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Auditor General DePasquale Tells House Committee Urgent Action Needed to Ensure Stability of Unemployment Compensation Fund

HARRISBURG – Auditor General Eugene DePasquale today delivered the following testimony before the House of Representatives' Labor & Industry Committee on his [recent audit](#) of the state's Unemployment Compensation Service and Infrastructure Improvement Fund:

**Opening Statement of
Auditor General Eugene A. DePasquale
Monday, June 5, 2017
Before the House Labor and Industry Committee
The Honorable Robert Kauffman, Majority Chairman
The Honorable John Galloway, Democratic Chairman
Regarding the Audit of the Service and Infrastructure Improvement Fund**

Chairman Kauffman, Chairman Galloway, and members of the House Labor and Industry Committee: Good morning and thank you for the opportunity to discuss my Department's audit of the Department of Labor and Industry's Service and Infrastructure Improvement Fund, commonly referred to as "SIIF." Before we get into the audit itself, I think it is necessary to provide some background as to how things got to this point.

BACKGROUND

SIIF was created by Act 34 of 2013 to temporarily supplement a decline in the federal funding that the Department of Labor and Industry (L&I) uses to administer the Unemployment Compensation (UC) program. As you know, SIIF is not funded through the General Fund, but rather from a portion of payroll taxes paid by employees. The legislation creating SIIF sunset and terminated transfers into the fund as of the end of 2016.

L&I required additional funding to continue unemployment compensation operations even though the initial lifespan of SIIF ended. When legislation to authorize additional funding stalled, three UC service centers were closed and 488 employees were furloughed in December. It is important to note that supplemental funding was appropriated by the General Assembly in April that enabled the rehiring of some of these employees. Unfortunately, however, these closures had a devastating impact on services causing individuals to have hours-long wait times and a call center busy signal rate of 99.3 percent.

In January, Governor Wolf and members of the House and Senate asked me to conduct a performance audit on the SIIF. The audit focused on two areas: 1) how L&I used SIIF funding from 2013 through 2016 and if its use was consistent with the law; and 2) how much funding will be required over the next few years to maintain efficient operation of the UC program and avoid additional program cuts.

The audit report was released on April 25.

AUDIT FINDINGS

Generally, in the 61-page audit report, we detail three findings and made 10 recommendations that center around infrastructure concerns, use of improper accounting methods, and oversight problems that, all told, could cost in excess of \$160 million to resolve.

Infrastructure

During our review we found the computer system used by the UC system is woefully outdated using COBOL software that was “cutting edge” in the early 1970s, but is ancient by today’s technology standards. Relying upon such antiquated hardware and software has the potential of putting the entire computer system and unemployment compensation at peril. L&I appropriately identified computer system upgrades as its top priority.

However, L&I informed us that a new computer system is estimated to cost approximately \$63.8 million over the next four years, but the benefits would enhance customer service, improve efficiency and accuracy, and expand hours of operation. Most importantly, such an upgrade will help ensure that the UC system does not collapse, placing tens of thousands of qualified citizens in jeopardy of not receiving checks.

Improper Accounting and Oversight

We found that L&I did not use proper accounting methods to record the \$178.4 million in SIIF funds, which inhibited my agency’s ability to accurately determine if funding was being used according to Act 34 to make lasting improvements to the UC program. Instead of keeping the SIIF funds separate from other administrative funds, L&I lumped all expenditures together. These inadequate accounting procedures resulted in L&I’s inability to provide evidence of how funds were used and certainly impacted the L&I’s ability to file timely and detailed annual reports requested by the General Assembly.

I note that L&I has already started the process to remedy these concerns and should be able to provide accurate reports to the General Assembly moving forward.

Financial Status

L&I estimated that it will need \$159.5 million between 2017 and 2020: \$95.5 million to maintain the current operation of the remaining five UC service centers and \$64 million to fully replace its ancient computer system. It is important to note that the \$159.5 million does not include permanently re-opening the three service centers that were closed in December. L&I estimates that it would cost an additional \$38.5 million to bring those centers and employees back for one year.

PROGRESS

I understand that L&I has made some substantial strides to address many of the concerns that were revealed in the audit. L&I indicates it now meets or exceeds most of the performance measures required by the U.S. Department of Labor. Additionally, by establishing proper accounting principles and maintaining proper oversight, L&I should be able to report timely to the General Assembly and accurately assess financial needs for strengthening the UC system.

Additionally, the administration has taken the right step to try and recoup some funds from IBM for the failed IT contract that was terminated in 2013. This money could be used to help finance the computer system replacement that is desperately needed.

CONCLUSION

While L&I is making strides in the right direction, the situation is still perilous and needs a comprehensive plan in order to move it toward solid ground. Without one, the system is vulnerable to even further decline in service to people across the commonwealth.

Chairman Kauffman, Chairman Galloway, and members of the committee, this is simply a snapshot of my audit of the SIIF. I thank you for the opportunity to appear before you today. I am pleased to answer any questions you might have.

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