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Office of Inspector General—Office of Audit

EMPLOYMENT AND
TRAINING
ADMINISTRATION



RECOVERY ACT: MORE THAN \$1.3 BILLION IN UNEMPLOYMENT INSURANCE MODERNIZATION INCENTIVE PAYMENTS ARE UNLIKELY TO BE CLAIMED BY STATES

This audit was performed by WithumSmith+Brown PC, CPA's, under contract to the Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Eeliot P. Lewis

Assistant Inspector General for Audit

Date Issued: September 30, 2010
Report Number: 18-10-012-03-315

BRIEFLY...

Highlights of Report Number: 18-10-012-03-315, to the Assistant Secretary for Employment and Training.

WHY READ THE REPORT

Congress enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act), to promote economic recovery and assist those impacted by the recession. The Recovery Act set aside \$7 billion from the Federal Unemployment Account (FUA), to be used for Unemployment Insurance (UI) benefit payments for states whose UI laws meet or are changed to meet Recovery Act criteria intended to expand unemployment benefits permanently. The Act also provided \$500 million in administrative grants to assist states in their UI operations in such areas as upgrading computer systems and efficiency measures.

WHY OIG CONDUCTED THE AUDIT

The Office of Inspector General (OIG) conducted an audit to determine the status of the \$7 billion of incentive payments, which states had to apply for in order to receive their share; as well as the status of the \$500 million in administrative grants, which the states automatically received. Specifically, our audit objectives were to answer the following questions:

- (1) Did states that received UI modernization incentive payments make benefit payments to claimants who met the new eligibility requirements as enacted in state law?
- (2) Did states that have received incentive payments but have not yet implemented UI modernization incentive provisions, have implementation plans, including projected costs, timeframes, and anticipated challenges?
- (3) Why did states not apply for the modernization funds?
- (4) What is the status of the \$7 billion of modernization funds established by Congress?
- (5) What is the status of the \$500 million in administrative grants to states.

READ THE FULL REPORT

To view the report, including the scope, methodologies, and full agency response, go to:

<http://www.oig.dol.gov/public/reports/oa/2010/18-10-012-03-315.pdf>.

September 2010

RECOVERY ACT: MORE THAN \$1.3 BILLION IN UNEMPLOYMENT INSURANCE MODERNIZATION INCENTIVE PAYMENTS ARE UNLIKELY TO BE CLAIMED BY STATES

WHAT OIG FOUND

The OIG found that approximately \$4 billion of the \$7 billion in modernization funds has not yet been applied for, and that at least \$1.3 billion of the \$4 billion is unlikely to be applied for by the states. States cited increased costs for benefit payments and the political difficulty of making the required changes to state laws as the primary reasons they would not apply. Of the \$3 billion that has been received by the states, approximately \$2 billion has already been spent on benefit payments. Most of the states that received modernization incentive payments under the Recovery Act were not able to provide data regarding claimants' payments under the new provisions enacted in state laws, but those that could quantify the data reported to us approximately 59,000 claimants were paid \$98 million. We also found that at least \$399 million of the states' administrative grant funds remains unexpended, with a significant number of states planning multi-year systems improvements. States representing \$39 million of the \$500 million in administrative grant funds reported to us they did not have plans in place to spend those funds.

WHAT OIG RECOMMENDED

To better ensure more than \$1 billion of Recovery Act funds are put to best use, we recommended the Assistant Secretary for Employment and Training (1) keep Congress informed on the status of unused funds, and as appropriate, make recommendations to the Secretary to work with Congress to reinstate those funds into the FUA, and (2) request detailed spending plans from the states for the \$500 million of administrative funds, and provide assistance, as appropriate, to help ensure these funds are spent as intended.

ETA advised against including state-specific information in the report, citing concerns the information could change, and internal negotiations regarding the funds could be disrupted by the public disclosure. ETA supports our recommendation that unused funds become unrestricted in the FUA account, but recommends this occur on October 1, 2011, as provided by the Recovery Act. Given the unprecedented level of transparency called for by the Recover Act, the OIG believes disclosure of state-specific information is necessary and appropriate. We continue to believe the more than \$1 billion in Recovery Act funds unlikely to be used by states could be better used to help off-set the cost of government borrowing.

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WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

8403 Colesville Road, Suite 340
Silver Spring, Maryland 20910 USA
301 585 7990 . fax 301.585.7975

www.withum.com
Additional Offices in New Jersey, New York
Pennsylvania, Florida and Colorado

September 30, 2010

Ms. Jane Oates
Assistant Secretary for Employment and Training
Employment and Training Administration
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, D.C. 20210

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was passed to preserve and create jobs, promote economic recovery, and assist those most impacted by the recession. The Act set aside \$7 billion from the Federal Unemployment Account (FUA) in the Unemployment Trust Fund (UTF), to be used for Unemployment Insurance (UI) incentive payments for states whose unemployment compensation laws meet or are changed to meet Recovery Act criteria intended to expand unemployment benefits permanently. The Recovery Act also provided \$500 million in administrative grants to assist states with their unemployment insurance operations.

Each state must apply to the Employment and Training Administration (ETA) for its share of the incentive payments. One-third of each state's share is paid when DOL certifies the state's laws use a base period for computing unemployment claims that includes the most recently completed calendar year or allows for use of the most recent calendar quarter. The remaining two-thirds is paid when DOL certifies the state's laws to include at least two of four Recovery Act requirements to pay unemployment insurance under certain conditions involving part-time work, compelling family reasons, training programs, and dependent's allowances.

Our audit objectives were to determine (1) if states that received UI modernization incentive payments made unemployment compensation benefit payments to claimants who met the new eligibility requirements, as enacted in state law; (2) if states that have received incentive payments but have not yet implemented UI modernization incentive provisions, have implementation plans, including projected costs, timeframes and anticipated challenges; (3) why states did not apply for the modernization funds; (4) the status of the \$7 billion of modernization funds established by Congress for use by states; and (5) the status of the \$500 million in administrative grants to states.

The information in this report was developed by the DOL-OIG independent of ETA. The DOL-OIG is legislatively independent and charged with performing independent audits of DOL. WithumSmith+Brown (WSB), under contract with the DOL-OIG collected its information directly from the heads of State Unemployment Insurance offices or their designees in all 53 states and territories. WSB used structured interviews and data collection instruments to perform our audit. The interviews were conducted in August and September 2010, and included data available through July 31, 2010. We supplemented the data we gathered from the states with publicly available data from DOL's website at www.doleta.gov/recovery/. As a result, information in our report does not include nonpublic information which states may have provided to DOL.

WSB conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Our objectives, scope, methodology, and criteria are detailed in Appendix B.

RESULTS IN BRIEF

We found states are unlikely to apply for \$1.3 billion of the \$7 billion in UI modernization benefits. These states cited increased costs for benefit payments and required changes to state laws as politically difficult. Also, states representing a total of \$39 million of the \$500 million in administrative grant funds reported to us they did not have plans in place to spend those funds. These states stated they do not have plans to use the funds for the following reasons: significant challenges in procurement or state legislative approval processes; additional state funds would be needed to implement desired changes; and difficulties in identifying just how to spend the funds.

Most of the states receiving UI modernization payments under the new provisions of the Recovery Act were not able to provide data regarding claimants' payments. States that could quantify benefits paid under the new provisions reported to us approximately 59,000 new claimants were paid \$98 million.

Four states received incentive payments and delayed implementation of the one-third share requirements, and two of the four states also delayed implementation of the two-thirds share requirements. Under the provisions of the Recovery Act, states can delay implementation of the changes to state law for up to 12 months. These states reported moderate to substantial changes would need to be made to information systems, policies and procedures, staff training, and outreach and communications. They also said significant staff time would be required to implement the changes. No states provided timelines, projected costs, or implementation plans to accomplish cited changes.

States not applying for the modernization funds most often cited in response to our survey questions, the cost of increased benefit payments as the reason for not applying. These states also cited needed changes to state laws as politically difficult and unpopular with their citizens. Of the 26 states that had not applied for some or all funds, 10 states are unlikely to or will not apply for them. States have until August 2011 to apply for the incentive payments.

Of the \$7 billion set-aside for this program, \$3 billion was awarded to states, and the states have told us about \$2 billion of this amount has been used to supplement their UI accounts and pay UI modernization benefits and program administration costs and the remaining unallocated or reserved for administrative expenses. The remaining \$4 billion of the \$7 billion will remain available until August 2011 for states that meet the requirements of the Act. However, as of the time of our interviews, states reported to us they are unlikely to apply for \$1.3 billion of the remaining \$4 billion, as follows:

Table 1: States Unlikely to Apply for at Least a Portion of Unemployment Modernization Funds and Amounts They Are Unlikely to Apply for in Terms of One-Third and Two-Thirds Shares

State	Unlikely to Apply for One-Third Share	Unlikely to Apply for Two-Thirds Share	Total
Alabama	\$ 33,491,117	\$ 66,982,234	\$ 100,473,351
Arizona	50,032,295	100,064,590	150,096,885
Florida	148,091,839	296,183,677	444,275,516
Kentucky	30,058,648	60,117,295	90,175,943
Louisiana	32,795,110	65,590,221	98,385,331
Michigan	(Note)	138,855,048	138,855,048
Missouri	44,436,027	88,872,055	133,308,082
Utah	(Note)	40,664,804	40,664,804
Virginia	(Note)	125,635,366	125,635,366
Wyoming	4,748,377	9,496,753	14,245,130
Total	\$343,653,413	\$992,462,043	\$1,336,115,456

Note: States that have applied for and received the one-third share.

Of the \$500 million given to states for administration of UI programs, about \$78 million has been spent, and at least \$399 million remains unspent as of July 31, 2010. We were not able to determine the status of the remaining \$23 million. A majority of the states responded to our survey and reported they plan to spend these funds to improve UI systems and automation, with almost a third of the states reporting these funds would be spent by June 2012 or later. Nine states that did not have plans on how or when to spend these funds represented about \$39 million of the \$500 million. Another three states representing \$23 million of the funds did not provide an answer on how they plan to spend the funds. The Recovery Act did not specify when the funds should be spent.

To better ensure that \$1 billion or more of Recovery Act funds are put to best use, we recommend the Assistant Secretary for Employment and Training:

- Keep Congress informed on the status of the unused funds, and as appropriate, make recommendations to the Secretary to work with Congress to reinstate those funds into the Federal Unemployment Account to help off-set the cost of borrowing; and
- Request detailed spending plans from the states for the \$500 million of administrative funds, and for those states without adequate plans, provide assistance, as appropriate, to help ensure these funds are spent as intended.

ETA RESPONSE

ETA provided comments advising against including state-specific responses to survey questions in the report concerning the likelihood of states applying for incentive payments because the information could change, and internal negotiations regarding the funds could be disrupted by the public disclosure. ETA also responded that some states that appeared highly unlikely to apply for an incentive payment have already received incentive payments. ETA stated it strongly supports our recommendation that unused funds become unrestricted in the FUA account, but recommends this occur on October 1, 2011, as provided by the Recovery Act.

ETA's comments are included in their entirety in Appendix D.

AUDITORS' CONCLUSION

Given the unprecedented level of transparency called for in the Recovery Act, we believe disclosure of state-specific information is necessary and appropriate. We continue to believe the more than \$1 billion in Recovery Act funds unlikely to be used by states could be better used to off-set the cost borrowing to the government. We also believe more timely reinstatement would improve federal accounting for these funds.

RESULTS AND FINDINGS

Objective 1 — Did states that received UI modernization incentive payments make unemployment compensation benefit payments to claimants who met the new eligibility requirements, as enacted in state law?

Limited data was available to demonstrate benefits paid to claimants who met new eligibility requirements, and many states did not require changes to state laws.

Most of the states receiving UI modernization payments under the new provisions of the Recovery Act were not able to provide data regarding claimants' payments. States that could quantify benefits paid under the new provisions, reported approximately 59,000 new claimants were paid \$98 million.

The Recovery Act provided \$7 billion to be reserved in the FUA for transfer to the accounts of states in the UTF for the purposes of making unemployment compensation modernization incentive payments.

The maximum incentive payment allowable to any state is based on the ratio of that state's taxable wages to the total taxable wages for the preceding calendar year. For each state's maximum incentive payments, one-third shall be transferred to the state's account upon certification by DOL that the laws of the state meet the requirement of using a base period that includes the most recently completed calendar year or provides for an alternate base period (ABP) that uses a base period that includes the most recent calendar quarter, for the purpose of determining eligibility.

The remainder (two-thirds share) shall be transferred to the state's account upon certification by DOL that its state laws include provisions to carry out at least two of the following four:

- **Part-Time Work** — An individual cannot be denied unemployment compensation (UC) under any state law provision relating to availability for work, active search for work, or refusal to accept work, solely because such individual is seeking only part-time work, except where a majority of the weeks of work in the individual's base period do not include part-time work.
- **Compelling Family Reasons** — An individual cannot be disqualified from UC for separating from employment due to *compelling family reasons*, including domestic violence, illness or disability of an immediate family member, the need to accompany a spouse to a place where it is impractical to commute due to a change in the spouse's location of employment. This provision was subsequently amended to include sexual assault.

- **Training Program** — UC is payable to an individual who is unemployed and exhausted all rights to regular UC, and is enrolled and making satisfactory progress in an approved training program. The total amount of UC payable shall be equal to at least 26 times the individual’s average weekly benefit amount for the most recent benefit year.
- **Dependent’s Allowance** — Dependent’s allowances are provided in an amount equal to at least \$15 per dependent per week, with a maximum of not less than \$50 for each week or 50% of the individual’s weekly benefit amount, whichever is less.

The Employment and Training Administration (ETA) issued policy guidance to the state workforce agencies (Unemployment Insurance Program Letter 14-09) on February 26, 2009, which provided application instructions and deadlines, further details on the incentive payment provisions, and the amounts allocated to each state based on the formula specified in the Recovery Act.

One-third Share

As of July 31, 2010, 36 states had received the one-third share of the modernization incentive payments. Of these 36 states, 17 states (47%) did not require a change to its UI laws in order to satisfy this requirement. Therefore, for these 17 states, no changes in eligibility or in benefit payments occurred. As part of our survey, we requested states to report the impact of the additional population served as a result of the changes in their state law provisions. The following table summarizes the results of the one-third share as reported by the states, for the states which required changes in their laws:

Table 2: Impact on Benefit Payments Reported by States That Amended State Laws or Regulations to Receive 1/3 Share (See note)

States Requiring Changes	Minor increases¹	Moderate increases²	Substantial increases³	Not Determinable
19	12	2	2	3

Note: Reported by 19 states.

We requested data from the states regarding the number of claimants served and the amount of benefits paid through July 31, 2010, under the alternate base period. For the states that were required to amend their state laws, nine states could not determine this information. Ten states reported a total of approximately 35,000 more claimants and \$72 million in additional benefits paid.

¹ Less than 5% increase in total population served
² 5% to 19% increase in total population served
³ 20% or greater increase in total population served

Two-thirds Share

As of July 31, 2010, 27 states had also applied for and received the two-thirds share of incentive payments, as follows:

Table 3: Implemented or Existing Provisions Qualifying States for 2/3 Share
(See note)

Provisions Implemented for 2/3 Share	Number of States	Changes to State Law or Regulations Required
Part-Time Workers (PTW)	20 states	16 states
Compelling Family Reasons (CFR)	15 states	13 states
Training Programs (TP)	14 states	13 states
Dependents Allowance (DA)	5 states	2 states

Note: The 27 states that met the required two provisions.

As part of our survey, we requested states to report the impact of the additional population served as a result of the changes in their state laws for each of the new provisions enacted. The following table summarizes the results of each provision as reported by the states, for the states which required changes in their laws:

Table 4: Impact on Benefit Payments Reported by States That Amended State Laws or Regulations to Receive 2/3 Share

Provision	States Requiring Changes	No impact	Minor increases ⁴	Moderate increases ⁵	Substantial increases ⁶	Not Determinable	No Response
PTW	16	6	4	1	1	2	2
CFR	13		9	1		2	1
TP	13	1	6	1	1	3	1
DA	2	1		1			

In addition, we requested data on the number of claims paid and the amount of benefits paid since enactment of each provision through July 31, 2010. The following table presents information on the additional number of claimants served and benefits paid based on changes to state laws for states and territories which required changes:

⁴ Less than 5% increase in targeted population served
⁵ 5% to 19% increase in targeted population served
⁶ 20% or greater increase in targeted population served

Table 5: Additional Number of Claimants Served and Benefits Paid for States Required to Change Laws or Regulations to Qualify for 2/3 Share

Provision	States Requiring Changes	States Reporting Data	States Not Determinable or Not Provided	Number of Claimants	Amount of Benefits <i>(in millions)</i>
PTW	16	2	14	194	\$ 0.5
CFR	13	6	7	2,285	10.0
TP	13	4	9	437	12.7
DA	2	1	1	20,700	2.1
Total				23,616	\$25.3

We noted that for the states that did have to change their laws, some of the changes were relatively minor which could have the effect of lessening the impact reported by the states.

Objective 2 — For states that have received incentive payments but have not yet implemented UI modernization incentive provisions, what are the states’ implementation plans, including projected costs, timeframes and anticipated challenges?

Only four states took advantage of the delayed implementation provisions of the Recovery Act, with moderate to substantial system and procedure changes required to implement the changes in state law.

Of the four states that delayed implementation of the effective date for the one-third share, only two states also delayed implementation for the two-thirds share. Two of the four states provided estimated administrative costs to implement these changes, while the other two states did not conduct a formal estimate of the costs. The costs primarily relate to increased staff time to make IT system changes. All four of the states indicated the planned changes would be complete by the effective dates of the new provisions.

In order to receive the one-third or two-thirds incentive payment, the Recovery Act provides that a state must submit an application to the Department of Labor. If DOL finds that the state law provisions (disregarding any provisions not currently in effect as permanent law, or which are subject to discontinuation) meet the requirements of the Act, the Secretary of Labor shall certify to the Secretary of Treasury to that effect, together with a certification as to the amount of the incentive payment to be transferred to the state’s account.

The Recovery Act also provides that for purposes of this provision, state law provisions, which are to take effect within 12 months after the date of their certification, shall be considered to be in effect as of the date of such certification. Therefore, a state can delay up to 12 months the effective date of the changes to its state laws.

We noted that as of July 31, 2010, four states which passed laws and for which the legislation had not yet taken effect, had received the one-third share, as follows:

Table 6: States Receiving 1/3 Share Which Have Passed Laws with Pending Effective Dates

State	Amount of One-Third Share	Effective Date of Provisions
South Carolina (See note)	\$32,486,497	January 1, 2011
Nebraska	\$14,541,923	July 1, 2011
Maryland	\$42,250,041	March 6, 2011
Utah	\$20,332,402	January 2, 2011

Note: Applied for the one-third and two-third share prior to July 31, 2010, but did not receive payment until after July 31, 2010.

All four of these states reported to us in our survey questions that moderate to substantial changes need to be made to information systems, policies and procedures, staff training, and outreach/communications to implement the new provisions. The timeframe for implementation of changes to information systems ranged from 4 to 12 months. The costs to implement these changes were primarily based on staff time, especially information technology staff, as well as hardware and software issues. Only two of these four states provided estimated costs to implement these provisions, which were reported as \$250,000 and \$1,252,215, respectively.

For the two-thirds share, we noted that as of July 31, 2010, two states had received the two-thirds share but the legislation for both provisions had not yet taken effect. The two states listed below chose to enact the minimum requirement of two provisions.

Table 7: States Receiving 2/3 Share Which Have Passed Laws with Pending Effective Dates for Qualifying Provisions

State	Amount of Two-Thirds Share	Provision 1	Effective Date of Provision 1	Provision 2	Effective Date of Provision 2
Nebraska	\$29,083,846	Part-time Work	July 1, 2011	Training Programs	July 1, 2011
		Part-time Work		Training Programs	
Maryland	\$84,500,083	Part-time Work	March 1, 2011	Training Programs	March 6, 2011

For the Part-Time Work provision, Nebraska told us in response to our survey questions that moderate changes are needed to its information systems, as well as staff training, in order to implement the provisions. For the Training Program provision, Nebraska told us substantial changes are needed to its information systems and moderate changes to its outreach, publications, and communications. Nebraska estimated its administrative costs to implement the Part-Time Work provision and Training Program provision to be \$216,000 and \$12,000, respectively. Maryland did not develop a formal estimate of the administrative costs to implement the Part-Time Work and Training Program provisions.

Objective 3 — For states not applying for these modernization funds, why not?

States not applying for the UI modernization funds cite increased benefit costs as the primary factor in not applying.

Twenty-six states have not applied for some or all of the UI modernization incentive payments, totaling approximately \$4 billion, and according to state officials, 10 of these 26 states are unlikely to, or definitely will not, apply for them, totaling \$1.3 billion. For the states not applying, the state officials said increased benefit costs was the dominant factor, along with the changes to state laws being politically difficult or unpopular with their citizens.

We queried the states that had not applied for the modernization funds to provide some insight as to the reasons why not. Because states have until August 12, 2011, to submit their application to the U.S. Department of Labor, we also inquired whether it was likely the state would ultimately apply for these funds.

One-third Share

In order to be eligible for the one-third share, states must utilize a base period, or add an alternate base period, which uses the most recently completed calendar quarter before the start of the benefit year, for purposes of determining eligibility for benefits. If an alternate base period is used, then a person who is not eligible under the regular base period could become eligible under the alternate base period. This has the effect of expanding the pool of eligible beneficiaries, or at a minimum, accelerating the payments of benefits to claimants who might not qualify until a future date, if at all. As of July 31, 2010, there were 17 states that had not applied for the one-third share, approximating \$1.1 billion, as follows:

Table 8: Probability States Will Apply for the 1/3 Share (See note)

Status as Reported by State Officials	1/3 Share Number of States	1/3 Share Amount (in billions)
Definitely Will Not Apply	2	\$.094
Unlikely to Apply	5	.249
Somewhat Likely to Apply	3	.115
Definitely Will Apply or Applied but Not Received	3	.313
No Response Provided	4	.317
Total	17	\$ 1.088

Note: The 17 States that have not applied for 1/3 share.

The seven states that will not apply or are unlikely to apply include, as reported to us by state officials at the time of our survey questions, include 1) Alabama, 2) Arizona, 3) Florida, 4) Kentucky, 5) Louisiana, 6) Missouri, and 7) Wyoming. Of these seven states,

six states cited the costs of increased benefit payments as a substantial or dominant factor. Other substantial or dominant factors cited included a) the states did not consider the proposed changes necessary or desirable (two states); b) the state did not view the Federal incentive process as necessary or desirable (one state); and c) the states deemed the changes to be politically difficult or unpopular with citizens (three states).

Two-thirds Share

As of July 31, 2010, there were 26 states that had not applied for, or had applied but not yet received, the two-thirds share, approximating \$2.8 billion, as follows:

Table 9: Probability States Will Apply for the 2/3 Share (See note)

Status as Reported by State Officials	2/3 Share Number of States	2/3 Share Amount (in billions)
Definitely Will Not Apply	3	\$.249
Unlikely to Apply	7	.743
Somewhat Likely to Apply	5	.428
Very Likely to Apply	1	.098
Definitely Will Apply or Applied but Not Received	6	.669
No Response Provided	4	.634
Total	26	\$ 2.821

Note: The 26 States that have not applied for 2/3 share.

The 10 states that will not apply or are unlikely to apply for the two-thirds share, as reported to us at the time of our survey questions, include 1) Alabama, 2) Arizona, 3) Florida, 4) Kentucky, 5) Louisiana, 6) Michigan, 7) Missouri, 8) Utah, 9) Virginia, and 10) Wyoming. Three of these states, Michigan, Virginia and Utah, did apply for and receive the one-third share. Of these 10 states, 5 states cited the costs of increased benefit payments as a substantial to dominant factor, and 3 of these 5 states also cited that the changes would be politically difficult or unpopular with citizens as a substantial factor. The other 5 states did not provide a response as to the factors why they are unlikely to apply.

Total Share

The total amounts for the one-third and two-thirds shares for states reporting they definitely won't apply or are unlikely to apply is \$1.3 billion.

Status	1/3 Share	2/3 Share	Total
Definitely Will Not Apply	\$.094	\$.249	\$.343
Unlikely to Apply	.249	.743	.992
Total	\$.343	\$.992	\$ 1.335

Objective 4 — What is the status of the \$7 billion of modernization funds established by Congress for use by states with no repayment requirement?

Of the approximately \$4 billion that is reserved in the FUA for UI modernization, approximately \$1.3 billion is unlikely to be applied for.

Approximately \$3 billion has been awarded to states, with approximately \$2 billion spent on benefit payments and the remaining unallocated or reserved for administrative expenses. Approximately \$4 billion of the \$7 billion remains reserved for states to apply by August 2011. Of this amount, we determined that \$1.3 billion is unlikely to be applied for, based on the information told to us by state officials during our structured interview questions.

The Recovery Act provided that a transfer from the FUA of the UTF to the accounts of states in the UTF be made if the states met the requirements in their state laws as specified in the Recovery Act. The amount available for each state is calculated by multiplying \$7 billion times a ratio of the states taxable wages to the total taxable wages for the prior year.

Any amounts reserved under this provision for which a certified application has not been approved by DOL and forwarded to Treasury would be reverted back to the FUA and become unrestricted as to use on September 2011. Applications must be submitted before August 2011. Amounts in the FUA are used to provide loans to insolvent states. As of July 31, 2010, the account balance in FUA was \$3.9 billion.

As of July 31, 2010, approximately \$3 billion has been awarded for the one-third and two-thirds shares to 36 states (one-third share) and 27 states (one-third and two-thirds shares). The following is the status of the \$3 billion that has been awarded:

Status of Funds	Amount
Transferred to an Administration Allocation Accounts (Unspent)	\$.094
Spent on Administration	.045
Spent on Benefit Payments	2.046
Unallocated	.795
Total	\$ 2.985

Relative to the one-third share, \$1.1 billion has not been awarded as of July 31, 2010. Of this amount, approximately \$343 million will not be or is unlikely to be applied for, according to our survey responses. Of the \$2.8 billion not awarded as of July 31, 2010, for the two-thirds share, approximately \$992 million will not be or is unlikely to be applied for. Therefore, a total of \$1.3 billion in incentive payments will not be or is unlikely to be applied for based on our survey responses.

Objective 5 — What is the status of the \$500 million administrative grants to states?

At least \$399 million of the states' funds remains unexpended, with a significant number of states planning multi-year systems improvements. Some states did not have plans in place for spending these funds.

In addition to the UI modernization incentive payments, the Recovery Act also provided a total of \$500 million to the states as a “Special Transfer in Fiscal Year 2009 for Administration.” These amounts were transferred from the Employment Security Administration Account (ESAA) to the account of each state in the UTF in March 2009. The amount for each state was determined by multiplying \$500 million by the ratio of that state’s taxable wages to the total taxable wages for the preceding calendar year. The Recovery Act did not specify any time limitation on the use of the funds, nor were the states required to apply for these funds with DOL.

We collected data from the 53 states and territories regarding the status and use of these administrative funds as of July 31, 2010. Of the 50 states that reported data to us, 25 states reported approximately \$78 million (15.6%) of the \$500 million administrative grants have been expended, primarily for the improvement of UI operations. Twenty-five of these 50 states reported that no funds had been expended. The unexpended funds for these 50 states total approximately \$399 million (79.8%). The remaining three states did not respond to our data collection request, totaling \$23 million (4.6%). Therefore, we could not determine how much, in addition to the \$399 million, remains unexpended as of July 31, 2010.

The 50 states provided the following information on the amount of administrative funds they spent:

Table 12: Expenditures Of Administrative Funds (See note)

Purpose	Amount (in millions)	Percent
Implementing provisions related to changes to laws	\$ 19.4	25%
Outreach	1.5	2%
Improvement of operations	53.0	67%
Reemployment services	2.4	3%
Other or not determinable	2.2	3%
Total	\$ 78.5	100%

Note: Reported by 50 States.

We also inquired about the use of the remaining unexpended funds. Because there is no time limit defined by law for expending these funds, many states have planned multi-year system improvement projects. Of the 53 states, nine states did not have specific plans for spending these funds, totaling \$39 million. Additionally, three states did not respond to our survey question for spending these funds, totaling an additional \$23 million. Two states had already spent all their funds. Of the remaining 39 states, the reported plans included:

Table 13: Planned Usage of Administrative Funds by Major Category (See note)

Category	No. of States
Improve UI systems/ automation	25
Staffing/personnel	4
Other	10
Total	39

Note: Report by 39 States.

The estimated timeframes to spend the funds reported were:

Table 14: Planned Usage of Administrative Funds by Timeframe (See note)

Timeframe	No. of States
Already spent	2
No specific timeframe or not determinable	22
By June 30, 2011	9
By June 30, 2012	7
After June 30, 2012	13
Total	53

Note: Total states and territories reporting.

In response to our survey questions, 36 states told us that there were currently no significant challenges or obstacles to spending these administrative funds. However, 7 states viewed the procurement process or state legislative approval process as a significant challenge; 2 states reported staffing being assigned to other high-priority

projects as a significant challenge; 1 state reported the need to obtain additional funding to implement their plans as a significant challenge; 6 states reported other significant challenges; and 1 state didn't provide a response.

As specified in the Recovery Act, these amounts can be used by the state for expenses incurred for:

- the administration of the provisions of its state law in carrying out the purposes relating to the incentive payments;
- improved outreach to individuals who might be eligible for regular UC by virtue of any provisions of state law related to the incentive payments;
- the improvement of unemployment benefit and unemployment tax operations, including responding to increased demand for unemployment compensation; and
- staff-assisted reemployment services for unemployment compensation claimants.

We also noted there may be some confusion on the part of the states regarding how the spending and status of these funds is reported to ETA. For example, only 27 states identified the ETA Form 2112 as a report used to report the activity and status of these funds, and responses were inconsistent as to which lines on which to report this data. Some other states also responded that these funds are reported on ETA Form 9130 and ETA Form 8403.

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training:

1. Keep Congress informed on the status of the unused funds, and as appropriate, make recommendations to the Secretary to work with Congress to reinstate those funds into the Federal Unemployment Account to help offset the cost of borrowing.
2. Request detailed spending plans from the states for the \$500 million of administrative funds, and for those states without adequate plans, provide assistance, as appropriate, to help ensure these funds are spent as intended.

We appreciate the cooperation and courtesies that ETA and state unemployment insurance personnel extended to WithumSmith+Brown during this audit.

WithumSmith+Brown, PC

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Exhibits

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Exhibit 1

Status of \$7 Billion UI Modernization Incentive Payments as of July 31, 2010

State	Amount Available			Amount Awarded		
	Total	1/3 Share	2/3 Share	Total	1/3 Share	2/3 Share
Alabama	\$ 100,473,351	\$ 33,491,117	\$ 66,982,234			
Alaska	15,619,234	5,206,411	10,412,823	\$ 15,619,234	\$ 5,206,411	\$ 10,412,823
Arizona	150,096,885	50,032,295	100,064,590			
Arkansas	59,969,332	19,989,777	39,979,555	59,969,332	19,989,777	39,979,555
California	838,680,283	279,560,094	559,120,189			
Colorado	127,469,762	42,489,921	84,979,841	127,469,762	42,489,921	84,979,841
Connecticut	87,811,338	29,270,446	58,540,892	87,811,338	29,270,446	58,540,892
Delaware	21,868,398	7,289,466	14,578,932	21,868,398	7,289,466	14,578,932
District of Columbia	27,632,982	9,210,994	18,421,988	9,210,994	9,210,994	
Florida	444,275,516	148,091,839	296,183,677			
Georgia	220,286,144	73,428,715	146,857,429	220,286,144	73,428,715	146,857,429
Hawaii	30,526,725	10,175,575	20,351,150	30,526,725	10,175,575	20,351,150
Idaho	32,260,831	10,753,610	21,507,221	32,260,831	10,753,610	21,507,221
Illinois	301,150,687	100,383,562	200,767,125	301,150,687	100,383,562	200,767,125
Indiana	148,498,323	49,499,441	98,998,882			
Iowa	70,814,387	23,604,796	47,209,591	70,814,387	23,604,796	47,209,591
Kansas	68,970,143	22,990,048	45,980,095	68,970,143	22,990,048	45,980,095
Kentucky	90,175,943	30,058,648	60,117,295			
Louisiana	98,385,331	32,795,110	65,590,221			
Maine	28,231,263	9,410,421	18,820,842	28,231,263	9,410,421	18,820,842
Maryland	126,750,124	42,250,041	84,500,083	126,750,124	42,250,041	84,500,083
Massachusetts	162,683,341	54,227,780	108,455,561	162,683,341	54,227,780	108,455,561
Michigan	208,282,572	69,427,524	138,855,048	69,427,524	69,427,524	
Minnesota	130,063,620	43,354,540	86,709,080	130,063,620	43,354,540	86,709,080
Mississippi	56,136,656	18,712,219	37,424,437			
Missouri	133,308,082	44,436,027	88,872,055			
Montana	19,525,764	6,508,588	13,017,176	19,525,764	6,508,588	13,017,176
Nebraska	43,625,769	14,541,923	29,083,846	43,625,769	14,541,923	29,083,846
Nevada	76,937,412	25,645,804	51,291,608	76,937,412	25,645,804	51,291,608
New Hampshire	31,401,220	10,467,073	20,934,147	31,401,220	10,467,073	20,934,147
New Jersey	206,823,364	68,941,121	137,882,243	206,823,364	68,941,121	137,882,243
New Mexico	39,022,582	13,007,527	26,015,055	39,022,582	13,007,527	26,015,055
New York	412,742,107	137,580,702	275,161,405	412,742,107	137,580,702	275,161,405
North Carolina	205,063,552	68,354,517	136,709,035			
North Dakota	14,552,205	4,850,735	9,701,470			
Ohio	264,508,588	88,169,529	176,339,059	88,169,529	88,169,529	
Oklahoma	75,886,483	25,295,494	50,590,989	75,886,483	25,295,494	50,590,989
Oregon	85,574,641	28,524,880	57,049,761	85,574,641	28,524,880	57,049,761
Pennsylvania	273,299,496	91,099,832	182,199,664			
Puerto Rico	41,247,756	13,749,252	27,498,504			
Rhode Island**	23,460,578	7,820,193	15,640,385	7,820,193	7,820,193	
South Carolina***	97,459,490	32,486,497	64,972,993			
South Dakota	17,647,634	5,882,545	11,765,089	17,647,634	5,882,545	11,765,089
Tennessee	141,808,031	47,269,344	94,538,687	141,808,031	47,269,344	94,538,687
Texas	555,671,344	185,223,781	370,447,563			
Utah	60,997,206	20,332,402	40,664,804	20,332,402	20,332,402	
Vermont	13,917,898	4,639,299	9,278,599	4,639,299	4,639,299	
Virgin Islands*	2,002,911	667,637	1,335,274			
Virginia	188,453,049	62,817,683	125,635,366	62,817,683	62,817,683	
Washington	146,593,828	48,864,609	97,729,219	48,864,609	48,864,609	
West Virginia	33,176,630	11,058,877	22,117,753	11,058,877	11,058,877	
Wisconsin	133,934,079	44,644,693	89,289,386	133,934,079	44,644,693	89,289,386
Wyoming	14,245,130	4,748,377	9,496,753			
Total	\$ 7,000,000,000	\$ 2,333,333,331	\$ 4,666,666,669	\$3,091,745,525	\$ 1,245,475,913	\$ 1,846,269,612
Number of States				36	36	27

* - Applied for the one-third share prior to July 31, 2010, but did not receive payment until after July 31, 2010.
 ** - Applied for the two-thirds share prior to July 31, 2010, but did not receive payment until after July 31, 2010.
 *** - Applied for one-third and two-thirds share prior to July 31, 2010, but did not receive payment until after July 31, 2010.

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Exhibit 3

Status of \$500 Million Special Administrative Transfer as of July 31, 2010

State	Amount Awarded	Expended/Unexpended Funds			Plans to Expend Funds		
		Expended	Unexpended	Expense Information not provided	Plans to Expend Funds	No Plans to Expend Funds	No Response Provided in Plans to Expend Funds
Alabama	7,176,668	1,183,421	5,993,247		-	5,993,247	-
Alaska	1,115,660	-	1,115,660		1,115,660		-
Arizona	10,721,206	54,198	10,667,008		10,667,008		-
Arkansas	4,283,524	289,639	3,993,885		3,993,885		
California	59,905,736	12,300,000	47,605,736		47,605,736		
Colorado	9,104,983	3,066,889	6,038,094		-		6,038,094
Connecticut	6,272,238	1,059,474	5,212,764		5,212,764		
Delaware	1,562,028	239,173	1,322,855		1,322,855		
District of Columbia	1,973,784	-	1,973,784		1,973,784		
Florida	31,733,965	-	31,733,965		31,733,965		
Georgia	15,734,725	1,843,183	13,891,542		13,891,542		
Hawaii	2,180,480	-	2,180,480		-	2,180,480	
Idaho	2,304,345	-	2,304,345		2,304,345		
Illinois	21,510,763	19,022,043	2,488,720		2,488,720		
Indiana	10,607,023	-	10,607,023		10,607,023		
Iowa	5,058,171			5,058,171	5,058,171		
Kansas	4,926,439	3,116,126	1,810,313		-		1,810,313
Kentucky	6,441,139	-	6,441,139		6,441,139		
Louisiana	7,027,524	-	7,027,524		7,027,524		
Maine	2,016,519	424,500	1,592,019		1,592,019		
Maryland	9,053,580	-	9,053,580		-	9,053,580	
Massachusetts	11,620,239	-	11,620,239		11,620,239		
Michigan	14,877,327	652,444	14,224,883		14,224,883		
Minnesota	9,290,259	-	9,290,259		9,290,259		
Mississippi	4,009,761	-	4,009,761		4,009,761		
Missouri	9,522,006	-	9,522,006		9,522,006		
Montana	1,394,697	1,394,697	-		-		
Nebraska	3,116,126	-	3,116,126		3,116,126		
Nevada	5,495,529	1,455,532	4,039,997		4,039,997		-
New Hampshire	2,242,944	1,841,296	401,648		401,648		
New Jersey	14,773,097	3,501,581	11,271,516		11,271,516		-
New Mexico	2,787,327	940,054	1,847,273		1,847,273		
New York	29,481,579	-	29,481,579		29,481,579		
North Carolina	14,647,397			14,647,397	-		14,647,397
North Dakota	1,039,443	61,676	977,767		977,767		
Ohio	18,893,471	18,893,471	-		-		
Oklahoma	5,420,463	-	5,420,463		5,420,463		
Oregon	6,112,474	-	6,112,474		-	6,112,474	
Pennsylvania	19,521,393	2,343,403	17,177,990		17,177,990		
Puerto Rico	2,946,268			2,946,268	2,946,268		
Rhode Island	1,675,756	276,600	1,399,156		1,399,156		
South Carolina	6,961,392	2,694,743	4,266,649		4,266,649		
South Dakota	1,260,545	491,450	769,095		-	769,095	
Tennessee	10,129,145	-	10,129,145		10,129,145		
Texas	39,690,810	-	39,690,810		39,690,810		
Utah	4,356,943	-	4,356,943		4,356,943		
Vermont	994,136	-	994,136		-	994,136	
Virgin Islands	143,065	-	143,065		143,065		-
Virginia	13,460,932	-	13,460,932		13,460,932		-
Washington	10,470,988	-	10,470,988		-	10,470,988	
West Virginia	2,369,759	87,814	2,281,945		-	2,281,945	
Wisconsin	9,566,720	780,030	8,786,690		8,786,690		
Wyoming	1,017,509	-	1,017,509		-	1,017,509	
Total	500,000,000	78,013,437	399,334,727	22,651,836	360,617,305	38,873,454	22,495,804

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Appendices

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Appendix A

Background

The Recovery Act was signed into law by the President on February 17, 2009, to preserve and create jobs, promote economic recovery, and assist those most impacted by the recession. As of August 19, 2010, Congress provided \$70.8 billion to DOL (See Table 15 below).

Table 15: Department of Labor Recovery Act Funding, as of August 19, 2010

Program	Amount ^a (in millions)	Percent
Unemployment Insurance	\$65,996	93.17
Training and Employment Services	3,950	5.58
State Unemployment Insurance and Employment Service Operations	400	0.56
Community Service Employment for Older Americans	120	0.17
National Emergency Grants for Health Insurance Coverage	40	0.06
Job Corps	250	0.35
Departmental Management	80	0.11
Total	\$70,836^b	100.00

^a – The amounts other than “Unemployment Insurance and National Emergency Grants for Health Insurance Coverage” were obtained from the Recovery Act dated February 17, 2009. The “Unemployment Insurance” amount was provided by the Office of the Assistant Secretary for Administration and Management, and includes amounts made available for Federal and State Extended Benefits, Extension of Emergency Unemployment Compensation, and Federal Additional Unemployment Compensation programs. The National Emergency Grants for Health Insurance Coverage amounts were adjusted in United States Public Law 111-226 (HR1586).

^b – The total amount does not include \$6 million provided to the OIG to provide oversight over the Department’s Recovery Act activities.

The UI program is a Federal-State entitlement program, which provides benefits to eligible workers who are unemployed through no fault of their own. The program was created by the Social Security Act of 1935. States collect UI taxes from employers and deposit the money into the UTF in the U.S. Treasury until they need to draw it down to pay benefits to qualified claimants. In addition, pursuant to the Federal Unemployment Tax Act a federal tax is levied on covered employers at a current rate of 6.2 percent on wages up to \$7,000 a year paid to an employee. The law, however, provides a credit against federal tax liability of up to 5.4 percent to employers who pay state taxes timely under an approved state UC program. DOL funds State Workforce Agencies (SWAs), which administer the UI program, through grant agreements. These grant agreements are intended to ensure that SWAs both administer the UI program efficiently and comply with Federal laws and regulations.

State law defines who qualifies for UI benefits; therefore eligibility varies by state. For example, some states will not pay UI benefits to someone who left a job to care for an ill

family member, or to an individual enrolled in training for certain high-demand occupations in a growing field like health care.

If eligible, an unemployed worker may collect a maximum amount of UI, based on earnings in a specific period of time before their job loss. This is referred to as the “base period.” Certain groups of workers (e.g., younger workers, retirees returning to the workforce) may not qualify for UI because they have not been employed long enough to meet the “base period” in their states.

The Recovery Act provided \$7 billion to be reserved in the FUA for transfer to the accounts of states in the UTF for the purposes of making unemployment compensation modernization incentive payments.

The maximum incentive payment allowable to any state is based on the ratio of that state’s taxable wages to the total taxable wages for the preceding calendar year. For each state’s maximum incentive payments, one-third shall be transferred to the state’s account upon certification by DOL that the laws of the state meet the requirement of using a base period that includes the most recently completed calendar year or provides for an alternate base period that uses a base period that includes the most recent calendar quarter, for the purpose of determining eligibility.

The remainder (two-thirds share) shall be transferred to the state’s account upon certification by DOL that its state laws include provisions to carry out at least two of the following four:

- **Part-Time Work** — An individual cannot be denied UC under any state law provision relating to availability for work, active search for work, or refusal to accept work, solely because such individual is seeking only part-time work, except where a majority of the weeks of work in the individual’s base period do not include part-time work.
- **Compelling Family Reasons** — An individual cannot be disqualified from UC for separating from employment due to *compelling family reasons*, including domestic violence, illness or disability of an immediate family member, the need to accompany a spouse to a place where it is impractical to commute due to a change in the spouse’s location of employment. This provision was subsequently amended to include sexual assault.
- **Training Program** — UC is payable to an individual who is unemployed and exhausted all rights to regular UC, and is enrolled and making satisfactory progress in an approved training program. The total amount of UC payable shall be equal to at least 26 times the individual’s average weekly benefit amount for the most recent benefit year.

- **Dependent's Allowance** — Dependent's allowances are provided in an amount equal to at least \$15 per dependent per week, with a maximum of not less than \$50 for each week or 50% of the individual's weekly benefit amount, whichever is less.

In addition to the UI modernization incentive payments, the Recovery Act also provided a total of \$500 million to the states as a "Special Transfer in Fiscal Year 2009 for Administration." These amounts were transferred from the Employment Security Administration Account (ESAA) to the account of each state in the UTF in March 2009. The amount for each state was determined by multiplying \$500 million by the same ratio as described on page 20 for the incentive payments, which is ratio of that state's taxable wages to the total taxable wages for the preceding calendar year.

ETA issued policy guidance to the state workforce agencies (Unemployment Insurance Program Letter 14-09) on February 26, 2009, which provided application instructions and deadlines, further details on the incentive payment provisions, and the amounts allocated to each state based on the formula specified in the Recovery Act.

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Appendix B

Objectives, Scope, Methodology, and Criteria

Objective

The objectives of our audit were to determine:

1. Did states that received UI modernization incentive payments make unemployment compensation benefit payments to claimants who met the new eligibility requirements, as enacted in state law?
2. For states that have received incentive payments but have not yet implemented UI modernization incentive provisions, what are the states' implementation plans, including projected costs, timeframes and anticipated challenges?
3. For states not applying for these modernization funds, why not?
4. What is the status of the \$7 billion of modernization funds established by Congress for use by states with no repayment requirement?
5. What is the status of the \$500 million administrative grants to states?

Scope

Our performance audit covers the period from February 17, 2009 (the enactment of the Recovery Act) through September 30, 2010. We conducted our fieldwork at the ETA National Office in Washington, D.C., at a pilot state visit in Baltimore, Maryland, and through phone interviews and data collection instruments with all 53 states and territories administering the UI program. Our performance audit was not designed to, and we did not, perform a financial audit of the amounts obligated or expended at any of the states or territories.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

To accomplish our audit objectives, we obtained an understanding of the Recovery Act Title II, which provides special transfers for unemployment compensation modernization funds to the states and territories and a special transfer for administration. We also

conducted interviews with ETA officials from the Office of Unemployment Insurance and reviewed implementation guidance including UIPL 14-09 and other documentation. The information in this report was developed by the DOL-OIG independent of ETA. The DOL-OIG is legislatively charged with performing independent audits of DOL. WSB, under contract with the DOL-OIG, collected its information directly from the heads of State Unemployment Insurance offices or their designees in all 53 states and territories. WSB used structured interviews and data collection instruments to perform our audit. The interviews were conducted in August and September 2010, and included data available through July 31, 2010. We supplemented the data we gathered from the states with publicly available data from DOL's website at www.doleta.gov/recovery/. As a result, information in our report did not include nonpublic information which states may have provided to DOL.

We also obtained information from the Bureau of Public Debt website relating to the status of the Unemployment Trust Fund.

A performance audit includes gaining an understanding of internal controls considered significant to the audit objectives, testing controls, and testing compliance with significant laws, regulations, and other requirements. For this assignment, we obtained an understanding of the ETA's process for evaluating state applications submitted for the UI modernization incentive payments. The testing of internal controls over this process was not determined to be significant to our audit objectives.

Criteria

We used the following criteria to accomplish our audit:

- American Recovery and Reinvestment Act of 2009, dated February 17, 2009
- Social Security Act of 1935 (42 U.S.C. 1103) (42 U.S.C. 1321 to 1324)
- Federal-State Extended Unemployment Compensation Act of 1970 (26 U.S.C. 3304 note)
- Federal Unemployment Tax Act
- Unemployment Insurance Program Letter 14-09

Appendix C

Acronyms and Abbreviations

ABP	Alternate Base Period
ARRA	American Recovery and Reinvestment Act of 2009
CFR	Compelling Family Reasons
DA	Dependents Allowance
DOL	Department of Labor
ESAA	Employment Security Administration Account
ETA	Employment and Training Administration
FUA	Federal Unemployment Account
OIG	Office of Inspector General
OUI	Office of Unemployment Insurance
PTW	Part Time Work
SSA	Social Security Act
SWA	State Workforce Agency
TP	Training Program
UC	Unemployment Compensation
UI	Unemployment Insurance/Unemployment Compensation
UIPL	Unemployment Insurance Program Letter
UTF	Unemployment Trust Fund
WSB	WithumSmith+Brown, PC

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Appendix D

Employment and Training Administration Response to Draft Report

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



SEP 30 2010

MEMORANDUM FOR: ELLIOT P. LEWIS
Assistant Inspector General for Audit

FROM: JANE OATES *Jane Oates*
Assistant Secretary for Employment and Training

SUBJECT: Comments on Recovery Act: More Than A Billion Dollars in
Unemployment Insurance Modernization Incentive Payments is
Unlikely To Be Claimed By States Draft Audit Report No. 18-10-
012-03-315

This memo transmits comments from the Employment and Training Administration (ETA) on the subject draft audit report.

As discussed with the audit staff, ETA advises against the inclusion of state-specific responses to survey questions concerning the likelihood of a state to apply for an incentive payment. While respondents used their judgment and available facts to determine the likelihood of their state applying for an incentive payment at the time of the OIG's field work, no one can accurately make such a prediction. Indeed, some states that appeared highly unlikely to apply for an incentive payment have already received incentive payments. In addition, we note that the responses came from the state workforce agencies and do not necessarily reflect the opinions of other key actors in the states. As a result, internal negotiations may be disrupted by making these responses public. Because of these factors, ETA recommends the deletion of these state-specific responses.

ETA strongly supports the recommendation that unused funds become unrestricted in the Federal Unemployment Account (FUA) for loans to states to pay unemployment compensation, as provided in the American Recovery and Reinvestment Act of 2009 (ARRA). FUA is currently borrowing from the general fund of the U.S. Treasury to provide loans to states. This will help off-set the cost of borrowing that FUA will incur. However, this draft report also recommends that the Secretary work with Congress to reinstate those funds into FUA. Instead, ETA supports recommending that, as provided in ARRA, unused funds automatically become unrestricted in FUA on October 1, 2011, when unemployment insurance modernization incentive payments may no longer be made to states.

If you have any questions, please contact me or Gay Gilbert at x33428.

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202-693-6999

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Address: Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.

Room S-5506
Washington, D.C. 20210