

## Employment Development Department

Its Unemployment Program Has Struggled to  
Effectively Serve California's Unemployed in the  
Face of Significant Workload and Fiscal Challenges

March 2011 Report 2010-112



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March 24, 2011

2010-112

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning the Employment Development Department's (department) administration of the unemployment insurance program (unemployment program) with a focus on various processes and systems and their impact on the operations of the unemployment program.

This report concludes that over the last 10 years the department has consistently failed to perform at a level the United States Department of Labor considers acceptable regarding its timely delivery of unemployment benefits. The department's attempts to resolve its performance deficiencies have had mixed results. Although increasing its staff and allowing them to work overtime has enabled the department to process significantly more claims, mitigate the effects of furloughs, and likely improve its performance, it has not fully implemented certain key corrective actions and the impact of others has been minimal or remains unclear. In addition, historical data the department provided us indicated that its previous phone system did not have the capacity to handle the necessary volume of calls and a high percentage of callers requesting to speak to an agent were unable to do so. The department activated its new phone system at its six main call center locations by December 2010. Although it is too early to tell using data from the new system, our limited capacity analysis suggests that the new system should be able to handle a substantially higher volume of calls; however, access to agents may continue to be a challenge. Moreover, in order to receive \$839 million in federal stimulus funds, the department must implement an alternate base period no later than September 2012 that would allow certain unemployed workers (claimants) to qualify for benefits if their earnings are not sufficient under the standard base period. Although the department stated that it will implement the alternate base period in April 2012, it is critical that it do so before the federal deadline. Finally, the department's process for determining California Training Benefits program eligibility for claimants has taken an average of four or more weeks, during which time the claimants did not receive unemployment benefits. Although the department has streamlined this process for some claimants, it does not appear to have a clear plan to improve its procedures for 80 percent of its determinations that involve claimants who desire to participate in self-arranged training.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

## Contents

Summary	1
Introduction	7
<b>Chapter 1</b>	
Burdened With An Unprecedented Workload, the Employment Development Department Could Take Further Steps to Improve the Unemployment Insurance Program's Performance	19
Recommendations	41
<b>Chapter 2</b>	
The Employment Development Department Faces Additional Challenges in Administering the Unemployment Insurance Program	43
Recommendations	57
<b>Responses to the Audit</b>	
California Technology Agency	59
California Labor and Workforce Development Agency	61
California State Auditor's Comments on the Response From the California Labor and Workforce Development Agency	67

## Summary

### Results in Brief

The Employment Development Department (department) is responsible for administering the unemployment insurance program (unemployment program), which provides temporary financial assistance to unemployed workers (claimants). As the number of unemployed workers in the State soared in recent years, the department has faced significant fiscal and workload challenges that have contributed to its failure to meet certain core performance measures established by the United States Department of Labor (federal labor department). In June 2007 California's unemployment rate was 5.3 percent; by June 2010 it had risen to 12.3 percent—a 132 percent increase. As a result, the demand for unemployment benefits increased dramatically. For example, the number of initial claims the department processed grew by 148 percent from July 2007 to June 2010. Moreover, federal extensions of unemployment benefits have resulted in individuals receiving benefits for longer periods of time, further contributing to the department's unprecedented workload.

The department's funding struggles have compounded the challenges inherent in this steep rise in unemployment claims. In January 2009 the State's Unemployment Fund became insolvent, requiring the unemployment program to rely on federal loans to pay benefits. The department projects that, absent corrective action from the Legislature, the Unemployment Fund deficit could rise to \$13.4 billion by the end of 2011. If the State fails to pay back these loans by November 2011, the federal government may incrementally increase the State's federal unemployment tax rate, which could potentially cost employers in California \$325 million in additional taxes in 2012. Moreover, if the State does not repay the loan and fails to pay the interest by September 2011, employers in the State could eventually face \$6 billion in higher federal unemployment taxes annually.

In the face of these challenges, the department has struggled to meet certain core performance measures. Specifically, although the department showed improvement in measures related to the quality of its work, its performance in the timeliness measures for promptly issuing initial unemployment payments and making nonmonetary determinations of eligibility for benefits had dropped far below the performance levels the federal labor department considers acceptable (acceptable levels) by performance year 2010<sup>1</sup>

<sup>1</sup> The reporting period for federal performance measures is from April 1 through March 31 of the following year. Because this period is different from the reporting periods for both the federal and state fiscal years, we refer to it as a performance year. For example, in performance year 2002, the reporting period covers April 1, 2001, through March 31, 2002.

### Audit Highlights . . .

*Our review of the Employment Development Department's (department) administration of the unemployment insurance program (unemployment program), revealed the following:*

» *The department's initial claims workload grew by 148 percent from July 2007 to June 2010.*

- *California's unemployment rate soared—showing a 132 percent increase over those years.*
- *The federal government granted extensions of unemployment benefits, thus, individuals received benefits for longer periods of time.*

» *The State's Unemployment Fund became insolvent in January 2009—federal loans were needed to pay benefits.*

- *The department projects the State's Unemployment Fund deficit could rise to \$13.4 billion by the end of 2011.*
- *If the State defaults on the federal loan, California employers could eventually face \$6 billion in higher federal unemployment taxes annually.*

» *Because the department consistently failed to meet certain core performance measures, the United States Department of Labor classified the State as being "At Risk" for fulfilling requirements.*

» *The department increased staff and allowed them to work overtime to improve performance—these efforts substantially increased the volume of initial claims it processed.*

*continued on next page . . .*

- » *Other efforts intended to improve its performance have been mixed.*
  - *The new scheduling system's impact—which the department indicated would result in more timely nonmonetary determinations—appears negligible.*
  - *Other automation projects have the potential to improve performance, but have not been implemented.*
  - *The new phone system—developed to increase the public's timely access to unemployment services—provides enhanced voice response options; however, access to agents may continue to be a challenge.*
- » *The State may forfeit \$839 million in federal stimulus funds if the department does not meet the federal deadline for implementing certain changes to its unemployment claims process.*
- » *The department has taken an average of four or more weeks to determine the eligibility of claimants trying to qualify for the California Training Benefits program, during which time the claimants did not receive unemployment insurance benefits.*

before rebounding in the first reporting quarter of 2011, which includes April through June 2010 as the department began to benefit from increased staffing. In response to its historically poor performance, the federal labor department in April 2010 classified the State as being “At Risk” with regard to its ability to fulfill federal statutory requirements.

The department has generally attributed its poor performance in recent years to its high workload and to staffing shortages resulting from a delay in federal funding. In fact, we found that by increasing staff and allowing them to work overtime, the department processed significantly more claims, and likely improved its performance. Specifically, the number of employment program representatives on staff who process claims and make eligibility decisions peaked in August 2009 at 2,232, which was about 1,000 higher than the number in July 2007. In addition to increasing its staff, the department also increased the average overtime worked by its program representatives from 4.5 hours per employee in July 2007 to a peak of about 36 hours in March 2009. We found that these efforts substantially increased the volume of initial claims it was able to process, from about 173,000 in July 2007 to nearly 429,000 in June 2010, and the increased staff appears to have improved its performance related to federal timeliness measures as well. We also found that the former governor's furlough orders, which affected program representatives, had minimal impact on the department's performance because the average overtime hours worked by program representatives generally exceeded their average number of leave hours.

The results of the department's other efforts to improve its performance have been mixed. Because it has failed to achieve the acceptable levels related to the timeliness measures, the federal labor department requires the department to submit corrective action plans each year detailing the actions it will take to improve its performance. We believe that these corrective action plans are an essential tool in the department's efforts to improve its timely delivery of unemployment payments. However, we found that some of the department's corrective actions will do little to directly improve the timeliness of its performance. For example, the department reported that the Unemployment Insurance Scheduling System would help it conduct timely nonmonetary determinations and thus improve its ability to achieve the acceptable level related to this timeliness measure. However, the impact of this project on the department's performance appears negligible. Other corrective actions that automate the continued claims certification and initial claims filing processes, such as the Continued Claims Redesign and eApply Modernization projects, respectively, have the potential to improve the department's performance. However, these projects have had no impact on the department's performance levels to date

because the department has yet to implement them. Additionally, the department's corrective action plans included milestones that were often ill-defined and difficult to measure. Furthermore, the department has not included in its plans sufficient information to effectively gauge the impact of its corrective actions on its goals of achieving the acceptable levels related to the timeliness measures.

One of the more significant actions the department has been undertaking to increase the public's timely access to unemployment services has been the development of a new phone system, which it activated at its six primary call centers in December 2010. According to unaudited data the department provided us, its previous phone system did not have the capacity to handle the necessary volume of calls. From fiscal year 2007-08 to 2008-09, the number of blocked call attempts—calls that were unable to access the voice response part of the system—increased from 21 million to 158.6 million. Moreover, the percentage of calls in which the caller attempted to speak with an agent but was unable to do so grew each year, from 48 percent in fiscal year 2001-02 to 91 percent in fiscal year 2008-09, with the percentage remaining high in fiscal year 2009-10 based on department data through May 2010. In addition to added capacity and more robust data on call activity, key features of the new phone system include enhanced voice response options, such as Tele-Cert, which allows claimants to certify for benefits. We performed a capacity analysis, which suggests that the new system should be able to handle a substantially higher volume of calls, allowing most callers to access the voice response system. However, both our capacity analysis, and very early data from the new phone system suggest that access to agents may continue to be a challenge.

In addition to its struggles to improve its performance related to the timeliness measures, the department faces other challenges as it moves forward. For example, in order to qualify for up to \$839 million in federal stimulus funds, the State must meet certain federal criteria. The State appears to have met some of these criteria by enacting laws that protect claimants who are looking for part-time work or who are unemployed due to compelling family circumstances as prescribed by law. However, to be eligible to receive any of the federal funds, the department must implement changes to its unemployment claims process so that it can consider wages earned by claimants over two different base periods—the time period a state uses as the basis for deciding whether an individual had sufficient earnings to be eligible for unemployment insurance—as part of the eligibility process. In the past, the department considered wages over only one base period, referred to as the standard base period. The new alternate base period would allow claimants to qualify for unemployment benefits using their earnings from the most recently completed four calendar quarters

instead of the first four of the last five calendar quarters used under the standard base period, thus enabling an estimated 26,300 to 65,000 additional claimants to become eligible. However, before the department can implement the alternate base period, it must first complete its conversion of the Single Client Database (client database), which it expects to do by November 2011. Thus, a delay in the schedule of the client database could negatively affect the department's ability to implement the alternate base period. This is troubling, since the department does not expect to implement the alternate base period until April 2012, just five months before the federal deadline in September 2012. If the department does not meet the September 2012 deadline, the State will forfeit \$839 million in federal stimulus funds.

Another issue facing the department relates to its administration of the California Training Benefits program (training benefits program). The training benefits program enables eligible claimants who lack competitive job skills to receive unemployment benefits while attending approved training or retraining programs. However, the department has taken an average of four or more weeks to determine the eligibility of claimants trying to qualify for the training benefits program, during which time the claimants did not receive unemployment benefits. This could represent a significant hardship to claimants and could deter them from taking advantage of the program. The department has recently implemented measures to streamline the process for determining eligibility for roughly 20 percent of the training determinations it makes, which we found reduced its average processing time for these claimants to about three days. We based this average on data from the department's Streamline Tracking System, which, although we found it unreliable for a number of reasons, was the most efficient means of identifying this information.

Recent statutory changes should further enable the department to improve the timeliness of its determination process for the training benefits program yet still may not go far enough in addressing the needs of claimants who are enrolled in self-arranged training and represent the majority of the training benefits program determinations made by the department. The department's process for determining the eligibility of these claimants may have been lengthy, and it has eventually found, for the majority of the determinations it made, that the claimants were ineligible for the training benefits program. This raises the concern that some of these claimants who are ultimately found ineligible to receive training benefits while they are in a training program may also have placed themselves in a position where they are ineligible for unemployment benefits.



## Recommendations

To further enhance its corrective action planning process as a means of improving the unemployment program, the department should take the following steps:

- Identify corrective actions that specifically address the timeliness measures it is trying to meet.
- Develop milestones that are specific and are tied to corrective actions to allow for monitoring the incremental progress of its corrective actions.
- Establish several key performance targets or benchmarks that are tied to each specific corrective action, to effectively gauge the impact of the actions on its goal of achieving the acceptable levels related to the timeliness measures.

As part of an overall strategy to limit the number of calls it receives while still providing timely and effective customer service, the department should use existing data and additional data from the new phone system to gain a better understanding of why people request to speak to an agent. Using this information, the department should further develop strategies and measurable goals related to achieving a reduction in call volumes. For example:

- To ensure that virtually all calls are able to gain access to the voice response portion of its new phone system, the department should monitor the volume of blocked call attempts and work with its phone system vendor if necessary to increase the system's capacity.
- To evaluate the effectiveness of its other efforts to provide services to claimants in ways that do not require them to speak to agents, such as Tele-Cert, the department should periodically summarize and assess the more robust management information available under its new phone system.

To maximize federal funding and provide unemployment benefits to those eligible under the alternate base period, the department should closely monitor its resources and project schedule to avoid any further delays in implementing the client database and ensure that it completes the alternate base period project by the federal deadline.

To help ensure that the department completes the alternate base period project by the federal deadline so that the State preserves its eligibility to receive \$839 million in incentive funds, the California Technology Agency should closely monitor the department's

progress toward implementing the client database and alternate base period projects and provide assistance to the department, as necessary.

To better track and improve the timeliness of determinations for the training benefits program, and to assist claimants in understanding self-arranged training requirements, the department should do the following:

- Take measures to ensure that its staff correctly enter all data into the training benefits program's streamline database.
- Track and report the number of claimants it determines are both eligible and ineligible for the self-arranged training and the reasons for these determinations, to better focus some of its recommendations toward how it can assist claimants in understanding the program's criteria. In addition, the department should track the number of claimants that it finds to be both ineligible for self-arranged training and ultimately ineligible for unemployment benefits and develop strategies to expedite the determination process for these claimants.

#### **Agency Comments**

The California Labor and Workforce Development Agency and the department agreed with our recommendations and indicated that they have begun implementing them. In addition, the California Technology Agency agreed with our recommendation and indicated that it has recently taken actions to implement it.

## Introduction

### Background

The Employment Development Department (department) provides services to keep employers, employees, and job seekers competitive. The department administers the unemployment insurance (unemployment program), Disability Insurance, and Paid Family Leave programs, and provides employment and training programs under the federal Workforce Investment Act. In addition, the department collects various employment payroll taxes from employers and provides economic, occupational, and sociodemographic labor market information concerning California's workforce. In fiscal year 2009–10 the department managed a budget of over \$30.8 billion and staff of more than 11,000.

### Unemployment Program

The Social Security Act of 1935 established a national unemployment program that is intended to provide temporary financial assistance to unemployed workers who meet the requirements of state law. The unemployment program is unique in that it is based on a federal statutory framework but is executed through state law. As a result, each state administers a separate unemployment program within the criteria established by federal law and subject to ongoing federal oversight. To be eligible for unemployment benefits in California, individuals must meet the monetary eligibility requirement by having earned enough wages during the base period to establish a claim and must also meet nonmonetary eligibility requirements. These nonmonetary requirements include that an individual must be totally or partially unemployed through no fault of his or her own, be physically able to work, be seeking work, be immediately available to accept suitable work, and meet eligibility requirements for each week of benefits claimed.

To finance the unemployment program, employers pay state unemployment taxes, ranging between 1.5 percent and 6.2 percent, on the first \$7,000 in wages paid to each employee in a calendar year. The state unemployment tax goes to a special unemployment trust fund from which the State pays benefits to unemployed workers (claimants). A federal unemployment tax of 0.8 percent goes directly to the federal government to pay for the administration of the system.

### ***The Unemployment Claims Filing Process***

The United States Department of Labor (federal labor department) defines an initial claim for unemployment insurance benefits (initial claim) as an application for a determination of entitlement to unemployment benefits. When a claimant files an initial claim, the department determines whether the claimant meets the monetary and nonmonetary eligibility requirements to receive benefits. The department then issues a written notice to inform the claimant of whether or not he or she meets these requirements, and if entitled, the weekly and maximum benefit amounts that he or she will receive. In addition, the department sends a notice to the claimant's most recent employer requesting information regarding the claimant's separation from work. A claimant can submit an initial claim to the department through its Web site, over the phone, or by mail or fax. Additionally, the claimant must certify that he or she has met the nonmonetary eligibility requirements for each week benefits are claimed by completing and submitting a continued claim form to the department. A continued claim form allows claimants to certify for up to two weeks of benefits.

### ***Recent Changes to the Department's Claims Workload***

Between 2007 and 2010 California's unemployment rate rose dramatically, resulting in a significant increase in the department's initial claims workload. In June 2007 California's unemployment rate hovered around 5.3 percent; by June 2010 it had risen to 12.3 percent—a 132 percent increase. In addition, the number of unemployed in the State increased from roughly 1 million in July 2007 to 2.2 million in June 2010 according to labor market information on the department's Web site. During this same period, the department's initial claims workload jumped by 148 percent, with a high of nearly 463,000 initial claims processed in January 2010.

In response to the growing number of unemployed, the federal government passed legislation in June 2008 extending unemployment benefits past the 26 weeks already provided by state unemployment programs. It followed the initial extension with four additional extensions that in total allow unemployed individuals up to a maximum of 99 weeks of benefits, as shown in Table 1. We noted that the department's number of continued claims increased significantly between July 2007 and June 2010.

**Table 1**  
**Duration of Unemployment Insurance Benefit Extensions**

UNEMPLOYMENT INSURANCE BENEFITS	MAXIMUM WEEKS OF BENEFITS PROVIDED
Regular unemployment insurance claim	Up to 26 weeks of benefits
First federal extension	Up to 20 weeks of benefits
Second federal extension	Up to 14 weeks of benefits
Third federal extension	Up to 13 weeks of benefits
Fourth federal extension	Up to 6 weeks of benefits
Separate FED-ED extension	Up to 20 weeks of benefits
<b>Potential total maximum benefits</b>	<b>Up to 99 weeks of benefits</b>

Source: Employment Development Department's Web site.

**Significant Shortfalls in the Unemployment Fund**

The State pays benefits to eligible claimants from its Unemployment Fund. According to the Governor's Budget Summary for fiscal year 2011–12, beginning in January 2009, the State's Unemployment Fund became insolvent due to an imbalance between the benefit payments being made to an increasing number of claimants and the annual amount of employer contributions. Since then, the department has been obtaining loans from the federal government to cover its Unemployment Fund deficit so that it can continue making benefit payments without interruption. According to the department's October 2010 forecast, the Unemployment Fund deficit was \$6.2 billion at the end of 2009, and it projects that without corrective action it will reach approximately \$13.4 billion by the end of 2011. According to the Legislative Analyst's Office, California is not alone in experiencing an Unemployment Fund deficit, as about 30 other states were in deficit situations during 2010.

Federal law includes provisions to ensure that a state does not continue to incur unemployment insurance loans over an extended period. Specifically, if a state has an outstanding loan balance on January 1 for two consecutive years, it must pay the full amount of the loan before November 10 of the second year, or employers will face higher federal unemployment taxes. In particular, the current 0.8 percent federal tax would increase each year in increments—starting with an increase of 0.3 percent—until the state repays the loan. California's first increase could come due as early as January 2012, potentially costing its employers an estimated \$325 million. The tax would continue to increase each year to a maximum of 6.2 percent, ultimately costing California's employers \$6 billion annually. However, according to the Legislative Analyst's Office, this increase alone would not be sufficient to address the insolvency problem and cover the projected deficits.

The State's interest obligations on the funds it has borrowed from the federal government pose an even more immediate challenge. The federal American Recovery and Reinvestment Act of 2009 provided temporary relief to states by waiving interest payments on the loans through December 2010. This temporary relief has now expired, and according to the Governor's Budget for fiscal year 2011–12, the State will owe interest on the loan totaling an estimated \$362.3 million that will be due and payable in September 2011. Interest will continue to accrue and be payable annually until the principal on the loan is repaid. If the State fails to make these interest payments on time, employers could become responsible for the \$6 billion in annual costs that the federal government could otherwise phase in gradually, as previously described. The State could also lose its federal unemployment administrative grant until it pays the interest. The Legislative Analyst's Office has indicated that the State would probably have no choice but to use the General Fund to pay the unemployment administrative costs currently covered by this grant.

According to the Legislative Analyst's Office, the Legislature has three main choices to restore solvency to the Unemployment Fund: reducing benefit payments, increasing employer tax contributions, or enacting some combination of the two. The Legislative Analyst's Office has recommended that the Legislature attempt to minimize adverse impacts on the economy by making both tax and benefit changes, that it consider different approaches for the short term and the long term, and that it act to bring unemployment benefits and tax revenues into line so that the accumulated deficit and associated interest obligation stop growing.

### **Scope and Methodology**

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits (bureau) review the department's administration of the unemployment program and that we focus specifically on the impact of various processes and systems on the program's operations. In addition to reviewing and evaluating relevant laws, rules, and regulations, we were asked to do the following:

- Review and evaluate the corrective actions that the department has taken to ensure that the unemployment program meets federal performance measures.
- Determine whether the department reviewed and assessed the capabilities of the telephone system used by claimants, to determine the extent to which it has met the needs of claimants.

If the telephone system was found to be inadequate, the audit committee asked that we review and assess any actions the department has taken to improve its functionality.

- Determine whether the department has assessed the extent to which employee furloughs are affecting the performance of the unemployment program.
- Examine the department's policies and practices for approving California Training Benefits program (training benefits program). Specifically, the audit committee asked that we determine whether the department's current practices ensure that it approves benefits in a timely manner, and if not, that we identify any improvements the department has made and further changes that could be made to ensure timely approval.
- Review and evaluate the department's plan for upgrading its computer system to determine if it is currently on schedule to meet the April 3, 2011, mandated deadline to implement the alternate base period.<sup>2</sup>

To evaluate the corrective actions the department has taken to ensure that the unemployment program meets federal performance measures, we interviewed department staff and reviewed the annual corrective action plans it submitted to the federal labor department as part of its state quality service plans for federal fiscal years 2008 through 2011. We noted that the federal labor department established four core measures that focus on the delivery of benefits known as benefits measures—two of these are timeliness measures related to first payment and nonmonetary determinations, and the other two are quality measures. We focused our review on the department's performance related to the timeliness measures rather than the quality measures for several reasons. The department's performance related to the quality measures has significantly improved over the time period we reviewed and recently exceeded the national average. Moreover, in performance year 2010 its performance levels related to the timeliness measures dropped dramatically. Perhaps most importantly, when the department fails to make timely payments or nonmonetary determinations, it directly affects how quickly claimants receive their unemployment checks, and thus can cause hardship. Of the corrective actions we identified, we focused on the major information technology (IT) projects and system application upgrades that the department asserted will have the greatest impact on its ability to meet the timeliness measures. To determine the

<sup>2</sup> The new alternate base period would allow claimants to qualify for unemployment benefits using the earnings from the most recently completed four calendar quarters instead of the first four of the last five calendar quarters under the standard base period.

implementation status of these projects and their relevancy to the timeliness measures, we reviewed the appropriate feasibility study and special project reports, as well as subsequent project status reports submitted by the department to the California Technology Agency. We also evaluated whether the department established performance targets or benchmarks to assess the effectiveness of its corrective actions.

To determine whether the department had reviewed and assessed the capabilities of the unemployment program's telephone system to evaluate the extent to which it has met claimants' needs, we interviewed department staff. When we asked for the department's assessment of the telephone system, it referred us to a feasibility study that it prepared in 2003 to support the business need for a new telephone system. We reviewed the feasibility study and subsequent special project reports to determine the limitations the department found with the previous telephone system. In these documents the department presented key call volume metrics to support its business case, which included percentages of blocked call attempts and of calls answered by agents indicating that service levels were poor. We also noted that the last time the department updated these figures was in its first special project report submitted in 2006. Because the department indicated that it did not summarize this information on a regular basis, we asked it to update these figures for us through May 2010. We present the department's data from fiscal year 2001-02 through May 2010 in Table 4 on page 36 to give some historical context regarding the levels of access claimants had to the phone system and call center staff. We did not assess the reliability of this call volume data because of the time and cost the department asserted it would take to provide us with electronic data. As a result, although the data the department did provide suggested significant limitations and issues with its old phone system, we were unable to independently assess the extent of the problems. Finally, we reviewed customer service reports the department prepared based on surveys it conducted to identify issues claimants raised regarding their interactions with the phone system.

To assess the actions the department has taken to improve the functionality of the telephone system, we reviewed its special project reports for its new phone system and the statement of work with the vendor that is implementing the system. We also reviewed various status reports that the department submitted to the California Technology Agency, to identify when the department reported that it had implemented certain components and when it expected to implement the remaining functions of the new phone system. We corroborated the timing of the implementation of key components by reviewing product acceptance memos and announcements of new features on the department's Web site.



Because the data from the new phone system were not available during our fieldwork, we were unable to independently assess whether the new phone system sufficiently addresses the limitations of the old phone system. In lieu of this assessment, we performed a limited capacity analysis by comparing historical call data from its old phone system to the capacity requirements and new features outlined in the vendor's statement of work to estimate the extent to which the new phone system might increase claimants' access to the phone system and agents.

To determine whether the department had assessed the extent to which employee furloughs may have affected the performance of the unemployment program, we reviewed the former governor's furlough orders and interviewed department staff. Because staff indicated that the department had not performed such an assessment, we analyzed initial claims<sup>3</sup> and nonmonetary determinations data to determine if the department's production levels had changed as a result of the furlough orders. In addition, we reviewed staffing, overtime, and leave data from the State Controller's Office (Controller) to determine if employment program representatives (program representatives) had taken more time off during furlough periods than they had previously. We also used these data to evaluate the department's mitigation efforts in response to both the furloughs and the department's increased workload in general. Finally, we calculated the remaining furlough balances of program representatives to assess potential ongoing effects of the furloughs.

To assess whether the department's existing policies and practices have ensured that it makes timely determinations of claimants' eligibility for the training benefits program, we reviewed relevant state laws and interviewed department staff. In addition, using the department's Single Client Database (client database), we calculated the following:

- The percentage of the department's nonmonetary determinations that involve the training benefits program.
- The average length of time the department spent determining eligibility for the training benefits program.

<sup>3</sup> We calculated the number of initial claims using the department's client database. All initial claims processed between July 2007 and June 2010 were included in this calculation irrespective of the type of claim being processed. For example, one type of claim we included was California claims filed by claimants living in another state. Further, we did not include federal extension data in our count of initial claims.

- The proportion of the department's training benefits program determinations for federal, state, and self-arranged programs, as well as the percentages of determinations indicating eligibility and ineligibility for benefits.
- The number of self-arranged training determinations, summarized by the eight criteria the department uses in making these determinations.

Furthermore, to identify any improvements the department has made and further changes that it could make to increase the timeliness of its training benefits program determinations, we interviewed department staff. We evaluated the department's new process for streamlining certain applications by reviewing data from its Streamline Tracking System (streamline database) to determine how quickly it processed these determinations. We also evaluated legislation that the Legislature enacted at the time of our fieldwork that affects training program requirements, and we discussed with the department how it plans to implement these changes.

To determine if the department is on schedule to upgrade its computer system to implement the alternate base period in time to meet its April 3, 2011 deadline, we reviewed state law to confirm the mandated deadline and noted during our fieldwork that the Legislature had extended this deadline to September 3, 2011. We also reviewed federal law related to the alternate base period, including the eligibility requirements that the State must meet to receive up to \$839 million in unemployment insurance modernization funds. In addition, we reviewed the time frames the department established in feasibility study reports and subsequent special project reports related to the alternate base period and the client database, upon which the alternate base period is dependent. To see if the department is on schedule to meet the deadlines it established for these projects, we reviewed status reports the department submitted to the California Technology Agency.

In performing this audit, we relied upon various electronic data obtained from the department and the Controller. Specifically, we obtained and analyzed information related to the training benefits program applications found in the department's training benefits streamline database and information on unemployment claims found in the department's client database. In addition, we obtained and analyzed position information for the department from the Controller's position roster file, leave benefits used and earned from the Controller's California Leave Accounting System (leave accounting system), and overtime paid from the Controller's payroll system data. The U.S. Government Accountability Office, whose standards we follow, requires us to assess the sufficiency and

appropriateness of computer-processed data. To comply with this standard, we assessed each system separately for the purpose for which we used the data in this report.

Specifically, to determine the average duration for the department to process an application from receipt until a determination was made, we obtained the training benefits program's streamline database from the department. We assessed the reliability of the streamline database by conducting data-set verification procedures, electronic testing of key data elements, and completeness and accuracy testing. We identified no issues when performing the data-set verification procedures. However, we identified omissions in three key data fields during our electronic logic testing. In 5 percent of the records we analyzed, we found that although the determination status indicated it was complete, the fields for the training benefits program determination decision and the date the department made the eligibility determination were blank. Similarly, in 6 percent of the records we analyzed, we found claim records identified as complete in which the field specifying the program the training was conducted under was blank.

To test the completeness of the streamline database data, we haphazardly selected a sample of 29 Training Enrollment Verification (TEV) forms and their corresponding Record of Claim Status Interview forms from the department's files and tested them to ensure that they were included in the data we had received. In all instances, we were able to find the data record associated with the forms. To test the accuracy of the streamline database data, we randomly selected a sample of 29 records from the streamline database and traced key data elements to source documents. We identified several errors during this accuracy test. We found two instances in which the data fields identifying the date the department completed a determination and the training benefits program determination decision did not match hard-copy source documents. In addition, we found one instance in which the field containing the date the department received a TEV form did not match the source documentation. After finding this error, we increased our accuracy sample from 29 to 46 records for this particular data field. Our testing then identified another error, for a total of two of 46 records containing errors related to the date the department received a TEV form.

Because of the errors noted in our logic and accuracy testing, we determined that the department's streamline database data was not sufficiently reliable for the purpose of determining the average duration for the department to process an application from receipt until a determination was made. Nevertheless, we reported the

results of our analysis of these data, because they were the most efficient means of identifying training applications processed in this manner.

To determine the number of initial and continued unemployment program claims for the period of July 2007 through June 2010—the number, type, and outcome of training program determinations and the average number of days to process a training program determination—we used information from the department’s client database. We assessed the reliability of the client database by performing data-set verification procedures and electronic testing of key data elements. We identified no issues when performing data-set verification procedures. In addition, we did not identify any material exceptions in the data while performing electronic testing of key data fields. However, we could not conduct accuracy or completeness testing because of the limited availability of source documentation. Therefore, we concluded that the department’s client database data was of undetermined reliability for the purposes of this audit.

To identify the number of paid employment program representative (program representative) positions by month for the period July 2007 through June 2010, we obtained the department’s position roster file from the Controller. We assessed the reliability of the position roster file by conducting data-set verification procedures, electronic testing of key data elements, and completeness and accuracy testing.

We identified no issues when performing data-set verification procedures or electronic testing of key data elements. Further, to test the completeness of the data, we haphazardly selected a sample of 29 Change in Established Position forms and verified that the position roster file contained these positions. In all instances, we were able to find the data records associated with the forms we sampled. To test the accuracy of the data, we randomly selected a sample of 29 records from the position roster data file and traced key data elements to source documents. We identified no issues in the accuracy testing. Based on our testing and analysis, we determined that the data obtained from the position roster file was sufficiently reliable for the purpose of identifying the number of paid program representative positions by month for the period from July 2007 to June 2010.

We determined that the data we obtained from the Controller’s leave accounting system were sufficiently reliable for the purpose of identifying the amount of leave used and accrued by the department’s program representative staff. We assessed the reliability of the leave accounting data by conducting data-set verification procedures and by performing electronic testing of

key data elements. In addition, we reviewed testing of the leave accounting system's major control features performed as part of the State's financial audit.

We determined that the data we obtained from the Controller's payroll system were sufficiently reliable for the purposes of presenting data on overtime. We assessed the reliability of the payroll data by conducting data-set verification procedures and by performing electronic testing of key data elements. In addition, we reviewed testing of the payroll system's major control features performed as part of the State's financial audit.

Although we acknowledge that the department provided us with a wide variety of information and assistance throughout the audit, we nevertheless encountered several challenges in accessing individuals and information. Though any single instance we discuss below may not rise to the level that would need to be disclosed in order to comply with standards, we noted that, when considered in total, this audit presented difficulties that are highly unusual given our experience with other auditees. We perform our work by following generally accepted government auditing standards, which indicate that evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which persons may be intimidated. Yet, in April 2010, we learned that the department intended to have management or note takers present at all interviews we planned to conduct. Such protocols would conflict with our ability to conduct the audit consistent with auditing standards and our long-standing practice of directly contacting staff with our questions and conducting interviews only with those whose presence is necessary so that they may speak freely and provide the information we are seeking. After the involvement of our legal counsel and a subsequent letter our deputy state auditor sent to the department, we were generally able to resolve this issue. However, we experienced some additional instances following these events that required involving our legal counsel and/or department management to resolve.

In addition, we encountered significant obstacles in obtaining information from department databases. Specifically, during the audit, we requested that the department provide us with information from three databases—the training benefits program streamline database, the phone system, and the client database. The department provided us with the data from the streamline database within our given time frame. However, after working with the department for nearly a month, we decided not to pursue obtaining the data from the phone system because of the additional time and cost the department asserted it would take to provide us with this information. Thus, as previously described, we obtained

summary-level information about the phone system that the department prepared for us. In addition, we experienced significant delays in obtaining data from the client database. We first met with IT and unemployment program staff from the department in May 2010 to discuss our data needs from the client database associated with this audit. During this meeting, we officially requested that the department provide extracts from the client database. After a series of missed delivery dates and no response to certain follow-up requests for updates, we were compelled to elevate our concerns to department management and eventually to executive management at the California Labor and Workforce Development Agency (agency). After meeting with agency executives and the department's most senior managers, we were finally able to acquire usable data in September 2010, four months after our initial request.

We frequently request data from agencies we audit. We are sensitive to the fact that each audit engagement presents a challenge for the agency being audited to accommodate our requests while continuing to perform its normal duties. Furthermore, we try to minimize any disruption our requests may cause, while carrying out our responsibilities to complete our audits in a timely manner. However, the delays and difficulties on this audit were exceptional and caused a significant delay in our ability to report to the Legislature.

## Chapter 1

### **BURDENED WITH AN UNPRECEDENTED WORKLOAD, THE EMPLOYMENT DEVELOPMENT DEPARTMENT COULD TAKE FURTHER STEPS TO IMPROVE THE UNEMPLOYMENT INSURANCE PROGRAM'S PERFORMANCE**

#### **Chapter Summary**

The Employment Development Department (department) has failed to perform at a level the United States Department of Labor (federal labor department) considers acceptable regarding its timely delivery of unemployment benefits. Specifically, between performance years 2002 and 2011, the department's performance related to promptly issuing initial unemployment insurance program payments (unemployment payments) and making decisions regarding unemployed workers' (claimants) nonmonetary eligibility fell below the federal labor department's acceptable performance levels (acceptable levels). In particular, its performance in these areas dropped dramatically in performance year 2010.

The department's attempts to resolve its performance deficiencies have had mixed results. One of its actions, increasing its staff, enabled it to process significantly more claims and likely improved its performance. However, it could take further steps to improve the effectiveness of some of its other efforts. Specifically, it has not fully implemented certain key corrective actions, and the impact of others has been minimal or remains unclear. In addition, in its corrective action plans, the department has not always established clear milestones that directly relate to specific corrective actions, nor has it included performance targets or benchmarks to effectively gauge the impact of its corrective actions on its goal of achieving acceptable levels related to the timely delivery of unemployment benefits.

In an effort to increase the public's timely access to unemployment services, the department has also been developing a new phone system over the past seven years that is intended to increase the number of calls it can handle and provide claimants better access to agents. In December 2010 the department activated the new phone system at its six main call centers. Key features of the new system include enhanced voice response options, additional capacity, and more robust data on call activity. To estimate its impacts, we compared data from the old system with the features and capabilities of the new system, because data from the new system were not yet available. Based on our limited capacity analysis, it appears that the new system will provide enough capacity to handle most calls. Furthermore, new system features, such as Tele-Cert,

provide claimants additional ways to receive services. However, the department may continue to face challenges in handling the volume of calls requesting access to agents. Although very limited unaudited data from the new system suggest some improvement, it is too early to tell whether the new phone system will sufficiently mitigate this challenge.

### **The Unemployment Insurance Program Has Consistently Failed to Meet Acceptable Performance Levels Related to Core Benefits Measures**

To ensure that states administer their unemployment insurance programs (unemployment program) in accordance with federal law, the federal labor department requires them to meet certain national performance measures. However, from performance years 2002 to 2011,<sup>4</sup> the department's performance related to promptly issuing initial unemployment payments and making nonmonetary determinations consistently remained below acceptable levels. Further, its performance level dropped significantly in performance year 2010 in response to a dramatic increase in its workload resulting from the State's climbing unemployment rate and several federal extensions of benefits. The department's failure to meet acceptable levels for making timely first payments and nonmonetary determinations indicates that many California claimants have experienced either delays in receiving their first unemployment payment or extended disruption of their benefits.

*Many California claimants have experienced either delays in receiving their first unemployment payment or extended disruption of their benefits.*

The federal labor department has established for all states related to their unemployment programs, four core measures that focus on the delivery of benefits, known as benefits measures. Two of these are timeliness measures that gauge how promptly a state makes initial payments and decisions—commonly referred to as nonmonetary determinations—regarding claimants' eligibility for benefits. The other two relate to the quality of a state's nonmonetary determinations. We focused our review on the two timeliness measures for several reasons. The department's performance related to the two quality measures has significantly improved over the time period we reviewed and recently exceeded the national average. Moreover, in performance year 2010 the department's performance levels related to the timeliness measures dropped dramatically. Perhaps most importantly, when the department fails

<sup>4</sup> The reporting period for federal performance measures is from April 1 through March 31 of the following year. Because this period is different from the reporting periods for both the state and federal fiscal years, we refer to it as a performance year. For example, in performance year 2002, the reporting period covered April 1, 2001, through March 31, 2002.



to make timely first payments or nonmonetary determinations, it directly affects how quickly claimants receive their unemployment checks and thus can cause hardship.

We describe in the text box the two timeliness measures. Every quarter, the department reports to the federal labor department on its performance related to these measures, and for the past 10 years the department has consistently failed to meet either one. As shown in Figure 1, the last time the department met the acceptable level related to the measure for promptly making initial payments to claimants was in performance year 2001, and its performance level steadily declined thereafter. In performance year 2007 the department was making fewer than 80 percent of its first payments within 14 days after the first compensable week, and it hit its lowest level of about 62 percent in 2010.

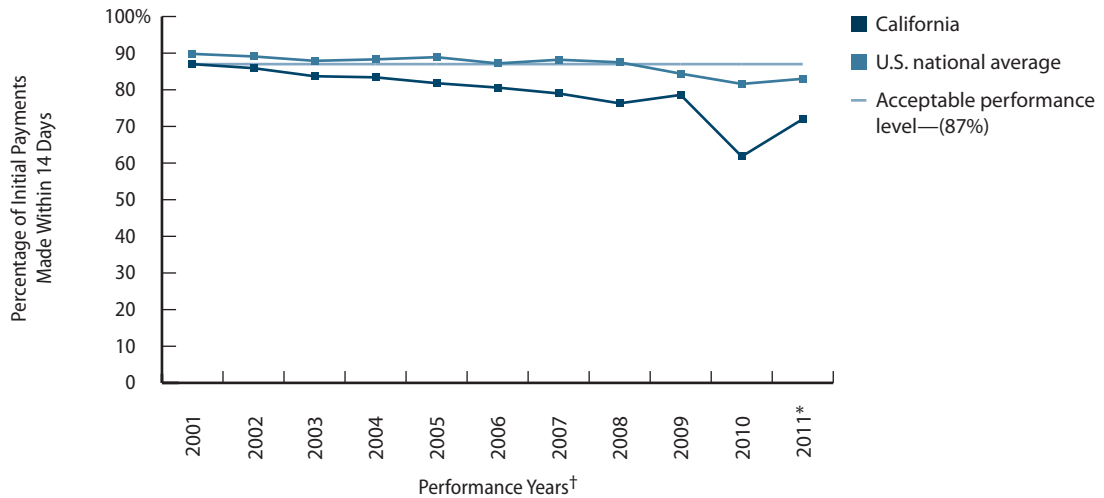
**Core Benefits Measures Regarding Timeliness (Timeliness Measures) and Acceptable Performance Levels**

**First payment timeliness:** The percentage of first payments that the state made to claimants within 14 days after the first compensable week. States must make 87 percent of first payments during this period.

**Nonmonetary determination timeliness:** The percentage of determinations related to the eligibility of claimants that the state made within 21 days after detecting a potential issue. States must make 80 percent of nonmonetary determinations during this period.

*Source: United States Department of Labor's Employment and Training Handbooks Nos. 336 and 401.*

**Figure 1**  
 Employment Development Department's Performance in the First Payment Timeliness Measure for Performance Years 2001 Through 2011



Source: United States Department of Labor: State Rankings of Core Measures.

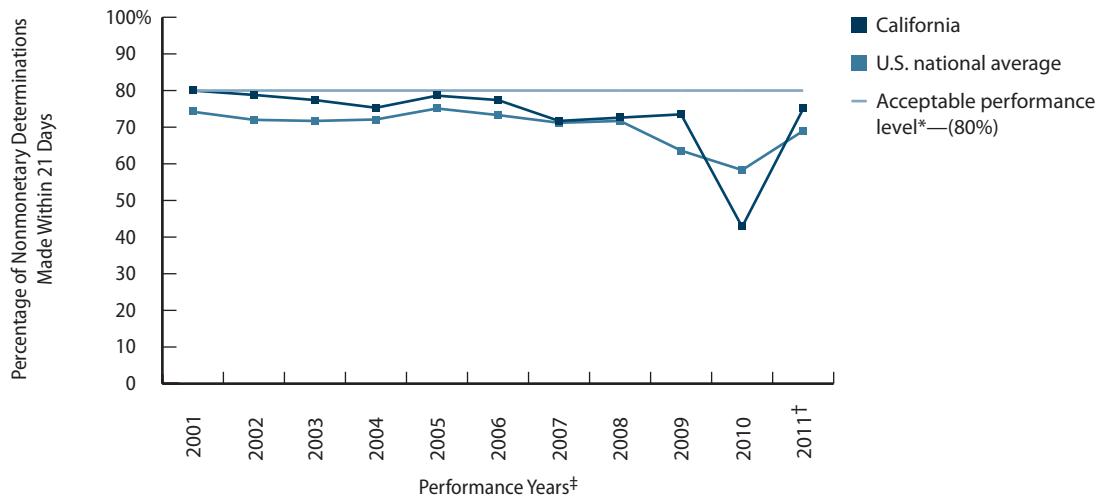
\* The percentage related to performance year 2011 only includes the period of April 1 through June 30, 2010.

† The reporting period for federal performance measures is from April 1 through March 31 of the following year. Because this period is different from the reporting periods for both the federal and state fiscal years, we refer to it as a performance year. For example, in performance year 2002, the reporting period covers April 1, 2001, through March 31, 2002.

The department's performance related to the timeliness of its nonmonetary determinations has similarly fallen short of acceptable levels. As Figure 2 on the following page shows, the department's

performance in making nonmonetary determinations regarding a claimant's eligibility within 21 days of detecting a potential eligibility issue, generally hovered just below the acceptable level of 80 percent until performance year 2007 and then declined somewhat until hitting a low of about 43 percent in 2010. This measure is important because if the department detects an issue that requires it to make a determination of eligibility, federal law does not allow the department to pay unemployment benefits until it satisfactorily determines the claimant's eligibility. As a result, the longer the department takes to make nonmonetary determinations the greater the hardship on the claimants.

**Figure 2**  
Employment Development Department's Performance in the Nonmonetary Determination Timeliness Measure for Performance Years 2001 Through 2011



Source: United States Department of Labor (federal labor department): State Rankings of Core Measures.

\* According to the federal labor department, the acceptable performance level for the nonmonetary determination timeliness measure was not in effect until 2002.

† The percentage related to performance year 2011 includes the period of April 1 through June 30, 2010.

‡ The reporting period for federal performance measures is from April 1 through March 31 of the following year. Because this period is different from the reporting periods for both the federal and state fiscal years, we refer to it as a performance year. For example, in performance year 2002, the reporting period covers April 1, 2001, through March 31, 2002.

Although the department's performance levels related to the first payment and nonmonetary determination timeliness measures improved significantly in the first reporting quarter of performance year 2011, which includes April through June 2010, each continues to remain below its respective acceptable level. As we discuss in the next section, the recent improvements in the department's performance levels related to these timeliness measures were likely due to the increase in staff.

### **By Increasing Staff and Working Overtime, the Department Improved Its Ability to Serve the State's Unemployed**

From 2007 to 2010 the department significantly increased its staffing to keep up with its growing workload related to the economic downturn. The number of employment program representatives (program representative) on staff peaked in August 2009 at 2,232, which was about 1,000 higher than the number in July 2007. Although a variety of factors ultimately affect its workload, by augmenting its staff, the department substantially increased the volume of claims it was able to process. While its performance related to the timeliness measures in performance year 2010 dropped significantly, as previously discussed, recent improvements were likely the result of the increased number of staff. The department stated that it could have realized the effects of its hiring efforts sooner had it promptly received sufficient federal funding. We also found that the department's increased staffing, combined with its use of overtime, mitigated the effects of statewide employee furloughs on the unemployment program's ability to process more claims. Consequently, these furloughs did not significantly affect its performance.

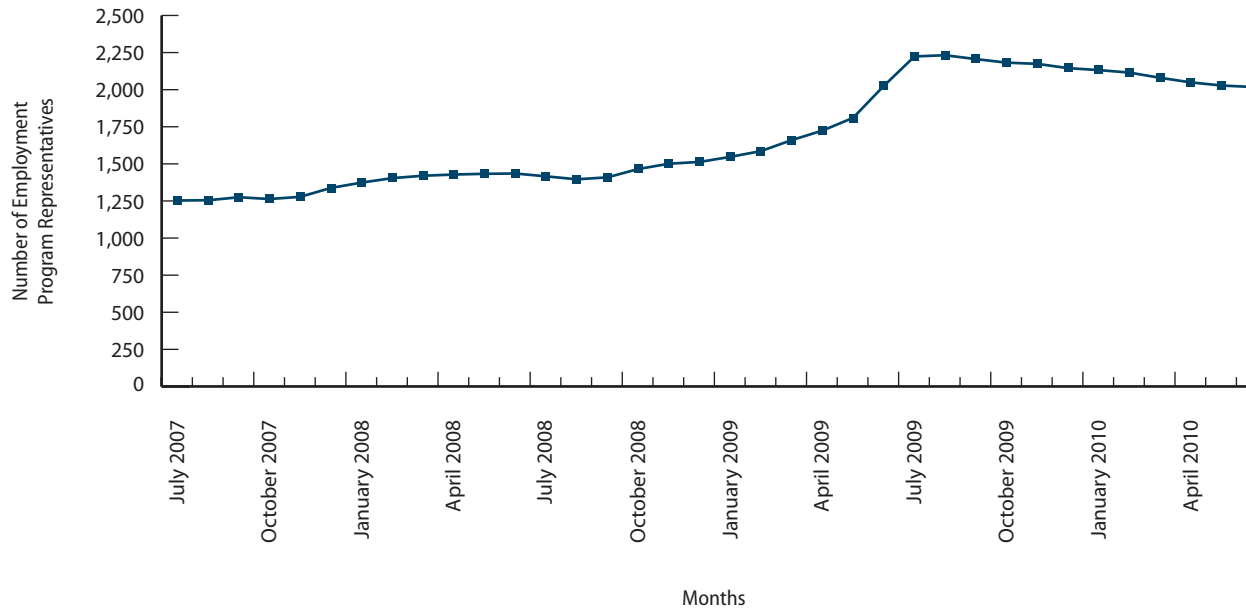
*According to the department, it could have realized the effects of its hiring efforts sooner had it promptly received sufficient federal funding.*

### ***The Department's Additional Staff Increased the Volume of Claims It Processed and Likely Improved Its Performance Levels Related to the Timeliness Measures***

During the period of our review, the department's increased staff has improved its ability to process more initial claims for unemployment insurance payments (initial claims) and nonmonetary determinations. As described in the Introduction, the number of people in the State who are unemployed grew from 1 million to over 2.2 million between 2007 and 2010, resulting in a significantly increased claims workload for the department. In response to the precipitous increase in workload, the department increased the number of its program representatives who process unemployment claims and make unemployment eligibility decisions. Figure 3 on the following page shows that the number of program representatives on staff peaked in August 2009 at 2,232, which was about 1,000 higher than the number in July 2007. The department indicated that hiring for the increased workload was delayed until July 2008 because of federal funding<sup>5</sup> shortfalls.

<sup>5</sup> The federal labor department pays the department for its administration of the unemployment program through an annual base grant, which it determines using a resource justification model to estimate the department's actual resource needs. The federal labor department also provides the department with supplemental funding—known as above-base funding—to reimburse it for excess costs incurred when the department's actual workload levels exceed original estimates.

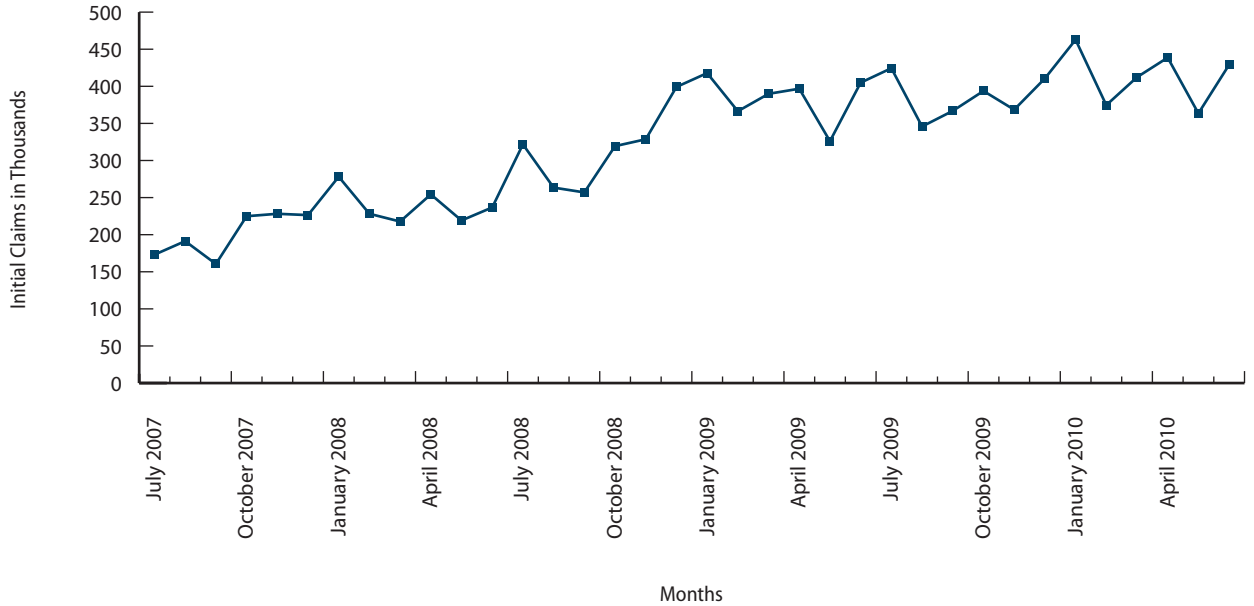
**Figure 3**  
**Number of Employment Development Department's Employment Program Representative Positions**  
**July 2007 Through June 2010**



Source: The Bureau of State Audits' analysis of the State Controller's Office position roster file for the Employment Development Department's employment program representatives.

Specifically, in January 2008, the federal labor department initially told the department that it would receive only 32 percent of its above-base funding for federal fiscal year 2008. However, it restored this shortfall in July 2008. As Figure 3 shows, the majority of the staffing increase occurred between July 2008 and August 2009 when the department added more than 800 program representatives to its staff. In addition to increasing its staff, the department significantly increased the average overtime worked by its program representatives, from 4.5 hours per employee in July 2007 to a peak of about 36 hours in March 2009. However, as the department increased its staff during the rest of 2009, overtime hours declined to about 24.5 hours monthly per program representative by the start of the last quarter of fiscal year 2009–10. As the result of these actions, the total number of initial claims the department processed per month increased dramatically, from about 173,000 in July 2007 to nearly 429,000 in June 2010, as shown in Figure 4. In addition, the volume of nonmonetary determinations the department processed increased by more than 15 percent between calendar years 2008 and 2009, which was a significantly smaller increase than the increase in initial claims.

**Figure 4**  
**Number of Initial Claims the Employment Development Department Processed**  
**July 2007 Through June 2010**



Source: The Bureau of State Audits' analysis of initial claims data from the Employment Development Department's Single Client Database.  
 Note: All initial claims processed between July 2007 and June 2010 were included in this calculation irrespective of the type of claim being processed. For example, one type of claim we included was California claims filed by claimants living in another state. Further, we did not include federal extension data in our count of initial claims.

In addition to increasing its ability to process more initial claims and nonmonetary determinations, the department's increased staff has likely led to improvements in its performance related to the timeliness measures. Although it began adding more staff in 2007 and hit a peak in August 2009, in performance year 2010 the department's performance levels related to the timeliness measures fell to their lowest levels since 2002, as we described in the previous section. The department stated that these declines were due to the fact that its new employees were not as efficient as its more experienced program representatives. According to the deputy director of the Policy, Accountability and Compliance Branch (compliance branch deputy director), training new program representatives takes an average of three to nine months, during which time the employees may not be as productive. Thus, the department believes that its performance did not fully reflect the value of its hiring efforts until recently. In fact, the department's performance related to timeliness measures for first payments and nonmonetary determinations did significantly improve during the period from April through June 2010, although both continued to remain below acceptable levels.

*The department will need to increase its efficiency if it hopes to meet acceptable performance levels related to timeliness.*

As a short-term corrective action, the department's increased staff has been effective in helping it manage its workload and likely improved its performance related to the timeliness measures. However, increasing staff alone is unlikely to solve the department's performance deficiencies. In the long term, the department will need to increase its efficiency if it hopes to meet acceptable performance levels related to the timeliness measures. To become more efficient, the department is currently working on several major information technology (IT) projects and system application upgrades to automate much of its manual claims handling process. We discuss these projects in detail later in this report.

#### ***Employee Furloughs Did Not Significantly Affect the Unemployment Program's Performance***

The federal labor department raised concerns about the effect of recent statewide furloughs on the performance of the unemployment program. In an effort to help the State reduce its spending and meet its financial obligations, the former governor issued an executive order in December 2008 directing the employees of most agencies, including the department, to take two furlough days per month. In July 2009 the former governor extended the furloughs to three days per month. In implementing the executive orders, the Department of Personnel Administration allowed the department's program representatives to accrue time rather than take days off each month, unlike the employees of many other affected agencies.

According to a letter the former department director sent to the federal labor department in October 2009, there was no reduction in staffing or program resources as a result of the furloughs. He further asserted that the department was authorized to work its staff full time and not have them take the furlough days off and that it mitigated the impact of the furloughs by allowing employees to work overtime.

In addition, although the compliance branch deputy director stated that the furloughs had no material effect on the unemployment program's ability to serve customers, he acknowledged that the department had not done any analysis of how the furloughs are affecting the unemployment program's performance. Therefore, we conducted our own analysis of leave accounting, payroll, and position data from the State Controller's Office, which indicated that the furlough program had a limited impact on the department's productivity because the reduction in hours was essentially offset by the overtime worked by its staff. Although this may have come at an increased cost, we focused our analysis on hours worked and volume of claims processed, rather than cost per hour worked.

In particular, we noted that time off per employee increased by as much as 21 hours per month over the furlough period. However, for most months during this period, the average number of overtime hours worked by program representatives exceeded their average number of leave hours. Thus, the overtime hours program representatives worked generally offset the time off they took, which also coincides with an increase in the number of initial claims processed during this period.

Barring any changes to the furlough program, the furloughs will have a minimal impact on the productivity of the unemployment program going forward. Specifically, department employees had used nearly 75 percent of their total furlough hours as of June 2010 and, although the former governor reinstated furloughs of three days per month in July 2010, the furlough order specifically excluded the department.

### **The Department Has Not Fully Implemented Key Corrective Actions and Could Enhance Its Plans to Improve the Unemployment Program's Performance**

The federal labor department requires each state to submit an annual State Quality Service Plan that serves as the principal vehicle for planning, recording, and managing its unemployment program's efforts to strive for excellence in service. As California has continued to fall short in meeting the acceptable levels established by the federal labor department related to timeliness measures, the federal labor department has required the department to submit annual corrective action plans that detail the steps it is taking to improve its performance. The text box identifies the requirements for these corrective action plans. If the department does not expect to accomplish the desired improvements by the end of the current fiscal year, the federal labor department further directs that its corrective action plans must indicate the major actions it will take in subsequent fiscal years, and a projection of when it will achieve its performance goals. We believe that these corrective action plans are an essential tool in the department's efforts to improve its timely delivery of unemployment benefits.

#### **United States Department of Labor Requirements for Corrective Action Plans**

1. An explanation of the reasons for the deficiency.
2. A description of the actions/activities that the department will undertake to improve its performance.
3. If the department had a plan in place the previous fiscal year and still did not improve its performance, an explanation of why the previous plan's actions were not effective and an explanation of why it expects the current plan's actions to be more successful.
4. A description of how it intends to monitor and assess its accomplishment of planned actions as well as how it intends to control quality after achieving its performance goals.

Source: United States Department of Labor's Unemployment Insurance State Quality Service Plan Planning and Reporting Guidelines.

However, in reviewing the corrective action plans the department submitted for federal fiscal years 2008 to 2011, we found that it has not fully implemented certain key corrective actions and that the impact of others has been minimal or remains unclear. We also found that its corrective action plans have not consistently

*California is one of only five states that the federal labor department has designated as "At Risk" for federal fiscal year 2011.*

included milestones that directly relate to specific corrective actions, nor have they included sufficient information to effectively gauge the corrective actions' impact on the department's goal of achieving the acceptable levels of performance related to the timeliness measures. According to the chief of the department's Unemployment Insurance Policy and Coordination Division (unemployment program division chief), the department could improve its corrective action plans. However, she believes that since the federal labor department approved these plans, they must have met the federal labor department's standards and purpose.

Nevertheless, in a letter dated April 26, 2010, the federal labor department informed the secretary of the California Labor and Workforce Development Agency that it was designating the State as being "At Risk" with regard to its ability to fulfill federal statutory requirements for the administration of the unemployment program, due to its prolonged poor performance related to certain core measures, including the first payment timeliness measure. California is one of only five states—the others being Indiana, Louisiana, Massachusetts, and Rhode Island—that the federal labor department has designated as "At Risk" for federal fiscal year 2011. In describing its "At Risk" designation, the federal labor department stated that it recognizes that the performance of all states has been affected by the current recession and that it took this factor into account when making its designations. Because it designated California as being "At Risk," the federal labor department has been working with the department to examine the reasons for its prolonged poor performance, to generate action strategies for inclusion in its corrective action plans, and to develop a technical assistance plan to support the implementation of the strategies developed.

***Most of the Department's Long-Term Corrective Actions Have Yet to Improve Its Performance in Making Timely First Payments and Nonmonetary Determinations***

The department's corrective action plans for federal fiscal years 2008 to 2011 have included a variety of corrective actions that it stated would help it meet the federal labor department's acceptable levels of performance related to first payment and nonmonetary determination timeliness measures. The department has implemented several of the short-term corrective actions that it described in its plans. These actions include establishing ongoing training for program representatives and managers and providing online tip sheets and video clips for claimants. However, the department has asserted that its long-term IT projects and system application upgrades will have the greatest impact on its ability to perform at a level the federal labor department considers acceptable, particularly for making timely first payments.



The department's corrective action plans over the last four years have included nine major IT projects and system application upgrades that the department stated would enhance its ability to make timely first payments and nonmonetary determinations, as shown in Table 2 on the following page. However, after further interviews with department staff and review of various feasibility study, special project, and project status reports it submitted to control agencies, including the Department of Finance and the California Technology Agency,<sup>6</sup> we determined that three of the projects were either incorporated into or developed as a component of one or more of the following six main projects: Electronic Benefit Payments (E-Pay), Unemployment Insurance Scheduling System (scheduling system), eApply Modernization (eApply), Continued Claim Redesign (redesign project), Web-Cert, and Call Center Network Platform and Application Upgrade (new phone system). For example, the department identified the Web-Based Claim Filing and Telephone Claim Filing systems as individual projects in its federal fiscal years 2008 and 2009 corrective action plans. However, when we followed up with the department on the status of these two projects, it reported that it had combined these initial efforts into eApply because the functionalities of these systems had so much in common. In addition, although the department identified Tele-Cert as a separate corrective action in its federal fiscal year 2011 corrective action plans, it has since been implemented as a component within the new phone system.

Additionally, Table 2 indicates our review of the IT projects suggests that two—E-Pay and the scheduling system—will do little to directly improve the timeliness of the department's first payments and nonmonetary determinations, respectively, despite the statements in its corrective action plans. For example, the department claimed in its federal fiscal year 2011 corrective action plan that the E-Pay project, which it had partially implemented as of December 2010, would help ensure timely unemployment payments by allowing the department to issue payments electronically instead of through the mail. However, this is misleading because the first payment timeliness measure is not a measurement of how quickly a payment reaches a claimant once it is made; rather, it is a measurement of the number of days from the last day of the first compensable week in the benefit year to the date the department makes the payment, regardless of whether it issues the payment manually or electronically.

The department implicitly acknowledged this in its feasibility study report on E-Pay, which did not include any business objectives relevant to the first payment timeliness measure. According to the unemployment program division chief, the department's objective

***Two IT projects—E-Pay and the scheduling system—will do little to directly improve the timeliness of the department's first payments and nonmonetary determinations.***

<sup>6</sup> Prior to 2011 this agency was called the Office of the State Chief Information Officer.

**Table 2**  
**Employment Development Department's Long-Term Corrective Actions**  
**Federal Fiscal Years 2008 Through 2011**

CORRECTIVE ACTION	PROJECT DESCRIPTION	PROJECT STATUS	POTENTIAL IMPACT ON THE DEPARTMENT'S ABILITY TO MEET FEDERAL TIMELINESS MEASURES
Web-Based Claim Filing*	Provide a web-based claim filing application, which Employment Development Department (department) staff can leverage to perform their claim-filing functions.	Merged	Not applicable
Telephone Claim Filing*			
Continued Claims Redesign	Will enhance unemployed workers' (claimants) ability to certify for benefits on a biweekly basis through the Web or over the phone.	In progress	Direct
eApply Modernization	Expands the types of claims the department can process through the eApply4UI application and allows it to autofile certain claims.	Suspended	Direct
Web-Cert	Allows claimants to certify for benefits online.	Implemented <sup>†</sup>	Direct
Tele-Cert <sup>‡</sup>	Allows claimants to certify for benefits over the phone.	Implemented	Direct
Unemployment Insurance Scheduling System	Automatically schedules determination appointments.	Implemented	Indirect, minimal impact
Call Center Network Platform and Application Upgrade	Replaces the department's outdated call center platform and expands its call-handling capability.	Partially implemented	Direct
Electronic Benefit Payments <sup>§</sup> (E-Pay)	Provides benefit payments using an electronic payment system.	Partially implemented	None <sup>  </sup>

Sources: The department's corrective action plans for federal fiscal years 2008 through 2011, feasibility study reports, special project reports, and project status reports.

\* The department merged the Web-Based Claim Filing with the Telephone Claim Filing application and renamed it Telephone Claim Filing. The department combined these initial efforts into eApply in 2009.

<sup>†</sup> Since January 2011, Web-Cert has been unavailable to claimants due to technical difficulties.

<sup>‡</sup> Tele-Cert is a component of the Call Center Network Platform and Application Upgrade.

<sup>§</sup> E-Pay is currently available only for disability insurance and paid family leave benefit payments. The department has stated that electronic payments will be available for unemployment insurance claimants by spring 2011.

<sup>||</sup> E-Pay has no impact on the department's ability to achieve the acceptable performance levels related to the first payment timeliness measure. According to the chief of the Unemployment Insurance Policy and Coordination Division, the department's objective for the project has been to enhance customer service, since the project will allow claimants to receive their payments more quickly once payments are made; however, first payment timeliness is not a measurement of how quickly a payment reaches a claimant once it is made.

for E-Pay has been to enhance customer service, since the project will allow claimants to receive their payments more quickly. Although this may be a reasonable objective, E-Pay will not improve the department's performance level related to the first payment timeliness measure, as it stated in its corrective action plan. Moreover, E-Pay is currently available only for disability insurance and paid family leave benefit payments.

The department has also asserted in its corrective action plans that the scheduling system would increase the timeliness of its nonmonetary determinations, yet its impact on this timeliness measure seems minimal. In an effort to quantify the impact of the scheduling system in its federal fiscal year 2011 corrective action plan, the department reported that the combination of additional staff and the newly automated scheduling system had increased its

nonmonetary determination timeliness performance by more than 130 percent from the third quarter of 2009 to the second quarter of 2010. However, we question how much of this improvement was a direct result of the scheduling system. In fact, in our follow-up with the department, the unemployment program division chief confirmed that the benefit of the scheduling system is that it allows greater flexibility in setting up determination appointments. Although the scheduling system has freed up as many as 18 managers from scheduling duties, she also acknowledged that it does not significantly improve the department's capacity to handle more determinations.

Two other projects—eApply and the redesign project—are likely to ultimately improve the department's performance in making timely first payments and nonmonetary determinations. However, these projects have had no impact on the department's performance levels to date because the department has not yet implemented them. The department stated in its federal fiscal years 2010 and 2011 corrective action plans that the eApply project would increase first payment timeliness by expanding the types of claims that can be filed online through the currently available eApply4UI application. Further, the department indicated that eApply would increase its performance related to nonmonetary determination timeliness by improving the quality of information collected from claimants, streamlining the claims process because fewer claims would require direct staff intervention. However, after referencing it in its federal fiscal year 2011 plan that it submitted in September 2010, the department informed the Joint Legislative Budget Committee in a letter dated October 12, 2010, that it was suspending development work on the eApply project but would continue to work to redefine and redocument the project. Consequently, although the department's assertions about eApply's potential for improving its ability to make timely first payments and nonmonetary determinations seem plausible, the project has been suspended and thus has had no impact on the department's ability to improve its performance levels related to the timeliness measures.

The department also stated in its corrective action plans that the redesign project, which it initiated in 2003, would improve the timeliness of its first payments. So far, however, the project has had no impact on the department's performance levels related to this timeliness measure because the department has yet to implement it. Specifically, during the four-year period covered in our review, the department reported in each year that it was working on the redesign project, which is intended to automate much of its manual continued claims certification process. According to the department, the redesign project will allow claimants the choice of certifying for unemployment benefits over the phone or through the Internet, therefore reducing the time

*Although two other projects are likely to ultimately improve the department's performance in making timely first payments and nonmonetary determinations, the department has suspended one and has yet to implement the other.*

between certification and payments. Moreover, the department stated that the redesign project will validate claimants' responses prior to submitting the claim forms and, as a result, decrease the number of claims reissued<sup>7</sup> due to claimant error that otherwise could cause benefit delays. The department reported that it recently redirected resources from the suspended eApply project to the redesign project, and as of November 2010 it anticipated completing the redesign project by May 2012.

Thus, of the list of nine IT projects that the department has referenced in its corrective action plans over the last four years, we believe that to date only Web-Cert and the new phone system, which includes the Tele-Cert component, have the near-term capacity to directly affect the department's ability to make timely first payments and nonmonetary determinations. In June 2010 the department launched the first phase of Web-Cert, which allows claimants to certify for unemployment benefits online, and which the department describes as an interim solution until it completes the redesign project. However, since January 2011 Web-Cert has been unavailable to claimants due to technical difficulties. Also, in November 2010, the department implemented Tele-Cert, which allows claimants to certify for unemployment benefits over the phone using the automated self-service interactive voice response system that is available through the new phone system. We further discuss most aspects of the new phone system in detail in a subsequent section of the report. Although the department stated that both Web-Cert and Tele-Cert are available to most claimants, those participating in certain unemployment programs, including the Work Share, Apprenticeship Training, and Federal-State Extended Duration Extension programs, are not able to use the automated continued claims certification methods. Instead, these individuals must submit paper claims.

Because the department has only recently finished implementing Web-Cert and Tele-Cert, the extent to which they will ultimately improve its ability to make timely first payments and nonmonetary determinations remains unclear, particularly since its corrective action plans did not quantitatively address their potential or actual benefits. As a result, the plans have not provided a means for the department and other stakeholders to effectively gauge the impact the projects will actually have on the department's goal for meeting the acceptable levels related to the timeliness measures for first payments and nonmonetary determinations.

***The plans have not provided a means for the department and other stakeholders to effectively gauge the impact the projects will have on its ability to meet performance goals.***

<sup>7</sup> According to the department, claims are reissued due to out-of-pattern responses, blank answers, and lack of signature.

***The Department’s Corrective Action Plans Have Lacked Adequate Measures for Monitoring and Assessing Its Actions***

In addition to the requirements listed in the text box on page 27, the federal labor department requires states to establish specific milestones for each element of their corrective action plans. These milestones must include completion dates and be of sufficient number and frequency to facilitate oversight and assessment during the year. Although the department’s corrective action plans for improving first payment and nonmonetary determination timeliness included milestones with specific completion dates, we noted that the milestones were ill-defined and difficult to measure. To illustrate what we found, Table 3 shows a list of the milestones the department included in its plans for improving first payment timeliness during federal fiscal years 2008 to 2011. We observed that the milestones included in these plans were vague and did not directly relate to specific corrective actions or the underlying causes of performance deficiencies. In fact, most of the milestones focus on general, ongoing activities rather than on quantifiable benchmarks or goals. For example, the plans for federal fiscal years 2009 and 2010 included ongoing data validation and automation projects as milestones that neither described significant deliverables nor provided measurable targets.

**Table 3**  
**Employment Development Department’s Milestones for the First Payment Timeliness Measure in Its Corrective Action Plans**  
**Federal Fiscal Years 2008 Through 2011**

MILESTONE	CORRECTIVE ACTION PLAN			
	2008	2009	2010	2011
Continue data runs to examine the results over long periods.	●	●	●	
Explore the late payment population that has not been identified and determine why they are late.		●	●	
Identify controllable events.		●	●	
Explore data validation.		●	●	
Automation projects.		●	●	
Develop recommendation plan to correct controlled events.	●	●	●	
Provide recommendations to management for improvement.	●	●	●	
Evaluate improvements.	●	●	●	
Launch marketing campaign for Web-Cert and Tele-Cert.				●
Implement eApply4UI Modernization to allow more unemployed workers to file electronically.				●
Release Tele-Cert to allow for telephonic certification.				●
Full implementation of the Call Center Network Platform and Application Upgrade Project.				●
Expand use of the alternate certification processes with the release of the Continued Claim Redesign project.				●
Conduct a business process analysis of backdated claims to determine the reason for backdating on a quarterly basis. This will assist the Employment Development Department (department) with reviewing the current backdating policy and its effect on timeliness of first payments.				●

Source: The department’s corrective action plans for federal fiscal years 2008 through 2011.

We noted that the department showed some improvement in this regard in its federal fiscal year 2011 plans by mentioning the particular automation projects it was working on as well as identifying the quarter in which it expected to complete them. This improvement was driven by feedback from the federal labor department as it worked more closely with the department after designating California an “At Risk” state. For example, in a letter dated August 26, 2010, the federal labor department indicated that the department would need to revise the draft milestones it had submitted for the first payment and nonmonetary determination timeliness measures because it had not described significant stages in its corrective actions nor had it established incremental activities indicating progress toward the milestones. In the same letter, the federal labor department further emphasized that the milestones should be well thought out, realistic, and allow for monitoring. The federal labor department ultimately approved the quality plan for federal fiscal year 2011, but it stated that it would continue to assist the department in developing focused corrective action plans for the 2012 federal fiscal year. It further requested that the department provide concise but specific reports detailing the actions it took to improve its performance related to the timeliness measures.

Even though the federal labor department has approved the corrective action plans, we believe the department would benefit by establishing performance targets or benchmarks related to specific corrective actions. For example, the department stated in its federal fiscal year 2010 corrective action plan that approximately 20 percent to 30 percent of its first payments that are one to five days late are attributable to reissued claim forms. It also indicated that the redesign project would help reduce the number of reissued claims, thereby improving its performance in making timely first payments and nonmonetary determinations. However, in neither its federal fiscal year 2010 nor its 2011 corrective action plan did the department specify performance targets, such as a set percentage decrease in the number of reissued claims, to gauge the impact of Web-Cert—its interim solution. Without such measures, the department cannot effectively assess whether its corrective actions are successful in achieving its goal of meeting acceptable levels of performance related to the timeliness measures.

*In neither its federal fiscal year 2010 nor its 2011 corrective action plan did the department specify performance targets.*

### **Although the Department’s New Phone System Is Intended to Increase Capacity, Callers May Continue to Experience Difficulties in Reaching Agents**

In an effort to increase the public’s timely access to unemployment services, the department has been developing a new phone system to increase the number of calls it can handle and provide claimants better access to its agents. The department’s call data related to its

old system showed that many calls were not able to gain access to the voice response system and an increasing number of calls were unable to access agents. By the end of December 2010, approximately seven years after its submission of the feasibility study report in October 2003, the department activated the new phone system at its six primary call centers. Key features of the new phone system include enhanced voice response options, additional capacity, and more robust data related to call activity. Because data from the new phone system were not yet available, we were unable to assess the extent to which it meets claimants' needs. However, using unaudited summary information the department provided from its old system and capacity information related to its new system, we developed some estimates about potential improvements. Based on our capacity analysis, it appears that the new phone system will provide most call attempts access to the voice response part of the system, allowing individuals to obtain automated answers to questions about their claims, to certify for benefits, and to request to speak with agents. However, the department may continue to face challenges in handling the volume of calls requesting access to agents. Although very limited unaudited data from the new system suggest some improvement, it is too early to tell whether the new phone system will sufficiently mitigate this challenge.

In reviewing the feasibility study report for the phone system, we noted that the department cited data illustrating callers' difficulties in accessing the phone system and agents in making its business case for upgrading the system. The department updated these figures in its first special project report to include data from fiscal years 2001–02 through 2004–05. Because this information was used as a primary basis of the business case for obtaining the new system, we asked the department to provide us with updated figures for fiscal year 2005–06 through May 2010 for comparison. Our review of call volume data the department provided from its previous phone system revealed that calls consistently had difficulty even accessing the phone system.<sup>8</sup> As Table 4 on the following page indicates, the volume and percentage of call attempts that could not access the phone system—known as blocked call attempts—dropped from fiscal years 2001–02 through 2004–05. This trend was generally consistent with changes in the State's unemployment rate. However, these numbers increased sharply beginning in fiscal year 2007–08 as both the State's unemployment rate and the department's call volume increased. In fact, as the State's unemployment rate increased from 6 percent to 9.4 percent from fiscal years 2007–08 to 2008–09, we calculated that the total number of call attempts increased almost three and a half times, from about 64 million in fiscal year 2007–08 to more than

***The volume and percentage of call attempts that could not access the phone system increased sharply beginning in fiscal year 2007–08 as both the unemployment rate and number of calls increased.***

<sup>8</sup> As described in the Scope and Methodology, we did not assess the reliability of the call volume data because of the time and cost the department asserted it would take to provide us with that data. Therefore, we relied on the summary call volume information the department provided.

**Table 4**  
**Unemployment Rate and Call Center Data by Fiscal Year**

FISCAL YEAR	UNEMPLOYMENT RATE*	TOTAL CALL ATTEMPTS†	BLOCKED CALL ATTEMPTS		CALLS THAT ENTERED VOICE RESPONSE SYSTEM†		CALLS REQUESTING AN AGENT†		CALLS UNABLE TO ACCESS AN AGENT (OF THOSE REQUESTING AN AGENT)	
			NUMBER OF CALLS	PERCENTAGE OF TOTAL CALLS	NUMBER OF CALLS	PERCENTAGE OF TOTAL CALLS	NUMBER OF CALLS	PERCENTAGE OF TOTAL CALLS	NUMBER OF CALLS	PERCENTAGE OF CALLS REQUESTING AN AGENT
2001-02	6.3%	35,714,000	10,000,000	28%	25,714,000	72%	16,250,000	46%	7,800,000	48%
2002-03	6.8	44,286,000	9,300,000	21	34,986,000	79	17,679,000	40	9,900,000	56
2003-04	6.6	51,667,000	6,200,000	12	45,467,000	88	17,213,000	33	10,500,000	61
2004-05	5.8	56,667,000	5,100,000	9	51,567,000	91	14,194,000	25	8,800,000	62
2005-06	5.1	45,417,000	10,900,000	24	34,517,000	76	20,875,000	46	16,700,000	80
2006-07	4.9	46,190,000	9,700,000	21	36,490,000	79	22,048,000	48	18,300,000	83
2007-08	6.0	63,636,000	21,000,000	33	42,636,000	67	27,176,000	43	23,100,000	85
2008-09	9.4	223,380,000	158,600,000	71	64,780,000	29	41,978,000	19	38,200,000	91
2009 Through May 2010	12.3	225,797,000	155,800,000	69	69,997,000	31	40,449,000	18	36,000,000	89

Sources: Employment Development Department's (department) Web site and telephone system data obtained from the department. According to the department, these data do not include information from the stand-alone voice response system rolled out in June 2009.

\* On its Web site, the department provides users the option of selecting seasonally or nonseasonally adjusted amounts. For the purposes of our work, we used the unadjusted amounts.

† Based on the call data that the department provided, we derived the total call attempts by dividing the number of blocked call attempts by the percentage of total calls blocked. To derive the number of calls that entered the voice response system, we subtracted the number of blocked call attempts from the number of total call attempts. Finally, to derive the total number of calls requesting an agent, we divided the number of calls unable to access an agent by the percentage of calls requesting an agent that were unable to access an agent. We rounded these calculations to the nearest thousand.



223 million in fiscal year 2008–09. At the same time, the number of blocked call attempts increased from 21 million in fiscal year 2007–08 to 158.6 million in 2008–09. This trend continued through the first 11 months of fiscal year 2009–10, during which the number of blocked call attempts reached 155.8 million. According to the department, these figures reflect numbers of call attempts, as opposed to numbers of callers. As a result, the data include multiple calls related to any caller who repeatedly dialed the toll-free number.

The call data in Table 4 depict an even worse picture in that calls have been increasingly unable to reach agents regardless of the State's unemployment rate. In fact, the percentage of calls requesting an agent that were unable to reach an agent grew each year, from 48 percent in fiscal year 2001–02 to 91 percent in fiscal year 2008–09, with the percentage remaining high in fiscal year 2009–10 based on department data through May 2010. This worsening trend was mirrored in the results of the department's recent customer service reports, which reflect claimants' frustration with the phone system. For example, in the June 2010 customer satisfaction survey report, claimants responded that they had to call the department an average of 23 times and sometimes as many as 80 times in order to reach an agent. Although more than 90 percent of respondents who were able to reach an agent rated them as either very or somewhat courteous, only 18 percent of respondents found it easy or very easy to reach an agent to file a claim for benefits. This frustration with the phone system appeared to reach the highest levels beginning in fiscal year 2008–09, when call attempts exceeded 220 million while the monthly number of unemployed climbed above 2 million.

In providing a perspective on these high call volumes, the unemployment branch deputy director stated that there is not a one-to-one relationship between the number of call attempts and the number of callers and that each additional call answered could result in a reduction in call attempts. For example, in the case of a caller who indicated that he or she called the department 25 times, if an agent had answered the fifth call and provided the help the caller was seeking, the total call attempts would have been lowered by 20 calls.

The department embarked on its efforts to implement a new phone system in October 2003 when it issued a feasibility study report laying out the business case for the new system. Since that time, the department has faced many delays related to the phone system's development. In fact, three separate special project reports were submitted between the date of the original feasibility study report and the implementation of the system at the six primary call centers. Based on our review of the special project reports and the

*The department has faced many delays related to the new phone system's development.*

*The delays were primarily driven by a decision to merge the phone system upgrade with the redesign project and a later decision to procure services from two vendors rather than one.*

department's assessment of schedule changes, these delays were primarily driven by a decision to merge the phone system upgrade with the redesign project discussed earlier and a later decision to procure services from two vendors instead of one. These changes were subject to review and approval by control agencies, including the Department of Finance and the California Technology Agency. Finally, in June 2008, the statement of work was signed with the phone system vendor. In the interim, the department rolled out other projects intended to relieve stress on the main phone system. One of these, a stand-alone voice response system that allows claimants to get automated information on the status of their unemployment payments at a separate phone number, was rolled out in June 2009. In November 2010 the department also activated Tele-Cert, which allows claimants to certify for benefits over the phone. The new phone system was rolled out to the six primary call centers by the end of December 2010. Efforts to expand call center functionality to the department's adjudication centers, where staff focus on making calls to resolve eligibility issues, have continued since then, with final project closeout anticipated in April 2011. Consistent with the third special project report, the department still expects the total project cost to be \$71 million, which includes one-time costs of \$27 million and total recurring costs of \$44 million through fiscal year 2013-14.

The department expects that the new phone system will help alleviate many of the problems it encountered with its old system. Based on a comparison of the features in the statement of work for the new system with the limitations of the old system described in the feasibility study report, we found that the new voice response system provides significant additional options that were not available under the old system. For example, according to the statement of work, the voice response system now allows claimants to certify for benefits using a step-by-step process intended to minimize claimant errors and allows for faster processing of claims via Tele-Cert. In addition, the system provides guidance to callers about various forms they receive from the department and information on the eligibility determination and appeals processes related to unemployment benefits. Finally, the system provides the department's Web site address, where claimants can obtain additional information and file claims without requesting to speak to an agent. To the extent that more callers avail themselves of these other options, fewer callers may need to speak to an agent.

We performed some analysis of the system's likely performance based on unaudited historical call volumes the department provided, the new system's capacity, and available call center seats. In completing this analysis, we aimed to calculate the call volumes that the system and agents could accommodate if all seats were filled and call volumes were constantly at the highest levels the

system could receive during normal business hours to determine its capacity under high-stress conditions. We acknowledge that calls do not come in on a uniform basis and that agents are not exclusively available to answer phones. However, because our intent was to compute the maximum call volume the new system is capable of, these factors were not relevant to our analysis.

Nevertheless, our assessment suggests that the new system may not fully accommodate incoming calls as long as call volumes remain at the current unprecedented levels, though it should prove adequate if call levels drop. Specifically, using the planned maximum capacity of its new phone system of about 60,900 calls per hour, we estimate that it can accommodate about 129 million call attempts per year during normal business hours. Therefore, if call attempts were to remain over 220 million, as the department has experienced since fiscal year 2008–09, blocked calls could continue to be a problem. However, should the number of calls return to the levels seen from fiscal years 2001–02 to 2007–08, as shown earlier in Table 4, most calls should be able to gain access to the system. In addition, according to the vendor statement of work, the voice response system is capable of dynamic capacity modifications to ensure that virtually all calls can gain access to the voice response system. Therefore, the department could work with the phone system vendor to increase capacity if necessary.

To the extent that call blockages decline, more calls will gain access to the voice response system. It is possible that this could result in more attempts to reach an agent, notwithstanding the additional features of the system described earlier. To gauge the extent to which the department may face continuing problems in this area, we estimated the total volume of calls that the fully staffed call center and adjudication staff of 2,083 could accommodate, based on the vendor statement of work at a rate of about 10 minutes per call, and compared this to historical call volumes.<sup>9</sup> Applying this metric to the number of calls that attempted to reach an agent in fiscal year 2008–09, we calculated that about 36 percent of these calls would have failed to reach agents had the new phone system been in place, which would represent a dramatic improvement over the 91 percent of calls that did not reach an agent under the old phone system in fiscal year 2008–09. This calculation does not factor in any increase in the number of calls requesting to speak to an agent as a result of the higher number of calls accessing the voice response system if call blockages decline. Through this analysis we are

*We calculated that about 36 percent of the calls that attempted to reach an agent in fiscal year 2008–09 would have failed to reach agents had the new phone system been in place as opposed to the 91 percent failure rate experienced with the old phone system in fiscal year 2008–09.*

<sup>9</sup> The statement of work with the vendor indicates a capacity of 2,083 agent seats. We used this number in our calculation because it reflects the total number of employees that will have access to the phones when the new system becomes fully operational. We used an estimate of about 10 minutes based on the average time it took agents to handle calls from fiscal years 2007–08 to 2009–10, according to department data.

not suggesting that the department simply needs to hire more staff in its call centers, as the department must consider other factors such as funding, workload, and other constraints when assigning staff to answer phones. Also, appropriate staffing levels need to be considered in the context of other efforts to improve efficiency and the results of implementing the information technology efforts described earlier, which may help to reduce claimants' needs to speak to agents.

Because the department was still in the process of implementing the new phone system during our audit, we were unable to assess the effectiveness of the new system based on actual data. However, the department's preliminary assessment of January 2011 data from the new system indicated that call attempts had dropped and access to the system had improved. Its data also showed that nearly half of the calls requesting an agent were still unable to get through. Although this represents an improvement, it is still at a level the department recognized as unacceptable when submitting its feasibility study report in 2003. The department hopes that as more claimants use Web-Cert and other avenues such as "AskEDD," Twitter, YouTube, and the department's Web site for informational purposes, call volumes will be reduced. Unfortunately, however, Web-Cert became unavailable sometime in January 2011 due to technical difficulties. Because this occurred very late in our audit process, we did not follow up with the department regarding the nature of these technical difficulties. As of March 21, 2011, Web-Cert continued to be unavailable, and the department was referring claimants to Tele-Cert instead.

***The department should closely monitor its data related to blocked call attempts and calls requesting access to agents given the risk that callers may continue to face problems gaining access to its new phone system.***

Given the risk that callers may continue to face problems gaining access to its new phone system and staff, we believe it is important for the department to closely monitor its data related to blocked call attempts and calls requesting access to agents. In addition, it will be important for the department to track why people want to talk to agents, in order to target future efforts. Based on the vendor's statement of work, we believe that the new phone system should be able to track data in a fashion that allows the department to accomplish this goal. For example, one of the requirements is that the reporting system must provide a "claimant dashboard" that reports claimant quality attributes such as the number of customer service inquiries related to continued claims. In addition, the system must be able to produce information on the numbers of continued claims started, completed, and rejected. The department should use this and other available information from the system to get a better understanding of why people are calling and develop additional strategies for reducing call volumes while still providing efficient and effective customer service.

## Recommendations

To further enhance its corrective action planning process as a means of improving the unemployment program, the department should take the following steps:

- Identify corrective actions that specifically address the timeliness measures it is trying to meet.
- Develop milestones that are specific and are tied to corrective actions to allow for monitoring the incremental progress of its corrective actions, similar to the milestones it established for some of the activities in its federal fiscal year 2011 corrective action plans.
- Establish several key performance targets or benchmarks that are tied to each specific corrective action, to effectively gauge the impact of the actions on its goal of achieving the acceptable levels related to the timeliness measures.

As part of an overall strategy to limit the number of calls it receives while still providing timely and effective customer service, the department should use existing data and additional data from the new phone system to gain a better understanding of why people request to speak to an agent. Using this information, the department should further develop strategies and measurable goals related to achieving a reduction in call volumes. For example:

- To ensure that virtually all calls are able to gain access to the voice response portion of its new phone system, the department should monitor the volume of blocked call attempts and work with its phone system vendor if necessary to increase the system's capacity.
- To evaluate the effectiveness of its other efforts to provide services to claimants in ways that do not require them to speak to agents, such as Web-Cert and Tele-Cert, the department should periodically summarize and assess the more robust management information available under its new phone system.

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## Chapter 2

### THE EMPLOYMENT DEVELOPMENT DEPARTMENT FACES ADDITIONAL CHALLENGES IN ADMINISTERING THE UNEMPLOYMENT INSURANCE PROGRAM

#### Chapter Summary

In addition to the Employment Development Department's (department) struggles related to issuing initial unemployment insurance program (unemployment program) payments and making decisions regarding unemployed workers' (claimants) nonmonetary eligibility in a timely manner, as discussed in Chapter 1, we noted two further issues that may pose challenges for the department moving forward. The first involves the State's ability to qualify to receive up to \$839 million in federal stimulus funds to pay unemployment benefits or unemployment program administrative costs. In order to receive these funds, the department must have in place state laws that require it to implement an alternate base period that would allow certain claimants to qualify for benefits if their earnings are not sufficient under the standard base period. The department has stated that it will implement the alternate base period in April 2012, seven months after the State's current statutory deadline. The State must implement the alternate base period by September 2012 at the latest; otherwise, it will lose its eligibility to receive the \$839 million. Because the department's implementation of the alternate base period is dependent on the conversion of its Single Client Database (client database), delays in completing that conversion could negatively affect its ability to meet the deadline related to the federal stimulus funds.

The other issue facing the department involves its administration of the California Training Benefits program (training benefits program), which allows claimants who lack competitive job skills to receive unemployment insurance benefits (unemployment benefits) while enrolled in qualified training programs. Claimants who participate in a qualified training program are able to receive unemployment benefits without having to satisfy the regular unemployment insurance eligibility requirements. In other words, while they are participating in a qualified training or education program, they do not need to look for work or be available for suitable work. While the department is determining whether a claimant qualifies for the training benefits program, it suspends the claimant's unemployment benefits, as required by federal law. Because of delays in the department's process for determining eligibility for the training benefits program, claimants had their unemployment benefits suspended for an average of nearly four and a half weeks during the period of July 2007 to March 2010. Although it has streamlined this process for some claimants, the department does not appear to have a clear plan to improve its procedures for 80 percent of its determinations that involve claimants who desire to participate in self-arranged training.

Moreover, based on historical trends, for the majority of the determinations it makes, the department finds claimants ineligible for the training benefits program. Having their benefits suspended for weeks only to find out that the education or training does not qualify under the training benefits program may result in considerable hardship for some of these claimants. Recent changes to state law should help to ensure that certain claimants planning to take advantage of the training benefits program will not incur hardship while they wait for the department to determine their eligibility and should also increase the number of claimants the department ultimately determines are eligible for the program. However, we believe that the department could do more to help claimants understand the criteria for self-arranged training.

### **If the Department Fails to Implement the Alternate Base Period on Time, It May Risk Forfeiting \$839 Million in Stimulus Funds**

#### **In addition to the alternate base period provisions, to qualify for the final two-thirds of the incentive payments a state must have two of the following four provisions in state law:**

- An individual shall not be denied regular unemployment compensation solely because he or she is seeking part-time work.
- An individual shall not be disqualified for benefits due to separation from employment for a compelling family reason, such as domestic violence, the illness or disability of an immediate family member, or the need to accompany a spouse to a place where it is impractical to commute due to a change in the location of a spouse's employment.
- Extension of benefits to those who have exhausted their regular unemployment benefits while enrolled in a state or Workforce Investment Act approved training for at least 26 weeks.
- Dependents' allowances of at least \$15 a week per dependent, subject to an aggregate limitation a state may establish.

Source: Public Law 111-5, Sec. 2003, (f)(3)(A-D).

As part of the American Recovery and Reinvestment Act of 2009, Congress authorized the secretary for the United States Department of Labor (federal labor department) to award up to \$7 billion in unemployment compensation modernization payments (incentive payments) that states can use to pay unemployment benefits or unemployment administration costs. Federal law outlines the eligibility requirements and the formula for determining the amount of funding for which each state may apply. The federal labor department secretary will award the incentive payments in two allocations. One-third of the award will be based on a state's implementation of what is known as the alternate base period for determining monetary eligibility for unemployment benefits, and the other two-thirds will be based on whether a state's enacting laws contain two of the four possible provisions shown in the text box. Receiving the two-thirds share is dependent on whether a state qualifies for the first one-third share of the award. In other words, if the state does not have in place state laws that require it to implement the alternate base period, it cannot qualify for any of the funding. California is eligible to receive \$839 million in incentive payments if the federal labor department secretary certifies its application, which the State has yet to submit.

Enacting state laws that permanently establish an alternate base period for determining monetary eligibility for unemployment benefits is therefore a critical step in applying for the incentive payments. The federal labor department describes "base period" as the time period a state uses as the basis for deciding whether an individual had sufficient



earnings to be eligible for unemployment insurance. The standard base period that California currently uses considers wages earned in the first four of the last five completed calendar quarters. To qualify for benefits, state law requires that a claimant must have earned either at least \$1,300 in one calendar quarter of the base period or at least \$900 in his or her highest earning quarter and a total 1.25 times that amount in the entire year of the base period. Under the alternate base period, the State would have to consider wages from the most recently completed four calendar quarters in making the eligibility determination if the claimant would not qualify under the standard base period.

The text box shows how the standard and alternate base periods differ. In our example, a claimant who earned \$1,000 during the fourth quarter must have earned a total of \$1,250 ( $\$1,000 \times 1.25$ ) over the base period (including the highest quarter) to qualify for benefits. Using the standard base period, the claimant does not qualify because, although the claimant's earnings were \$1,000 during the highest quarter, he or she earned only \$150 during the rest of the base period, for a total of \$1,150. However, under the alternate base period, in which earnings from the most recently completed calendar quarter are considered, the claimant would qualify for benefits because total earnings during the base period would be \$1,750, or more than the \$1,250 needed to qualify for benefits.

According to a report by the National Employment Law Project, low-wage workers are far less likely to have access to unemployment benefits than higher-wage workers, though they are more vulnerable to unemployment. The report suggests that, as a result of the implementation of the alternate base period, participation by these individuals in the unemployment program is expected to increase. Estimates from the department and the Legislative Analyst's Office indicate that approximately 26,300 to 65,000 additional claimants may become eligible for unemployment payments when the department implements the alternate base period provisions.

To ensure its eligibility for the first one-third share of the federal incentive payments, California enacted statutory provisions that require the department to implement an alternate base period by no later than September 3, 2011.<sup>10</sup> These provisions call for a two-step unemployment

**Monetary Eligibility Criteria for Unemployment Benefits Under Standard Base Period and Alternate Base Period**

QUARTER	INCOME EARNED	
	STANDARD BASE PERIOD	ALTERNATE BASE PERIOD
1	\$0	\$0
2	0	0
3	150	150
4	1,000	1,000
5	600	600
<b>Totals</b>	<b>\$1,150</b>	<b>\$1,750</b>

Source: Auditor-generated example based on California Unemployment Insurance Code, Section 1281.  
 ■ Quarter not used for benefit computation.

<sup>10</sup> Assembly Bill 29 of the Third Extraordinary Session of 2009 (ABX3 29) amended state law to establish the use of an alternate base period. ABX3 29 took effect on January 14, 2010. Subsequent to the enactment of ABX3 29, the required implementation date for these provisions was extended from April 3, 2011, to September 3, 2011 (Chapter 719, Statutes of 2010, effective October 19, 2010).

benefits eligibility determination. First, the department must attempt to determine eligibility using the standard base period. If a claimant does not have sufficient income to qualify for benefits using the standard base period, the department must consider eligibility using the alternate base period.

Federal law dictates the time frame in which the State must implement the alternate base period in order to be eligible for the incentive payments. According to the federal labor department, the deadline for states to apply for the incentive payments is August 22, 2011. The secretary of the federal labor department then has 30 days to certify a state, and may certify any state whose statutory provisions related to the alternate base period take effect within 12 months of certification.<sup>11</sup> Because the secretary has 30 days to certify a state after receiving its application, California's certification date will be no later than September 22, 2011, if it submits its application by the August 22, 2011 deadline. The State will need to implement the alternate base period within one year of this certification date or fail to qualify for the incentive funds, which means it will need to implement the alternate base period by September 22, 2012, at the latest, or lose the \$839 million in incentive payments.

In anticipation of this deadline, the Legislature originally required that the department implement the alternate base period by April 3, 2011. At the department's request, the Legislature extended this deadline to September 3, 2011. However, the department has reported that it will be unable to implement the alternate base period by that date and that it instead expects to complete the implementation by April 2012.<sup>12</sup> Also, in its December 2010 status report to the California Technology Agency, the department stated that the delay in implementation was in part the result of the project's dependency on the conversion of its client database—changing the data from one database format to another. According to the department, the client database was developed in the 1980s to manage and store claims information related to clients receiving unemployment and disability insurance services. It also indicated that the client database has become progressively more difficult to modify due to its outdated technology and lack of interoperability with newer applications and data architectures. Not only is the conversion of the client database critical for the alternate

***The department has reported that it will be unable to implement the alternate base period by September 2011 and instead expects to complete it by April 2012.***

<sup>11</sup> The federal labor department has interpreted "take effect" to mean that the State's statutory provisions must be implemented within 12 months of certification. Related to that, a directive from the federal labor department indicates that, "in some cases, a state might enact a new provision of law to qualify for the incentive payment, but delay its effective date due to implementation requirements." In other words, the federal labor department considers the effective date of the alternate base period to be the date on which it is implemented, or becomes operative.

<sup>12</sup> Because the department does not expect to implement the alternate base period project by the current legislative deadline, it indicated that it plans to submit a request to the Legislature to extend the implementation date to April 2012.

base period, it provides support for other information technology (IT) projects that the department is implementing, such as the Continued Claims Redesign project discussed in Chapter 1.

Originally, the department intended to implement the client database conversion by January 2011; however, it submitted a special project report to the California Technology Agency requesting to move the implementation date to November 2011. According to the department, one cause of the delay was the need to implement the several federal extensions of unemployment benefits that have occurred since 2008. When the federal government extends unemployment benefits, the department must make programming changes to its systems so it can process claims related to these extensions. The department stated that to implement these extensions it had to divert staff involved in the conversion of the client database. The department estimates that implementing the alternate base period will take about five months after the completion of the client database. Thus, a delay beyond five months in the client database schedule could negatively affect the implementation of the alternate base period project, and any schedule changes that prevent the alternate base period project from being implemented by the September 2012 deadline will put the \$839 million in incentive payments at risk. The department reprioritized its IT projects in October 2010 in an effort to ensure that sufficient staff are available to complete both the client database and alternate base period projects. Since the successful conversion of the client database is critical for the department's ability to implement the alternate base period on time and is important for supporting other IT projects, the department and the California Technology Agency should focus on the client database as a high priority and closely monitor its progress.

If California is able to implement the alternate base period by the federal deadline, it has additional requirements it must meet in order to qualify for the entirety of the incentive payments for which it is eligible. Specifically, to receive the final two-thirds of the funding, it must also demonstrate that it has state laws in place that contain two of the four provisions outlined previously. Our legal counsel has reviewed state law and found that California appears to have in place state laws that may satisfy two of those options. First, it has in place a law that ensures that individuals are not denied regular unemployment compensation solely because they are seeking part-time work. Second, the State also has in place a law that allows individuals to receive unemployment benefits based on certain compelling family circumstances. The department has informed us that the federal labor department has conducted a preliminary review of the changes that California made in order to satisfy these requirements and has informally advised the department that California law satisfies the federal requirements. Nonetheless, the ultimate determination of whether California law satisfies the federal requirements rests with the formal determination that will be made by the secretary of the federal labor department.

*Delays in implementing the client database conversion could jeopardize \$839 million in federal incentive payments.*

### The Department's Process for Determining Eligibility for the Training Benefits Program May Result in Hardship for Some Claimants

Another challenge facing the department involves its administration of the training benefits program. This program allows eligible claimants who lack competitive job skills to receive unemployment benefits while attending approved training. Under the training benefits program, the traditional role of unemployment changes from that of providing temporary financial support while claimants look for work to one of assisting unemployed individuals who are enrolled in training to return to full employment. By law, claimants who meet the training benefits program eligibility criteria do not need to look for work or be available for suitable work while they collect unemployment benefits. Currently, claimants who qualify for the training benefits program may have their training benefits extended for up to 12 months. In addition, the former employers of these claimants have the right to protest the claimant's eligibility, because they must pay a proportionate share of the total benefit costs paid to their former employees.

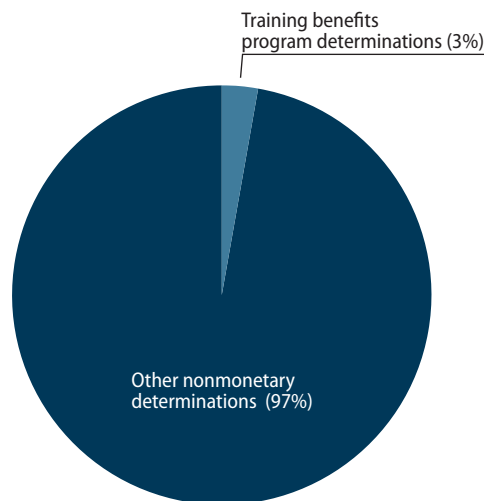
*Under the current process, the training benefits program may create unnecessary hardship for many claimants who are interested in participating in the program.*

Determinations related to the training benefits program are a type of nonmonetary determination, which we describe in the Introduction. Although the eligibility determinations related to the training benefits program constitute only a very small portion—roughly 3 percent, as shown in Figure 5—of the department's nonmonetary determinations, the training benefits program meets a critical need for some of the State's unemployed. However, under the process the department currently follows, the training benefits program may create unnecessary hardship for many claimants who are interested in participating in the program. Specifically, the duration of the department's process for determining eligibility for the training benefits program averaged 4.6 weeks for the period of July 2007 to March 2010,<sup>13</sup> during which time claimants did not receive unemployment benefits. Moreover, our analysis showed that the majority of the determinations made by the department found the claimants to be ineligible to participate in the training benefits program. However, according to the department, this does not necessarily mean that the claimant is not otherwise eligible to receive unemployment benefits. A claimant who fails to satisfy the requirements for the training benefits program but otherwise

<sup>13</sup> Although the department was unable to provide us with data that showed the length of time it took to determine whether a claimant's training qualifies under the training benefits program criteria, we were able to calculate this period of time using information in the department's client database. However, we were able to perform this calculation only for records that included the date when the department received notification that the claimant was in training—known as the issue detection date—and the date the department made the determination. This limited our analysis to 43 percent of the training benefits program determinations from July 2007 to March 2010. According to the department, it only includes an issue detection date for workload items it identifies as reportable to the federal government.

satisfies the regular requirements for unemployment benefits—looking for work and being available for suitable work—would be eligible to receive unemployment benefits. However, claimants who participate in a training or education program that is found ineligible under the training benefits program and who do not otherwise meet the requirements for unemployment benefits during the determination period, would find themselves ineligible for any benefits during that period. Recent changes to state law may help to resolve these problems, in part, but do not appear likely to fully address the hurdles the process creates for some claimants.

**Figure 5**  
**California Training Benefits Program Determinations as a Percentage of the Employment Development Department’s Nonmonetary Determinations for 2009**



Source: Bureau of State Audits’ analysis of California Training Benefits program determinations from the Employment Development Department’s Single Client Database.

***Claimants Planning to Take Advantage of the Training Benefits Program Have Often Had Their Benefits Suspended for a Month or Longer***

In our review of the nonmonetary determinations involving claimants planning to take advantage of the training benefits program, we found that from July 2007 to March 2010 the department took an average of over four weeks to determine whether the training that claimants had enrolled in qualified under training benefits program criteria. During the time it took to make these determinations, the department suspended the claimants’ unemployment benefits. Federal law does not grant the department the authority to pay unemployment benefits until it has determined eligibility, because there is no authority to

make payments “until due.”<sup>14</sup> Not receiving unemployment benefits during the eligibility determination period when it takes more than a month, may result in a significant hardship for many claimants. Further, claimants who are aware that they will not collect benefits while the department determines their eligibility may be deterred from taking advantage of the training benefits program. The department’s streamlining of its determination process for training, along with recent changes to state law, may ease this hardship for some claimants.

### Training That Can Qualify for the California Training Benefits Program

#### Federal Programs:

- Workforce Investment Act
- Trade Adjustment Assistance

#### State Programs:

- California Work Opportunity and Responsibility to Kids
- Employment Training Panel

#### Self-arranged training

Source: California Unemployment Code, sections 1269 and 1269.1.

As we discussed in Chapter 1, the State must make 80 percent of its nonmonetary determinations, including those involving the training benefits program, within 21 days of the date the department detects the potential eligibility issue if it is to meet the level of performance the federal labor department considers acceptable related to the nonmonetary determination timeliness measure. To qualify for the training benefits program, claimants must be eligible to receive unemployment benefits and either be enrolled in training authorized by designated federal or state programs, as shown in the text box, or be enrolled in self-arranged training that meets certain criteria established in state law. Figure 6 shows the percentage of the department’s determinations by training program type in 2009.

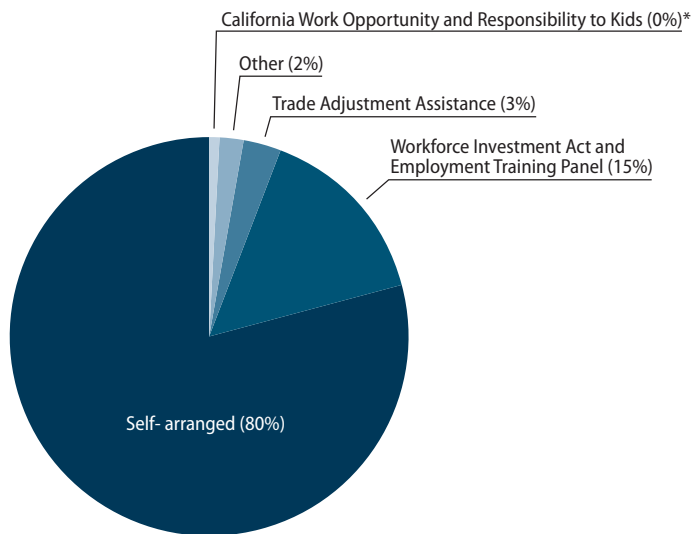
We found that for the period from July 2007 to March 2010, the department took an average of 4.6 weeks to determine whether claimants met the criteria and thus were eligible for the training benefits program. The average spiked to six weeks during the period of July 2009 to March 2010 as the department dealt with an unprecedented claims workload. The department took longer than four weeks to make 46 percent of the determinations and took longer than two months to make 2,757, or 16 percent, of these determinations.

To address this timeliness issue, according to the unemployment program division chief, the department simplified or streamlined its process for determining eligibility for some claimants planning to participate in the training benefits program. According to the department, this new streamlined process allows a claimant who plans to take advantage of the training benefits program to complete a training enrollment verification form developed

<sup>14</sup> According to the department, once it determines claimants to be eligible for the training benefits program, it pays them for the weeks their benefits were suspended, as long as the claimant continued to certify for benefits during those weeks.

solely for the streamlined process. After the department receives the form, department representatives can complete the training benefits program determination without necessarily needing to contact the claimant. Without streamlining, it is necessary for the department to schedule an eligibility interview with the claimant, which lengthens the time it takes a representative to determine if a claimant is eligible for the training benefits program, according to the department.

**Figure 6**  
Percentage of 2009 California Training Benefits Program Determinations, by Training Program



Source: Bureau of State Audits' analysis of California Training Benefits program determinations from the Employment Development Department's Single Client Database.

\* Less than 1 percent.

Between March 2010 and November 2010, the department implemented the first two phases of a streamlined process for the claimants who were attending training authorized under the Workforce Investment Act (WIA) and Trade Adjustment Assistance (TAA) programs, which, as shown in Figure 6, represent less than 20 percent of the training determinations the department made in 2009. As part of the implementation of its new streamlined process, the program analysis and evaluation section chief told us that the department created a database known as the Streamline Tracking System (streamline database) in part to track the length of time required for its determinations for claimants participating in the authorized training. Our review of the streamline database identified a number of problems. For example, key fields in the streamline database that contain information such as the final

determination decision and the date of the eligibility determination were incomplete, and the data included in some fields either did not agree with, or were not supported by, the underlying documentation. Based on the errors we encountered, the streamline database is not sufficiently reliable for the purpose of determining the average duration for the department to process an application from receipt until a determination is made. However, because it was what the department used to track the timeliness of its streamlined process and was the most efficient means of identifying this information available, we used the streamline database to calculate the time it took the department to make training determinations using the new process for the WIA program between March and June 2010.<sup>15</sup> We found that the department processed these claims and made determinations on average three days after the date that it received the application from a field office, a significant improvement over the 4.6 week average it took the department to make determinations under the original process.<sup>16</sup>

Although the department chose to implement this process for claimants who enroll in the WIA and TAA programs, according to the department's Web site, from December 30, 2010, through the end of January 2011, the department was allowing, on a trial basis, 250 claimants who are attending training under the California Work Opportunity and Responsibility to Kids, the Employment Training Panel (ETP), and the self-arranged training programs to use a streamlined process. However, streamlining the process for claimants who desire to participate in a self-arranged training program, which represents 80 percent of the training determinations the department made in 2009, as shown in Figure 6, seems to present the department with a significant challenge. Specifically, during our fieldwork, a claimant could qualify for a self-arranged training program only if a department representative determined that the program met all eight criteria shown in the second column of Table 5 on page 55. Thus, the department had to assess each claimant's situation based on that individual's specific circumstances and the training program. Although the department has implemented a trial process allowing some claimants in self-arranged training to avail themselves of a streamlined process, at the time of our review, it was too early to tell whether the department had overcome the challenges associated with expediting eligibility determinations for these claimants.

<sup>15</sup> At the time of our fieldwork, we received data from the department's streamline database from March 2010 to June 2010. For this period, the department had streamlined the process only for claimants enrolled in the WIA program.

<sup>16</sup> We were only able to perform this calculation for records with a valid application receipt date and the date the department made the determination. As a result, we limited our analysis to 94 percent of the streamlined training enrollments.



In light of California's high rate of unemployment, the Legislature recently took action in response to concerns about the length of time the department took to make training program benefits determinations. Specifically, the Legislature amended statutory provisions that prescribe the determination process for the training benefits program by passing Assembly Bill 2058 (AB 2058) during the 2009–10 Regular Session of the Legislature. The operative date of AB 2058 is contingent upon whether the department's director determines that it is feasible to implement the bill's provisions by January 1, 2011, and, if the implementation date is not feasible, the department must implement the changes no later than July 1, 2011. According to the department, it has determined that the January 1, 2011 implementation date was not feasible and is working toward implementation by the July 2011 date. AB 2058 makes some changes to the criteria that apply to self-arranged training, which we describe in the next section. It also requires the department to make automatic determinations of eligibility for individuals who participate in any of the various training programs that are not self-arranged, including the four state and federal programs listed in the text box on page 50. The requirement to make automatic determinations of eligibility appears to correspond to the changes that the department has already made or is in the process of making as part of its streamlining efforts. The legislation also adds two other scenarios in which the department will automatically determine whether a claimant is eligible: (1) the claimant is a participant in training with a certified provider that is on the State's eligible training provider list or (2) the claimant is a journey-level union member who is enrolled in a training or retraining course of instruction that meets criteria related to changes in technology, industry needs, or demands in the job marketplace.

The clear intent of AB 2058 is to ensure that claimants planning to take advantage of the training benefits program do not incur hardship while they wait for the department to determine their eligibility. Because AB 2058 requires an automatic determination of eligibility, specifically for programs identified in the legislation and for the two new scenarios previously described, claimants enrolled in these programs should not have to wait as long to receive their unemployment benefits once the department implements the prescribed processes. However, AB 2058 does not require the department to make an automatic determination regarding self-arranged training, and as we discuss in the next section, this is the area where we believe the department faces the most significant challenges.

***The Majority of Determinations Made by the Department Found Claimants in Self-Arranged Training to Be Ineligible for the Training Benefits Program***

Although 80 percent of the training benefits program determinations the department made for 2009 involved claimants who had enrolled in self-arranged courses, we found that it ultimately deemed the majority of these determinations as ineligible for the training benefits program. In some cases, claimants may have their unemployment benefits discontinued while the department determines whether they are eligible to participate in the training benefits program, only to later learn that the training benefits program is not eligible. Because they were not able to look for work and available for suitable work, they would therefore not receive unemployment benefits. For these claimants, the time that elapsed during which the department was determining their eligibility for the training benefits program may have been lengthy, presenting a significant hardship. In some circumstances, the department indicated that it may ultimately find some of these claimants eligible for unemployment benefits; however, because this information is not tracked, it is unclear how many of these claimants continued to receive unemployment benefits.

Federal law does not specify the criteria that a state must follow when approving claimants for training, instead leaving it to each state's discretion to establish the criteria it will use. During our fieldwork, state law required the application of eight criteria to determine whether participation in self-arranged training made an individual eligible for unemployment benefits. Using information in the department's client database, we found that for the majority of determinations it made, the claimants were ineligible for the training benefits program for one of the following reasons: the claimant's training was not in an occupation that was in demand in the claimant's local labor market and/or the training was longer than one year.

In addition to simplifying the eligibility determination process as previously described, AB 2058 revised some of the eligibility criteria for self-arranged training to allow more claimants to take advantage of the training benefits program. We show the revised criteria in the fourth column of Table 5 and note the effects of these changes in the last column. The legislation addresses one of the two criteria that claimants most often failed to meet: It revised the requirement that claimants must complete their training within one year, requiring instead that they complete the training within a reasonable period of time. Of even more significance, AB 2058 added a new criterion that will allow the department's director to find individuals eligible for the training benefits program if they are enrolled in community colleges or other accredited postsecondary

**Table 5**  
**The State's Requirements for Self-Arranged Training Before and After the Passage of Assembly Bill 2058**

UNEMPLOYMENT CODE SECTION DEFINING SELF-ARRANGED TRAINING REQUIREMENTS BEFORE AB 2058	UNEMPLOYMENT CODE SECTION DEFINING SELF-ARRANGED TRAINING REQUIREMENTS AFTER AB 2058	CHANGE IN LAW
<p>1269(d)</p> <p>A determination of potential eligibility for benefits under this article shall be issued to an unemployed individual if the director finds that ALL of the following apply:</p>	<p>1269.1</p> <p>A determination of potential eligibility for benefits under this article shall be issued to an unemployed individual if the director finds that ALL of the following apply:</p>	
<p>1269(d)(1)</p> <p>The individual has been unemployed for four or more continuous weeks, or the individual is unemployed and unlikely to return to his or her most recent workplace because work opportunities in the individual's job classification are impaired by a plant closure or a substantial reduction in employment at the individual's most recent workplace, by advancement in technological improvements, by the effects of automation and relocation in the economy, or because of a mental or physical disability which prohibits the individual from utilizing existing occupational skills.</p>	<p>1269.1(a)</p> <p>Same</p>	<p>No change.</p>
<p>1269(d)(2)</p> <p>One of the substantial causes of the individual's unemployment is a lack of sufficient current demand in the individual's labor market area for the occupational skills for which the individual is fitted by training and experience or current physical or mental capacity, and that the lack of employment opportunities is expected to continue for an extended period of time, or if the individual's occupation is one for which there is a seasonal variation in demand in the labor market and the individual has no other skill for which there is current demand.</p>	<p>1269.1(b)</p> <p>Same</p>	<p>No change.</p>
<p>1269(d)(3)</p> <p>The training or retraining course of instruction relates to an occupation or skill for which there are, or are expected to be in the immediate future, reasonable employment opportunities in the labor market area in this state in which the individual intends to seek work and there is not a substantial surplus of workers with requisite skills in the occupation in that area.</p>	<p>1269.1(c)</p> <p>Same</p>	<p>No change.</p>
<p>1269(d)(4)</p> <p>If the individual is a journey-level union member, the training or retraining course of instruction is specific job-related training necessary due to changes in technology, or necessary to retain employment or to become more competitive in obtaining employment.</p>		<p>Moved criteria to section 1269(e), allowing for automatic eligibility and make minor changes.</p>
<p>1269(d)(5)</p> <p>The training or retraining course of instruction is one approved by the director and can be completed within one year.</p>	<p>1269.1(d)</p> <p>The training or retraining course of instruction is one approved by the director and can be completed within a reasonable period of time.</p>	<p>Changed one-year requirement to a "reasonable period of time."</p>

continued on next page...

UNEMPLOYMENT CODE SECTION DEFINING SELF-ARRANGED TRAINING REQUIREMENTS BEFORE AB 2058	UNEMPLOYMENT CODE SECTION DEFINING SELF-ARRANGED TRAINING REQUIREMENTS AFTER AB 2058	CHANGE IN LAW
<p><b>1269 (d)</b></p> <p><b>A determination of potential eligibility for benefits under this article shall be issued to an unemployed individual if the director finds that ALL of the following apply:</b></p>	<p><b>1269.1</b></p> <p><b>A determination of potential eligibility for benefits under this article shall be issued to an unemployed individual if the director finds that ALL of the following apply:</b></p>	
<p>1269(d)(6)</p> <p>The training or retraining course of instruction is a full-time course prescribed for the primary purpose of training the applicant in skills that will allow him or her to obtain immediate employment in a demand occupation and is not primarily intended to meet the requirements of any degree from a college, community college, or university.</p>	<p>1269.1(e)</p> <p>The training or retraining course is a full-time course prescribed for the primary purpose of training the applicant in skills that will allow him or her to obtain employment in a demand occupation.</p>	<p>Removed bolded language from 1269(d)(6).</p>
<p>1269(d)(7)</p> <p>The individual can be reasonably expected to complete the training or retraining successfully.</p>	<p>1269.1(f)</p> <p>Same</p>	<p>No change.</p>
<p>1269(d)(8)</p> <p>The beginning date of training is more than three years after the beginning date of training last approved for the individual under this subdivision.</p>	<p>1269.1(g)</p> <p>Same</p>	<p>No change.</p>
	<p>1269.1(h)(1)</p> <p>If a determination of potential eligibility for benefits is issued under this section, except under subdivision (c), and when federal extended unemployment insurance benefits are in effect, the director may find that an unemployed individual is eligible for training benefits if the individual is enrolled in a community college or other accredited postsecondary education program with the purpose of preparing the applicant in academic or job skills, including remedial training, that will increase employment opportunities or that leads to an industry-recognized credential or certificate designed for a specific occupation. If an individual is approved for training benefits under this subdivision and the federal extended unemployment insurance benefits are subsequently no longer in effect, the individual shall remain eligible as long as he or she is attending the training and is meeting the provisions of this article.</p>	<p>Added new language.</p>

Source: California Unemployment Code, Section 1269.

Note: AB 2058 does not require the Employment Development Department to make an automatic determination for claimants enrolled in self-arranged training.

education programs with the purpose of acquiring academic or job skills that will increase their employment opportunities. Under the revised and new criteria, some claimants the department would have determined were ineligible for the self-arranged training under the prior law may now qualify. However, as we discussed previously, the department does not plan on implementing these changes until July 1, 2011, as permitted by AB 2058. Thus, the department will not be able to assess the effectiveness of the new legislation until sometime after that date.

AB 2058 requires that the department prepare and submit a report to the governor and the Legislature evaluating the effectiveness of the training benefits program by September 1, 2016. In this report, the department must include data on the number of claimants determined eligible for the training benefits program and make recommendations for improving the effectiveness and efficiency of the training benefits program. Although this information may be beneficial, we believe it is also important for the department to track and report the number of claimants it determines ineligible for the self-arranged training and its reasons for those determinations. We believe this would allow the department to better focus some of its recommendations on how it can assist claimants in understanding the criteria for the self-arranged training in the future

### **Recommendations**

To maximize federal funding and provide unemployment benefits to those eligible under the alternate base period, the department should closely monitor its resources and project schedule to avoid any further delays in implementing the client database and ensure that it completes the alternate base period project by the federal deadline.

To help ensure that the department completes the alternate base period project by the federal deadline so that the State preserves its eligibility to receive \$839 million in incentive funds, the California Technology Agency should closely monitor the department's progress toward implementing the client database and alternate base period projects and provide assistance to the department, as necessary.

To better track and improve the timeliness of determinations for the training benefits program and to assist claimants in understanding self-arranged training requirements, the department should do the following:

- Take measures to ensure that its staff correctly enter all data into the training benefits program's streamline database.
- Track and report the number of claimants it determines are both eligible and ineligible for the self-arranged training and the reasons for these determinations, to better focus some of its recommendations toward how it can assist claimants in understanding the program's criteria. In addition, the department should track the number of claimants that it finds to be both ineligible for self-arranged training and ultimately ineligible for unemployment benefits and develop strategies to expedite the determination process for these claimants.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to 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 specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

Date: March 24, 2011

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

*(Agency response provided as text only.)*

California Technology Agency  
1325 J Street, Suite 1600  
Sacramento, CA 95814

March 14, 2011

Ms. Elaine M. Howle  
State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for sharing the recommendation in the draft audit report Employment Development Department, Unemployment Insurance Program (#2010-112) referencing the California Technology Agency and providing an opportunity for us to respond.

The recommendation proposes that the Technology Agency closely monitor the Employment Development Department's Single Client Database Modernization and Alternate Base Period projects and provide assistance to the Department where necessary. We concur with your recommendation.

The Technology Agency has recently approved the Special Project Reports referenced in your report which re-baselines the schedule and cost elements for both projects. Our approval establishes additional reporting requirements and conditions that will provide the means to assist the projects in a timely manner. Within the state's IT project portfolio, the Single Client Database project has been classified as a high-criticality project, particularly given the associated dependencies with other projects, including the Alternate Base Period project.

If you require any further information regarding this response or our participation on these projects, please contact Karan Marsh, California Technology Agency Program Manager, at (916) 403-9605, or by e-mail at [Karan.Marsh@state.ca.gov](mailto:Karan.Marsh@state.ca.gov).

Sincerely,

*(Signed by: Christy Quinlan)*

Christy Quinlan  
Acting Secretary  
California Technology Agency

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*(Agency response provided as text only.)*

Labor & Workforce Development Agency  
801 K Street, Suite 2101  
Sacramento, California 95814

March 14, 2011

Ms. Elaine M. Howle, CPA\*  
State Auditor  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

As Secretary of the California Labor and Workforce and Development Agency (Labor Agency), I want to thank you for the opportunity to respond to the Bureau of State Audits' (BSA) report titled "Employment Development Department: Its Unemployment Program Has Struggled to Effectively Serve California's Unemployed in the Face of the Significant Workload and Fiscal Challenges."

This response provides the Labor Agency's perspective on some of the information contained in the report and the ongoing challenges in administering California's Unemployment Insurance (UI) program. In addition, the response addresses the report's primary recommendations. Before engaging in a more detailed discussion on the report, I want to take this opportunity to acknowledge BSA and in particular the assigned auditors for completing such an extensive review of California's UI program.

As the report's title indicates, California has endured an historic recession creating significant challenges in meeting the demands for UI services. Over a three-year period beginning in 2008, California's unemployment rate increased at an accelerated rate with a corresponding unprecedented demand for UI services. California's unemployment rate increase during the beginning of the recession surpassed the most pessimistic economic forecast available at the time, making it extremely difficult to adequately anticipate and prepare for this recession.

The Employment Development Department's (EDD) UI program paid an astonishing \$20.2 billion in benefits in 2009, and \$22.9 billion in 2010. This equates to \$43.1 billion in UI benefits paid to unemployed workers over the two calendar years, and far surpasses the \$5 billion annual average paid in UI benefits during the past decade.

One of the UI program's key missions is to act as an economic stimulus during recessions. A recent study initiated by the U.S. Department of Labor (U.S. DOL) estimates that each dollar in UI benefits paid generates two dollars in economic activity. Using these estimates, California's UI program has generated approximately \$96.2 billion in economic activity over the past two years while providing a much needed safety net to unemployed workers.

The Labor Agency and EDD appreciate the report's recognition of the hiring efforts made to mitigate the effects of the economic downturn and improve EDD's ability to provide critical UI services to unemployed workers. I concur with the report's assessment that the single most effective action taken by EDD during the time period reviewed was the hiring of additional staffing resources.

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\* California State Auditor's comments begin on page 67.

Ms. Elaine M. Howle

Page 2

The leadership at EDD feels that increasing UI staffing by over 1,000 within a one-year period, while complying with the State's civil service laws, was an extraordinary effort on their part. Certainly it takes considerable time and resources to recruit and screen thousands of applicants based on required qualifications, conduct interviews and perform reference checks, and ultimately train new staff. EDD points out that during this period, they also established a new UI center to house additional staff and procured additional office space needed to successfully train over 1,000 new employees. Hiring and training this number of employees in a relatively short period of time is a noteworthy achievement especially considering it was accomplished during this period of extraordinarily high UI program workload.

I believe we should compliment those dedicated EDD employees who sacrificed family time to work before and after business hours and on the weekends over the past 36 months to provide services to unemployed workers while implementing five separate benefit extensions along with numerous amendments, and performing other critical functions necessary to administer the UI program. The combination of increased staffing resources and overtime was paramount to improving service delivery times.

California's historical experience with its UI federal grant indicates the demand for services and its corresponding receipt of federal funds could be better synchronized, especially at the initial stages of a recession, to provide funding more timely. EDD points out that here was a lag period between the time California experienced an increased demand for UI services and the receipt of federal funds used to provide those services. It is not hard to imagine that this lag limited EDD's ability to meet increased workload demands, especially during a recession of the magnitude we recently experienced.

Two changes at the federal level have resulted in consistent underfunding of the UI program. The first change eliminated annual cost-of-living adjustments provided to the states, which had previously helped ensure funding kept pace with the increased cost of administering the UI program. The second change instituted a new methodology for allocating UI administrative grants to the states called the Resource Justification Model. This new methodology does not fully incorporate all the required functions performed in administering the UI program as part of its funding model, resulting in program functions that are not funded. Additionally, the federal government has never fully funded the program at the dollar amount that is justified in the model.

California's UI program has historically received a federal grant between 13 percent and 22 percent less than what EDD believes is needed to cover the full administrative costs during federal fiscal years (FFY) 2003-11. This represents underfunding by 18 percent on average over the past nine years. The federal Resource Justification Model identifies the actual cost for effectively administering the UI program, and forms the basis for EDD's annual funding request. The U.S. DOL and EDD have always maintained a strong partnership in the administration of the UI program. The U.S. DOL and EDD have held discussions regarding the concerns with the Resource Justification Model and the implications to California's UI program.

Ms. Elaine M. Howle

Page 3

The following chart shows the amount of administrative funding requested and received during the past nine federal fiscal years using the federal funding model. ①

FFY	Federal Funding Requested	Federal Funding Received	Difference in Dollars	Percentage Underfunded
2003	\$368.0	\$319.3	\$48.7	-13%
2004	\$408.5	\$337.3	\$71.2	-17%
2005	\$397.5	\$342.9	\$54.6	-14%
2006	\$400.3	\$350.0	\$50.3	-13%
2007	\$405.9	\$332.5	\$73.4	-18%
2008	\$387.5	\$319.1	\$68.4	-18%
2009	\$407.7	\$341.6	\$66.1	-16%
2010	\$417.3	\$346.0	\$71.3	-17%
2011	\$441.3	\$344.5	\$96.8	-22%

\* Amounts shown in millions of dollars

The report also cites several automation initiatives underway, involving both immediate and more long-term systemic changes, to improve service levels and performance. The initiatives recently implemented include a new call center network that increased capacity to handle more calls, and telephone and web-based systems for certifying for benefits that reduce the manual processing of paper certifications. In the near future, electronic benefit payments will be implemented, and EDD plans to redesign the Internet UI application to provide more automated functionality. Collectively these initiatives will provide efficiencies that the Labor Agency and EDD believe will further improve service levels and performance, and position the UI program to better handle increased demands for UI services in the future. ②

If these automation initiatives had been implemented prior to the recession, they alone would not have prevented a decline in both service levels and performance given the extraordinary increase in the demand for UI services. Preparing for a recession as severe as California experienced during the past several years also requires timely and adequate federal funding to ensure trained staffing resources are available to serve UI customers. Because of the complexities of the UI program and the level of coordination between the federal and State governments, I believe continuous comprehensive solutions are required in order to meet service demand and federal performance measures during future economic downturns.

#### RESPONSE TO THE REPORT'S RECOMMENDATIONS

The following provides responses to the report's recommendations. The Labor Agency and EDD agree implementing these recommendations will help provide a foundation for continuous improvement for the UI program. The responses provide additional context and describe actions already underway to address the recommendations. Please note that the recommendations as stated in this response may be a condensed version of the recommendation contained in the report. ③

Recommendation One: The department should further enhance its corrective action planning process as a means of improving the unemployment program.

The Labor Agency and EDD agree with the BSA's recommendation. The U.S. DOL requires all states to submit a State Quality Service Plan (SQSP), including applicable corrective action plans, when submitting its administrative grant application. The U.S. DOL has approved California's SQSP every year and continuously works with states to improve the overall quality and details in the corrective active plans.

The EDD agrees that including more detailed milestones and measurable objectives in its SQSP would help improve performance. In fact, EDD has been working with the U.S. DOL to provide more detailed quarterly updates and to improve its corrective action plans for the upcoming federal fiscal year 2012. The EDD plans to meet with the U.S. DOL prior to the development of next year's SQSP to further discuss improvements to California's corrective action plans. As permitted by U.S. DOL, California plans to continue to include both short-term and multi-year corrective actions in the annual SQSP.

California has already made significant improvements in its first payment performance. For the December 2010 quarter, California's performance was at 76.8 percent, an increase of 16.4 percentage points over December 2009 quarter's performance of 60.4 percent. In addition, California made significant improvements in its nonmonetary determinations timeliness performance. For the December 2010 quarter, California's performance was at 78.5 percent, an increase of 45.2 percentage points over December 2009 quarter's performance of 33.3 percent.

These improvements can be attributed to a combination of various actions EDD has taken over several years; including increasing staffing and implementing the EDD telephone certification process. The EDD believes that full implementation of automation projects underway will further improve performance on timeliness measures.

Recommendation Two: The Department should further develop strategies and measurable goals related to achieving a reduction in call volume.

The Labor Agency and EDD agree with BSA's recommendation. A key EDD strategy is to provide customers with multiple options to access UI services, including options in addition to telephone services.

- ④ The EDD continuously takes steps to enhance UI services and access to those services. Examples of service improvements include: using telephone self-service for benefit payment information, certifying for benefits by telephone or the Internet rather than by mail, and filing a claim for benefits through the Internet. Increased staffing levels, coupled with the ability to obtain services through different channels, reduces the demand on the EDD's UI phone system and provides an overall better service experience for EDD's customers.

With the implementation of the Call Center Network Platform and Application Upgrade project (a new call center network), UI customers have experienced great improvements in their ability to access call center services. Historically, EDD experiences its highest call volumes during the first two months of the year. Even though the new call center network was not fully implemented until the end of February 2011, EDD customers have already experienced significant improvements in accessing UI services.

- ⑤ For the first two months of 2011, the increased staffing levels, expanded call center network, and increased self-service options resulted in an 89.9 percent decrease in call attempts over the same period in 2010; a decrease of 98.6 percent in the number of customers unable to access EDD's Interactive Voice Response telephone system for benefit and other information; and an 81.6 percent increase in the number of customers who received services from an EDD representative over the same time period in 2010. As customers receive services either through self-service options, or are successful in speaking to an EDD representative without calling multiple times, the number of call attempts substantially decreases.
- ⑤ Now that the call center network project is complete, EDD is analyzing data from the new system including network performance, to ensure caller needs are being met and will develop strategies and goals to continually improve services to our UI customers and reduce call volume as recommend by BSA.

Ms. Elaine M. Howle

Page 5

Recommendation Three: The Department should closely monitor its resources and project schedule to ensure it completes the alternate base period project by the federal deadline.

The Labor Agency and EDD agree with BSA's recommendation. In fact, EDD recognized it had insufficient resources to successfully complete all projects including the alternate base period project. Consequently, in August 2010, EDD's Chief Information Officer completed a major review of EDD's Information Technology (IT) project portfolio. As a result, EDD has prioritized all IT projects currently in its portfolio using a specified criteria, identified staff by skill sets required for each project, and reallocated the required staffing by skill set to each priority IT project. ⑥

Through the review and resulting realignment of resources, the necessary staffing resources were assigned to the alternate based period project in order to complete the project on schedule. To accomplish this and to allocate necessary staffing resources to all other higher priority projects, EDD temporarily suspended two lower priority projects and cancelled one other project after determining its key benefit could be a component of a higher priority project. The EDD will continue to monitor its staffing resources and report to the Joint Legislative Budget Committee quarterly on the status of the alternate base period project.

Recommendation Four: The Department should better track and improve the timeliness of training program determinations and assist claimants in understanding self-arranged training requirements.

The Labor Agency and EDD agree with the BSA's recommendation including the following specific actions:

Take measures to ensure staff correctly enter all data into the training program streamline database.

Track and report the number of claimants it determines eligible or ineligible for the self-arranged training as well as the reasons for the decisions. This reporting may also be used by EDD to assist claimants in understanding the program's criteria.

When the EDD launched its new California Training Benefit program streamline determination process in February 2010, EDD created a new automated workload processing and tracking tool to collect data on the incoming applications, including the application receipt dates and determination completion dates. EDD noted that initially, some of the data fields were not being completed and took steps to adjust the tool to ensure that the data fields were complete. However, while some data entries were left incomplete (determination completion date), the official claim records contained in EDD's Single Client Database are complete. ⑦

The EDD agrees with the importance of tracking, analyzing, and reporting on the number of claimants determined eligible and ineligible to participate in the California Training Benefit program. The EDD has and will continue to collect important information to analyze the timely processing of these eligibility determinations and the reasons the claimants were disqualified by the specific eligibility statute.

In addition, EDD has conducted targeted marketing and outreach to claimants and the general public on the California Training Benefit program to ensure customers have a better understanding of the program and its eligibility requirements. In 2009, EDD published a new Tip Sheet to explain the program's determination process and the specific eligibility criteria to assist claimants in understanding the program's criteria.

In early February 2011, EDD released a new YouTube video to inform the public about the California Training Benefit program and how to obtain additional information about the eligibility criteria. In January 2011, EDD

Ms. Elaine M. Howle

Page 6

initiated a claimant survey to individuals who had a California Training Benefit determination. The EDD has received 60 percent of the surveys so far and will gather information that will assist in continuing to improve marketing and outreach efforts to the public.

⑧ The EDD is in the process of revising all California Training Benefit publications and materials, web site information and is conducting marketing efforts to inform claimants of the new eligibility criteria authorized by Assembly Bill 2058 and the streamline process. The EDD anticipates that under the new eligibility criteria a significantly higher percentage of claimants in self-arranged training will be found eligible compared to the percentage of claimants who are not eligible under current law. All of the above actions and ongoing efforts are designed to address BSA's recommendations related to the California Training Benefit program.

Again, I want to thank the BSA for their extensive work in preparing this report and appreciate the opportunity to provide the Labor Agency and EDD's perspective on ongoing challenges with administering the nation's largest UI program. If you have any questions with the response please contact me or Gregory Riggs at (916) 654-7014.

Sincerely,

*(Signed by: Marty Morgenstern)*

Marty Morgenstern  
Secretary

## Comments

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE LABOR AND WORKFORCE DEVELOPMENT AGENCY

To provide clarity and perspective, we are commenting on the response to our audit report from the Labor and Workforce Development Agency (agency). The numbers below correspond to the numbers we placed in the margin of the agency's response.

The federal funding data the agency and the Employment Development Department (department) present do not include the supplemental or above-base funding that the United States Department of Labor (federal labor department) also provided the department. On pages 23 and 24, we acknowledge that a delay in receiving above-base funding affected the department's ability to increase staff. However, after the federal labor department restored this shortfall in July 2008, the department added more than 800 program representatives to its staff. Furthermore, we were not asked to evaluate the federal Resource Justification Model as part of the scope of this audit.

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The "Internet UI application" that the agency and department mention here is one of the two lower priority projects the department has temporarily suspended.

②

We agree that some of the recommendations as stated in the agency's and department's response are a condensed version of the recommendations in our report. We anticipate that when the department provides us with its 60-day, six-month, and one-year updates on the status of implementation of our recommendations that it will describe how it is addressing all aspects of each recommendation.

③

As we discuss on page 40 of our report, the department's Web-Cert project, which allows claimants to certify for unemployment benefits online, has been unavailable to claimants due to technical difficulties since January 2011.

④

As we describe on page 40, of our report, because the department was still in the process of implementing the new phone system during our audit, we were unable to assess the effectiveness of the new system based on actual data. Moreover, as we discuss on page 38, the new phone system was rolled out to the six primary call centers by the end of December 2010. Efforts to expand call center functionality to the department's adjudication centers where staff focus on making calls to resolve eligibility issues, have continued since then, with final project closeout anticipated in April 2011.

⑤

Accordingly, we were not able to confirm during our fieldwork that the call center network project is complete as the agency and department have asserted.

- ⑥ On page 47 of the report, we stated that the department reprioritized its information technology projects in October 2010, which differs from the August 2010 date the agency and department mention in their response. We based our date on when the department presented the results of its reprioritization to the California Technology Agency.
- ⑦ We do not necessarily agree with the assessment that the official claim records contained in the department's Single Client Database (client database) are complete. According to the department, information from the client database is combined with staff entries into the Streamline Tracking System (streamline database) to populate the necessary fields in the client database. As we state on page 15 of the report, in 5 percent of the streamline database records we analyzed, we found that although the determination status indicated it was complete, the fields for training benefits determination decision and the date the department made the eligibility determination were blank. Therefore, the absence of complete and accurate data entries in the streamline database could create a risk that the official claim records in the client database are not complete.
- ⑧ As we discuss on page 57, the department does not plan to implement the new eligibility criteria under Assembly Bill 2058 until July 1, 2011, as permitted by law.



cc: Members of the Legislature  
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