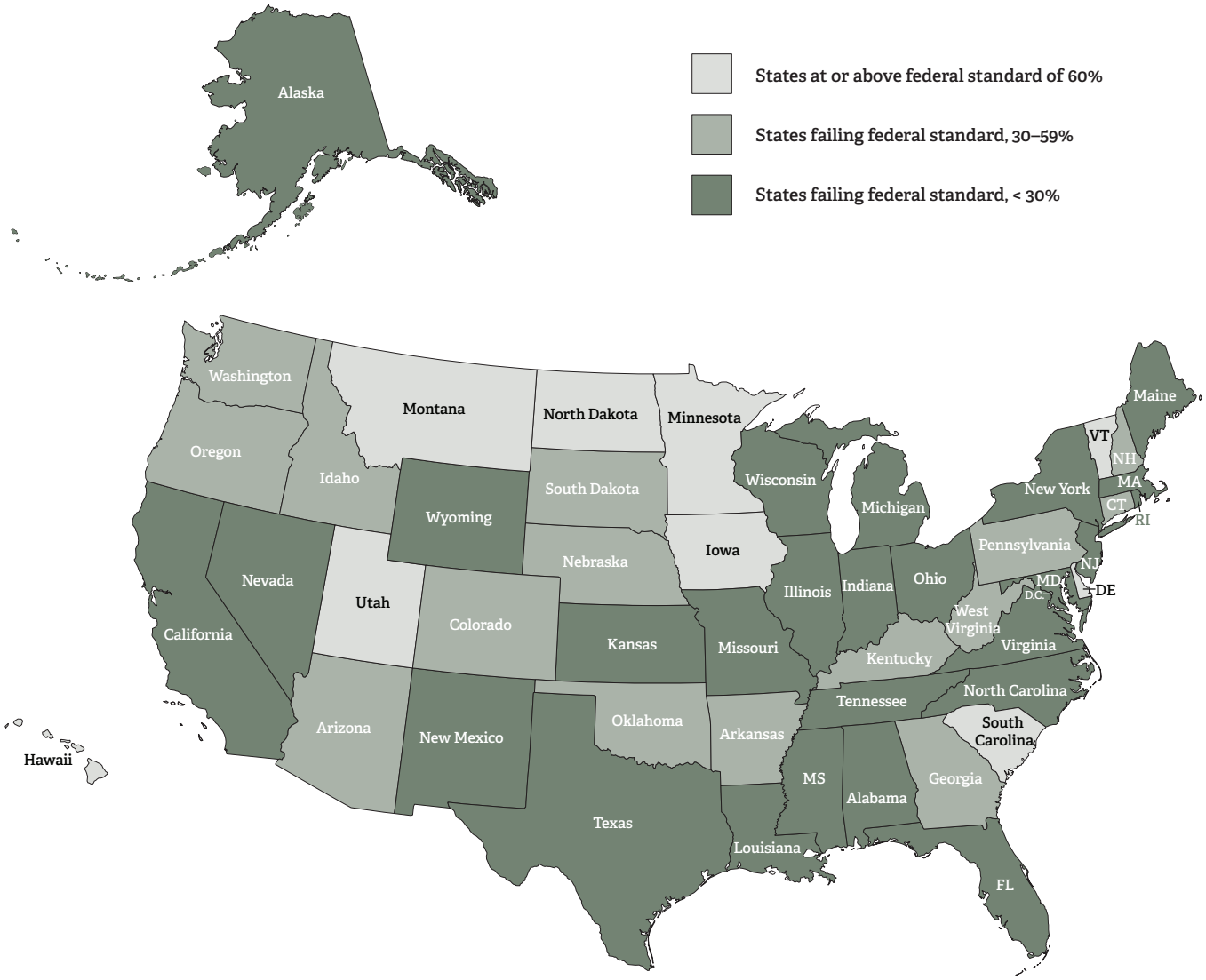
Figure 1. U.S. Average Yearly Unemployment Insurance Claims, FY 2007-FY 2012[9]



A leading indicator of system performance is the ability of the program to pay benefits in a timely fashion as required by federal standards.[6] Federal performance standards direct states to make 87 percent of initial benefit payments within 14 or 21 days of when the claim was filed.[7] In 2007, before claims increased, 84 percent of states were meeting this standard. By 2009, performance had declined sharply with only 43 percent of states meeting the standard. Despite the drop in in claims, states have struggled to improve performance with only 41% of states meeting the standard in 2012.[8]

Additionally, states have fallen behind on federal standards for deciding administrative appeals in cases where claims are in dispute. Federal performance standards require states to decide 60 percent of appeals within 30 days.[10] In 2007, 69 percent of states were meeting this standard, but by 2009, only 18 percent of states met this standard.[11] See Figure 2, which reflects states' performance on this indicator across the nation. Although performance had largely recovered by 2012, 39 percent of states were still not meeting the standard.

Figure 2. Widespread State Failure to Meet Appeals Standards, 2009[12]



III. Flawed Federal Funding Structure Compromises State UI Programs

The federal scheme of funding the basic functions of the state UI programs, which include the processing of UI benefits and the collection of UI taxes, has failed to evolve to meet the growing demands of the program. The problem dates back to historical patterns of underfunding by Congress, as well as to a boom-and-bust cycle of financing that allows services and staffing to expand rapidly when recessions hit, but then produces a dramatic contraction of services and staffing when claims level off, without much of a cushion to manage the transition or meet future crises. Thus, long-term planning and investments in technology and staffing are often not prioritized or rewarded, which severely compromises services.

In 1989, the U.S. Government Accountability Office (GAO) called attention to the flaws inherent in the federal system of financing the administration of the state UI programs.[13] It found that since the 1970s, federal funding for administration had been inadequate, noting that states were increasingly adding their own dollars to try to bridge the gap. Now, nearly 25 years later, the problem persists. According to the National Association of State Workforce Agencies (NASWA), which has tracked state supplemental funding since 1994, states have consistently used various sources of funds to cover their administrative costs (including their own general funds, often diverted from other state priorities; penalty and interest penalties collected from workers and employers; employer administrative tax assessments; and special federal "Reed Act" appropriations[14] that could serve other critical UI functions). For example, in FY 2012, states were forced to supplement their federal appropriations by nearly $231 million.[15]

UI Administrative Funding Basics

The U.S. Department of Labor (USDOL) projects a state's UI workload in the next fiscal year using statistical models and economic assumptions. Once USDOL has projected a number of continued weekly claims, it recommends a base budget allocation sufficient to pay that number of weekly claims, along with an estimated number of other related workload items, such as initial claims, non-monetary determinations and appeals.

BASE FUNDING

Base funding covers the cost of administering the UI program even when unemployment is low.

ABOVE-BASE FUNDING

States earn above-base funding as the state's insured unemployment rate rises above the base rate. The insured unemployment rate is essentially the unemployment rate for workers covered by UI.

CONTINGENCY FUNDING

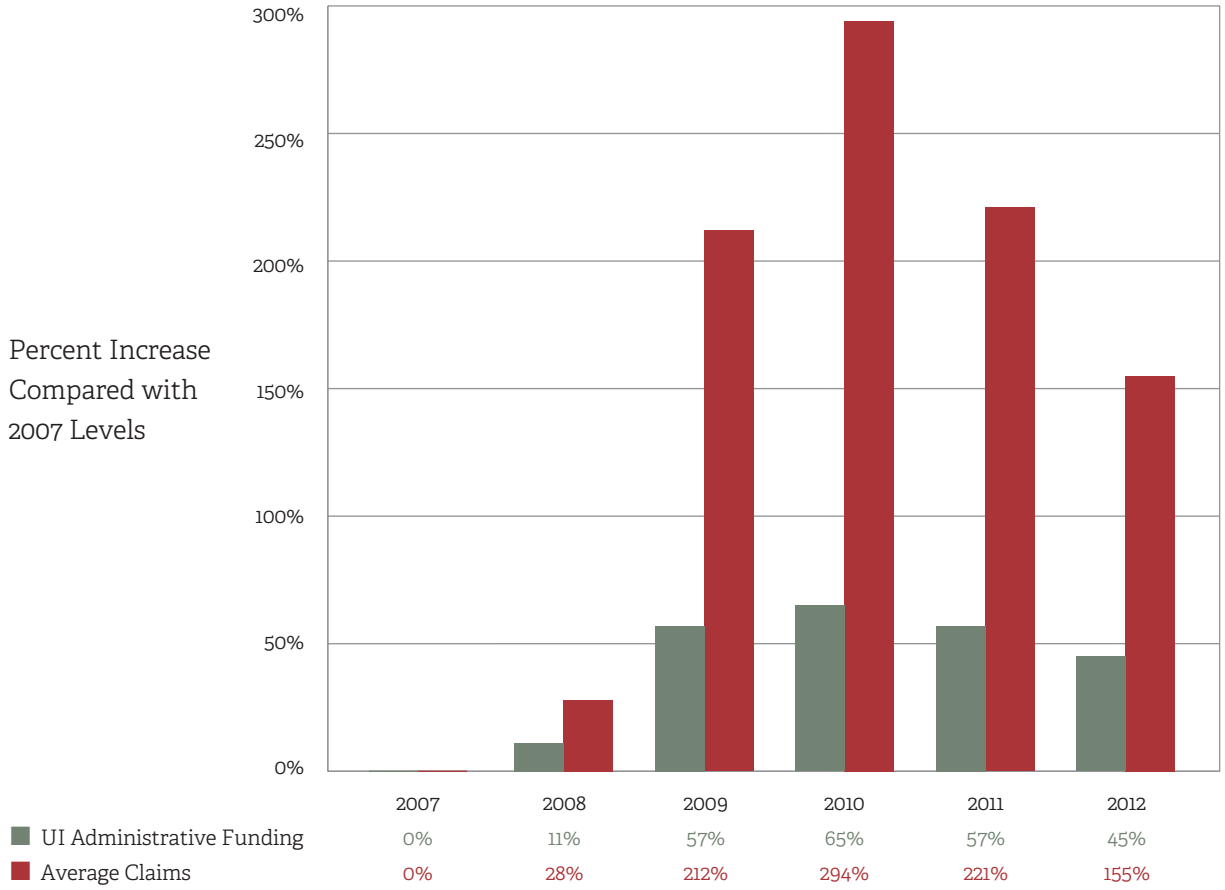
Contingency funding is automatically triggered when the average weekly insured unemployment is higher than projected.

Figure 3 illustrates the expanding and contracting cycle of UI administrative funding as compared to claims. As UI claims rose significantly, federal funding to process state and federal UI claims increased from $2.4 billion in 2007 to $4.0 billion in 2010.[16] However, the federal funding is now declining precipitously, faster than the decrease of claims the agencies need to process. For instance, 2012 caseloads were 155 percent higher than they were when the recession began, but federal funding in 2012 was only 45 percent above the 2007 pre-recession levels.

The major problem with the UI administrative funding structure is with "base funding," which covers the minimum state cost of administering the UI program even when unemployment is low. Due to a shortfall in Congressional appropriations, base funding has been declining significantly since the mid-1990s.[17] Indeed, according to NASWA, adjusted for inflation, base funding provided by the federal government to process claims at a relatively low level of unemployment was actually $600 million less in 2013 than in 1995.[18] This shortfall represents a substantial percent of total base funding (24 percent of FY 2012 base funding). When states are experiencing higher unemployment levels, the shortfall in federal funding is even more pronounced.

Inadequate base funding makes it exceedingly difficult for states to hire enough staff to pay benefits in a timely fashion, as required by federal law, or to update their technology. It makes them especially vulnerable to reductions in funding, such as the decreases in funding they have experienced as the economy has improved. Thus, with federal funding on the decline, compounded by the sequestration cuts, more states are laying off critical UI staff. Moreover, many states expect to make large staff reductions if the federally-funded program of extended benefits (Emergency Unemployment Compensation) ends in 2013. According to a 2012 NASWA survey, at least 23 states were planning to cut staffing if the EUC program had ended in 2012, averaging 15.4 percent staffing-level reductions.[19]

Figure 3. Federal Funds for UI Administration Have Not Kept Pace with Increases in Claims[20]



IV. IT Mismatch: Confronting 21st Century Demands With 20th Century Technology

Inadequate base funding means states do not have any reliable source of funds to respond to growing technology needs, including the routine maintenance and upgrades required to effectively process significant numbers of UI claims, especially during a major recession. In the 21st century, UI administration increasingly relies on phone and computer technology to efficiently process claims and collect taxes. These systems need to respond quickly to increased claims volume during economic downturns and to accommodate the reprogramming required by federal extensions enacted by Congress. Twenty-first century technology would allow the government to reap significant efficiencies and cost savings.

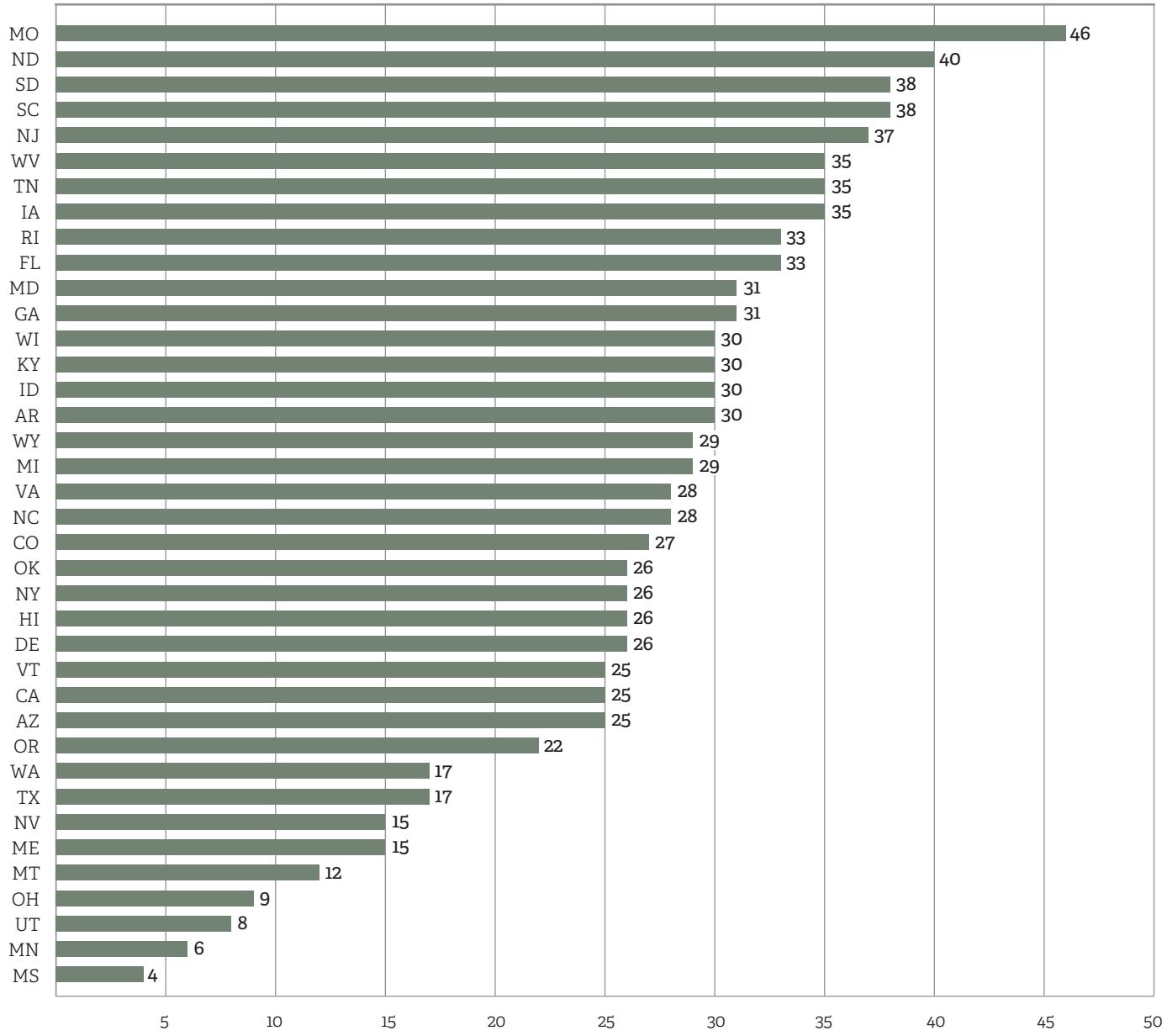
Instead, the majority of state UI operations are performed with 20th century technology using mainframe systems developed in the 1970s and 1980s. In fact, a 2009 NASWA survey of states found that the average state UI benefits technology is 26 years old and the average UI tax technology is 28 years old.[21] The oldest state IT benefit system is 46 years old, while the oldest state UI tax IT system is 45 years old.[22] See Figure 4. Nine out of 10 states are still operating on Common Business-Oriented Language (COBOL) systems and other outdated program languages.

Even home computers require software upgrades and quickly become obsolete in just a few years. In order to continue using these legacy systems that pre-date the internet, states have implemented enhancements over the years such as adding multiple computer programs often involving numerous hardware platforms.[23] As an illustration, the NASWA survey found that Florida's benefits system contained 15 separate computer applicatons. This "huge spider web of sub-programs" is cumbersome and can make tasks such as reprogramming for EUC extensions and Disaster Unemployment Assistance into a months-long ordeal. Similarly, scaling-up to handle claims surges can be extremely difficult because of the need to swiftly synchronize a vast array of components such as mainframe, servers, phone software, and other network components.[24]

Skimping on technology has proven penny-wise and pound-foolish. Not only have the costs of maintenance and programming escalated significantly over time, but federal underinvestment has made benefit overpayments more likely and harder to detect. Overpayments can increase because claimant data may be stored in multiple systems that must be manually reconciled. These and other inefficiencies create unnecessary risks to data integrity.[25] Additionally, phone backlogs prevent unemployed workers from getting the information needed to correctly complete self-service claims or report errors.

As the IT director for the GAO, Malerie C. Melvin, recently testified before Congress, the states "face a number of challenges in updating their aging legacy systems and moving program operations to a modern web-based IT environment."[26] Cost is one of the main obstacles states face. In order to upgrade the technology adequately, NASWA estimates the per-state cost ranges from $45 to $100 million.[27] Moreover, adequate expertise is also an issue states face when attempting to implement new technology once a new system has been developed. For example, in Oregon, the state auditors attributed nearly $33 million in UI overpayments and $30 million in costs overruns to an IT overhaul that was plagued with planning and implementation challenges.[28]

Figure 4. Age of State UI Benefit IT Systems 2009[29]



V. Case Studies of Customer Service Breakdowns

As the demand for unemployment benefits declined from record levels, some state customer service disruptions have improved, but workers in many states still face significant challenges accessing their UI benefits.

As detailed below, recent system failures and staff reductions in California, Pennsylvania, Rhode Island, Tennessee and Nevada illustrate the severe challenges states are still facing and the devastating impact on workers and their families of system failures caused by the lack of adequate federal funding and oversight.

These issues can be expected to worsen and become more widespread as federal administrative funding declines with falling unemployment rates. States must also absorb a loss of more than $200 million in administrative funding due to federal sequestration cuts. In addition, in a dramatic display of the problem states face when attempting to upgrade outdated systems without adequate funding and expertise, in September the U.S. Labor Department attributed a major drop in weekly-reported unemployment claims to computer breakdowns in at least two states.[30]

A. California: Call Center Customer Service Going from Bad to Worse

After experiencing significant claims backlogs and phone access issues during the recession, California workers are still having significant problems with phone access.[31] Last fall, California's state auditor found that more than 17 million calls (24 percent) out of 72 million total attempts were "blocked." This means that call volumes were so high that workers were unable to reach the automated phone system.[32] Of the roughly 55 million workers whose calls made it through the automated phone system, nearly 30 million requested to speak with an agent. These callers were mostly unsuccessful, since only 4.8 million were actually able to speak with an agent.[33] See Figure 5. These delays affect the ability of workers to file claims or certify for weekly payments, causing unnecessary hardship for them and their families.

California Worker Stories

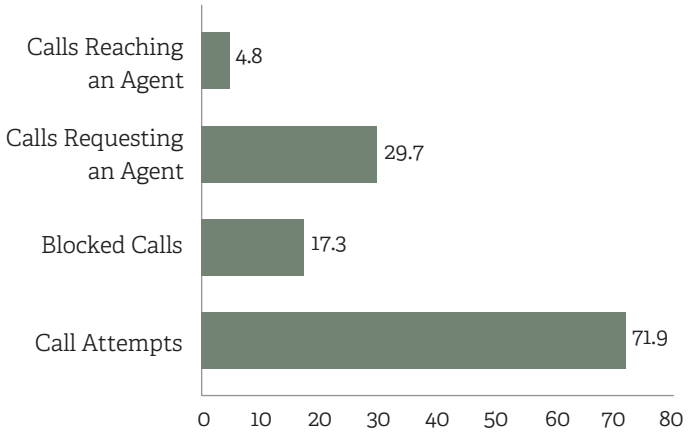
LISA FROM GLENDALE STYMIED BY PHONE AND ON-LINE FILING SYSTEMS

"It is nearly impossible to get through to a live person through the California EDD phone system. It can take redialing non-stop for days, and I'm not exaggerating. For a person who is trying to maximize their time seeking work, it is an enormous waste of time. Why in the world does the EDD system require the caller to enter all of their information only to announce that the system is too busy to handle your call? Ridiculous, and incredibly frustrating. Unfortunately, some issues require that the claimant speak with an EDD representative directly."

STANLEY FROM AMERICAN CANYON FEELS THE FINANCIAL PINCH FROM REPEATED DELAYS

"I filed and there was a huge delay in getting the claim form back. By the time I got the claim form, too much time had passed and I was not allowed to collect the weeks of benefits for which I had originally filed. I immediately sent in a message with my concern, but it took forever to get a response back. To make a long story short, because of the delay with my claim form and the missed benefit funds for the weeks for which I actually qualified, I wound up being short on paying my bills."

Figure 5. California UI Call Center Statistics, FY 2011-2012 (in millions)[34]



Worse still, California announced this May that a funding shortfall has forced it to reduce call center hours.[35] The call centers, which were not able to handle call volumes when they were open weekdays from 8am to 5pm, will now only take calls on weekdays from 8 a.m. to 12 noon. In an on-line survey completed by 109 California unemployed workers in July 2013, 69 percent rated the state's UI phone system as "poor," with the share rating the system as poor rising to 92 percent after the hours of service were reduced in May.[36]

The state agency blames the reduction in the hours of service on a severe federal funding shortfall of $128 million, compounded by $30 million in additional cuts expected if the federal sequestration is reauthorized in fiscal year 2014. The state's UI program has lost 900 staff positions since 2010 from attrition and hiring freezes and expects to lose another 1,600 in the face of this funding shortfall.[37]

Significantly, California and other states are not required to track the number of workers who never get through on the phones and just give up on filing for benefits. Nor do federal officials take into account the phone systems' failures in tracking whether the states have paid benefits in a timely fashion. That is because the clock doesn't start ticking until the worker actually succeeds in filing a claim for benefits — not when he first attempts to do so and fails to get through by phone. Unlike other states, California's phone system is not equipped to schedule callbacks for workers who cannot get through to an agent to help file a claim.

B. Pennsylvania: Jammed Phones Led to Long Lines and Disrupted Career Services

Due to a reported loss of $30 million in federal funding, the Pennsylvania Department of Labor and Industry eliminated 322 UI call center staff positions in 2012.[38] This cut forced the closure of one Philadelphia call center and the elimination of early morning, evening and weekend hours at others.[39] Despite the restoration of 117 staff positions after a public outcry and a wave of negative publicity, workers filing for UI were still spending hours re-dialing jammed phone lines to even get through to hold for a representative.[40]

Facing job loss and reduced income, unemployed workers are often desperate to file their claims so they can pay basic living expenses. "We hear from people who can't pay their rent, put gas in their car or feed their family while waiting on unemployment benefits. And they can't even find someone to talk to about it [their claim] for weeks on end," said John Dodds, director of the Philadelphia Unemployment Project in testimony before a state legislative committee.[41]

This situation also led to long lines at the One-Stop Career Centers, called Local PA CareerLink® sites. These sites have one or more dedicated courtesy phone lines that go directly to UI benefit call centers. According to the Pennsylvania Workforce Development Association, workers' use of these claims phones became so overwhelming that it began to hinder the state's ability to assist unemployed job seekers seeking job training and other reemployment services.[42] The CareerLink staff is unable to help with benefit questions, but has been on the receiving end of workers' frustration. Staffers reported that the waiting lines needed constant supervision to "deal with unruly claimants, prevent claimants from cutting in line before their turn" and to deal with "regular verbal disputes between claimants."[43]

Pennsylvania Worker Stories

TOM FROM PITTSBURGH SUFFERS MONTHS OF DELAYS

"I've experienced numerous problems with the Pennsylvania unemployment system. It was virtually impossible to get through by phone without a wait of an hour or more. It was not possible to contact the office by e-mail; one could fax a question to them and wait two days or more for a response. My [federal] benefits ran out inexplicably between Tiers, and I had to contact the state office repeatedly for re-certification. I would receive no benefits for several months, and then receive a large lump sum for benefits owed to me."

JOSEPH FROM PINE GROVE RECOVERS BENEFITS ONLY AFTER LEGISLATOR INTERVENES

"I called the phone line when my benefits stopped coming and was on hold for two-and-a-half hours. When I finally got through to someone, they said that I had benefits available in another year's claim I had not used. Great, they said they would put in my information to Harrisburg, but it may take a week or so, so keep filing. Then it told me I have a claim but that it's inactive. So I called again and they kept telling me that it's in Harrisburg's hands. After four weeks I called our state legislator's office, told them my problem and they said that this had happened before. The unemployment office called a day later and said they were contacting Harrisburg — that it shouldn't have taken that long to receive my benefits. Finally, I received six weeks of checks."

Rather than crowd management, the CareerLink staff is funded to provide much-needed services to help workers get back to work. Instead of seeking job-search services, unemployed workers facing impending eviction and disconnected utilities were forced to waste valuable time waiting at the CareerLink centers to use the phone. The Lancaster County CareerLink reported that a full 36 percent of its customers over a seven-month period were there only to use the phone to reach the benefit call centers.[44] At the Bucks County location, 46 percent of customers in October 2012 were at the center to use the benefits phone.

In response to the negative publicity over this crisis, the Pennsylvania legislature and governor recently took the unprecedented action of enacting legislation that supplements administrative funding. By diverting funds from tax revenues that normally pay for UI benefits, the state has made a significant multi-year commitment to filling the gap in federal funding to administer the program, including $40 million in 2013; $30 million in 2014; and $190 million combined in 2015 and 2016.[45]

C. Rhode Island: Staffing Ups and Downs Drive Claims Backlogs and Long Wait Times

In early 2009, the Rhode Island General Assembly authorized the short-term hiring of additional staff in the Department of Labor and Training to help alleviate an extreme backlog of UI claims and customer service inquiries. At that time, there were over 10,000 backlogged internet claims pending processing, as well as 3,500 workers waiting for a return phone call or email response.[46] One year later, with help from additional staff, the Department was able to reduce pending internet claims by nearly two-thirds. This backlog was nearly non-existent by the end of 2010, with the Department reporting only 14 pending internet claims. Telephone wait times were also cut down to 19 minutes.

However, in the summer of 2012, when federal funds were reduced, the Department laid off 67 of its unemployment insurance staff, including just over one-third of its unemployment call center workforce.[47] This reduction in staffing led the state to greatly reduce its hours of operation of its claims call center. The center began closing at noon on Wednesday, Thursday and Friday.[48] The Department attributed much of the blame for the service disruption and layoffs to a $3 million reduction in federal funding.

As expected, this staff reduction led to the return of backlogs and long telephone wait times exceeding two hours.[49] *The Boston Globe* recently profiled the cascading problems with Rhode Island's UI claims call center, highlighting the story of an unemployed worker who finally got through the phone system after re-dialing some 60 times, only to be met with another

Rhode Island Worker Story

MICHAEL FROM EXETER DESCRIBES A STRING OF BREAKDOWNS AND DELAYS WITH HIS INITIAL CLAIM FOR BENEFITS.

"I was laid off from an electrical contractor just before Christmas last year. I applied for unemployment online and waited three weeks, with no benefits or notice. Then I tried calling everyday starting at 8am and staying on the phone all day without getting through. This went on for six weeks. I tried e-mailing the Department of Labor and Training, but they never called me or responded to my e-mails. Finally, I got through on the phone to RIDLT and was told that the phone system was having problems but they would process my claim. But after that I was still unable to log onto the system on Sunday, so still no claims or payment. I finally called Congressman Jim Langevin's office, and after 48 hours RIDLT called me back. They said the reason I could not log on to Teleserve was that my claim had not been processed properly by RIDLT. After all this, they finally corrected the problem and got me my first payments."

barrier when the automated system advised him to try again later due to heavy call volumes.[50] By January of 2013, the Department had received temporary additional federal funding to bring back about half of the laid-off staffers. It reports that it is working hard to clear the backlogs and bring down wait times.[51] The situation may improve, but the extra call center positions are only funded through September, so customer service is expected to decline again.

D. Tennessee: Waiting Eight Weeks for First Unemployment Check

A 2012 audit by the comptroller for the state of Tennessee found that "the Tennessee Department of Labor and Workforce Development had backlogs in receiving and responding to incoming telephone calls related to new and existing unemployment claims; processing initial unemployment claims; resolving pending claims; and notifying employers of unemployment claims."[52] Featured stories in *The Tennessean* confirm these backlogs with stories from workers waiting on hold for hours, with fewer than one in three even getting through to file an initial claim by phone.[53]

Of the 47,000 calls that reached the automated system in August 2012, only 32 percent (15,000) of callers were able to speak to a representative.[54] These callers waited an average of two hours to reach that representative. These numbers do not account for the unemployed workers who called but were not able to reach the automated system.

For those claimants who actually are able to file an initial claim, the timeframe for getting a response to that claim is uncertain, at best. During the one-year audit period, the number of pending claims actually doubled, reaching 10,968 by August of 2012.[55] Auditors found that the backlog of pending claims was so high that claimants may be waiting eight weeks or more to receive their first benefit payment because it takes that long for a claim to even be assigned to an adjudicator. For claimants who have not received an answer in 180

Tennessee Worker Stories

SHELIA FROM DECHERD FAILS TO ACCESS PHONE AND ONLINE CLAIMS SYSTEMS

"I could almost never get through on the phone. It always said try later or it would give a busy signal. When I did get through on the phone, I was told to go online instead — and sometimes I had no internet access. More than a few times the website would be down. I never got anyone to return a call. Contacting a local office was useless — for sure they could not help with anything."

DALLAS FROM MARYVILLE SUFFERS FROM OFFICE CLOSURES

"The online filing website said to file on the date I lost the job, but online it didn't let me certify. So I called the phone number that was listed online. I was on hold for over an hour. The next time it said I would be on hold for 49 minutes. I was on hold for 1 hour and 48 minutes. Finally, I thought I had gotten the claims sort of straightened out, but I'm still one check short.... I tried to certify for my check last Tuesday at the unemployment office, but it said closed until Wednesday; on Wednesday it said it was closed until Thursday. So I had to call in again."

days, no answer comes, because the Department's policy is to abandon claims after 180 days. Over the one-year audit period, 77 such claims were abandoned.

E. Nevada: IT Overhaul Launch Falters

Several states have attempted to address the problems caused by their outmoded IT systems, but with strained staff resources and inadequate levels of funding and expertise. In some recent cases, these upgrades have resulted in major disruptions of access for UI claimants needing to file and have exacerbated claims-processing backlogs for state UI agencies.

In Nevada, the state with the nation's highest unemployment rate, the September 2013 rollout of a new $35 million phone and on-line claims system was plagued with errors. The on-line filing system was down for an entire week, leaving the new phone system flooded with 70,000 calls in one day when the system could only handle 5,000 calls.[56] In addition, state officials blame the antiquated computer system on their failure to implement the mandated federal sequester cuts in a timely fashion, which in turn resulted in a 59 percent cut in federally-funded UI benefits, effective the week ending August 31.[57]

The editorial of the *Las Vegas Review-Journal* took the state agency to task for its failure to successfully implement the new system, writing that "[w]hen a business serves 50,000 people a month, as the Employment Security Division does right now in this weak economy, such issues need to be anticipated and prepared for, and there needs to be widespread advance notice to customers so those affected know how to proceed if any problems arise. . . . In the future, this agency and all others whose existence depends on taxpayer funding would be wise to remember this idiom: Prior planning prevents poor performance."[58]

VI. Additional Evidence of System Failures

A. Claims Backlogs, Jammed Phones, Long Lines

The system failures described above, and others, are not confined to a handful of states. Indeed, similar problems have played out across the United States, both in the aftermath of the latest recession and in response to other economic downturns:

- In October of last year, Wisconsin had a backlog of more than 9,000 claims.[59] Workers were left waiting weeks to receive their checks.
- Last fall, workers in New Jersey were waiting 20 to 24 weeks for their unemployment appeals to be heard. In response, legislators introduced a bill requiring that appeals be heard in 60 days or contested benefits must be paid.[60]
- In January, 3100 unemployed New Mexico workers were left waiting up to three weeks for their checks. The department attributed the delays to difficulties implementing the federal EUC extension.[61]
- In February, unemployed Massachusetts workers stood in line for hours at the One-Stop center because they were unable to get through to the call center.[62] After the state shifted to a new on-line system in July for benefits-filing, workers seeking to file for benefits by phone still waited an average of 40 minutes to reach a claims representative.[63]
- Due to budget constraints, Illinois had consolidated 10 employment security offices and planned to cut 192 jobs and close seven additional offices by summer.[64] The negative consequences of these office closures and staff layoffs were apparent in Peoria, which lost two-thirds of its staff last fall and must now cover 10 other counties. This summer, estimates put the lines outside the Peoria Department of Employment Security at around 100 people.[65]
- In August, the *Charlotte Observer* reported that North Carolina had a backlog of nearly 13,000 claims.[66] Unemployed workers reported waiting months for their first benefit payment.
- In August, Oregon workers were met with busy signals and hold times of several hours when trying to file claims.[67]

B. Setbacks in IT Modernization

Also of special concern, a growing number of states have expended large sums of money to modernize their outdated computer systems only to find that the projects were significantly over-budget or suffered other major setbacks:

- In September, as many as 300,000 unemployed California workers were not able to access their benefits when the state launched a newly installed computer system to process continued claims for benefits.[68] The system was not only plagued with problems, but also came in at a price that was nearly double the original estimate. The state legislature is planning a hearing to investigate the department's contract with Deloitte Consulting, the company responsible for the upgrade. Technical problems have also been reported with Deloitte unemployment upgrades in Massachusetts and Florida.[69]
- In July, Pennsylvania abandoned the final phase of its UI claims and benefit payment computer upgrade. The project with IBM was $60 million over budget and 42 months behind schedule.[70]
- In June, *The Oregonian* reported that the Oregon Employment Department wasted nearly $30 million on non-functioning software programs.[71]

- In New Mexico, a legislative auditor's report recently found that the cost of the IT modernization contract with Deloitte more than doubled, from $17.2 million to $38.6 million.[72] In addition, a federal civil rights complaint was recently filed with the U.S. Department of Labor alleging that limited-English-speaking workers and older workers cannot readily access the new system.[73]
- In 2005, Colorado severed its $40.8 million contract with Accenture to build a new UI computer system.[74] Accenture also came under scrutiny in Wisconsin for delays and cost overruns in the upgrade of its UI IT system.[75]
- In Massachusetts, state legislators are holding a hearing in late October to scrutinize problems with its new claims computer system that was two years behind schedule and $6 million over budget. *The Boston Globe* reports that data conversion issues and other problems have delayed benefits to hundreds of unemployed workers. Some were waiting for months.[76]
- In Florida, the state has experienced problems with the October launch of its new online unemployment benefits system. The *Miami Herald* reports widespread social media accounts of long wait times, error messages, and other system failures. The project was 10 months behind schedule and $6.4 million over budget. The contractor for this system was also Deloitte.[77]

VII. Recommendations for Reform

While the states certainly share responsibility for the routine and extreme systems failures described in this report, it is the primary responsibility of the federal government to provide the basic resources, technical support and oversight needed for the states to maintain and regularly upgrade their systems to meet the demands of today's workforce. What follows are several recommendations for modest increases in funding and federal oversight that would go a long way to prevent a destructive decline in services and to modernize the core functions of the program.

1. **Do No Harm:** Congress should refrain from doing any further harm to the program. It should reject proposals to continue the sequester, which results in cuts of nearly $200 million in administrative funding into fiscal year 2014.[78]
2. **Cushion the Blow of Severe Funding Reductions:** Given the exceptional demands on the program generated by the Great Recession and its aftermath, at a minimum Congress should appropriate two to three years of supplemental funding totaling $600 million dedicated specifically to preventing dramatic declines in staffing levels, phone service, and other basic staffing and claims-filing services. Within the next two years, Congress should revise its annual funding scheme to more adequately reflect the workload of the state UI agencies, IT needs and other basic demands on state administration of the UI program.
3. **Leverage Federal Bargaining Power to Negotiate Phone and IT Upgrades to Contain Costs:** Given the antiquated computer technology, Congress should appropriate $300 million in one-time funding for the states to upgrade their technology. However, to prevent future cost overruns of the sort that have recently plagued several states, the U.S. Department of Labor should seek to negotiate favorable terms with IT and phone system vendors that take advantage of the federal government's ability to leverage cost savings while also producing more compatible and high-quality state systems. Further, any contracts for technology upgrades should provide for recoupment of some or all payments to vendors that states determine are failing to meet their commitment to implement system changes in a timely and cost-effective manner, consistent with agreed-upon budgets.

4. **Increase Federal Oversight Targeting System Failures:** As documented by the GAO, the U.S. Department of Labor "does not track or monitor the progress of states' UI modernization initiatives" and "does not have sufficient technical resources to monitor all of the states' modernization efforts."[79] The U.S. Department of Labor should expand oversight of the state infrastructure systems, and institute customer service standards and enforcement mechanisms that specifically target the current system failures. For example, except in special circumstances, all state phone systems should have the capacity to schedule a callback for those who cannot reach an agent when they initially call to file for benefits, and DOL should hold states out of compliance with the timeliness standards if a large percentage of workers are not able to successfully reach an agent by phone within a reasonable period of time.
5. **Routinely Audit and Grade the State IT Systems:** In recent years, a number of states (including California, New Mexico, Oregon and Tennessee) have released comprehensive audits of their state contracts to upgrade their UI IT systems, which often documented major cost overruns and other serious deficiencies. Additional states should follow their lead, and the U.S. Department of Labor should institute a new regime requiring systematic auditing of the state IT systems. The U.S. Department of Labor regime should include basic measures of success and failure (including adequate customer service) that can be assigned a grade that should be prominently featured on the DOL website to provide transparency to the public and compare the operation of programs across the states.

Endnotes

1 Employers annually pay .6 percent of the first $7000 in taxable wages for each employee, or $42 per worker. The FUTA tax revenues fund both state and federal administration of the UI program. Title III Section 302 (a) of the Social Security Act requires the Secretary of Labor to annually certify to the Secretary of Treasury such amounts as are necessary for the "proper and efficient administration" of each state's UI law.

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