United States Government Accountability Office

Testimony
Before the Subcommittee on Health, Employment, Labor and Pensions, Committee on Education and Labor, House of Representatives

UNEMPLOYMENT INSURANCE

Opportunities to Address Long-Standing Challenges and Risks

Statement of Thomas Costa, Director, Education, Workforce, and Income Security

Accessible Version

GAO-22-106159

GAO Highlight

Highlights of GAO-22-106159, a testimony before the Subcommittee on Health, Employment, Labor and Pensions, Committee on Education and Labor, House of Representatives

Why GAO Did This Study

The UI system has faced long-standing challenges with effective service delivery, which worsened during the pandemic because of historic levels of job loss. In a June 2022 report (GAO-22-105162), GAO found that these challenges pose significant risks to effectively delivering benefits to unemployed workers. Due to these and other financial risks, GAO has added the UI system to its High-Risk List.

This testimony discusses (1) challenges related to the UI system's ability to respond to the needs of unemployed workers and to changing economic conditions; (2) actions needed to address key risks for the UI system; (3) potential options for transforming the UI system; and (4) the economic effects of expanding UI benefits during adverse times.

This testimony is based on two June 2022 reports. For GAO-22-105162, GAO reviewed audit products; reviewed relevant literature; convened a panel of stakeholders with UI expertise; and compared findings against GAO criteria for designating programs as high risk. For GAO-22-104251, GAO conducted a literature review to identify relevant studies on the effects of expanded UI benefits for individuals and the economy during adverse times.

What GAO Recommends

In GAO-22-105162, GAO recommended that DOL develop and implement a plan for transforming UI that meets GAO's high-risk criteria. DOL agreed with the recommendation. GAO has 21 open recommendations to DOL on UI, including several related to managing fraud risk.

View GAO-22-106159. For more information, contact Thomas Costa at (202) 512-4769 or costat@gao.gov.

September 21, 2022

UNEMPLOYMENT INSURANCE

Opportunities to Address Long-Standing Challenges and Risks

What GAO Found

In June 2022, GAO reported that long-standing challenges with Unemployment Insurance (UI) administration have affected states' ability to effectively meet the needs of unemployed workers. These challenges have been identified in prior GAO reports, in other audits, and by stakeholder panelists with UI expertise. They have persisted over time and worsened during times of economic downturn—such as the COVID-19 pandemic. Reported challenges with program design and variation in how states administer UI—such as differences in minimum and maximum UI benefit amounts, duration of benefit periods, and eligibility rules—have contributed to declining access, inconsistent levels of support across states, and disparities in benefit distribution. Other reported challenges for states include providing customer service, delivering timely benefits, implementing new programs, and using and modernizing legacy IT systems. For example, during the pandemic, some unemployed workers experienced long waits for benefit payments, which sometimes caused financial and other hardships.

GAO designated the UI system as high risk because its administrative and program integrity challenges pose significant risks to service delivery and expose the system to significant financial losses. For example, estimated UI improper payments—some of which were due to fraud—increased from approximately $8.0 billion in fiscal year 2020 to approximately $78.1 billion in fiscal year 2021. In June 2022, GAO reported that the Department of Labor (DOL) has some activities planned and underway that may address the risks GAO identified, but additional action is needed. GAO recommended that DOL develop and execute a transformation plan that outlines actions to address issues related to providing effective service and mitigating financial risk, including ways to demonstrate improvements. GAO also noted that DOL will need to work closely with states, and potentially with the Congress, to make progress. DOL agreed with the recommendation and noted that it has a variety of efforts underway. These include efforts to enhance equity in program access and benefit distribution; reach worker populations reflective of the modern economy; and rebuild program performance, efficiency in claims processing, and payment timeliness.

Participants in stakeholder panels GAO convened identified various options for transforming the UI system. Options include changes to program design to better target support, such as broadening eligibility, reducing administrative barriers to access, and standardizing requirements across states. Other options include strategies to help improve UI IT systems, such as establishing well-defined modernization outcome goals, and enhancing system integrity, such as maintaining employer verification and improving identity verification.

Although the UI system faces challenges, GAO's June 2022 review of empirical studies found that the expansion of UI programs during adverse times—such as the 2007-2009 recession and the COVID-19 pandemic—helped to stabilize the economy, prevented detrimental outcomes from worsening, and had a limited effect on workers' incentives to return to work. Some of the studies also showed that UI expansion had other positive benefits such as an improved labor market.

Chairman DeSaulnier, Republican Leader Allen, and Members of the Subcommittee:

Thank you for the opportunity to discuss our work on the challenges and risks facing the Unemployment Insurance (UI) system. The UI system has faced long-standing challenges with effective service delivery and program integrity, which worsened during the COVID-19 pandemic because of historic levels of job loss. For example, in recent years, some UI claimants experienced long waits for benefits, and there was a steep increase in estimated UI improper payments, some of which were due to fraud.[1] In June 2022, we added the UI system to our High-Risk list because we found that these and other challenges pose significant risk to UI service delivery and expose the UI system to significant financial losses.[2] The Department of Labor (DOL) has taken some steps to address these challenges. Moving forward, it will be important for DOL to take a coordinated and sustained approach—involving state and federal stakeholders, as appropriate—to ensure significant progress in improving the UI system's performance and integrity.[3]

This testimony is based on our June 2022 reports, which examined issues including (1) challenges related to the UI system's ability to respond to the needs of unemployed workers and to changing economic conditions; (2) actions needed to address key risks for the UI system; (3)

[1]The Department of Labor estimated that UI improper payments increased over ninefold from fiscal year 2020 to fiscal year 2021, from approximately $8.0 billion to approximately $78.1 billion. Some, but not all, improper payments are due to fraud. Fraud involves obtaining something of value through willful misrepresentation. Whether an act is fraudulent is determined through the judicial or other adjudicative systems.

[2]The High-Risk List highlights federal programs and operations that we have determined are in need of transformation, and also names federal programs and operations that are vulnerable to waste, fraud, abuse, and mismanagement. See GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, GAO-22-105184 (Washington, D.C.: Mar. 3, 2022).

[3]For the purposes of this testimony, the UI system includes UI programs that were established prior to the COVID-19 pandemic (including the regular UI program and Extended Benefits), and programs established in response to the COVID-19 pandemic (such as Pandemic Unemployment Assistance and Federal Pandemic Unemployment Compensation, among others).

potential options for transforming the UI system; and (4) the economic effects of expanding UI benefits during adverse times.[4]

For the June 2022 report on which this testimony is primarily based, to determine the challenges that DOL and states face in responding to unemployed workers' needs and to changing economic conditions, we reviewed audit products by GAO, the DOL Office of Inspector General (OIG), and state audit agencies, as well as relevant literature. To identify risks facing the UI system and actions needed to address those risks, we also reviewed GAO and DOL OIG reports on UI-related issues. To determine whether UI should be on the High-Risk List, we compared our findings from prior reports, DOL OIG reports, and our June 2022 reports against the GAO criteria for determining whether a government program or function is high risk.[5] We also met with DOL officials to discuss ongoing and planned activities to address challenges. To obtain stakeholder views on the challenges facing the UI system, and options for how it could be transformed, we convened a 2-day virtual roundtable composed of 16 stakeholder panelists with UI-related academic research experience, experience running or assessing the UI system, or both.[6] Furthermore, for the other June 2022 report discussed in this testimony, we conducted a literature review to identify key government, industry, and academic studies examining the effects of expanded UI benefits for individuals and

[4]The first three objectives of this testimony are based on GAO, *Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Program Integrity Risks*, GAO-22-105162 (Washington, D.C.: June 7, 2022). The fourth objective is based on *Unemployment Insurance: Pandemic Programs Posed Challenges, and DOL Could Better Address Customer Service and Emergency Planning*, GAO-22-104251 (Washington, D.C.: June 7, 2022). Both reports address additional topics that are not included in this testimony. We also issued a report in June 2022 focused on the Pandemic Unemployment Assistance program, one of the four UI programs established in response to the COVID-19 pandemic. See *Pandemic Unemployment Assistance: Federal Program Supported Contingent Workers amid Historic Demand, but DOL Should Examine Racial Disparities in Benefit Receipt*, GAO-22-104438 (Washington, D.C.: June 7, 2022).

[5]GAO, *Determining Performance and Accountability Challenges and High Risks*, GAO-01-159SP (Washington, D.C.: Nov. 1, 2000).

[6]We selected potential panelists from government, the private sector, public–private partnerships, and academia to obtain educated views on topics related to transforming the UI system. The inclusion in this testimony of individual options that stakeholders provided for transforming the UI system is meant to be illustrative and should not be interpreted as an endorsement by GAO or any federal agency or department.

the economy during adverse times.[7] Detailed information on our objectives, scope, and methodology can be found in the issued reports.

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

Background

UI Program Administration and Funding

The federal government and states work together to administer UI programs. States design and administer their own UI programs within federal parameters, while DOL oversees states' compliance with federal requirements, such as by reviewing state laws to confirm they are designed to ensure payment of benefits when due. According to DOL, state statutes establish specific benefit structures, eligibility provisions, benefit amounts, and other aspects of the program. Regular UI benefits—those provided by state UI programs before the CARES Act was enacted—are funded primarily through state taxes levied on employers and are intended to replace a portion of a claimant's previous employment earnings, according to DOL.[8]

[7]We searched relevant databases to identify scholarly and peer-reviewed research, working papers, government reports, trade and industry articles, as well as association and non-profit publications published in the last 20 years. We determined that 30 studies fulfilled our criteria for inclusion in our literature review. For more information on our literature review methodology, see GAO-22-104251.

[8]To be eligible for regular UI benefits, applicants must generally demonstrate workforce attachment, be able and available to work, and be actively seeking work. 42 U.S.C. § 503(a)(12). Administration of the regular UI program is financed by a federal tax on employers, according to DOL.

The CARES Act created three federally funded temporary UI programs—Pandemic Unemployment Assistance (PUA),[9] Federal Pandemic Unemployment Compensation (FPUC),[10] and Pandemic Emergency Unemployment Compensation (PEUC)[11]—that expanded benefit eligibility and enhanced benefit amounts. These programs were amended by the Consolidated Appropriations Act, 2021, and the American Rescue Plan Act of 2021. In addition, the Consolidated Appropriations Act, 2021, created the Mixed Earner Unemployment Compensation (MEUC) program, which was extended by the American Rescue Plan Act of 2021.[12] The federal government directly funded the administration of, and benefits for, these pandemic UI programs and relied on states to ensure benefits reached unemployed workers. These programs expired on September 6, 2021, although some states ended their participation before that date.

States' UI IT Environment

State workforce agencies rely extensively on IT systems to carry out their program functions, including benefit eligibility determinations and calculating benefit amounts. However, many states continue to rely on aging, or legacy, IT systems developed in the 1970s and 1980s.[13] Legacy

[9]PUA authorized UI benefits for individuals not otherwise eligible for UI benefits, such as self-employed and certain gig economy workers, who were unable to work as a result of specified COVID-19-related reasons. Pub. L. No. 117-2, § 9011(a), (b), 135 Stat. 4, 118 (2021); Pub. L. No. 116-260, div. N, tit. II, § 201(a), (b), 134 Stat. 1182, 1950-1951 (2020); Pub. L. No. 116-136, § 2102, 134 Stat. 281, 313 (2020).

[10]FPUC generally authorized an additional weekly benefit for individuals who were eligible for weekly benefits under the permanent UI programs—e.g. regular UI—and the temporary CARES Act UI programs. Pub. L. No. 117-2, § 9013, 135 Stat. 4, 119; Pub. L. No. 116-260, div. N, tit. II, § 203, 134 Stat. 1182, 1953; Pub. L. No. 116-136, § 2104, 134 Stat. 281, 318.

[11]PEUC generally authorized additional weeks of UI benefits for those who had exhausted their regular UI benefits. Pub. L. No. 117-2, § 9016(a), (b), 135 Stat. 4, 119-120; Pub. L. No. 116-260, div. N, tit. II, § 206(a), (b), 134 Stat. 1182, 1954; Pub. L. No. 116-136, § 2107, 134 Stat. 281, 323.

[12]The MEUC program authorized an additional $100 weekly benefit for certain UI claimants who received at least $5,000 of self-employment income in the most recent tax year prior to their application for UI benefits. Pub. L. No. 117-2, § 9013(a), 135 Stat. 4, 119; Pub. L. No. 116-260, div. N, tit. II, § 261(a)(1), 134 Stat. 1182, 1961.

[13]The National Defense Authorization Act for Fiscal Year 2018 defines a legacy IT system as an IT system that is outdated or obsolete. Pub. L. No. 115-91, § 1076(8), 131 Stat. 1283, 1586-87 (2017).

systems run on outdated or unsupported hardware and software that are expensive to maintain and may use older programming languages. As a result, state workforce agencies may not be able to ensure these systems have effective internal controls to address current security vulnerabilities and other IT risks. Furthermore, in May 2021, the DOL OIG found that legacy IT systems were one of the causes of states' inability to detect and recover UI improper payments, including those as a result of fraudulent activity.[14] According to the National Association of State Workforce Agencies (NASWA), as of July 2022, 32 of the 53 states and territories were still using legacy IT systems to support their UI benefits system, tax system, or both. We previously reported that modernizing legacy IT systems allowed agencies to leverage IT to successfully address their missions and achieve a wide range of benefits.[15]

Reported Challenges with State UI Administration and Outdated IT Systems Affect UI Responsiveness

Our June 2022 report on UI transformation highlighted the long-standing challenges with UI administration and outdated IT systems that have affected states' ability to effectively meet the needs of unemployed workers. These challenges have occurred both historically and during times of economic downturn—particularly the COVID-19 pandemic.

[14]Department of Labor Office of Inspector General, Report No. 19-21-004-03-315. The Payment Integrity Information Act of 2019 (PIIA) defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. 31 U.S.C. § 3351(4). Further, when an executive agency's review is unable to discern, because of lacking or insufficient documentation, whether a payment was proper, the agency must treat the payment as improper in producing an improper payment estimate. 31 U.S.C. § 3352(c)(2).

[15]IT modernization can include transforming legacy code into a more modern programming language, migrating legacy services to cloud computing solutions, and re-designing mainframe applications to cloud-based applications. The benefits of a successful IT modernization effort can include cost savings, improved customer service, enhanced security, and reduced amount of labor needed to maintain legacy systems and software. See GAO, *Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems*, GAO-19-471 (Washington, D.C.: June 11, 2019).

According to our past work and that of the DOL OIG, and the views of our stakeholder panelists, challenges that have affected the responsiveness of the UI system include those related to (1) program design; (2) customer service, payment timeliness, and implementing new programs; and (3) states' ability to use and modernize legacy IT systems.[16]

UI Program Design Has Led to Challenges

Decline in workers' participation in UI. Prior to the COVID-19 pandemic, the proportion of unemployed workers filing for UI benefits—referred to as the recipiency rate—was near a historic low. According to DOL, the recipiency rate was 54.6 percent in 1958 and declined to 28.1 percent in 2019.[17] Program design is among the factors contributing to the decline in the recipiency rate, including states tightening requirements for participation in UI, according to DOL and participants in our stakeholder panels. In addition, some stakeholder panelists noted that, as an employer-based structure, the regular UI program does not cover contingent workers for whom payroll taxes are not paid, such as independent contractors or self-employed workers, who are estimated to number in the millions.[18] Also, contingent workers, who may have irregular work and earnings histories, may be more likely to face difficulties in qualifying for regular UI.[19]

[16]There are currently 21 open GAO recommendations related to UI. We identified five of these recommendations as priorities for the Department of Labor. Priority open recommendations are the GAO recommendations that warrant priority attention from heads of key departments or agencies because their implementation could save large amounts of money; improve congressional and/or executive branch decision-making on major issues; eliminate mismanagement, fraud, and abuse; or ensure that programs comply with laws and funds are legally spent, among other benefits. See appendix I for a detailed list of the open recommendations.

[17]In 2019, recipiency rates varied widely by state, from 9.5 percent (North Carolina) to 59.0 percent (New Jersey), according to DOL. In 2020, the recipiency rate increased sharply to 78.0 percent. According to DOL officials, this was due to the large number of UI continued claims during the pandemic.

[18]We use the term "contingent workers" to refer broadly to workers without traditional employment arrangements, such as those with temporary or gig employment, independent contractors, and self-employed workers.

[19]During the COVID-19 pandemic, the temporary PUA program was the first nationwide program to provide contingent workers with access to UI benefits, provided they met program eligibility criteria. For more information about the PUA program and the experiences of contingent workers during the pandemic, see GAO-22-104438.

Differing UI administration across states and territories. The regular UI program was designed as a federal-state partnership that gives states considerable flexibility, resulting in essentially 53 different UI programs across the states and territories. Stakeholder panelists noted that minimum and maximum UI benefit amounts, duration of benefit periods, and eligibility rules are substantially different by state, resulting in inconsistent levels of support for workers. In our 2015 report, we found that reductions in state benefit durations resulted in some individuals receiving substantially less in total UI benefits.[20]

In addition, DOL, panelists, and we have identified concerns about racial and other disparities in accessing and receiving UI benefits. Specifically, in our June 2022 report, we found substantial racial and ethnic disparities in PUA benefit receipt in three of four selected states. For example, in two states, the percentage of Black applicants who received PUA was about half that of White applicants.[21] Panelists noted that there is a correlation between states with low UI recipiency rates and states with a high percentage of African American residents, as compared to other states. Moreover, states take different approaches to monitoring ongoing UI claimant eligibility, including compliance with work search requirements.[22]

Limited effectiveness of Extended Benefits program. Stakeholder panelists noted limitations with the Extended Benefits (EB) program's

[20]GAO, *Unemployment Insurance: States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs*, GAO-15-281 (Washington, D.C.: Apr. 22, 2015).

[21]Results from two national surveys show similar disparities in UI receipt. Various factors could explain these disparities, such as how states reviewed claims or whether fraudsters more frequently used certain demographics when filing. See GAO-22-104438 and GAO, *Management Report: Preliminary Information on Potential Racial and Ethnic Disparities in the Receipt of Unemployment Insurance Benefits during the COVID-19 Pandemic*, GAO-21-599R (Washington, D.C.: June 17, 2021). As we have previously reported, DOL has taken a variety of steps to address equity in the UI program, including making grant funds available to states to address equity issues and deploying equity experts to states to identify challenges to UI benefit access and best practices for addressing them. In April 2022, DOL released an Equity Action Plan, which among other things summarized DOL's ongoing and planned actions to advance equity in the UI system.

[22]In our 2018 report, we made four recommendations related to monitoring ongoing claimant eligibility—two of which we designated as high priority—that remain unaddressed. For example, we recommended that DOL clarify and monitor states' compliance with work-search verification requirements. GAO, *Unemployment Insurance: Actions Needed to Ensure Consistent Reporting of Overpayments and Claimants' Compliance with Work Search Requirements*, GAO-18-486 (Washington, D.C.: Aug. 22, 2018).

effectiveness amid changing national economic conditions. The EB program responds to recessions by extending the duration of UI benefits if certain economic criteria, known as triggers, are met.[23] According to DOL, the program provides, depending on state law, up to an additional 13 or 20 weeks of benefits during periods of high unemployment.[24] Also, an important part of the mission of UI is to stabilize the U.S. economy during recessions by helping individuals maintain their purchasing power by replacing a portion of income lost through unemployment, according to DOL. However, panelists highlighted various issues with the EB program, including questions about the statistical validity of the specific triggers that are used to activate the program. Panelists also noted that in recent recessions, Congress created temporary programs to expand UI because the EB program could not respond adequately to national recessions. In addition, panelists noted that in prior recessions, most workers were re-employed before their regular UI benefits ran out, and therefore, the EB program was not relevant for those workers.

State agencies' struggles to fund UI. States' benefit amounts and approaches to UI financing risk the viability of the program. The regular UI program is generally funded through a combination of federal and state taxes on employers.[25] When a state exhausts the funds available for regular UI benefits, it may borrow from the federal government. As we previously reported, during the 2007–2009 recession, many states took out federal loans to pay for UI benefits.[26] This also occurred during the

[23]Specifically, the EB program uses triggers based on the unemployment rate of people covered by UI (the insured unemployment rate), and the unemployment rate based on the wider population (the total unemployment rate). Pub. L. No. 91-373, Title II, 84 Stat. 695, 708-13 (codified as amended at 26 U.S.C. § 3304, note).

[24]During the pandemic, regular UI claimants who exhausted their regular UI and PEUC benefits also had access to the EB program if their claim was in a state that triggered the program. The EB program was activated in all states except South Dakota at some point during the pandemic, according to DOL.

[25]According to DOL, three states also require employee contributions under certain conditions.

[26]For example, in 2010, after the 2007–2009 recession, 30 states and territories held approximately $40.2 billion in federal loans. See GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, GAO-22-105051 (Washington, D.C.: Oct. 27, 2021). We did not adjust this 2010 loan balance amount for inflation. In 2015, we found that states that had reduced UI benefit durations after the 2007–2009 recession had weaker pre-recession trust funds, among other factors. See GAO-15-281.

pandemic.[27] In addition, participants in our stakeholder panels noted that funding for UI administration has been a historical challenge. From fiscal years 2010 to 2019, funding for state UI administration declined by about 32 percent, after adjusting for inflation.[28] Several panelists commented that insufficient federal funding for UI administration has resulted in state agencies being understaffed or having outdated technology.[29]

State UI Programs Have Faced Administrative Challenges with Customer Service, Payment Timeliness, and Implementing New Programs

We and others have reported on administrative challenges that states encountered as they implemented both the regular and pandemic UI programs, in the areas of providing customer service, delivering timely benefits, and implementing new programs.

Customer service. States reported facing ongoing administrative challenges in providing effective customer service to UI claimants, even outside of economic downturns. In our 2016 report, we found that during the 2007–2009 recession many states reported facing challenges in processing record numbers of UI claims, including staff turnover and insufficient call center staff, as well as delays in claimants receiving benefits.[30] Furthermore, many states reported that insufficient call center staff was still a challenge in 2014 and 2015. Also, in our focus groups, regular UI claimants who applied for benefits by phone between July 2014 and July 2015 reported experiencing long call wait times or having to call multiple times to reach program representatives. During the

[27]For example, as of April 23, 2021, 20 states and territories held loans with a combined total balance of $55.1 billion. By September 7, 2022, the number of states and territories holding federal loans had dropped to six with a total combined balance of about $27.6 billion.

[28]Before adjusting for inflation, administrative funding declined by about 21 percent. We adjusted for inflation using the gross domestic product price index.

[29]In its official comments on GAO-22-105162, DOL stated that funding constraints for the UI system have historically posed ongoing threats to states' ability to administer UI programs with efficiency and integrity.

[30]GAO, *Unemployment Insurance: States' Customer Service Challenges and DOL's Related Assistance*, GAO-16-430 (Washington, D.C.: May 12, 2016).

COVID-19 pandemic, similar challenges were again cited by states and claimants.[31]

Payment timeliness. Stakeholder panelists noted the importance of delivering timely UI benefits to unemployed workers who need assistance. The long waits for payments during the pandemic caused financial and other hardships for some workers. For example, some PUA claimants we spoke with as part of our work examining that program said they needed to negotiate rent payment delays, defer bills, or accrue credit card debt while they were waiting for their first PUA payment.[32] Claimants we spoke with as a part of our work examining CARES Act UI programs told us that they used funds from their retirement accounts and other savings, relied on family and friends for loans to meet living expenses, and accepted assistance from community-based food pantries and other organizations to get help with food and utilities amidst payment delays.[33]

As we previously reported, extensive claims-processing backlogs led to substantial delays in first payments of regular UI benefits early in the pandemic, and those delays continued for some states later in the pandemic. The nationwide percentage of regular UI first benefits paid within 21 days of a claimant's initial eligibility fell from about 97 percent in March 2020 to about 52 percent in June 2020.[34] Since then, the

[31]GAO-22-104251. In addition, our work examining the PUA program identified a variety of challenges for PUA claimants. For example, PUA claimants we spoke with faced some difficulties navigating how to verify their eligibility, including gathering and providing the appropriate documentation. A few of these workers said these challenges were in part due to being new to the UI system and unfamiliar with the process and its requirements. Worker advocacy groups we spoke with in several states also reported various challenges for PUA claimants, including that non-English speaking claimants had difficulty accessing translated information in a timely manner. See GAO-22-104438.

[32]A few PUA claimants we spoke with who were victims of identity theft said they experienced long delays before receiving benefits as the fraud was investigated. They also told us they invested substantial time investigating their own cases. See GAO-22-104438.

[33]GAO-22-104438 and GAO-22-104251.

[34]GAO-22-105051 and GAO, *COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies*, GAO-22-105291 (Washington D.C.: Jan. 27, 2022). One of DOL's core performance measures is the percentage of all regular UI first payments made within either 14 or 21 days of the first week of benefits for which claimants are eligible; DOL considers 87 percent to be an acceptable level of performance. DOL uses 14 days as the timeliness goal for states with a waiting week requirement and uses 21 days for states without a waiting week requirement.

timeliness of these first payments has fluctuated, and in June 2022, about 75 percent of first payments were paid within 21 days.[35]

Implementing new programs. Prior to the pandemic, the DOL OIG had noted concerns with DOL and states' ability to deploy program benefits quickly and efficiently while ensuring program integrity and adequate oversight, particularly in response to national emergencies and disasters. During the pandemic, states were overwhelmed by record levels of UI claims as they simultaneously implemented the new CARES Act UI programs. Initial claims for regular UI benefits nationwide reached a historic peak of more than 6 million per week in late March and early April 2020, and states reported receiving more than 1.3 million weekly PUA initial claims in late May 2020. We and the DOL OIG have reported that selected states struggled to implement the CARES Act UI programs due to insufficient staffing and unclear guidance from DOL, among other issues.[36] The DOL OIG also reported that states had to develop new systems to implement the CARES Act UI programs, resulting in backlogs in processing claims for weeks, and in some cases, months.[37]

State IT Challenges Include Using and Modernizing Legacy UI Systems

As discussed in our June 2022 report on UI transformation, many states rely on legacy systems for their UI programs. The DOL OIG and we have reported on the risks and challenges that legacy systems pose for state UI programs, which have led to, among other things, reduced efficiency and effectiveness.[38] For example:

- **Inefficient system performance.** Prior to the COVID-19 pandemic, in May 2016, we reported that legacy IT systems were a challenge for

[35]We analyzed first-payment timeliness data that states had reported to DOL as of August 10, 2022. At that point, all 53 states had reported data for June 2022 and prior months.

[36]GAO-22-104251. Also see Department of Labor Office of Inspector General, *COVID-19: States Struggled to Implement CARES Act Unemployment Insurance Programs*, Report No. 19-21-004-03-315 (Washington, D.C.: May 28, 2021).

[37]Department of Labor Office of Inspector General, Report No. 19-21-004-03-315.

[34]We have ongoing work looking at state UI IT system modernization efforts, including successes and challenges, as well as DOL's management and oversight of its efforts to assist state agencies with their modernization efforts.

many states, according to our survey.[39] After the start of the pandemic, in June 2020, we reported that the unprecedented number of UI claims posed challenges for states' capacity to process them.[40] Specifically, state UI programs faced system performance issues with legacy data systems.

- **Slower processing of payments.** In May 2021, the DOL OIG reported that states with legacy systems started the PEUC program 15 days slower than states with modernized systems, and the PUA program 8 days slower on average.[41] Further, the DOL OIG reported that officials from 17 of 50 states and territories (34 percent) stated their IT systems were unable to implement provisions of the CARES Act, such as those creating the PUA program.[42]
- **Inability to detect improper payments (including from fraud).** Also in the May 2021 DOL OIG report, state officials mentioned that their IT systems did not have the capability to perform cross-matches—a method used to detect improper payments, including those as a result of fraudulent activity—for such a large volume of claims.
- **Difficulty reporting UI program activities to DOL.** The May 2021 DOL OIG report also identified legacy IT systems as one of the causes of states being unable to report their CARES Act UI program activities to DOL. For example, state officials noted that they were unable to program the newly required reports in their IT systems.

More generally, we have previously reported that the use of legacy systems can contribute to additional risks, including security vulnerabilities, staffing issues, and increased cost.[43]

[39]Specifically, 29 of 48 states (60 percent) reported that their IT systems had significant limitations, which had implications for the ability of state programs to efficiently process UI claims and serve claimants. We did not receive survey responses from UI programs in the District of Columbia, North Carolina, and Vermont. Our review did not include UI programs in Puerto Rico and the U.S. Virgin Islands. See GAO-16-430.

[40]GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, GAO-20-625 (Washington, D.C.: June 25, 2020).

[41]Department of Labor Office of Inspector General, Report No. 19-21-004-03-315.

[42]Arkansas, Idaho, and Vermont were not included among the states.

[43]GAO, *Information Technology: Agencies Need to Develop Modernization Plans for Critical Legacy Systems*, GAO-19-471 (Washington, D.C.: June 11, 2019).

Additionally, our work has identified challenges that states face in modernizing their legacy UI systems.[44] For example:

- **Funding uncertainty.** In our prior reporting, we identified challenges that states reported regarding declining or inconsistent federal and state funding for UI IT modernization, leading to difficulties in project planning, among other difficulties.[45]
- **Staffing and vendor limitations.** We also found that UI IT system development can be hindered by a shortage of staff with technical and project management expertise to manage IT modernizations efforts. We identified challenges that states reported related to using vendors for UI modernization efforts, such as having too few vendors for selection and lacking sufficient staff expertise to maintain systems once vendor staff left.
- **System capacity and scaling limitations.** We previously reported that states faced challenges in ensuring sufficient system capacity to process the unprecedented number of UI claims during the COVID-19 pandemic. According to NASWA officials, this challenge was due to states not sufficiently load testing their systems to handle large volumes of claims prior to the pandemic.

Transformation Plan and Sustained Action Are Critical to Address Risks to UI System

As a result of the many challenges facing the UI system that we and others have identified, we added the UI system to our High-Risk List in June 2022. In designating a program as high risk, we consider: (1) qualitative factors such as whether risks could result in significantly impaired service delivery; (2) exposure to financial loss; and (3) effectiveness of corrective actions that are planned or underway. We determined that the administrative and program integrity challenges facing the UI system pose significant risks to service delivery and expose the system to significant financial losses. For example, there was a steep increase in estimated UI improper payments—some of which were due to fraud—from fiscal year 2020 to 2021. To address these risks to the UI

[44]GAO-20-625, GAO-16-430, and GAO, *Information Technology: Department of Labor Could Further Facilitate Modernization of States' Unemployment Insurance Systems*, GAO-12-957 (Washington, D.C.: Sept. 26, 2012).

[45]GAO-16-430 and GAO-12-957.

system, we also recommended that DOL develop and implement a transformation plan that meets factors in GAO's criteria for high-risk list removal.[46]

Risk to service delivery. The chronic management and resource challenges we and others have identified are extensive enough to pose significant risk to UI service delivery. During the pandemic, historic and urgent demand for services and the need to implement new and expanded UI benefits overwhelmed states, causing benefit payment timeliness to plummet and significantly straining customer service. These challenges exacerbated inherent risks in the program that challenge its ability to respond effectively to economic downturns and to ensure equity in service delivery across states and workers.

Risk of financial loss. Prior to the pandemic, DOL regularly estimated that improper payments in the regular UI program totaled billions of dollars annually. During the pandemic, DOL's estimated amount of improper payments for a portion of the UI programs increased over ninefold, from approximately $8.0 billion in fiscal year 2020 to approximately $78.1 billion in fiscal year 2021.[47] This increase in estimated improper payments resulted from (1) the doubling of the estimated improper payment rate from approximately 9.2 percent in fiscal year 2020 to approximately 18.9 percent in fiscal year 2021; and (2) the increase of reported outlays in the UI program from approximately $86.9 billion in fiscal year 2020 to approximately $413.0 billion in fiscal year 2021.[48] DOL expects this elevated estimated improper payment rate to continue for fiscal year 2022. Some, but not all, improper payments are due to fraud.[49] We have previously reported that the amount of fraudulent and potentially fraudulent activity in UI programs increased substantially after the three CARES Act UI programs were enacted, relative to the

[46]GAO-22-105162.

[47]The estimated improper payments for the 2021 UI program includes improper payment estimations for the FPUC and PEUC programs, but does not include PUA and MEUC improper payment estimations.

[48]The source for these outlays is www.paymentaccuracy.gov. The sampling period covers outlays from July 1, 2020 to June 30, 2021.

[49]Fraud involves obtaining something of value through willful misrepresentation. Whether an act is fraudulent is determined through the judicial or other adjudicative systems.

amount of such activity in the regular UI program before the pandemic.[50] Federal and state entities continue to investigate and report on high levels of fraud, potential fraud, and fraud risks in the UI programs.[51]

Effectiveness of corrective actions. In designating the UI system as high risk, we also considered actions—in the areas of leadership commitment, capacity, action plan, monitoring, and demonstrating progress—that DOL could take to help address challenges. DOL has some activities planned and underway that may address the risks we have identified. For example, DOL has sent teams of experts to states to provide technical assistance and make recommendations related to payment timeliness, equity, technology, and fraud. DOL has also offered grant opportunities to states to implement the expert teams' recommendations, address equity issues, and improve program access. However, further action is needed. In June 2022, we recommended that DOL develop and execute a transformation plan that outlines coordinated and sustained actions to address issues related to providing effective service and mitigating financial risk, including ways to demonstrate improvements.[52] In addition, we noted that DOL will need to work closely with states to make progress in these areas, and that if DOL determines that legislative action is needed, providing technical assistance to Congress could also be helpful.

We reported in June 2022 that action in each of these areas is important to address the significant risks facing the UI system. For example:

- **Leadership commitment.** We and the DOL OIG have identified the need for DOL to improve its leadership and coordination of actions to address risks to UI service delivery and program integrity. DOL leadership has acknowledged the need for significant reform of the UI system. In August 2021, DOL announced the establishment of the Office of Unemployment Insurance Modernization within the Office of the Secretary to provide strategic leadership as the department

[50]GAO-22-105051.

[51]We have ongoing work reviewing the extent of fraud in the UI system.

[52]GAO-22-105162. DOL agreed with the recommendation and noted that it has related efforts underway, which we discuss later in this testimony.

implements its UI modernization plan.[53] While this is promising, the office is temporary, consists of a small leadership team, and does not have long-term timelines for planned activities due to the temporary nature of its role.[54] A long-term strategic plan and sustained leadership are critical to fulfill the vision outlined in DOL's UI modernization plan.

- **Capacity.** Limitations in state and federal capacity have been recurring findings in our UI reports and those of the DOL OIG, especially related to ensuring the UI system responds effectively to economic downturns. Our June 2022 report identified staffing limitations, outdated IT infrastructure, and the limited effectiveness of benefit triggers during economic downturns as some of the capacity challenges faced by the UI system.[55] DOL has used funding from the American Rescue Plan Act of 2021 to support states in modernizing their IT systems, including beginning to develop modular technology solutions that can be integrated with state IT systems and a blueprint for the UI customer experience. However, lasting and system-wide solutions are important to meet the vision for infrastructure improvements outlined in DOL's UI modernization plan.
- **Action plan.** DOL outlined several principles for reform of the UI system in its fiscal year 2022 and 2023 congressional budget justifications.[56] In addition, in April 2022, DOL released an Equity Action Plan, which outlined existing barriers to equitable outcomes in the UI system and summarized DOL's ongoing and planned actions to advance equity. However, we reported in June 2022 that DOL has not yet conducted comprehensive analyses of the extent of or potential causes of system-wide disparities in benefit receipt or options for

[53]See Department of Labor, *Fact Sheet: Unemployment Insurance Modernization: American Rescue Plan Act Funding for Timely, Accurate and Equitable Payment in Unemployment Compensation Programs* (Washington, D.C.: Aug. 11, 2021). The office is also providing oversight and management of $2 billion in funds from the American Rescue Plan Act of 2021 to prevent and detect fraud, promote equitable access, and ensure timely benefits payments, according to DOL.

[54]DOL officials said they expected that the longer-term modernization effort would eventually be led by the Employment and Training Administration's Office of Unemployment Insurance.

[55]GAO-22-105162.

[56]These principles included the need for a modern system to provide adequate benefits in every state, be easily scalable and respond automatically to economic downturns, reflect the modern economy and labor force, and ensure access and integrity before the next crisis.

supporting nontraditional workers and reflecting a modern economy.[57] In addition, we found that DOL has not comprehensively assessed UI fraud risks in alignment with leading practices as provided in our Fraud Risk Framework.[58] Additionally, as noted above, in our June report we recommended that DOL develop and execute planned actions as part of meeting GAO's high risk criteria for transformation. Clear plans to identify root causes and potential solutions to the challenges underlying DOL's reform principles are necessary for long-term progress. Action plans can also support DOL's monitoring efforts and help ensure progress.

- **Monitoring.** Understanding the effectiveness of DOL's efforts is important to ensuring progress. DOL collects data from states including data on UI claims, compensation, payment timeliness, and overpayments. However, we have identified some limitations in the completeness and accuracy of these data.[59] For example, we have made several recommendations related to obtaining more accurate and complete data on the number of people who receive benefits and the amount of PUA overpayments that were recovered and waived.[60] We have also recommended that DOL obtain information about customer service challenges during the pandemic to identify best practices for helping claimants.[61] Monitoring the effectiveness of

[57]GAO-22-104438.

[58]To help managers combat fraud and preserve integrity in government agencies and programs, GAO identified leading practices for managing fraud risks and organized them into a conceptual framework called the Fraud Risk Framework. The Fraud Risk Framework encompasses control activities to prevent, detect, and respond to fraud, with an emphasis on prevention, as well as structures and environmental factors that influence or help managers achieve their objective to mitigate fraud risks. In addition, the framework highlights the importance of monitoring and incorporating feedback. For more information on the Fraud Risk Framework, see GAO, *A Framework for Managing Fraud Risks in Federal Programs,* GAO-15-593SP (Washington, D.C.: Jul. 28, 2015) and GAO-22-105051.

[59]GAO, *COVID-19: Current and Future Federal Preparedness Requires Fixes to Improve Health Data and Address Improper Payments*, GAO-22-105397 (Washington, D.C.: Apr. 27, 2022) and GAO-22-104438.

[60]GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020), GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, GAO-21-265 (Washington, D.C.: Jan. 28, 2021), and GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, GAO-21-387 (Washington, D.C.: Mar. 31, 2021).

[61]GAO-22-104251.

DOL's UI modernization activities will need high-quality and potentially new data.

- **Demonstrated progress.** Areas where progress is needed include reducing the improper payment rate; advancing equity in the UI system, including across racial and ethnic groups and states; better reaching current worker populations and reflecting the modern economy; restoring pre-pandemic payment timeliness levels; and improving the UI system's response to economic downturns. Implementing our UI-related recommendations and those of the DOL OIG can help demonstrate progress in these areas, which align with DOL's principles and vision for UI reform and are critical for resolving the significant risks in the UI system.

Panelists Offered Options to Transform UI Program Design, IT Systems, and System Integrity

Stakeholders participating in our panel discussion identified specific options for transforming the UI system, including changes to program design to better target UI support, improvements to UI IT systems, and enhancing system integrity.[62] We discussed these options in our June 2022 report on UI transformation.

Changes to program design to better target UI support. Panelists identified a variety of potential changes to better target UI support, including: broadening eligibility and reducing administrative barriers; changing how benefits are calculated; standardizing certain UI requirements and operations across states; and increasing federal funding for UI administration and certain UI benefits (see table 1).

[62]We identified options for UI transformation based on our analysis of the stakeholder panel discussions. These options for transformation are not listed in any specific rank or order and their inclusion in this testimony should not be interpreted as GAO endorsing any of them. Implementing any one transformation option or a combination of options might require additional efforts to address program design or legal issues. We did not assess how effective the potential transformation options may be or the extent to which legal changes and federal financial support would be needed to implement them. Options presented do not represent a consensus among panelists but instead represent discussion by the group as a whole. For further discussion of options for UI transformation identified by stakeholder panelists see GAO-22-105162.

Table 1: Potential Transformation Options Stakeholder Panelists Identified Related to Changing Unemployment Insurance (UI) Program Design

Transformation objective	Potential transformation options identified by stakeholder panelists
Increase access to UI	• Create a new program specifically to cover workers not currently covered by regular UI, such as independent contractors and self-employed workers, to broaden eligibility • Narrow the classification of independent contractors to increase UI coverage • Streamline UI application and employment verification processes, thus reducing administrative barriers to access
Better target UI benefit amounts	• Use a flexible wage-replacement rate to adjust benefits based on economic conditions and income level
Increase consistency of UI support	• Federalize the UI system • Tighten federal standards for state UI programs • Revise triggers for the Extended Benefits program and set parameters for other recessionary expansions to make UI expansions more automatic and consistent across states
Ensure sufficient UI funding	• Increase federal funding for UI administration[a] • Provide federal funding for certain UI benefits • Require employee contributions to UI

Source: GAO analysis of stakeholder statements. | GAO-22-106159

Note: We identified transformation objectives based on our analysis of the stakeholder panelists' proposed transformation options. These potential transformation options are not listed in any specific rank or order and their inclusion in this report should not be interpreted as GAO endorsing any of them. We did not assess how effective the potential transformation options may be or the extent to which program design modifications, legal changes, and federal financial support would be needed to implement any given transformation option or combination of transformation options. Options presented do not represent a consensus among panelists but instead represent options presented by at least one panelist and then, in most cases, discussion by the group as a whole.

[a]The Department of Labor's (DOL) fiscal year 2023 budget justification noted that the factors included in DOL's formula for estimating state administrative funding had not been updated in decades, and proposed updates to two of these factors. Specifically, the budget justification stated that outdated measures of claims processing rates and staff salary rates had resulted in state administrative funding estimates that were not reflective of current administrative costs. According to DOL, the use of these outdated factors consistently left states underfunded, which contributed to them not being prepared for the surge in claims from the pandemic.

Improving and modernizing IT systems. We and others have reported that states have faced challenges in modernizing their UI IT systems. Stakeholder panelists identified strategies to help improve UI systems and overcome challenges associated with modernizing them (see table 2).

Table 2: Potential Transformation Options Stakeholder Panelists Identified Related to Improving Unemployment Insurance (UI) System Infrastructure

Transformation objective	Potential transformation options identified by stakeholder panelists
Improving and modernizing IT systems	• Increase the focus on the user experience in state UI IT systems[a] • Ensure that staff have project and product management expertise[b] • Use incremental or modular development and implementation practices[c] • Establish well-defined modernization outcome goals

Source: GAO analysis of stakeholder statements. | GAO-22-106159

Note: We identified transformation objectives based on our analysis of the stakeholders' proposed transformation options. These potential transformation options are not listed in any specific rank or order and their inclusion in this report should not be interpreted as GAO endorsing any of them. We did not assess how effective the potential transformation options may be or the extent to which program design modifications, legal changes, and federal financial support would be needed to implement any given transformation option or combination of transformation options. Options presented do not represent a consensus among panelists but instead represent options presented by at least one panelist and then, in most cases, discussion by the group as a whole.

[a]User experience testing can occur as part of usability testing. Usability testing refers to evaluating a product or service by testing it with representative users. Typically, during a test, participants will try to complete typical tasks while observers watch, listen, and take notes. The goal is to identify any usability problems, collect qualitative and quantitative data, and determine the participant's satisfaction with the product.

[b]Product management is the practice of identifying customer requirements, prioritizing those requirements, and interfacing with product owners to confirm alignment between the software components and enterprise goals.

[c]Incremental or modular development is where an investment may be broken down into discrete projects, increments, or useful segments, each of which are undertaken to develop and implement the products and capabilities that the larger investment must deliver. Dividing investments into smaller parts helps to reduce investment risk, deliver capabilities more rapidly, and permit easier adoption of newer and emerging technologies.

Enhancing Program Integrity. Stakeholder panelists identified strategies to help strengthen internal controls and improve the use of resources to address fraud (see table 3).

Table 3: Potential Transformation Options Stakeholders Identified Related to Enhancing Unemployment Insurance (UI) System Integrity

Transformation objective	Potential transformation options identified by stakeholder panelists
Strengthening existing internal controls	• Improve communication and guidance • Maintain employer verification requirements

Transformation objective	Potential transformation options identified by stakeholder panelists
Identifying and improving the use of resources to address fraud	• Improve identity verification • Obtain additional data sources for analytics • Obtain additional information on fraud schemes • Encourage states' use of UI Integrity Center's Integrity Data Hub • Provide additional training • Improve workforce planning • Provide additional resources to investigate and prosecute fraud

Source: GAO analysis of stakeholder statements. | GAO-22-106159

Note: We identified transformation objectives based on our analysis of the stakeholders' proposed transformation options. These potential transformation options are not listed in any specific rank or order and their inclusion in this report should not be interpreted as GAO endorsing any of them. We did not assess how effective the potential transformation options may be or the extent to which program design modifications, legal changes, and federal financial support would be needed to implement any given transformation option or combination of transformation options. Options presented do not represent a consensus among panelists but instead represent options presented by at least one panelist and then, in most cases, discussion by the group as a whole.

Studies Show UI Expansion in Adverse Times Created Economic Stability, with Limited Negative Effects on Workers' Return to Employment

Our June 2022 report on UI pandemic programs reviewed studies on the economic effects of expanding UI benefits.[63] Although UI administration has had a challenged history, the 30 empirical studies included in our literature review showed that an expansion of UI programs during adverse times, such as the recession of 2007-2009 and the COVID-19 pandemic, created overall economic stability, prevented detrimental outcomes from worsening, and had a limited effect on workers' incentives to return to work.[64]

[63]GAO-22-104251.

[64]Among the 30 empirical studies included in our literature review, six measured the benefits of UI expansion, and 13 empirically analyzed the relationship between UI expansion and workers' incentives to return to work.

Stabilized economy overall. UI expansion during economic crises helped create overall economic stability by helping to maintain consumer spending and may even have increased aggregate spending during the pandemic.[65] The studies in our review explained that by maintaining aggregate demand in the economy, expanded benefits acted as an automatic stabilizer by limiting reductions in expected revenue of firms and further reductions in jobs offered. In addition, according to the authors, the extra income from expanded UI benefits was particularly important for families who did not have alternative income sources or personal savings during periods of high unemployment or sufficient access to other income transfer programs.[66]

Prevented worsening of detrimental outcomes. A few of these selected studies demonstrated how expanded UI prevented worsening of detrimental outcomes in families' consumption and financial insecurity. For example, studies conducted during the pandemic noted that specific occupations, such as service-oriented or low-paying occupations in the restaurant industry, experienced more layoffs and reductions in hours than occupations in other industries. The studies added that because these low-wage occupations disproportionately employ people of color or women, UI expansion likely also prevented existing inequities among this group from getting worse. Studies also showed that in the absence of expanded UI, poverty levels would have been higher during the 2007-2009 recession and the pandemic.

Limited negative effects on workers' incentives to return to work. The studies we reviewed either found that expanded UI had no disincentive effects or, if they found some effect, it was limited to a small group of workers. Specifically, eight studies we reviewed found that expanded UI benefits either during the 2007-2009 recession or the pandemic had no effect on workers' incentives to return to work. Four studies found some disincentive effects but these were limited to a certain group of workers. For example, one of the studies found that the $600 FPUC benefit had moderate disincentive effects on job-finding rates, but

[65]Aggregate spending refers to total spending on all goods and services in the economy. Aggregate demand shows the quantity demanded for all goods and services at the existing price levels.

[66]See Jesse Rothstein and Robert G. Valletta, "Scraping By: Income and Program Participation after the Loss of Extended Unemployment Benefits," *Journal of Policy Analysis and Management* 36, no. 4 (2017).

only for a small share of job seekers, such as janitors or workers in food service occupations.[67]

Other factors affecting employment. Some studies included in our review explored factors other than disincentive effects that could be influencing the relationship between expansion of UI and high unemployment observed during the 2007-2009 recession and the pandemic. These studies found that factors such as longer labor force attachment; reduced demand for labor; fear of risk of illness; as well as loss of childcare could have been responsible for high levels of unemployment observed during these adverse times.[68]

The studies included in our review also found that UI expansion may enable people to wait longer or search more and potentially find jobs better matched to their skill level. For example, one study found that increasing the generosity of UI improved the quality of employee-employer matches because it allowed workers to search longer and eventually find jobs better suited to their skills and level of education.[69] The authors state that this could potentially increase the general welfare by improving the functioning of the labor markets.

[67]See N. Petrosky-Nadeau and R. G. Valletta, *UI Generosity and Job Acceptance: Effects of the 2020 CARES Act*, Federal Reserve Bank of San Francisco Working Paper 2021-13 (San Francisco, CA: Federal Reserve Bank of San Francisco, 2021).

[68]Longer labor force attachment can be a factor in high unemployment levels primarily due to more workers staying attached to the labor force longer because of UI expansion rather than refusing employment or reducing their job search efforts. The Bureau of Labor Statistics defines the ‘‘labor force” to include all people age 16 and older who are classified as either employed or unemployed. Thus the labor force level is the number of people who are either working or actively looking for work. Farber, Rothstein, and Valletta, “The Effect of Extended Unemployment Insurance Benefits”; Farber and Valletta, “Do Extended Unemployment Benefits Lengthen Unemployment Spells?”; Jesse Rothstein, “Unemployment Insurance and Job Search in the Great Recession,” *Brookings Papers on Economic Activity* (Fall 2011) and Robert G. Valletta, “Recent Extensions of U.S. Unemployment Benefits: Search Responses in Alternative Labor Market States,” *IZA Journal of Labor Policy* 3, no. 18 (2014). Three of the seven studies did not explore the labor market exits. Figura and Ratner, *How Large were the Effects;* Gabriel Chodorow-Reich, John Coglianese, and Loukas Karabarbounis, “Macro Effects of Unemployment Benefit Extensions: A Measurement Error Approach,” *The Quarterly Journal of Economics* (2019) and Makoto Nakajima, “A Quantitative Analysis of Unemployment Benefit Extensions,” *Journal of Monetary Economics* 59 (2012).

[69]A.Farooq, D. Kugler, and U. Muratori, *Do Unemployment Insurance Benefits Improve Match Quality? Evidence from Recent U.S. Recession*, NBER Working Paper Series Working Paper 27574 (Cambridge, MA: Federal Reserve Bank, July 2020).

In conclusion, it is critical to address the challenges and risks facing the UI system, given the important role it plays in supporting unemployed workers and stabilizing the economy during economic downturns. Research shows that expanding UI benefits during adverse times has created overall economic stability and provided needed income support, with limited negative effects on workers' incentives to return to work. However, the UI system has struggled to meet the needs of unemployed workers efficiently and effectively, and these historical service delivery challenges have worsened during downturns such as the pandemic. Similarly, DOL regularly estimated high levels of improper payments for the regular UI program prior to the pandemic, and the risk of improper payments—including those due to fraud—greatly increased across all UI programs during the pandemic.

Our work has identified actions needed to transform the UI system so that it is better positioned to fulfill its purpose. As noted above, we recommended that DOL develop and execute a transformation plan that outlines coordinated and sustained actions to address issues related to providing effective service and mitigating financial risk, including ways to demonstrate improvements. DOL agreed with the recommendation and described efforts underway to enhance equity in program access and benefit distribution; reach worker populations reflective of the modern economy; rebuild program performance, efficiency in claims processing, and payment timeliness; reduce improper payment rates; and improve responsiveness to economic downturns. Further, DOL recognized that modernizing the UI system to address these challenges will also require congressional action.

Additionally, we have identified actions that are needed in the areas of leadership commitment, capacity, action planning, monitoring, and demonstrating progress. Implementing the recommendation discussed above and our other recommendations, as well as taking action in these areas, will help ensure DOL's progress in improving the performance of the UI system. Such actions will also be crucial in responding to future economic disruptions. We will continue to monitor DOL's efforts.

Chairman DeSaulnier, Republican Leader Allen, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Thomas Costa, Director, Education, Workforce, and Income Security at (202) 512-4769 or costat@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Seto Bagdoyan (Director), M. Hannah Padilla (Director), Danielle Giese (Assistant Director), Cole Haase (Analyst in Charge), and Caitlin Croake. In addition, key support was provided by Lawrance Evans, Gabrielle Fagan, Alex Galuten, Carol Harris, Lee Hinga, Lauren Kirkpatrick, Anne Thomas, Jon Ticehurst, and Adam Wendel. Contributors to the reports on which this statement is based can be found in those reports.

Appendix I: Open Unemployment Insurance-Related Recommendations to the Department of Labor

As shown in table 4, GAO has 21 open recommendations to the Department of Labor (DOL) to improve the Unemployment Insurance system. Of these 21 recommendations, GAO currently considers five of these recommendations to be priority recommendations.[1]

Table 4: Unemployment Insurance (UI) System Recommendations to the Department of Labor (DOL) That Are Open as of September 14, 2022

No.	Source report and recommendation number	Priority	Recommendation
1.	GAO-22-105162, #1	-	The Secretary of Labor should develop and execute a transformation plan that meets GAO's high risk criteria for transformation; the plan should outline coordinated and sustained actions to address known issues related to providing effective service and mitigating financial risk, including ways to demonstrate improvements. Planned actions may include addressing audit recommendations, and determining whether legislative changes are needed, as appropriate. Planned actions may also include achieving quantifiable results in reducing improper payment rates, including those related to fraud; improving efficiency in claims processing and restoring pre-pandemic payment timeliness levels; better reaching current worker populations; and enhancing equity in benefit distribution.
2.	GAO-22-104438, #1	-	The Secretary of Labor should study and advise the Congress and other policymakers on the costs, benefits, and risks of various options to systematically support self-employed and contingent workers during periods of involuntary unemployment outside of declared disasters, including considering options' feasibility and approach to fraud prevention.

[1]Priority recommendations are the GAO recommendations that warrant priority attention from heads of key departments or agencies because their implementation could save large amounts of money; improve congressional and executive branch decision making on major issues; eliminate mismanagement, fraud, and abuse; or ensure that programs comply with laws and funds are legally spent, among other benefits.

No.	Source report and recommendation number	Priority	Recommendation
3.	GAO-22-104438, #2	Checked	The Secretary of Labor should ensure the Office of Unemployment Insurance examines and publicly reports on the extent of and potential causes of racial and ethnic inequities in the receipt of Pandemic Unemployment Assistance benefits, as part of the agency's efforts to modernize UI and improve equity in the system. The report should also address whether there is a need to examine racial, ethnic, or other inequities in regular UI benefit receipt, based on the PUA findings.
4.	GAO-22-104251, #1	-	The Secretary of Labor should ensure that the Office of Unemployment Insurance review the customer service challenges that states faced during the pandemic, identify comprehensive information on customer service best practices, and provide states with this information to assist them in improving service delivery.
5.	GAO-22-104251, #2	-	The Secretary of Labor should ensure the Office of Unemployment Insurance assesses lessons learned from the pandemic to inform its future disaster response efforts and support the Congress on ways to address future emergencies.
6.	GAO-22-105051, #4	-	The Secretary of Labor should designate a dedicated entity and document its responsibilities for managing the process of assessing fraud risks to the unemployment insurance program, consistent with leading practices as provided in our Fraud Risk Framework. This entity should have, among other things, clearly defined and documented responsibilities and authority for managing fraud risk assessments and for facilitating communication among stakeholders regarding fraud-related issues.
7.	GAO-22-105051, #5	-	The Secretary of Labor should identify inherent fraud risks facing the unemployment insurance program.
8.	GAO-22-105051, #6	-	The Secretary of Labor should assess the likelihood and impact of inherent fraud risks facing the unemployment insurance program.
9.	GAO-22-105051, #7	-	The Secretary of Labor should determine fraud risk tolerance for the unemployment insurance program.
10.	GAO-22-105051, #8	Checked	The Secretary of Labor should examine the suitability of existing fraud controls in the unemployment insurance program and prioritize residual fraud risks.
11.	GAO-22-105051, #9	-	The Secretary of Labor should document the fraud risk profile for the unemployment insurance program.
12.	GAO-21-387, #15	-	The Secretary of Labor should ensure the Office of Unemployment Insurance collects data from states on the amount of overpayments waived in the Pandemic Unemployment Assistance program, similar to the regular unemployment insurance program.
13.	GAO-21-265, #12	-	The Secretary of Labor should ensure the Office of Unemployment Insurance collects data from states on the amount of overpayments recovered in the Pandemic Unemployment Assistance program, similar to the regular unemployment insurance program.
14.	GAO-21-191, #8	Checked	The Secretary of Labor should ensure the Office of Unemployment Insurance pursues options to report the actual number of distinct individuals claiming benefits, such as by collecting these already available data from states, starting from January 2020 onward.

No.	Source report and recommendation number	Priority	Recommendation
15.	GAO-18-633, #1	-	The Secretary of Labor should systematically collect sufficient information on state profiling systems, possibly through DOL's new UI state self-assessment process, to identify states at risk of poor profiling system performance. For instance, DOL could collect information on challenges states have experienced using and maintaining their profiling systems, planned changes to the systems, or state processes for assessing the systems' performance.
16.	GAO-18-633, #2	-	The Secretary of Labor should develop a process to use information on state risks of poor profiling system performance to provide technical assistance to states that need to improve their systems. DOL may also wish to tailor its technical assistance based on state service delivery goals and technical capacity.
17.	GAO-18-633, #3	-	The Secretary of Labor should update agency guidance to ensure that it clearly informs states about the range of allowable profiling approaches.
18.	GAO-18-486, #1	Checked	The Assistant Secretary of DOL's Employment and Training Administration should provide states with information about its determination that the use of state formal warning policies is no longer permissible under federal law.
19.	GAO-18-486, #2	-	The Assistant Secretary of DOL's Employment and Training Administration should monitor states' efforts to discontinue the use of formal warning policies.
20.	GAO-18-486, #3	Checked	The Assistant Secretary of DOL's Employment and Training Administration should clarify information on work search verification requirements in its revised Benefit Accuracy Measurement procedures. The revised procedures should include an explanation of what DOL considers to be sufficient verification of claimants' work search activities.
21.	GAO-18-486, #4	-	The Assistant Secretary of DOL's Employment and Training Administration should monitor states' compliance with the clarified work search verification requirements.

Source: GAO analysis. | GAO-22-106159

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/about/what-gao-does/fraudnet

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

A. Nicole Clowers, Managing Director, ClowersA@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548