



September 19, 2023

MEMORANDUM FOR: BRENT PARTON
Principal Deputy Assistant Secretary
for Employment and Training

A handwritten signature in cursive script that reads "Carolyn R. Hantz".

FROM: CAROLYN R. HANTZ
Assistant Inspector General
for Audit

SUBJECT: COVID-19 – Audit of State Workforce Agencies’
Information Technology Systems Capability in
Processing Unemployment Insurance Claims
Report No.19-23-008-03-315

The purpose of this memorandum is to provide the results of the U.S. Department of Labor (DOL) Office of Inspector General’s (OIG) performance audit to determine to what extent the capability of State Workforce Agencies’ (SWA)¹ Information Technology (IT) systems impacted their ability to timely and accurately process regular, as well as pandemic-related, unemployment insurance (UI) claims under three key temporary programs.²

The Employment and Training Administration (ETA) is responsible for overseeing the UI program, including SWA implementation of the UI programs under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Continued Assistance for Unemployed Workers Act of 2020. In April 2020,³ we issued an advisory report outlining six initial areas of concern for ETA and the SWAs to consider as they implemented the CARES Act UI provisions amidst the largest

¹ For the 50 states, as well as the U.S. Virgin Islands, Puerto Rico, and the District of Columbia, the body that administers the UI program is a SWA. There are, therefore, 53 SWAs. The CARES Act also provided certain UI benefits to American Samoa, the Commonwealth of the Northern Mariana Islands, the Federated States of Micronesia, Guam, the Marshall Islands, and the Republic of Palau, provided the territory signs an agreement with the U.S. Department of Labor.

² Pandemic Unemployment Assistance, Pandemic Emergency Unemployment Compensation, and Federal Pandemic Unemployment Compensation

³ Advisory Report, CARES Act: Initial Areas of Concern Regarding Implementation of Unemployment Insurance Provisions, Report No. 19-20-001-03-315 (April 21, 2020), <https://www.oig.dol.gov/public/reports/oa/2020/19-20-001-03-315.pdf>

increase in initial UI claims since DOL began tracking data in 1967. Our identification of these areas represented years of oversight work relating to DOL's UI program, including the use of prior stimulus funds; one of the areas was state preparedness, specifically, the issues of staffing and the SWAs' IT systems capabilities.

In Congressional testimony,⁴ the OIG stated that it has repeatedly reported significant concerns with DOL and states' ability to deploy UI program benefits expeditiously and efficiently while ensuring integrity and adequate oversight. As stated in OIG's 2022 U.S. Department of Labor's Top Management and Performance Challenges,

For the UI program, the Department needs to: (1) Work with State Workforce Agencies to upgrade their technological capabilities to modernize the delivery of UI benefits and ensure their systems are sufficient to manage sudden spikes in claims' volume and protect federal benefits from improper payments, including fraud.⁵

Based on these concerns, we contracted with the independent certified public accounting firm GenTech Associates (GenTech) to conduct this performance audit to determine to what extent the capability of SWAs' IT systems impacted their ability to timely and accurately process UI claims, including those under the CARES Act and the Continued Assistance for Unemployed Workers Act of 2020. GenTech identified no material findings that the OIG had not previously reported to ETA. Additionally, DOL has begun significant efforts in the UI modernization area.

In August 2021, the DOL Office of the Secretary established the Office of Unemployment Insurance Modernization (OUIM). OUIM was temporarily established to carry out the functions of fraud detection and prevention and to promote equitable access and ensure timely payment of benefits to eligible workers. According to ETA, OUIM is responsible for strategic planning and management across all UI modernization work streams in close coordination with both the Assistant Secretary for Employment and Training and the Assistant Secretary for Administration and Management. OUIM will assist ETA but will not assume any of ETA's responsibilities or oversight.

According to ETA officials, the agency is proactively working with OUIM and SWAs as it increases oversight of UI IT modernization efforts in carrying out its responsibilities under the American Rescue Plan Act of 2021. GenTech, however, did identify one issue for ETA management's attention: specifically,

⁴ "The Greatest Theft of American Tax Dollars: Unchecked Unemployment Fraud," Hearing, Statement for the Record of Larry D. Turner, Inspector General, U.S. Department of Labor; House Committee on Ways and Means (February 8, 2023), <https://www.oig.dol.gov/public/testimony/02082023.pdf>

⁵ U.S. Department of Labor's Top Management and Performance Challenges (November 2022), <https://www.oig.dol.gov/public/DOL%202022%20Top%20Management%20and%20Performance%20Challenges.pdf>

ETA could improve its oversight of SWAs' progress in modernizing UI IT systems.⁶ The OIG plans to perform follow-on work in this area to determine the impact of these efforts on improving the efficient deployment of UI benefits, including readiness for future emergencies.

ETA COULD IMPROVE ITS OVERSIGHT OF SWA PROGRESS IN MODERNIZING UI IT SYSTEMS

GenTech identified that, historically, ETA did not evaluate the capability of SWAs' UI IT systems to successfully administer UI benefits. Further, ETA did not have sufficient information to know which SWAs' UI IT systems posed the greatest risk of failing. This lack of sufficient information happened because ETA did not require SWAs to develop UI IT modernization plans with the following elements to represent a future-ready approach:

1. the baseline architecture,⁷
2. target architecture,⁸ and
3. a transition plan to reach the target architecture.

For example, only 1 of the 10 SWAs reviewed had developed or implemented UI IT modernization plans that improved the timeliness or accuracy of UI benefits processing. The surveyed SWAs reported similar results: only 14 of 38 surveyed SWAs reported that they had implemented an IT modernization plan with a future-ready approach. Although all 10 SWAs reviewed reported lacking the resources to continuously keep pace with evolving technology, we observed that 4⁹ of the 10 SWAs were in the process of developing a modernization plan prior to the pandemic. Ensuring SWAs have these plans in place and are actively pursuing implementation would be a strong step toward ETA ensuring SWAs improve administration of benefits, particularly during a future crisis.

ETA relies on several stakeholders to assist SWAs with UI IT system modernization initiatives and has partnered with the National Association of State Workforce Agencies' (NASWA) UI Information Technology Service Center for this purpose. Personnel from NASWA's UI Information Technology Service Center stated to GenTech that the service center provides recommendations to SWAs but has no authority to enforce the recommendations. SWAs are responsible for funding UI IT improvements unless Congress authorizes federal funds for this purpose.

No official management response is required of ETA. In providing this memorandum to ETA, the OIG considers this audit closed. This memorandum,

⁶ IT modernization refers to an organization's efforts to upgrade legacy IT systems and to ensure that existing IT systems do not become legacy IT systems. Legacy IT systems are those that are past their lifecycle end date for either technical or business reasons.

⁷ Baseline architecture refers to an organization's existing IT systems and infrastructure.

⁸ Target architecture refers to an organization's description of future IT systems and infrastructure that would replace the organization's existing architecture.

⁹ The SWAs in the States of: Arizona, Arkansas, Georgia, and Ohio

however, does not preclude the OIG from conducting a follow-up audit of this subject at a later date.

Audit Scope and Methodology

The OIG monitored GenTech's work to ensure it met professional standards and contractual requirements. GenTech's independent audit was conducted in accordance with generally accepted government auditing standards. Thus, GenTech was responsible for the evaluation and conclusions expressed in this memorandum based on its audit work. The OIG reviewed GenTech's report and supporting documentation.

GenTech's audit work covered UI claims processed from March 27, 2020, to April 6, 2021. The OIG chose 10 SWAs for an in-depth examination of ETA and SWA policies, processes, and outcomes for UI claims—the SWAs in the States of: Arizona, Arkansas, California, Florida, Georgia, Kentucky, New Jersey, Ohio, and Virginia, as well as the U.S. Virgin Islands. GenTech also sent surveys to 43 SWAs not selected for an in-depth examination, of which 38 SWAs (88 percent) responded.

GenTech interviewed DOL and SWA officials about the UI claims process and procedures, fraud risks, best practices, and lessons learned. This included interviews with personnel from ETA, SWAs, and the NASWA's UI Information Technology Service Center who may have had knowledge of past and current UI IT modernization funding, performance measures, audits, examinations, and related corrective actions. GenTech also reviewed policies, procedures, and documents regarding ETA's and SWAs' UI IT strategy and project management, services, corporate governance, system operations and business resilience, and information and asset security.

We appreciate the cooperation and courtesies ETA personnel extended GenTech and the OIG. If you have any questions about this information, please contact Tracy Katz, Audit Director, at (202) 210-0769 or katz.tracy@oig.dol.gov.

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