



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #882

Unemployment Insurance--Funding for Unemployment Information Technology Systems (DWD -- Employment, Training, and Vocational Rehabilitation Programs)

Bill Agency

[LFB 2007-09 Budget Summary: Page 602, #7]

CURRENT LAW

The Division of Unemployment Insurance (UI) in the Department of Workforce Development (DWD) is responsible for administering the state's unemployment insurance law. To assist staff in administering the Wisconsin UI law, the Department contracted with private vendors to develop and implement a UI tax and accounting information technology system, and a UI benefits and appeals information technology system. The Division has base level funding in 2007-08 of \$141,800 GPR, 0.27 GPR position, \$61,665,800 FED, 510.59 FED positions, \$3,926,000 SEG, and 2.80 SEG positions.

GOVERNOR

Provide annual expenditure authority of \$650,000 PR in the UI interest and penalties, information technology systems appropriation. The funding would be used for the costs of developing and implementing the UI tax and accounting information technology system, and the benefit payment and appeals processing information technology system. The sources of funds for the appropriation are penalties for certain actions related to fraudulent benefit claims, penalties on employers for not filing wage reports in a timely manner or in the required media, and interest on delinquent tax contribution payments. Another provision in SB 40 would consolidate into a single PR appropriation all current appropriations that are funded by interest and penalty payments, including this appropriation.

DISCUSSION POINTS

State Unemployment Insurance Tax Enterprise System

1. The initial planning and development activities of the state unemployment insurance tax enterprise system (SUITES) for administering tax and accounting functions began in 1998-99. However, a contract for development and implementation of the system was first signed with Accenture, in August, 2002. Work on the system has been conducted by both contractors and state employees. UI federal administrative funds and interest and penalty funds have been used to finance systems development. In addition, DWD has imposed an administrative assessment on employers subject to contribution financing equal to the lesser of 0.01% of taxable payroll for the year, or the employer's solvency tax rate if the solvency rate is lower than 0.01%. The administrative assessment cannot be imposed after 2007. Initially, the SUITES project was projected to be completed in February, 2004, and cost \$17.2 million. However, when DWD contracted with Accenture for system development, the estimated cost was increased to \$27.7 million.

2. Employers covered by the state unemployment insurance law are required to make quarterly tax payments and submit quarterly wage and contribution reports to DWD. The wage data includes employee names and social security numbers and total gross wages paid during the quarter. In addition, a quarterly contribution report including wage and tax information must also be filed. (Employers may file a combined contribution wage report.) The employer uses information included on the report to calculate quarterly tax payments, and these are submitted with the report. If the report and/or the tax payment are not postmarked or received by the due date, late filing fees (\$1 or \$25 per employee, depending on the report) and interest of 1% per month is assessed.

3. SUITES is designed to replace the mainframe computer system previously used by the UI Division to process and administer wage data for approximately three million workers and quarterly tax payments for about 120,000 businesses. The new system will replace the old batch system of updating and processing records that had to be completed overnight or over several days. SUITES is designed to allow for real time processing, and greater flexibility to modify the system for law changes. In addition, a web component would allow employers to register, report, and view account information.

4. In September, 2004, the first release of the SUITES project upgraded the quarterly wage reporting system. On August 31, 2005, Accenture completed its work on the project, and instead DWD staff will finish the SUITES project. DWD indicates that it can finish the required work at less cost using Department personnel and funding. According to the Department, the tax accounting and administration component of the system will be operational by the end of 2007, and the final component, the management reports system, will be completed in May, 2008. The Department estimates that \$900,000 will be spent between March 14 and June 30, 2007. The projected expenditures for fiscal year 2007-08 are \$1.1 million. According to DWD, the total cost of developing and implementing the SUITES system would be an estimated \$36.4 million.

5. As noted, DWD projects the 2007-08 cost of completing implementation of SUITES

to be \$1.1 million. DWD also estimates that the annual maintenance and operational costs for the system will be \$1.8 million, beginning in 2008-09. The additional funding would be provided to help cover these costs. The Department notes that SUITES is a more complex system than the current data processing systems that will require more resources for maintenance, particularly during the beginning years of implementation. There are also a number of project change requests that have been delayed.

6. In its recent audit of state information technology systems, including SUITES, the Legislative Audit Bureau (LAB) reported that DWD did not adequately modify or streamline its business practices prior to beginning development of the SUITES system. According to LAB, modifying or streamlining nonessential business processes could have reduced the amount of complex and costly programming required for SUITES development. LAB also believes that the project is at risk for continued delays and cost increases, and that DWD's current cost estimate for the remaining work may be understated. LAB recommends that DWD report to the Joint Legislative Audit Committee by October 1, 2007, with: (a) specific milestones necessary for completing SUITES software development; (b) methods for limiting further addition of functions not required to meet UI program requirements in remaining SUITES development; and (c) revised, detailed project costs and time line estimates.

7. In 2005-06, the Department spent \$2,762,000 FED for SUITES from the UI administration, federal moneys appropriation. In addition, DWD indicates that annual funding of \$1.3 million is allocated for the current unemployment tax system that will be replaced by SUITES. As a result, there is base level funding in the UI administration appropriation to fund some SUITES implementation and operational costs. Given the LAB recommendations, additional funding for SUITES development and maintenance could be made dependent upon the revised cost and time line estimates developed by DWD and presented to the Audit Committee. If additional expenditures are determined to be necessary, DWD could request interest and penalty funding for SUITES through the s. 16.515/16.505 process.

8. However, DWD indicates that the federal administrative grant that provides funding for the UI administration appropriation has declined from \$64.7 million in federal fiscal year 2003-04 to \$56.4 million in federal fiscal year 2006-07. In addition, the annual year-end balance in the appropriation is estimated to decline from \$12.8 million in federal fiscal year 2003-04 to an estimated year-end balance of \$2.1 million at the end of federal fiscal year 2006-07. According to the Department there is not sufficient revenue in the UI administration federal moneys appropriation to fund both ongoing support for the current data processing systems, and the SUITES and EnABLES projects.

Enhanced Automated Benefits Legal Enterprise Services System

9. Planning and development activities for the Enhanced Automated Benefits Legal Enterprise Services (EnABLES) system began in 2001. In 2003, DWD contracted with Tier Technologies to purchase system software. Similar to the development of SUITES, both state employees and private contactors worked on the system. EnABLES was projected to cost \$24

million and to be completed in June, 2006. Funding for the system has been provided from federal UI administrative grants, interest and penalty payments, and administrative assessments.

10. In order to claim unemployment insurance benefits, an unemployed worker must notify DWD by telephone, filing on the Internet, or as otherwise permitted by DWD. Subsequently, DWD will determine the claimant's eligibility and weekly benefit rate based on quarterly wage record reports filed by each employer. An employer can question the eligibility for benefits based on work performed for that employer. Similarly, a claimant can question the Department's eligibility determination and computation of the weekly benefit rate by providing evidence that it is incorrect.

In order to receive regular benefits, an individual must file a weekly certification with the Department by telephone, mail, or other approved means within 14 days after the end of the week for which benefits are claimed. A weekly certification is the method by which a claimant submits information to the Department regarding the claimant's employment status and availability for work, and which establishes a basis for the payment of unemployment benefits.

11. EnABLES is designed to administer over 600,000 annual unemployment insurance benefit claims and appeals that are made related to benefit claims. The system is designed to upgrade and automate the current process for filing benefit claims and for administering benefit appeals, hearings, and adjudications. The system includes electronic data collection, central storage of data, a paperless claims process, statewide access to information, and multiple service locations.

12. Releases 1.0 and 1.1, which upgraded the benefit claims process, occurred in March and May of 2005, respectively. In 2005, DWD placed the project up for bid again, to attract a lower cost bid. However, Tier Technologies was the only qualified vendor to respond. Although releases 1.0 and 1.1 were successfully implemented, DWD suspended work on the project on February 9, 2007. DWD indicates that it could not continue the implementation due to the ongoing cost and extended timeline of the project. It was estimated that the total cost to fully implement EnABLES would be \$52.0 million, including DWD staff, and the project would not be complete until 2010. The UI Division is developing a new project plan to implement the remaining functions of the benefits and appeals system, at lower cost within a shorter implementation period. Ongoing annual maintenance and support costs and staff for the completed part of the EnABLES system are \$478,500, and 0.50 position. The additional interest and penalty funding provided in the bill would help fund these costs.

13. The LAB audit found that, similar to SUITES, DWD did not adequately plan for the EnABLES project, including failing to review its business practices prior to development. LAB noted the following additional factors having negative effects: (a) DWD significantly underestimated the time, complexity, and expense required to customize the EnABLES software; (b) customizing the software to fit business practices, rather than modifying those practices, increased project costs; and (c) because there were no detailed project specifications, initially, payments to the vendor were not linked to specific deliverables. The later contract with Tier Technologies did negotiate lower hourly payment rates and reduced vendor staff. LAB recommended that DWD report to the Joint Legislative Audit Committee by October 1, 2007, on its

progress in: (a) completing a detailed assessment of the costs and benefits of continuing to maintain or customize software for use in UI program administration; and (b) modifying or streamlining the Department's business processes prior to pursuing any further software development for UI programs.

14. Funding of \$5,941,400 in the UI administration federal moneys appropriation was allocated for implementation of the EnABLES project in fiscal year 2005-06. Additional funding of \$1,592,600 is provided in 2006-07 for the project through the UI tax and accounting systems federal moneys appropriation. As noted the amount of funding needed for ongoing annual system operation and maintenance costs is \$478,500. Again, a portion of base administrative funding is allocated for EnABLES costs. This could be used to support ongoing EnABLES-related activities until DWD develops more specific estimates of essential business practices and system costs. If DWD determines that addition funds are needed for EnABLES, it could request the necessary funds through the s.16.515/16.505 process. As noted, the Department has indicated that current UI administrative funds are not sufficient for EnABLES and SUITES expenses.

15. As noted, the additional expenditure for SUITES and EnABLES maintenance and operations would be provided in the UI interest and penalties, information technology appropriation. The statutes limit expenditures from this appropriation to the amount of expenditure authority that is authorized for a fiscal year. However, under another provision in the bill, this appropriation would be consolidated into a single UI interest and penalty appropriation. The new consolidated appropriation would authorize the Department to expend all revenue in the appropriation. If the Committee wishes to delete additional funding for SUITES and EnABLES, the current UI interest and penalty information technology systems appropriation must be retained as a separate appropriation.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide annual expenditure authority of \$650,000 PR in the UI interest and penalties, information technology systems appropriation for the costs of developing and implementing the UI tax and accounting information technology system (SUITES), and the benefit payment and appeals processing information technology system (EnABLES).

ALT 1	Change to Bill Funding	Change to Base Funding
PR	\$0	\$1,300,000

2. Delete the Governor's recommendation and specify that the current UI interest and penalties, information technology systems appropriation be retained as a separate appropriation.

ALT 2	Change to Bill Funding	Change to Base Funding
PR	- \$1,300,000	\$0

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