| EMPLOYMENT AND TRAINING ADMINISTRATION<br>ADVISORY SYSTEM<br>U.S. DEPARTMENT OF LABOR<br>Washington, D.C. 20210 | **CLASSIFICATION**<br>Unemployment Insurance<br>**CORRESPONDENCE SYMBOL**<br>OUI<br>**DATE**<br>July 25, 2013 |
|---|---|


**ADVISORY:** **UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 24-13**

**TO:** STATE WORKFORCE AGENCIES

**FROM:** ERIC M. SELEZNOW /s/
Acting Assistant Secretary

**SUBJECT:** Unemployment Insurance (UI) Supplemental Funding Opportunity for Program Integrity and Performance and System Improvements

1. **Purpose.** To notify State Workforce Agencies of the availability of Fiscal Year (FY) 2013 funds for activities that support the prevention and detection of UI improper benefit payments, improve state performance, and address outdated Information Technology (IT) system infrastructures necessary to improve UI program integrity.

2. **References.**
   - Executive Order (E.O.) 13520, *Reducing Improper Payments* (November 20, 2009);
   - Improper Payment Information Act of 2002 (IPIA), 31 U.S.C. 3321;
   - Improper Payment Elimination and Recovery Act of 2010 (IPERA), 31 U.S.C. 3301;
   - Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA), 31 U.S.C. 3321;
   - Unemployment Insurance Program Letter (UIPL) No. 22-10, *Selecting and Monitoring At-Risk States for Continuous Improvement and Compliance with First Payment Timeliness and First Level Appeals Promptness;*
   - UIPL No. 19-11, *National Effort to Reduce Improper Payments in the Unemployment Insurance (UI) Program*;
   - UIPL No. 26-11, *Unemployment Insurance (UI) Supplemental Funding Opportunity for Program Integrity and Performance and System Improvements*;
   - UIPL No. 28-11, *Unemployment Insurance (UI) State Integrity Task Forces and Strategic Plans*;
   - UIPL No. 17-12, *Unemployment Insurance (UI) State Information Data Exchange System (SIDES) Messaging and Communications Toolkit Availability*;
   - UIPL No. 18-12, *Unemployment Insurance (UI) Supplemental Funding Opportunity for Program Integrity and Performance and System Improvements*; and
   - UIPL No. 09-13, *Integrity Performance Measures for Unemployment Insurance*.

| RESCISSIONS | EXPIRATION DATE |
|---|---|
| None | Continuing |

3. **Background.** On November 20, 2009, President Obama signed E.O. 13520, *Reducing Improper Payments*. It emphasized the need to eliminate waste, fraud and abuse in federally administered programs while protecting access to these programs by their intended beneficiaries. In addition, the IPIA, as amended by IPERA and IPERIA, requires Federal agencies to review their programs annually and develop and implement corrective action plans for any "high-risk" programs. Under the IPIA, an agency which reports an improper payment rate above 10 percent for a program it administers will be determined to be out of compliance. The UI program is currently out of compliance, as the national UI improper payment rate was estimated to be 11.42 percent for the 2012 reporting period (10.81 percent overpayment rate plus a 0.61 percent underpayment rate). This translates to approximately $10.3 billion in improper payments nationally.

   On June 10, 2011, the Employment and Training Administration (ETA) issued UIPL No. 19-11, *National Effort to Reduce Improper Payments in the UI Program*, to notify stakeholders that UI integrity is a top priority and to request that they each provide a strategic plan to aggressively target UI overpayment prevention and detection in their states. UIPL No. 19-11 also requested that all states participate in a federal-state collaboration of cross-functional task forces to reduce UI improper payments by implementing new strategies aimed at addressing the root causes of overpayments to significantly reduce the UI improper payment rate. ETA also issued UIPL No. 28-11, which announced an initiative to support states in convening cross-functional UI integrity task forces and developing state-specific strategic plans to reduce UI improper payment rates.

   To support states' efforts in implementing elements of their strategic plans, ETA announced supplemental funding opportunities with incentives to accelerate state actions to reduce improper payments for FY 2011 in UIPL No. 26-11, and for FY 2012 in UIPL No. 18-12. As a condition of eligibility, those funding opportunities required states to implement Core Integrity Strategies to qualify for additional "Incentive Integrity Activity" funding.

   One Core Strategy that ETA funded is the implementation of the State Information Data Exchange System (SIDES). SIDES is a web-based system that allows electronic transmission of UI information requests from state agencies to employers and/or Third Party Administrators, as well as transmission of replies containing the requested information back to the UI agencies. The National Association of State Workforce Agencies (NASWA) manages the day-to-day operations and maintenance of SIDES, which is funded through subscription fees from participating states. States receiving supplemental funds for the payment of SIDES subscription costs may pay these fees directly to NASWA or ask ETA to de-obligate the state's SBR funds to send to the State of Maryland, the lead state for the SIDES consortium, for payment to NASWA on their behalf.

   In FY 2011, ETA provided a total of $192 million in supplemental grant awards to 42 states for integrity activities, and in FY 2012, a total of $169 million in supplemental grant awards was provided to 33 states for the prevention, detection, and recovery of improper UI benefit payments.

The FY 2013 funding also provides an opportunity for states to go beyond improper payments to focus on additional UI IT system improvements for Unemployment Compensation for Ex-servicemembers (UCX) data exchange enhancements and integration of state UI, Employment Service (ES), and Workforce Investment Act (WIA) IT systems. Addressing the reemployment needs of UI claimants through increased UI and workforce system connectivity has been a key focus of the U.S. Department of Labor (Department) for several years now, and important groundwork has been done by NASWA and the Information Technology Support Center (ITSC). These supplemental funds will enable interested states to take the next steps.

The Department also continues to be committed to supporting states in updating their IT infrastructures. The ITSC reports that the average age of the states' UI IT infrastructures is 23 years, with many systems more than 30 years old. These aging "legacy" systems have poor agility to integrate new technology components, limited capacity to handle increased claims loads, and inhibit productivity by limiting new technologies that can be added.

States that have recently modernized their systems have found that the cost to design and develop a new system is, on average, about $40 to $50 million. The Department's budget estimates show that the cost of funding individual customized state systems, even if costs were spread over multiple years, is unaffordable in the current budget environment and that states must seek collaborative solutions to address the challenge. Therefore, this solicitation is employing a consortium strategy to fund system modernization and large technology projects.

4. **Structure of Funding Opportunity.** With the goal of providing incentives for all states to take advantage of this funding opportunity, ETA is structuring the FY 2013 supplemental funding opportunity to provide states with greater flexibility in developing state-specific strategies and lessening the burden of the prescribed implementation deadlines included in the last two solicitations for supplemental budget requests (SBRs). Similar to the SBRs of the past two years, states must implement a set of Core Strategies, totaling up to $1.75 million per state, designed to expand state efforts to aggressively target UI overpayment prevention and detection activities to qualify for additional funding for FY 2013. States that have implemented, or agree to implement, the entire set of Core Strategies may be eligible to request targeted funding, in an amount ranging from up to $1.15 million to $1.55 million per state, to support projects in Focus Areas such as program integrity, UI modernization and automation activities, and state-specific performance improvement.

   Section 5 of this UIPL discusses the Core Strategies that all states must implement as part of their individual integrity strategic plans in order to qualify for Focus Area funding. Included in Section 5 is a chart depicting the maximum funding amounts available for each Core Strategy.

   Section 6 of this UIPL discusses the Focus Areas identified by ETA for targeted funding in FY 2013. Included in Section 6 is a chart showing the maximum funding amounts available for each Focus Area.

Section 7 discusses Consortium funding opportunities. States committing to implement all of the core activities, or that have already implemented the core activities, will be eligible to submit proposals for UI modernization projects as part of a consortium of states.

All state applications will be evaluated by ETA based on the potential impact of the strategy on performance outcomes such as the reduction of state improper payment rates (see Attachment A, *Measurable Improvement Expected in UI Operations*).

5. **Required Core Strategies.** States must implement each of the Core Strategies identified in this section to receive funding through this solicitation. For each strategy, states must either commit to implementation and recommend a timeline for completion, or attest that the strategy is already complete and provide the completion date. Funding caps are identified for each activity in the tables at the end of Section 5 and Section 6. States should propose realistic timelines and goals for the completion of all Core Strategies. By accepting these funds, each state agrees to meet the commitment(s) made in its application. A state that fails to meet the performance requirements and timelines established in the grant(s) statement of work could have questioned costs that would need to be repaid.

   - **Business Process Analysis (BPA) for Improper Payments.** States with improper payment rates of 10 percent or higher (refer to Attachment C for rate information to identify targeted states) must either: conduct a BPA if one has not been performed in the last four calendar years, or implement at least one recommendation to improve program integrity as included in a BPA that was performed in the last four calendar years.

     - Targeted states that have not conducted a BPA in the last four calendar years must perform an operational business process review of their benefit systems to identify areas where changes in business processes could lead to a reduction in the improper payment rate and overall improvement in program integrity. The review must be conducted collaboratively by state staff and an independent third party contracted by the state, and recommendations from this review should be included in the state's strategic plan to the extent feasible. **Targeted states may request up to $250,000 for this activity and propose an appropriate timeline for its completion.**

     - Targeted states that have conducted a BPA using an independent third party in the last four calendar years may attest that the BPA is complete and provide the completion date. However, these states are required to request funding to implement at least one of the recommendations from the BPA. **Targeted states may request up to $250,000 for this activity and propose an appropriate timeline for its completion.**

   - **BPA for First Payment and/or First Level Appeals Promptness.** States designated as "At Risk" (refer to UIPL No. 22-10 for guidance) must either: conduct a BPA if one has not been performed in the last four calendar years, or implement at least one recommendation to improve program integrity as included in a BPA that was performed in the last four calendar years.

    - States designated as "At Risk" that have not conducted a BPA in the last four calendar years, must perform an operational business process review of their benefit systems to identify areas where changes in business processes will lead to performance improvement. The review must be conducted collaboratively by state staff and an independent third party contracted by the state, and recommendations from this review should be included in the next State Quality Service Plan (SQSP) to the extent feasible. **"At Risk" states may request up to $250,000 for this activity and propose an appropriate timeline for its completion.**

    - States designated as "At Risk" that have conducted a BPA using an independent third party in the last four calendar years may attest that the BPA is complete and provide the completion date. However, these states are required to request funding to implement at least one of the recommendations from the BPA. **Targeted states may request up to $250,000 for this activity and propose an appropriate timeline for its completion.**

- **SIDES Implementation, Expansion, and Messaging.**

    - States that have not implemented SIDES, and have not received any supplemental funds for implementation to date, will fully implement both the SIDES Web Services and SIDES E-Response components to improve the timeliness and quality of separation information needed to adjudicate non-monetary determinations. **States may request up to $500,000 for this activity and should propose realistic timelines and goals to implement SIDES Web Services and SIDES E-Response as soon as feasible, but not later than March 31, 2015. States may also request funds for SIDES subscription fees as administered by NASWA for two years.**

      Note: States requesting SIDES subscription fees must indicate if their SBR grant funds need to be de-obligated to the lead state (Maryland) for the payment to NASWA.

    - States that implement SIDES by September 30, 2013, must also commit to expand the program to a minimum threshold of employer participation for both SIDES Web Services and SIDES E-Response. Specifically, states must commit to using SIDES to transmit requests to individual employers not using Third Party Administrators for information on separations and receive employer responses for at least 35 percent of all UI initial claims (initial and additional claims as reported in the ETA 5159). States that have completed this activity must attest that the strategy is complete and provide the completion date (the month when the 35 percent threshold of all UI initial claims criteria was met). **States that have not achieved this participation rate should propose realistic timelines and goals to achieve this participation rate as soon as feasible, but not later than March 31, 2015. States may also request funds for SIDES subscription fees as administered by NASWA for one additional year.**

Note: States requesting SIDES subscription fees must indicate if their SBR grant funds need to be de-obligated to the lead state (Maryland) for the payment to NASWA.

- States that implement SIDES by September 30, 2013, must develop and implement an outreach plan to increase employer take-up of SIDES, as well as commit to implement at least one SIDES messaging tool (including use of the SIDES messaging video) to encourage employers to use the SIDES Web Services or E-Response services. The SIDES marketing toolkit was released via UIPL No. 17-12, and is available at www.dol.gov/dol/maps/tools.htm. In addition, the SIDES messaging video developed by ETA is available at info.uisides.org. **States may request up to $100,000 for these messaging activities and should propose realistic timelines and goals to implement them as soon as feasible, but not later than March 31, 2015.**

  Note: In the future, ETA may be interested in states implementing alternative behavioral approaches that have proven effective in other programs at low cost. Targeted messaging activities such as this may be one opportunity for states to participate in this effort.

- **State-Identified Prevention Strategy.** States must propose the implementation of an integrity strategy designed to prevent improper payments before they occur. This proposal may include strategies such as the use of the National Directory of New Hires (NDNH) to flag the next continued claim and require the claimant to file in person (see description at www.dol.gov/dol/maps/pdf/20111212NewJersey.pdf); technology-based overpayment prevention and detection; and other state-specific strategies to prevent improper payments. States that have previously implemented a prevention strategy must propose the implementation of a separate strategy, or the enhancement of an existing strategy, to meet this requirement. **States must propose an appropriate timeline for completion of this strategy and project the impact of the strategy on the state's improper payment rate. States may request up to $1 million for this activity. In addition, states may request Focus Area funding of up to $750,000 to supplement this strategy (see Section 6), providing a total of up to $1.75 million to support this strategy. Please note that these funds may not be used for staffing of program operations.**

- **Cross-Functional Task Force.** States must attest that they will continue convening a cross-functional UI Integrity Task Force (see UIPL No. 19-11 and UIPL No. 28-11) – including front line claims takers, adjudicators, Benefit Payment Control (BPC) and Benefit Accuracy Measurement (BAM) staff, IT staff, appeals staff, and tax staff – that is responsible for updating and submitting a revised integrity strategic plan required as part of the annual SQSP. ETA requires the continuation of this Task Force, established by all states in 2011, to cultivate a sense of ownership of program integrity within the entire UI system. **No SBR funding will be provided to support this activity.**

**SUMMARY OF CORE FUNDS AVAILABLE FOR EACH STATE**

| REQUIRED CORE STRATEGY | MAXIMUM FUNDS AVAILABLE |
|---|---|
| Business Process Analysis for Improper Payments | $250,000 |
| Business Process Analysis for Performance Improvement | $250,000 |
| SIDES:<br>• Implementation<br>• Expansion<br>• Messaging | $500,000<br>*See note<br>$100,000 |
| State Identified Prevention Strategy | $1,000,000 |
| Cross-Functional Task Force | $0 |

*Note: Please contact Mr. Subri Raman (raman.subri@dol.gov) in the National Office to determine the annual state subscription fee for SIDES, which varies by state.

6. **Focus Area Funding.** Only those states that have implemented, or commit to implementing, all of the Core Strategies listed in Section 5 are eligible for additional funds for the following types of activities: 1) enhanced staffing or contract support to increase the capacity of the state's BPC function; and 2) UI IT system improvements or specific types of integrity and performance improvement projects (see Attachment E). These funding opportunities are discussed in more detail below.

- **Merit staffing and securing contract support through September 30, 2015.** States may request funding for merit staffing or contracting of support activities for their BPC activities in order to increase prevention, detection, and recovery of improper payments. States must attest that they will maintain current levels of merit staff and resources (maintenance of effort) and that the additional merit staff will be used to improve productivity of their BPC operations.

  Contract staff may perform only work that is not inherently governmental; inherently governmental functions may be performed only by state merit staff. For example, contract staff may be used to contact claimants when there is an NDNH hit indicating the claimant may have returned to work, in order to provide instructions about claimant requirements to report for additional fact finding. Contract staff may not provide any advice to claimants beyond the approved instructions.

  States must develop a detailed budget for these projects and identify projected outcomes. Total funding for merit staffing and/or contracting support activities will be provided based on state sizes as provided in Attachment D. Funding amounts available are as follows:

  - Large States: Up to $800,000
  - Medium States: Up to $600,000
  - Small States: Up to $400,000

- **UI IT System Improvements or Specific Types of Integrity or Performance Improvement Strategies.** States may request up to $750,000 to support projects/activities under UI IT, Integrity, or Performance Improvement Focus Areas discussed in Attachment E. Please note that states submitting more than one proposal under the State-Specific Integrity and Program Performance Focus Areas should rank the proposals by priority since ETA may not fund all proposals. In addition, states may request that this additional funding be used to supplement the State Identified Prevention Strategy identified in Section 5, providing a total of up to $1.75 million to support that strategy.

**SUMMARY OF FOCUS AREA FUNDING AVAILABLE FOR EACH STATE**

| FOCUS AREAS | MAXIMUM FUNDS AVAILABLE |
|---|---|
| Merit Staffing and Contract Support | $800,000<br>$600,000<br>$400,000 |
| Other Focus Area Strategies | $750,000 |

7. **<u>Consortium Projects for UI Modernization</u>.** States committing to implement all of the core activities, or that have already implemented the core activities, will be eligible to submit proposals on behalf of a consortium of states for UI modernization projects that will reduce improper payments, speed reemployment, and/or better integrate UI with other programs. Proposals submitted will leverage and build on products developed by the existing consortia or recently modernized UI systems that are mature and stabilized. Consortium proposals must identify a lead state agency, identify the states participating in the consortium, and explain the projected allocation of and fiscal responsibility for expenditures. Additionally, the proposal must include a copy of the signed agreement(s) by all participating states. A cover letter must be included and signed by the Administrator of the lead state agency and it must explain the roles of the participating state(s) in the project as described in the consortium agreement.

   A consortium planning to submit a proposal must comply with the requirements provided in Attachment B of this advisory.

   A consortium of states may submit a proposal requesting funding for any of the following UI IT Modernization purposes:

   - Existing consortium with completed business requirements for a UI Benefits and/or Tax system– an existing consortium may submit a proposal for the design, development and implementation of a UI Benefits and/or Tax system;

   - Expanding an existing consortium – an existing consortium of states may submit a proposal to add individual state(s) to their consortium for the development of a UI Benefits and/or Tax system by committing that the new state will conduct a gap analysis of the consortium's business requirements, revise the existing consortium agreement, and agree to amend the existing governance structure, operating model, and other decisions made by the consortium to accommodate the inclusion of the new state agency;

- Leveraging existing consortium business requirements – a new consortium of states leveraging existing consortium business requirements to define common functional requirements, analyzing and assessing each existing consortium as a model to adopt a governance structure, development approaches and operational model, and other factors to support the joint development of a UI Benefits and/or Tax system;

- Leveraging a state's modernized UI Benefits and/or Tax system – a consortium of states may submit a proposal using a gap analysis to modify, configure, implement, and host the modernized UI IT system of a participating state for multi-state purposes; and

- In very limited circumstances, such as unanticipated costs for additional subject matter experts to assist with the project, ETA may consider additional funding for consortia that have already received IT modernization funding under an earlier SBR. The rationale for a request must be compelling and demonstrate that changes in circumstances or situations that were unforeseeable are the cause for the need for additional funding.

8. **Proposed Data Collection.** ETA is developing a data collection request for the Office of Management and Budget's (OMB) approval for quarterly state reporting on the implementation of SBR activities. This request may include reporting information on SBR project quarterly expenditures, the completion of specific project milestones, and additional data necessary to assist the National and Regional Offices in monitoring implementation. ETA will communicate with the UI system to seek comment on the proposed data collection through the Paperwork Reduction Act clearance process, and will notify states upon OMB approval of the final data collection. ETA anticipates this data collection will be in place for states to begin reporting in Quarter 2 of FY 2014.

9. **Application and Award of Supplemental Funds.** To apply for supplemental funds, a state must submit an SBR package (see Attachment A) consisting of an individual application for each of the Core Strategies and, if any, Focus Areas for which the state seeks funding. Each activity application will be evaluated separately. When the same expenditures are referred to in two different individual applications and would be duplicated if both were funded, the state must provide a brief description in both applications explaining why the funds are duplicated to ensure that the same costs are not funded twice. States must use the application document provided in Attachment A to prepare an SBR package. States must also submit a single form SF-424 (OMB No. 4040-0004) and SF-424A (OMB No. 4040-0006) covering all projects in the SBR. Applications that do not follow this prescribed format will be returned to the states for correction without review. States may be required to submit a revised SF-424 and SF-424A if the final award amount is different from the initial request.

   For consortium projects, the lead state agency will be responsible for submitting a joint application (see Attachment B) on behalf of the participating states. The proposal must clearly indicate total project costs including a breakdown of individual state costs. We do not anticipate that we will have adequate resources to fully fund all consortium project proposals. Therefore, states must indicate the minimum funds necessary to complete the proposed project(s) and must also include in their cost summary the cash or in-kind resources they are prepared to commit to the project(s). Depending on the availability of funding and number of proposals deemed eligible for funding, it may be necessary to negotiate project funding.

The one-time funds available for automation acquisitions and competitive grants for improved operations and improper payment activities **must be obligated by states by September 30, 2015**, and liquidated within 90 days of that date. Upon written request, the Grant Officer may extend the liquidation period. An obligation of the funds by a state by September 30, 2015, to an outside entity allows for work supported by these funds to continue for 90 days beyond that date. Any work beyond that date would require an approved liquidation extension beyond the 90 day period. Funds obligated for state merit staff and for services related to automation acquisitions/projects such as subject matter experts, application developers, or project management oversight, may not be expended after September 30, 2015.

By applying for any of these funds for individual state projects, the state agrees that the proposed projects will be completed with no additional federal funding. For consortium projects, ETA may allocate additional funding to ensure successful completion of projects, on a case-by-case basis if funding is available. When projects have been approved, a Letter of Award will be issued to the state(s) listing the proposals that are being funded by the SBR. It will include the funding level for each proposal, the total funding level for the state's SBR, and the allocation among states for any consortium projects.

**10. Project Modifications.** If, during the performance period, a state wishes to reallocate funds among categories/projects within its SBR, it must submit a new SF-424A (OMB No. 4040-0006) to the Regional Office for approval, with a copy to the National Office if the amount to be moved is equal to or exceeds 20 percent of any category of the initially awarded amount for the project. The state must also submit a request for modification of the grant signed by the state's signatory authority. This information will be submitted to the Grant Officer with a request for modification of the SBR grant to reflect the requested changes. For consortium grants, this request must be provided to the National Office by the lead state.

By accepting these funds, each state agrees to meet the commitment(s) made in its application. States may not elect to abandon an approved (single) project and move funds to a different project. A state that fails to meet the performance requirements and timelines established in the grant(s) statement of work could have questioned costs that would need to be repaid.

**11. Action Requested.** We request State Administrators to:

a) Review the funding opportunities and determine whether the state will apply for any funds under this solicitation;
b) Coordinate with the UI program and Information Technology staff to develop a

proposal(s) under this solicitation;

c) Work with the appropriate Regional Office to develop an SBR that will best serve the needs of the state; and
d) Submit the state SBR application by e-mail to OUI.IntegritySBRs@dol.gov by the close of business on August 26, 2013, with an electronic copy to the appropriate Regional Office. **The subject line of the e-mail should include the name of the state and the title "Integrity-Related SBR 2013**."

**12. Inquiries.** Questions should be directed to the appropriate Regional Office.

**13. Attachments.**

Attachment A: 2013 Supplemental Budget Request (SBR) Application
Attachment B: 2013 Description of Consortium Projects
Attachment C: CY 2012 State Improper Payment Rates
Attachment D: State Size Classifications
Attachment E: Focus Area Project Examples