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Washington, DC 20548

Accounting and Information
Management Division

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October 28, 1999

The Honorable William F. Goodling
Chairman
Committee on Education and the Workforce

The Honorable Howard "Buck" McKeon
Chairman, Subcommittee on Postsecondary Education,
Training and Lifelong Learning
Committee on Education and the Workforce
House of Representatives

Subject: Reported Y2K Readiness of State Employment Security Agencies'
Unemployment Insurance Benefits and Tax Systems

At your request, we reviewed the Year 2000 (Y2K) readiness of State Employment Security Agencies' (SESAs) unemployment insurance benefits and tax systems and determined the reported status of whether these systems have been independently verified and validated for Y2K compliance. We also determined whether SESAs have submitted contingency plans for continuity of business operations.

On September 30, 1999, we briefed your office on the results of our work which included the results of the Department of Labor's contractor's review of SESAs' independent verification and validation (IV&V) reports and business continuity and contingency plans (BCCPs), and our visits to six SESAs to document IV&V status. Included is a summary of the information presented at that briefing. The briefing slides are enclosed.

Background

The Department of Labor and the states share responsibility for administration of the Unemployment Insurance (UI) Program. SESAs collect state unemployment taxes from employers and pay unemployment compensation benefits from the Unemployment Trust Fund to eligible workers. In fiscal year 1998, SESAs collected about \$22 billion in state UI taxes, and in fiscal year 1999 SESAs paid an estimated \$24 billion in compensation benefits and allowances from the Unemployment Trust Fund to about 8 million workers. The UI Program covers 97 percent of all wage earners. In fiscal year 1999, SESA staff handled about 6 million employer tax accounts, 20 million initial unemployment claims, almost 137 million weeks of unemployment claimed, and 1 million appeals.

Each SESA operates its own UI benefits and tax system, and Labor provided each SESA with a base grant of \$1 million in FY 1998 to initiate its Y2K activities, making additional supplemental funding available upon request. According to Labor, the total amount provided to SESAs for their Y2K efforts was \$245 million through August 5, 1999. In spite of this funding, four SESA systems (those in the District of Columbia, New Mexico, Puerto Rico, and the Virgin Islands) encountered failures in January 1999 that may have been Y2K-related. These SESAs had to institute contingency measures to avoid disruption of benefit payments.¹

Results of Labor's Rating of SESAs' IV&V Reports

On August 6, 1998, Labor issued a directive that required SESAs to conduct IV&V of the Y2K readiness of their unemployment insurance benefits and tax systems. The department set a target date of July 1, 1999, for all SESAs to submit IV&V Y2K certification reports for their systems to Labor. The department obtained the services of the Information Technology Support Center (ITSC)² to start reviewing these reports in June 1999, and to assess, from low to high, the probability of Year 2000 compliance for each SESA. Based on ITSC's review of the available SESAs' IV&V reports, ITSC concluded that

- 20 benefits and 19 tax systems had a low probability of compliance,
- 10 benefits and 9 tax systems had a medium probability of compliance, and
- 7 benefits and 6 tax systems had a high probability of compliance.

Eleven and twelve states, respectively, had not submitted IV&V reports for their benefits and tax systems. IV&V reports had been submitted but had not yet been rated at the time of our briefing for five benefits and seven tax systems.

Results of Labor's Rating of SESAs' Reports on Business Continuity and Contingency Plans

In September 1998, Labor issued a directive requiring that SESAs develop and submit BCCPs for their unemployment insurance benefits and tax programs. Labor set two deadlines for SESAs to submit BCCPs for benefits programs. The department had set October 1, 1998, as the target date for submitting plans for the benefits programs for the six SESAs notified as being "at risk," and November 20, 1998, for all other SESAs. Labor also set a target date of June 4, 1999, for the unemployment insurance tax program.

In June 1999, ITSC also began reviewing the SESAs' business continuity and contingency plans. These plans were rated from low to high in terms of their compliance with Labor's requirements for coverage of core business functions of benefits and tax systems. ITSC's

¹ See Year 2000 Computing Challenge: Labor Has Progressed But Selected Systems Remain at Risk (GAO/T-AIMD-99-179, May 12, 1999).

² Established in October 1994 by a grant from the U.S. Department of Labor (DOL) to the Maryland Department of Labor to promote the appropriate application of information technology for the unemployment insurance program, the ITSC is a collaboration of SESAs, DOL, and private-sector partners. The ITSC team includes Mitretek Systems, Inc., Lockheed Martin Corporation, and the University of Maryland.

reviews showed that the quality of BCCPs varied widely.³ For example, according to ITSC, 23 benefits and 14 tax plans were rated low/very low in terms of compliance with Labor's requirements while 9 benefits and 5 tax plans were rated high in terms of compliance. In addition, one and five states, respectively, had not yet submitted such plans for their benefits and tax functions.

Summary of Selected SESAs Visited by GAO

Our briefing summarized the results of our on-site visits to verify the Y2K readiness status of six selected SESAs in three areas: (1) status at the time of our visit (August 10, 1999 through September 28, 1999), (2) ITSC's rating for IV&V, and (3) ITSC's rating for BCCPs.⁴

Although three SESAs (those in Kentucky, Utah, and Washington) had reported to Labor that their benefits systems were compliant, we determined that noncompliant interactive voice recognition system components had not been replaced in Kentucky or Utah. We did not report any significant issues of noncompliance with the state of Washington. We confirmed that the California SESA, which had reported that its benefits system was not compliant, had not yet replaced noncompliant scanner equipment. Two other SESAs (those in the District of Columbia and New Mexico) reported to Labor that they had not yet implemented compliant benefits or tax systems. Because of a combination of issues delaying implementation in the District of Columbia, Labor placed that SESA on its "high alert" list.

ITSC rated the level of compliance for two SESAs' IV&V reports as low for both their benefits and tax systems (California and New Mexico) because of issues such as lack of certification or a complete IV&V report. The other four SESAs' benefits or tax systems had not yet been rated--three because they did not submit IV&V reports by the due date (those in Kentucky, Utah and, Washington), and one because its benefits and tax systems had not been implemented (District of Columbia).

In terms of business continuity and contingency plans, ITSC rated the coverage of core business functions low in the benefits systems of California, Kentucky, New Mexico, Utah, and Washington; in the District of Columbia, it was rated medium for compliance with Labor requirements. ITSC rated three SESAs' tax systems' BCCPs low (Kentucky, New Mexico, and Washington) and one medium (California) for compliance. ITSC had not yet rated the other two SESAs' tax BCCPs (District of Columbia and Utah).

Objectives, Scope, and Methodology

Our objectives were to determine the reported status of whether SESA systems had been independently verified and validated for Y2K compliance, and determine the reported status of SESAs' contingency plans for continuity of business operations. We reported the status of all 53 SESAs (50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands).

³Eleven tax systems' business continuity and contingency plans had been submitted but had not yet been rated at the time of our briefing.

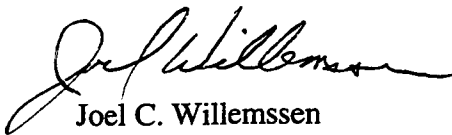
⁴ SESAs were selected from a list of state agencies with potential Y2K-related anomalies, i.e., they received a low score during Labor's IV&V process, did not submit an IV&V report, and /or had not yet implemented a compliant system.

In conducting our work, we reviewed Labor's UI quarterly status report dated September 7, 1999, on the Y2K reported status of all 53 SESAs' benefits and tax systems. We also reviewed Labor's guidance requiring that SESAs conduct IV&V and submit certification reports.

In addition, we analyzed documentation including (1) Labor's guidance for reviewing SESAs' IV&V reports and BCCPs, (2) SESA reports themselves, and (3) Labor's findings for IV&V reports and BCCPs. We identified a list of SESAs with potential Y2K-related anomalies—those that received a low score during Labor's IV&V review process, those that did not submit an IV&V report, and/or those that had not yet implemented a compliant system. We selected six of these for on-site visits. We also analyzed available documentation at the six selected SESA sites to verify reported Y2K status, including IV&V reports, test scripts, test results, and explanatory information not provided to ITSC. We performed our work between August 10, 1999, and September 28, 1999, in accordance with generally accepted government auditing standards.

We will send copies of this correspondence to the Honorable John Koskinen, Chairman of the President's Council on Year 2000 Conversion; the Honorable Jacob J. Lew, Director, Office of Management and Budget; the six SESAs we visited; and other interested parties. Copies will also be made available to others upon request.

If you have any questions on matters discussed in this letter, please call me at (202) 512-6253 or David B. Alston, Assistant Director, at (202) 512-6369. We can also be reached by e-mail at willemsenj.aimd@gao.gov and alstond.aimd@gao.gov, respectively. Glenn Nichols was a key contributor to this assignment.



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Enclosure

(511806)

GAO Accounting and Information
Management Division

**Year 2000 Readiness of State
Employment Security Agencies**

Briefing for the House Committee on
Education and the Workforce

September 30, 1999



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Briefing Overview

Objectives, Scope, and Methodology

Background

State Employment Security Agencies' (SESAs) reported Y2K status of benefits and tax systems

- Department of Labor's ratings of independent verification and validation (IV&V) reports submitted by SESAs
- Labor's ratings of business continuity and contingency plans (BCCPs) submitted by SESAs

Summary of GAO visits to SESAs to document IV&V status

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Objectives, Scope, and Methodology

Objectives

- Determine the reported status of whether SESA systems have been independently verified and validated for Y2K compliance
- Determine the reported status of SESAs' contingency plans for continuity of business operations

Scope

- All 53 SESAs (50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands)

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GAO Objectives, Scope, and Methodology
(continued)

Methodology

- Reviewed Labor's UI quarterly report dated 9/7/99 on the Y2K reported status of all 53 SESAs' benefits and tax systems
- Reviewed Labor's guidance to SESAs for conducting IV&V and submitting reports
- Analyzed documentation including (1) Labor's guidance for reviewing SESAs' IV&V reports and BCCPs, (2) SESAs' reports, and (3) Labor's review findings for IV&V reports and BCCPs

GAO Objectives, Scope, and Methodology
(continued)

Methodology (continued)

- Identified list of SESAs with potential Y2K related anomalies -- received a "low" score during Labor's IV&V review process, did not submit an IV&V report, and/or had not yet implemented a compliant system -- and selected six of these SESAs for on-site visits
- Analyzed available documentation at the six selected SESAs to verify reported Y2K status including IV&V reports, test scripts, test results, and other explanatory information not provided to Labor's Information Technology Support Center (ITSC)

GAO Objectives, Scope, and Methodology
(continued)

Methodology (continued)

- We performed our work between August 10, 1999 and September 28, 1999 in accordance with generally accepted government auditing standards

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Background

The Department of Labor and the states share responsibility for administration of the Unemployment Insurance (UI) Program

SESAs pay unemployment compensation benefits from the Unemployment Trust Fund to eligible workers and collect state unemployment taxes from employers

UI Program covers 97 percent of all wage earners

GAO **Background**
(continued)

FY 1998

- SESAs collected \$22 billion in state UI taxes

FY 1999

- UI will pay an estimated \$24 billion to about 8 million workers in compensation benefits and allowances from the Unemployment Trust Fund
- SESA staff will handle over 6 million employer tax accounts, 20 million initial unemployment claims, almost 137 million weeks of unemployment claimed, and 1 million appeals

GAO Background
(continued)

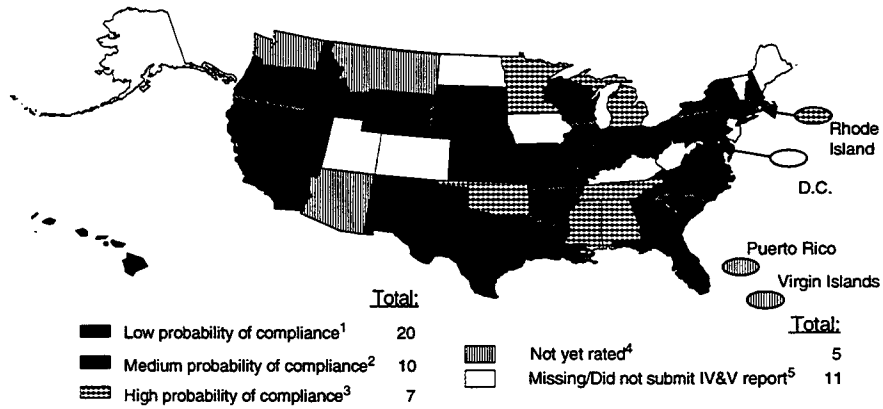
- Each SESA has its own UI benefits and tax system
- Labor provided each SESA with at least \$1 million to initiate its Y2K activities, with supplemental funding provided upon request
- The total amount provided to SESAs for their Y2K efforts was \$245 million through August 5, 1999, according to Labor
- Four SESA systems (DC, NM, PR, and VI) encountered date problems from Y2K-related failures in January 1999, having to institute contingency measures to avoid disruption of benefits (See GAO/T-AIMD-99-179, May 12, 1999)

**GAO Labor's Ratings of IV&V Reports
Submitted by SESAs**

- Labor Directive 38-98 (8/6/98) required that SESAs conduct IV&V of their UI benefits and tax systems
- Labor set a target date of July 1, 1999, for all SESAs to submit IV&V Y2K certification reports
- Labor contracted with ITSC to rate SESAs' IV&V reports for probability of Y2K compliance
- IV&V reports were rated from "low" to "high" probability of Year 2000 compliance

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Labor's Ratings of IV&V Reports-Benefits



Notes:

1 = California, Delaware, Florida, Georgia, Hawaii, Idaho, Indiana, Kansas, Maryland, Missouri, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, Pennsylvania, South Dakota, Texas, Virginia, and Wisconsin.

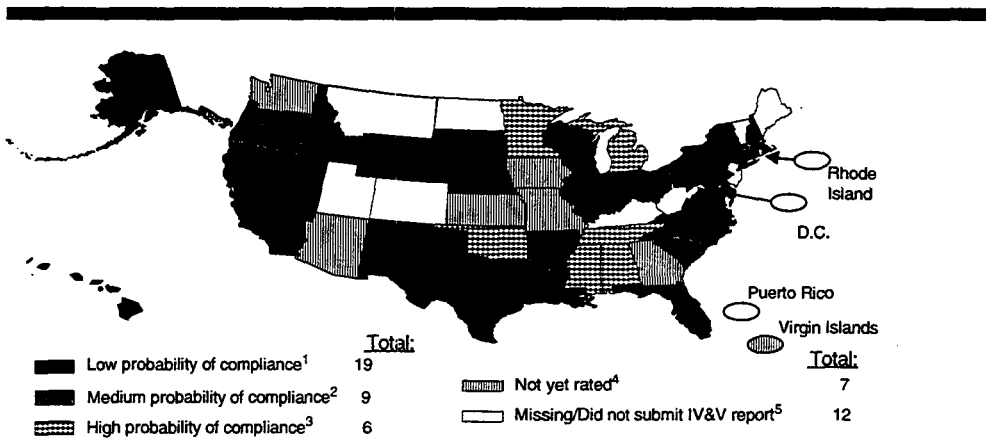
2 = Arkansas, Connecticut, Illinois, Louisiana, Massachusetts, New York, Ohio, Oregon, South Carolina, and Wyoming.

3 = Alabama, Michigan, Minnesota, Mississippi, Oklahoma, Rhode Island, and Tennessee.

4 = Arizona, Montana, Puerto Rico, Virgin Islands and Washington.

5 = Alaska, Colorado, District of Columbia, Iowa, Kentucky, Maine, New Jersey, North Dakota, Utah, Vermont, and West Virginia.

GAO Labor's Ratings of IV&V Reports-Tax



Notes:

- 1 = Alaska, California, Connecticut, Delaware, Florida, Hawaii, Idaho, Indiana, Maryland, Nebraska, Nevada, New Hampshire, New Mexico, New York, North Carolina, Pennsylvania, South Dakota, Texas, and Virginia.
- 2 = Arkansas, Illinois, Louisiana, Massachusetts, Ohio, Oregon, South Carolina, Wisconsin, and Wyoming.
- 3 = Alabama, Michigan, Minnesota, Mississippi, Oklahoma, and Tennessee.
- 4 = Arizona, Georgia, Iowa, Kansas, Missouri, Virgin Islands and Washington.
- 5 = Colorado, District of Columbia, Kentucky, Maine, Montana, New Jersey, North Dakota, Puerto Rico, Rhode Island, Utah, Vermont, and West Virginia.

**GAO Labor's Ratings of BCCPs Submitted
by SESAs**

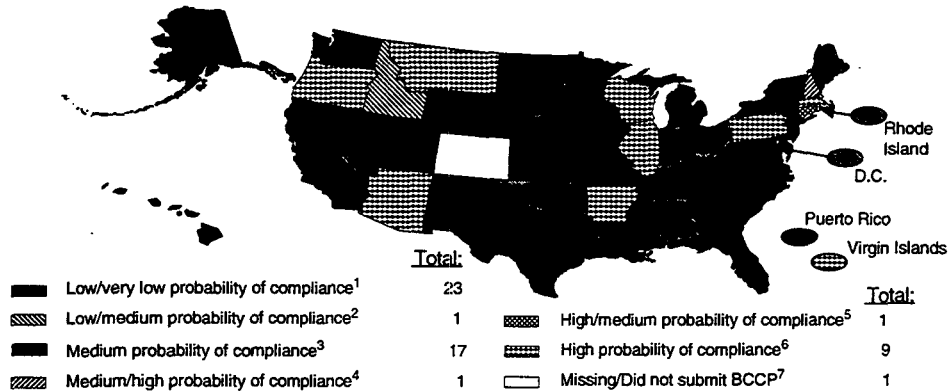
Labor Directive 46-98 (9/16/98) required that SESAs develop and submit BCCPs for their UI benefits and tax programs.

Target dates to submit plans for benefits programs were October 1, 1998, for the six SESAs notified as being "at risk," and November 20, 1998, for all other SESAs.

Labor's target date for the UI tax program was June 4, 1999.

Labor also contracted with ITSC to review SESAs BCCPs and BCCPs were rated from "low" to "high" in terms of their compliance with Labor's requirements for coverage of core business functions of benefits and tax systems.

GAO Labor's Rating of BCCPs-Benefits



Notes:

1 = California, Delaware, Florida, Georgia, Hawaii, Kansas, Kentucky, Maryland, Michigan, Missouri, Nebraska, New Jersey, New Mexico, North Carolina, Puerto Rico, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, West Virginia and Wyoming.

2 = Idaho.

3 = Alabama, Alaska, District of Columbia, Indiana, Iowa, Louisiana, Maine, Mississippi, Minnesota, Nevada, New York, North Dakota, Ohio, Oklahoma, Rhode Island, South Dakota, and Vermont.

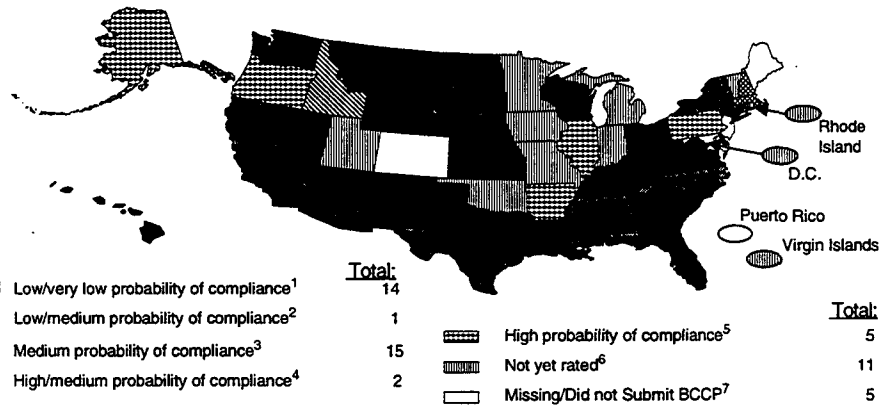
4 = New Hampshire.

5 = Connecticut.

6 = Arkansas, Arizona, Montana, Illinois, Massachusetts, Oregon, Pennsylvania, Virgin Islands, and Wisconsin.

7 = Colorado.

GAO Labor's Rating of BCCPs - Tax



Notes:
 1 = Florida, Georgia, Hawaii, Kansas, Kentucky, Montana, Nebraska, New Mexico, Ohio, Tennessee, Virginia, Washington, West Virginia and Wyoming.
 2 = Idaho.
 3 = Alabama, Arizona, California, Connecticut, Delaware, Louisiana, Mississippi, Nevada, New York, North Carolina, North Dakota, South Carolina, South Dakota, Texas, and Wisconsin.
 4 = Massachusetts and New Hampshire.
 5 = Alaska, Arkansas, Illinois, Pennsylvania, and Oregon.
 6 = District of Columbia, Indiana, Iowa, Michigan, Minnesota, Missouri, Oklahoma, Rhode Island, Utah, Vermont, and Virgin Islands.
 7 = Colorado, Maine, Maryland, New Jersey, and Puerto Rico.

**GAO Summary of Selected SESAs Visited
by GAO: California**

Status at time of visit - (9/22-9/23/99)

Benefits system not yet compliant; delays in obtaining compliant scanner equipment; installation of new scanner equipment ongoing; system currently will generate erroneous dates and must be corrected with workaround program before 12/31/99

ITSC rating given SESA for IV&V

Low rating by ITSC for benefits and tax systems; lack of certification by IV&V contractor and scanner issue cited

ITSC rating given SESA for BCCP

Low rating by ITSC for benefits system and medium rating given for tax; Note: SESA plans to implement workaround date routine if new scanner not operational by December 14, 1999

**GAO Summary of Selected SESAs Visited
by GAO: District of Columbia**

Status at time of visit - (8/10 through 9/28/99 - several visits)

Labor has put DC benefits and tax systems on "high alert" list; DC's systems not yet implemented; benefits system delayed due to past contract problems; recent decision to move to a new mainframe in Lexington, KY has led to uncertainties; software licensing issues impacting completion schedule at new site

ITSC rating given SESA for IV&V

Because neither system has been implemented, DC has not yet had an IV&V conducted on the systems, therefore DC has not received an ITSC rating

ITSC rating given SESA for BCCP

Medium rating given DC by ITSC for its benefits system; BCCP for tax system not yet rated.

**GAO Summary of Selected SESAs Visited
by GAO: Kentucky**

Status at time of visit - (9/27- 9/28/99)

Benefits and tax systems were reported compliant; SESA has determined that the interactive voice system for processing continuing claims by telephone is not compliant; contractor cannot assure that it will be replaced by year's end

ITSC rating given SESA for IV&V

Both IV&V reports for benefits and tax systems were not submitted to Labor by due date; IV&V report obtained during visit identifies areas of concern--inadequate documentation and system testing

ITSC rating given SESA for BCCP

Low rating by ITSC

**GAO Summary of Selected SESAs Visited
by GAO: New Mexico**

Status at time of visit - (8/23-8/24/99)

System currently being tested; delays due to funding issues and inadequate documentation; target date for completion is October 15, 1999

ITSC rating given SESA for IV&V

Low rating given for benefits and tax; SESA did not submit complete report for benefits or tax system because systems still in development

ITSC rating given SESA for BCCP

Low rating by ITSC

**GAO Summary of Selected SESAs Visited
by GAO: Utah**

Status at time of visit - (8/31- 9/2/99)

Benefits system reported compliant; however, concerns exist about inadequate documentation; tax system scheduled for implementation next month; interactive voice recognition system for processing claims by telephone determined not to be compliant

ITSC rating given SESA for IV&V

Utah did not submit report for benefits or tax systems by due date; thus did not receive a rating from ITSC.

ITSC rating given SESA for BCCP

Utah received a low rating for benefits system; did not submit plan for tax system

**GAO Summary of Selected SESAs Visited
by GAO: Washington**

Status at time of visit - (8/25- 8/26/99)

Compliant system reported as implemented

ITSC rating given SESA for IV&V

Washington was late in submitting its IV&V report thus no rating was provided for benefits or tax systems; report obtained during GAO visit states that both systems "have a high degree of likelihood of being Y2K complaint"; Y2K documentation was well organized and appeared complete; test results documented and reviewed by IV&V contractor

ITSC rating given SESA for BCCP

Washington received a low rating by the ITSC
