Memorandum

March 4, 2019

TO: Joint Technology Committee Members

FROM: Luisa Altmann, Research Analyst, 303-866-3518
           Joint Technology Committee Staff

SUBJECT: JTC Staff Analysis of JBC-Referred FY 2019-20 Budget Request
           Colorado Department of Labor and Employment
           R-05 Replacement of the Legacy Field Audit System

Summary of Request

The Colorado Department of Labor and Employment (CDLE) is requesting $450,000 in cash funds spending authority to replace the Unemployment Insurance Field Audit system.

Reason for Referral

This memorandum responds to the letter sent by the Joint Budget Committee (JBC) during figure-setting for CDLE on February 21, 2019, requesting that the Joint Technology Committee (JTC) provide a technical review of the department's FY 2019-20 Unemployment Insurance Field Audit system replacement. The JBC indicated that the JTC should review the request because the amount being requested is close to the threshold for automatic review by the JTC.

Staff Analysis

JTC staff believes that the department has provided sufficient evidence to support its decision to replace the Unemployment Insurance Field Audit system and supports the amount requested based on vendor responses to the Request for Information.

Request Details

CDLE is requesting $450,000 in cash funds spending authority to replace its current Unemployment Insurance Field Audit system. The department will also be requesting $40,000 in cash funds spending authority in subsequent years for licensing or subscription costs.

Justification. The current Unemployment Insurance Field Audit system, Chronicles, was developed internally by the department in the late 1990s as a stop-gap measure to address compliance issues with federal audit requirements and uses a combination of Access databases and Excel spreadsheets. According to the department, Chronicles is based in Microsoft Excel 2003 and has been partially upgraded to operate in subsequent Excel versions. However, the system continues to have functionality issues that create inefficiencies, data retention concerns, and data security risks.

According to the department, the Field Audit Unit assigns one audit team member to provide system support and troubleshoot problems for other unit members and administrative staff, which consumes approximately 20 to 25 hours per month of this individual's time.

Evaluation by the Governor's Office of Information Technology (OIT). OIT, in collaboration with state agencies, performs evaluations of state IT resources to measure how well the applications meet the state's technology goals. The Chronicles system was rated a 57 out of 100, with an OIT goal for critical systems of 80. The largest deficiency areas that were identified as part of the evaluation were sustainability, effectiveness in meeting business needs, and substandard user experience. As such, OIT and CDLE have identified this project as "mission critical" in CDLE's Five-Year IT Roadmap.

RFI responses. The department recently issued an RFI, which resulted in three responses with cost estimates ranging from $335,000 to $2.9 million. At least one vendor that responded to the RFI has a system used by other states. This system will be considered by the department during the RFP process.

Cash funds. The department is planning to use cash funds from the Employment Support Fund, created in Section 8-77-109, C.R.S., which consists of a small portion of employer Unemployment Insurance premiums and may be used for program administration, including IT initiatives. The department has stated that there will not be a fee increase to support this request.

Program Information

The Unemployment Insurance Field Audit Unit in CDLE conducts an average of 2,500 audits annually to ensure that employers in the state are complying with state and federal Unemployment Insurance laws.

The Field Audit Unit must comply with the U.S. Department of Labor's Tax Performance System (TPS), which is designed to help states improve their Unemployment Insurance programs. The TPS requires that state Unemployment Insurance audit programs audit 1 percent of all contributing employers annually and 1 percent, or greater, of total wages annually. The TPS requires that these audits result in a change in total wages of 2 percent or more, and the average number of misclassified workers per audit be one or more. The U.S. Department of Labor uses these performance metrics to determine the effectiveness of each state's Unemployment Insurance field audit units.

Options for Committee Action

The JTC has three options for committee action when it provides a technical review of an operating budget request to the JBC. The JTC can:

- recommend the request to the JBC for funding with no concerns, as outlined in the JTC Staff Analysis section;
- recommend the request to the JBC for funding with concerns; or
- not recommend the request for funding with concerns.