



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #1028

Unemployment Insurance Tax and Wage and Reporting System Redesign (DWD -- Employment, Training and Vocational Rehabilitation Programs)

[LFB 2001-03 Budget Summary: Page 728, #9]

CURRENT LAW

The Division of Unemployment Insurance (UI) within the Department of Workforce Development (DWD) is responsible for administering the state's unemployment insurance law. The Division has base level funding in 2001-02 of \$353,700 GPR, \$57,364,600 FED and \$6,025,000 PR, and 0.27 GPR, 601.13 FED and 11.50 PR positions.

GOVERNOR

Provide 13.0 FED two-year project positions beginning in 2001-02 to provide backup for UI Division staff and resources that are engaged in the UI tax and wage reporting system redesign.

DISCUSSION POINTS

1. A private employer covered by the State's unemployment insurance law is required to make quarterly tax payments and file quarterly contribution/wage reports with the UI Division. Summary wage and tax information is reported on the contribution part of the report. Individual employee gross wage information is reported on the wage part of the 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 tax payment are not received by the due date, late filing fees are assessed. In addition, interest of 1% per month is charged on the amount of tax due.

2. The computer system used to administer the quarterly tax payments and contribution/wage reports (the Unemployment Tax Accounting System) is an eighteen-year old mainframe-based transactional system in a centralized environment. The system uses a database

structure that the Department of Administration (DOA) has indicated it will no longer support. The current system's non-relational database has limited flexibility, provides limited real-time updates and is expensive to maintain. The system is labor intensive and relies on overnight batch processing.

3. Under the provisions of 1997 Wisconsin Act 39, an assessment was first imposed on employers subject to contribution financing in 1998 and 1999 to fund the costs of redesigning and developing an unemployment insurance tax and accounting information technology system. The assessment equals 0.01% of taxable payroll for the year or the employer's solvency rate if the solvency rate is lower than 0.01%. The Act also appropriated \$1,000,000 PR from the unemployment interest and penalty appropriation and \$450,000 in federal Reed Act monies was transferred to fund system development. (Reed Act funds are excess federal unemployment taxes from three separate accounts in the federal unemployment trust fund that are transferred to the states when the balances in the accounts exceed statutory limits. The transfers require special legislation and federal approval for each allocation.) The administrative assessment for technology development was extended to 2000 and 2001 under the provisions of 1999 Wisconsin Act 15. Annual assessments are about \$2.2 million.

4. The Division is currently in the process of developing the new state unemployment insurance tax enterprise system (SUITES). There are three phases to the project: (a) detailed design; (b) construction; and (c) implementation.

The detailed design phase of the project includes identification and documentation of all business and technical requirements for the system. Activities include: (a) identification of all detailed business rules; (b) specifications for improved forms, reports, screen designs and other system output; (c) system hardware and software specifications; (d) means and methods to improve contact and communication with all customers; (e) database design; (f) design of interfaces with other bureaus, divisions or departments; (g) specification of the data to be migrated to the system and creation of a plan for migration of the data; (h) programming specifications for conversion of data from the existing to the new system; and (i) development of an organizational change plan to facilitate implementation of SUITES. In addition, a cost and resource estimate will be developed for the construction and implementation phase.

The construction phase of development translates the requirements from the detailed design phase into computer code to develop a system that has the functionality specified in the detailed design. Either a custom system will be developed to meet the business and technical requirements or the existing system will be modified and customized to produce the desired functionality. After the coding is complete, the system will be tested by technical and business experts to assure that it functions as specified.

SUITES would be released for use during the implementation phase. All data from the current system would be migrated to the new system. In order to accomplish the migration, the data will be examined for accuracy and validity and system interfaces will be put in place.

The Division has completed a number of activities in the detailed design phase of system development. Completed projects include a business process improvement review (reviewing

existing processes to identify areas that need modernization and renovation), a legacy assessment of the existing tax and accounting system and a renovation and conversion planning process. In mid-May the Division will receive the draft business requirements document. An internet application has been developed that allows employers to file quarterly tax and wage reports via the internet. The UI tax and accounting computer system is projected to be fully implemented by fiscal year 2003-04.

5. The state unemployment insurance tax enterprise system is projected to cost a total of \$32.1 million. The sources of funding for the system include: (a) \$1.0 million from UI interest and penalties; (b) \$7.05 million from federal Reed Act funds; (c) \$9.45 million from federal unemployment administration grants; (d) \$14.4 million from employer assessments; and (e) \$200,000 from the Department of Revenue for access to tax and accounting information.

6. Current UI Division staff are assisting in all phases of development of the unemployment insurance tax enterprise system. DWD indicates that vendor proposals, studies and professional articles emphasize that staff should be closely involved in the development of major administrative systems. Staff involvement ensures that the system will meet customer and staff needs and include all relevant business processes. By actively participating in implementation, staff become more comfortable with the changes that will occur in their work activities as a result of system implementation.

7. Work time allocated to the UI tax and accounting system redesign project by existing staff has ranged from the equivalent of 10.55 FTE positions per month to 20.15 FTE per month. The use of existing staff on system development has caused workload backlogs to develop and staff has worked overtime to eliminate the workload build-up.

8. The bill would provide the UI division with 13.0 FED two-year project positions beginning in 2001-02 and the positions would be funded with reallocated federal unemployment administration funds. Specifically, supplies and services funding of \$385,100 in 2001-02 and \$509,800 in 2002-03 would be reallocated to salaries and fringe benefits. The positions would perform basic and routine administrative activities including customer services, audits, report gathering and processing, collection support, tax and wage balancing, research and staff scheduling. This would allow current staff to perform more important UI administrative functions and to continue activities related to implementing the redesigned UI tax and accounting system.

9. The Department indicates that if the additional positions are not approved the following would occur: (a) verification audits would be reduced; (b) employer service teams would have to delay some customer service, delaying coverage determinations and, possibly, delaying payment of UI claims; (c) financial reporting would be delayed and federal deadlines might be missed; (d) quarterly tax receipt processing would be delayed; (e) tax and benefit overpayment receivables would increase; and (f) tax collection activities would be reduced.

10. The UI Division currently has 1.35 positions funded from the federal unemployment administration appropriation that have been vacant at least 16 months. The Department indicates that it is recruiting to fill one of the vacant positions but is having difficulty filling it. The position

has been vacant over 20 months. In addition, there is an employment services supervisor position with the Division of Workforce Solutions that has been vacant for 13 months and is funded from the same appropriation as the UI positions. DWD indicates it is recruiting to fill the position. An argument could be made that it is difficult to justify the need for additional positions when there are a number of positions that have been vacant for over a year. One alternative would be to reduce the number of new positions provided in the bill from 13.0 to 10.65 to reflect the existence of 2.35 vacant positions that could be filled to supplement development of the UI tax and accounting system.

11. In addition, based on a review of vacant positions within all of DWD's divisions, there were a total of 121 positions that have been vacant for seven months or longer as of April 7, 2001. Of these vacant positions, 50 have been vacant for 13 months or more. Some of these vacancies are project positions that will terminate at the end of the current fiscal year, and the Department is attempting to fill most of the other vacancies. Also, 9.25 positions in the Administrative Services Division would be deleted under another provision of the budget bill. However, given the large number of long-term vacancies, it can be argued that the Department has sufficient flexibility to reallocate existing positions and additional position authority is not necessary at this time.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide 13.0 FED two-year project positions beginning in 2001-02 to provide backup for Unemployment Insurance Division staff and resources that are engaged in the UI tax and wage reporting system redesign.

2. Modify the Governor's recommendation to provide 10.65 FED, rather than 13.0 FED, two-year project positions and require the Department to reallocate 2.35 FED vacant positions beginning in 2001-02 to provide backup UI Division staff and resources that are engaged in the UI tax and wage reporting system redesign.

Alternative 2	FED
2002-03 POSITIONS (Change to Bill)	- 2.35

3. Maintain current law.

Alternative 3	FED
2002-03 POSITIONS (Change to Bill)	- 13.00

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