September 2010

RECOVERY ACT: MORE THAN $1.3 BILLION IN UNEMPLOYMENT INSURANCE MODERNIZATION INCENTIVE PAYMENTS ARE UNLIKELY TO BE CLAIMED BY STATES

WHAT OIG FOUND
The OIG found that approximately $4 billion of the $7 billion in modernization funds has not yet been applied for, and that at least $1.3 billion of the $4 billion is unlikely to be applied for by the states. States cited increased costs for benefit payments and the political difficulty of making the required changes to state laws as the primary reasons they would not apply. Of the $3 billion that has been received by the states, approximately $2 billion has already been spent on benefit payments. Most of the states that received modernization incentive payments under the Recovery Act were not able to provide data regarding claimants’ payments under the new provisions enacted in state laws, but those that could quantify the data reported to us approximately 59,000 claimants were paid $98 million. We also found that at least $399 million of the states’ administrative grant funds remains unexpended, with a significant number of states planning multi-year systems improvements. States representing $39 million of the $500 million in administrative grant funds reported to us they did not have plans in place to spend those funds.

WHAT OIG RECOMMENDED
To better ensure more than $1 billion of Recovery Act funds are put to best use, we recommended the Assistant Secretary for Employment and Training (1) keep Congress informed on the status of unused funds, and as appropriate, make recommendations to the Secretary to work with Congress to reinstate those funds into the FUA, and (2) request detailed spending plans from the states for the $500 million of administrative funds, and provide assistance, as appropriate, to help ensure these funds are spent as intended.

ETA advised against including state-specific information in the report, citing concerns the information could change, and internal negotiations regarding the funds could be disrupted by the public disclosure. ETA supports our recommendation that unused funds become unrestricted in the FUA account, but recommends this occur on October 1, 2011, as provided by the Recovery Act. Given the unprecedented level of transparency called for by the Recovery Act, the OIG believes disclosure of state-specific information is necessary and appropriate. We continue to believe the more than $1 billion in Recovery Act funds unlikely to be used by states could be better used to help off-set the cost of government borrowing.