UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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HUMAN RESOURCES DIVISION

B-133182

APRIL 26, 1979

The Honorable Ray Marshall
Secretary of Labor

Dear Mr. Secretary:

On December 28, 1978, we issued a report to the Congress entitled "The Labor Department Should Reconsider Its Approach To Employment Security Automation" (HRD-78-169). The report discussed problems with the planning, management and implementation of Labor's Employment Security Automation Project and recommended that Labor halt the expansion of the project until the problems were solved.

In mid-September 1978, we provided Labor with a draft of the report, requesting comments. Labor did not respond formally in time for its comments to be included in the final report. We received a lengthy response on December 22 which categorically rejected our overall conclusions.

Although Labor agreed with parts of our report, it strongly objected to the conclusions we drew concerning the problems of the Employment Security Automation Project and their causes. Labor characterized some of our conclusions as "unfounded," "inaccurate," "misleading," and "erroneous." After a thorough review of Labor's response, we remain convinced that the position presented in our report is sound.

As required by the Legislative Reorganization Act of 1970, on March 12, 1979, Labor responded to our recommendations with letters to the Chairmen of the Senate and House Committees on Appropriations, the Senate Committee on Governmental Affairs, and the House Committee on Government Operations. Labor reiterated its disagreement with many of our findings, but went on to outline a comprehensive program of evaluations and studies which are underway or planned.

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STATUS OF THE PROJECT

We have noted that, despite Labor's disagreement with our report, the Administration's budget proposal for fiscal year 1980 provides for no expansion of the project. Specifically, the budget proposal states:

"Particular attention will be given to problems and issues which have been identified over the past two years. These include an evaluation of methods and techniques for determining computer costs, capacity and capability; alternative approaches for the delivery of technical assistance and services; reviewing the adequacy of ESAP [Employment Security Automation Project] productivity data; alternative methods for handling software development and related issues on exportability of standard software packages; evaluating operational aspects of cost recovery and cost absorption; and conducting a redesign of ESAP related systems. In addition, a major effort has begun to assess the impact of ESAP on State agency operations, e.g., performance, benefits and costs, as well as social and economic benefits."

The budget proposal also indicated that during fiscal years 1979 and 1980, no agreements will be signed with additional States. Furthermore, evaluations of existing systems will be used to determine the direction and scope of future automation.

While the actions outlined in the budget proposal and Labor's recent letters, if carried out, appear to be steps toward implementing our recommendations, the nature of the Department's initial response to our report raises serious doubt about its commitment to these actions, and its interest in solving the problems which it has recognized for years. Therefore, we feel it is necessary to comment on some of the points raised in the Department's response.

THE MANAGEMENT OF THE
PROJECT NEEDS TO BE IMPROVED

Our report noted that no one individual or office involved with Labor's project has operational authority to make decisions affecting the entire project. We concluded that the fragmented management structure has made it difficult for Labor to define and solve the problems of the project. We recommended that one office within Labor be given total responsibility and authority to make management decisions affecting both employment service and unemployment insurance automation.

Labor did not agree with our conclusion or recommendation. It believed that the Office of the Assistant Secretary, Employment and Training Administration, adequately fulfilled this role. Nevertheless, Labor said that it was considering the consolidation of some support functions to provide for unified administration and that it was also considering changes and alternatives involving the project's decisionmaking structure. Subsequently, a Labor official told us that a reorganization study of the Employment and Training Administration is also being done. As of April 1979, no decisions had been made as a result of these actions. Our observations and recommendation concerning the management of Labor's automation project should be considered in making the ultimate decisions.

THE PROJECT IS NOT VITAL TO AUTOMATION
OF EMPLOYMENT SECURITY OPERATIONS

In its response Labor seems to have interpreted our report on the project as a general criticism of automation as a technique for improving the efficiency and effectiveness of operations. This is not the case. There are obviously benefits to be derived from automating certain functions. Automation in the States, as Labor points out, has been a continuing process over the last 30 years. Our report dealt with the current project's failure to accomplish its stated goal of automating employment security operations nationwide through the development, implementation and operation of certain systems. We do not oppose automation; rather we had problems with the way that Labor is seeking to achieve it.

The objective of Labor's automation project was to provide States with the funds to establish statewide networks of computer terminals in all local offices, tied by communication lines to the States' central computers. These networks were viewed by Labor as vital for the implementation of certain federally-developed and sponsored operational systems--computerized job matching and unemployment insurance benefit and tax systems. The entire project was to be enhanced by the benefits to be derived from exploiting the interrelationships of employment service and unemployment insurance activities. Labor's plan addressed these interrelationships which involved sharing computer hardware and software, data communications facilities, and data bases.

As pointed out in our report, Labor has not yet demonstrated that it can effectively develop and implement the standard operational systems which it had planned. Furthermore, little progress has been made in capitalizing on the interrelationships between employment service and unemployment insurance activities. For example, one of the objectives of Labor's project--the reduction in duplicative data gathering--referred to the establishment of a common data file for individuals who were both employment service applicants and unemployment insurance recipients. Labor has instituted research on a "common intake" document, but its development is still embryonic.

The achievement of Labor's automation project has been to encourage and assist the States to establish computer terminal networks as a tool toward improving local office operations. States are able to employ these networks as they see fit, choosing to accept, reject, or modify any systems which Labor advocates. The result of this process may be the automation of employment security operations, but it will not meet the ambitious goals set out by the Department when it began the project.

THE NATURE OF THE
FEDERAL-STATE RELATIONSHIP

The relationship between Labor and State governments in employment security operations is that of a Federal-State partnership. Labor provides all of the funding as well as policy guidance and technical assistance; the States are responsible for day-to-day operations. This partnership can and does

complicate Federal oversight of the employment security system.
States are free within certain limits to adopt their own poli-
cies and procedures, and Labor is often unable to require com-
pliance with certain of its objectives.

Labor implied in its response to our report that we do
not understand this relationship. We fully understand the
relationship and recognize it as one of the reasons for the
difficulties facing Labor's project.

National vs. State-developed systems

Labor's project envisioned certain nationally-developed,
standard systems for employment service and unemployment
insurance activities. Under normal circumstances, this is
the preferred way of doing business--develop and test one
system, then make it available to all users. Unfortunately,
given the nature of Labor's relationship to the States, this
procedure does not always work out. States can and do develop
their own systems, or modify the national systems to the point
where they are no longer compatible with the standard systems.
Whether this is desirable or not depends on one's perspective.
Certainly from Labor's point of view it would be better to
have all States using the same or similar systems. States,
on the other hand, often feel that they need the flexibility
to adapt to problems and conditions which are unique to them.

The realities of the matter are that unless and until
Labor has the assurance that the systems it develops will be
put to use, it has to strike a medium between the two extremes.
In the past, Labor has spent millions of dollars to develop
systems, and then allowed individual States to develop other,
nonstandard systems. This is the paradox of Labor's automation
project. In our opinion, Labor has not been able to reconcile
its goal of "developing and installing on a nationwide basis
an automated employment security system" with its admission
that due to the unique nature of its relationship to the States,
it cannot exercise much control over them.

THERE IS NO LEGISLATIVE
MANDATE FOR LABOR'S PROJECT

Labor's position is that its automation project was in
response to a congressional mandate contained in the Compre-
hensive Employment and Training Act of 1973, as amended

(29 U.S.C. 880), which directed the Secretary to "establish and carry out a nationwide computerized job bank and matching program."

The legislation referred to pertains only to employment service operations and not to unemployment insurance activities. Furthermore, although the law suggests a concept, it does not dictate the method of accomplishing it. Labor has committed itself to a particular system of computerized job matching. Some States have developed other systems. It is not yet clear which system, if any, might be best. Wisconsin, for example, uses a computerized job matching system which it feels is more effective, cheaper, and easier to install than the system advocated by Labor. Yet for a time, Labor was pressuring the State to switch to the federally-sponsored system. As more and more States become operational with Labor's computerized job matching system, their experience shows that much more work needs to be done.

The next section of the law which Labor cites states that the "Secretary shall provide for the continuing evaluation of all programs, activities, and research and demonstration projects conducted pursuant to this Act, including their cost-effectiveness in achieving the purposes of this Act * * *." This is essentially what we recommended in our report.

SITUATION IN PORTLAND, OREGON MISREPRESENTED

Our report cited placement statistics from Portland, Oregon and interviews with State officials to demonstrate some of the problems that exist with the computerized job matching systems being advocated by Labor. In October 1978, a Labor official visited Portland and shared the contents of our draft report with State officials. This resulted in a letter from the State which Labor feels refutes some of our findings concerning the value of computerized job matching.

The letter from Oregon states that it is not valid to segregate placements made by computerized job matching from those made through other means. The letter stated that since the computer is involved in all employment service activities, the entire operation should be considered an integrated whole. The letter also mentioned a State study which showed that Oregon's automated systems are cost-effective.

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We obtained a copy of Oregon's study and discussed it with one of the individuals responsible for preparing it. In our opinion, neither this study nor Oregon's letter refutes our findings.

The purpose of Oregon's study was to evaluate the uses of the State's computer terminal network and to determine its cost effectiveness. The study made a clear distinction between the automation of routine local office operations such as data entry and inquiry (called "enhancements"), and the use of computerized job matching systems. Concerning the "enhancements," the study concluded that they were a necessary and cost-effective way of improving employment service operations, which is essentially what we noted in our report.

However, concerning the computerized job matching operation, the study noted some problems and made several recommendations, which have since been implemented. Oregon has decided not to extend the use of batch 1/ matching beyond the Portland area, and in fact has stopped its use in that city. We were told that Oregon continues to use real-time 2/ matching to some extent, but with a system that is not supported by Labor. In addition, Oregon has stopped using the Labor-sponsored method of coding applications and job openings for entry into the computer. Labor's system, the study showed, proved to be too costly and time consuming.

We also noted that Oregon is not the only State having problems with Labor's computerized job matching system. A Labor internal report showed that Iowa has discontinued use of batch matching; Nebraska and Kansas are also having difficulties. Labor's coding system continues to pose problems.

The Oregon letter also mentioned that automating employment service activities had an "almost entirely unexpected

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1/ Batch refers to the technique whereby transactions are collected into groups for processing during the same machine run, usually at specified times during the day.

2/ Real-time refers to the method of processing data so quickly that there is virtually no passage of time between inquiry and result.

impact" on improving the State's unemployment insurance operation. Given the joint approach proposed by Labor in the conceptual design of the automation project, we found this comment by Oregon rather peculiar. One of the selling points of Labor's project was the mutual benefits to be derived from the concurrent automation of employment service and unemployment insurance activities.

Finally, Oregon's letter stated that despite problems with cost recovery and cost absorption, the State would still enter into an agreement with Labor to automate its operations. As of February, Oregon and Labor still had not reached agreement on a satisfactory plan for Oregon to absorb the continuing costs of employment service automation into its regular budget.

PROBLEMS CONTINUE WITH COST ABSORPTION

We reported that the cost absorption concept--whereby States were to absorb the continuing costs of automation into their regular budgets after 2 years--was vague and confusing, and that some States were not taking it seriously. We also pointed out that some States might not be able to absorb the continuing costs as Labor expected them to do.

In its response, Labor said that by January 1979, 10 States would have entered their cost absorption periods, and would have begun absorbing the costs according to their previously agreed upon plans. When we asked for more detailed information, a Labor official told us that four of these States did not yet have approved cost absorption plans and were still negotiating with Labor.

The Labor official told us that whether States had approved plans or not, they would receive no further special funding after 2 years. Should States wish to continue with the same level of automation after that time, they would have to absorb the costs. If they could not, then the States would have to discontinue the use of some part of their system. There are indications that computerized job matching might be the first victim of any such retrenchment, with States opting to continue to maintain the Statewide terminal network for the "enhancements" (see p. 7). By selling the States on a system of computerized job matching which has not been

properly designed and tested, Labor essentially may be
asking the States to assume responsibility for operating
a system which they cannot afford to maintain once special
funding runs out.

QUESTIONABLE ADEQUACY OF EVALUATIONS

In its response to our report, the Department defended
its evaluations of the project as adequate for management
decisionmaking. Yet many of the planned studies are still
underway or have not yet begun. Our report pointed out
short-comings of specific evaluations made of the employment
service and unemployment insurance systems (Ch. 3 and 4).
If the further evaluations mentioned in the current budget
proposal are conducted with no more rigor and objectivity
than the prior ones, the solution to problems already
encountered will only be postponed.

INCORRECT ESTIMATE OF COMPUTER COSTS

In its response, Labor said that the estimate for computer
costs for fiscal years 1979 and 1980 was $28.5 million, not
including costs for California. This figure is incorrect. A
Labor official told us that the figure should have been $61.7
million; he attributed the discrepancy to a clerical error.
The latest figure still does not include the cost estimate
for California. We wish to point out that these funds are in
addition to the regular grant funds which Labor provides the
States for their computer operations. For fiscal years 1979
and 1980, Labor estimates that regular grant funds for computer
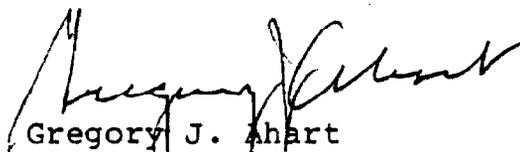operations will total $129 million for all States.

CONCLUSION

The basic message of our report is that Labor should
reconsider how and to what extent it wishes to fund States
to automate employment security operations. In its response
to us, the Department gave little indication that it was
prepared to do this. Its arguments seemed more a defense
of past practices and policies than a recognition of the
need to reevaluate the project in light of known problems.
The subsequent decision to halt the expansion of the project
through the current and next fiscal year, coupled with the

plan of action outlined in the most recent budget proposal, are encouraging signs. We can only assume that the discrepancies between the two positions have been resolved.

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Copies of this letter are being sent to the Senate and House Committees on Appropriations; the Senate Committee on Governmental Affairs; the House Committee on Government Operations; the Senate Committee on Labor and Human Resources; the House Committee on Education and Labor; and to the Director, Office of Management and Budget.

Sincerely yours,

Gregory J. Ahart
Director

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