



**Report
to
The LEGISLATIVE FINANCE COMMITTEE**



New Mexico Workforce Solutions Department
Unemployment Insurance System Modernization
July 17, 2013

Report #13-05

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July 17, 2013

Celina Bussey, Secretary
Workforce Solutions Department
401 Broadway North East
P. O. Box 1928
Albuquerque, New Mexico 87103

Dear Secretary Bussey:

On behalf of the Legislative Finance Committee (Committee), I am pleased to transmit the information technology (IT) program evaluation of the *Workforce Solutions Department Unemployment Insurance (UI) System Modernization Project*. The evaluation assessed the status of implementation, including, planning, project management and oversight, budget allocation and expenditures and system functionality.

The report will be presented to the Committee on July 17, 2013. An exit conference was held with the Workforce Solutions Department on July 12, 2013 to discuss the contents of this report. The Committee would like a plan to address recommendations in this report within 30 days of the hearing.

I believe this report addresses issues the Committee asked us to review and hope your department will benefit from our efforts. We appreciate the cooperation and assistance we received from your staff.

Sincerely,

A handwritten signature in cursive script that reads "David Abbey".

David Abbey, Director

Cc: Representative Luciano "Lucky" Varela, Chairman, Legislative Finance Committee
Senator John Arthur Smith, Vice-Chairman, Legislative Finance Committee

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**UI System Modernization
Project Budget/Funding**
(in thousands)

UI System Function	Amount
Tax Reporting	\$26,960.0
Claims	\$12,401.0
Overpayments	\$2,816.5
Program Integrity	\$3,742.4
Interactive Voice Response	\$172.1
Other	\$2,033.0
Total	\$48,125.0

Source: PCC and WSD

With an inactive IT Commission for almost three years, the UI project did not have adequate external oversight and approval.

**UI System
Modernization
Major Contracts**
(in thousands)

Vendor	Contract Value
Deloitte	\$38,613
Kemtah	\$2,694
ACRO	\$5,685
Total	\$46,992

Source: WSD and SHARE

DoIT did not grant the WSD a waiver for independent verification and validation for the UI project.

New Mexico Workforce Solutions Department (WSD) plays the critical role of providing temporary financial assistance to individuals who meet state eligibility requirements for unemployment insurance (UI) benefits financed by employer-paid UI taxes. Although initiated in August 2009, the WSD began implementation of a new UI Tax and Claims system in January 2013, with an estimated completion date of December 31, 2013.

At a cost of \$48 million, the multi-phase project included Employer Self-Service, UI Tax and UI Claims, Overpayments, and Program Integrity. The WSD contracted with three vendors, Deloitte Consultants, Kentah and ACRO for the project. The system collects unemployment tax information from employers, processes UI claims and benefits, and manages overpayments related to normal business and fraud related transactions. Replacing an outdated version, the new system emphasizes “self-service” for claimants and employers, where the application can be accessed via the web portal and telephone.

Since deployment, the new UI application received undesirable publicity by the public and media. The overall functionality of the system works for normal operations. However, the complexity of the new system can be cumbersome to use. The initial intake process for a claimant can now take up to an hour and the maximum call wait times remain long.

In its attempt to overhaul the UI Tax and UI Claims systems simultaneously, the WSD faced challenges with the scope, budget, and project schedule. Lack of external oversight and independent verification and validation (IV&V), limited system testing, data conversion issues, and the lack of a disaster recovery contingency plan all represent risks to the new UI system. Additionally, because of cost overruns, the WSD agreed to reduce the length of the warranty while still contending with numerous outstanding defects. Finally, the limited ability of the department’s IT staff to maintain and operate the system will require ongoing reliance on staff augmentation at considerable cost.

The WSD recently provided a project status update to the Department of Information Technology’s (DoIT) Project Certification Committee (PCC), where it reported major progress with the system launch in January. The project, however, continues to experience problems regarding critical interfaces with other systems, data conversion, and the lack of proper training for staff.

The DoIT is in a difficult position of trying to provide effective oversight to agencies who are also its customers for enterprise services. However, by reconvening the IT Commission, the DoIT could improve its leverage with agencies by bringing noncompliance and other IT project issues before the IT Commission.

**Major Contract Expenditures
as of 5/8/13
(in millions)**

	Deloitte	Kemtah	ACRO
FY10	\$4.1		\$0.1
FY11	\$10.7	\$0.3	\$0.5
FY12	\$9.2	\$0.6	\$1.5
FY13	\$5.9	\$0.9	\$0.9
Total	\$29.9	\$1.8	\$3.0

Source: SHARE and Sunshine Portal

The WSD tracked project costs by available federal funding instead of project phase.

Total project management costs for the UI project were \$8.4 million, including \$5.7 million to Deloitte and \$2.7 million to Kemtah.

The UI project management costs were at the high end of industry standards totaling 18 percent of total project costs.

KEY FINDINGS

The department’s professional services contracting practices fail to control costs. The Deloitte contract, amended five times and valued at \$38.6 million, has over 100 deliverables and expires January 31, 2014. The WSD awarded the UI system modernization contract to Deloitte in January 2010 based on “best value,” with an original contract value of \$17.2 million for the UI Tax system and the contract term expiring December 31, 2013. The primary cost growth of the contract is attributed to amendment one for \$9.7 million for the UI Claims system, amendment two for \$2.3 million for the UI Program Integrity (U.S. Department of Labor requirement), and amendment three for \$9.3 million for extended operational readiness support and optional post-warranty maintenance. Amendment one also changed the warranty period from 12 months to six months and amendment three subsequently changed the warranty period from six months to four months.

The department processed a \$9.3 million amendment for the Deloitte contract to extend operational readiness support and optional post-warranty maintenance, including enhancements through December 2013. At the time of the amendment in February 2012, Deloitte and WSD were still conducting unit testing and fixing system defects. In a subsequent amendment, WSD defined the enhancements prior to the implementation of the new UI system in January 2013.

The WSD issued a \$3.4 million sole source IT professional services (staff augmentation) contract to ACRO in July 2012 for a 30-month term to support the system modernization project. While the procurement file contained a sole source justification it did not have documentation supporting the Department of Finance and Administration’s (DFA) approval of the 30-month term. As a best practice, the DFA Contract Management Bureau’s professional services procedure manual limits the term of a sole source contract to 12 months. There was no evidence in DFA’s records to support an exception to the 12-month term. Currently, all contract approvals and sole source determinations for professional services contracts, including IT professional services contracts are made by DFA. Although the DoIT also signs the IT professional services contracts, it does not see the contract until after the sole source determination is made.

ACRO provided IT professional services to WSD for \$2 million under state price agreements since the beginning of the UI project in 2010. In addition to the \$3.4 million contract, since the beginning of the project, the WSD issued several purchase orders to ACRO just below or at the \$200 thousand threshold for state price agreements, circumventing the procurement code. ACRO has been supporting the Workforce Technology Program over a long period of time, prior to the UI system modernization project. The WSD, like other state agencies, has stated hiring qualified application developers and other IT professionals is difficult because the state salaries for IT professional are lower than private industry rates.

Independent verification and validation is considered a best practice within the technology industry.

The independent verification and validation process ensures:

- ***Compliance with requirements,***
- ***Identification of defects and risks,***
- ***Verification of software performance, and***
- ***Analysis of schedule and budget.***

Without IV&V, application development was not reviewed by a third-party and has the potential to result in deficiencies over time.

In June 2011, the WSD terminated its IV&V contract and discontinued the use of an IV&V contractor.

The project management services contract experienced cost growth of 219 percent which may be a result of incomplete requirements in the request for proposals (RFP). The WSD's project management professional services contract with Kemtah was initially \$845 thousand but grew to \$2.7 million, a 219 percent increase over two years as a result of four amendments. When WSD included the claims portion to the project, two amendments added deliverables for project management activities (\$753 thousand). However, other amendments added deliverables for post-implementation management (\$157 thousand) and system development lifecycle release management (\$939 thousand) and it is unclear why the WSD did not contemplate these deliverables in the RFP process.

Workforce Solutions Department lacked external oversight, including deficient independent verification and validation (IV&V) for the \$48 million project. External project oversight was limited to the Department of Information Technology (DoIT) relying on the WSD's monthly status reports and minimum status reporting to the Project Certification Committee (PCC) and the IT Commission. The IV&V activities were not conducted by a third party, independent of the software developers and project managers.

However, the WSD recently provided a project status to the PCC in May 2013 where the WSD reported major progress with the system launch in January. The project is still experiencing problems regarding critical interfaces with other systems, data conversion issues, and the lack of proper training for staff. Without an IV&V review this status has not been independently verified.

With an inactive IT Commission, the UI project did not have adequate external oversight and approval. The New Mexico IT Commission has not met since November 2010. The commission is an independent body, representing a range of stakeholders, acting in an oversight capacity to guide a strategic IT plan for the state. The IT Commission is required to meet at least quarterly to review and approve the state IT plan, which includes identifying key IT initiatives for the state and key projects for state agencies.

Although DoIT regulations require an IV&V for all certified IT projects the secretary of DoIT did not authorize a waiver for the IV&V for the UI project. The WSD determined IV&V tasks were already being delivered through Kemtah – the project management services contractor and the department was receiving quality risk management services. As an alternative, the WSD relied on Kemtah and the executive steering committee to monitor the project, neither of which is independent. The Kemtah contract called for review of agency provided IV&V reports and for Kemtah to present action plans to the executive steering committee on activities required to mitigate risks; there are no IV&V reports after June 2011. The WSD's processes for IV&V were not independent. An IV&V should be performed by an entity that is technically, managerially, and financially independent from project developers and managers.

Cost overruns required the WSD to cut the one-year warranty period to four months.

The WSD limited the warranty period at the expense of enhancements and federal DOL requirements.

Unemployed individuals with limited computer knowledge may be overwhelmed with the data input process of filing benefit claims.

Unemployed claimants have to traverse 25 different screens for initial intake and input all the required information to initiate the claim process.

The WSD process for formal acceptance of all deliverables was inconsistently applied, making it difficult to determine if all tasks for each deliverable were complete. Other than the chief information officers (CIO) sign-off and approval of the vendor invoices, the WSD did not have a formal acceptance process for Kentah and ACRO deliverables. Both vendors had a number of deliverables with specific tasks defined within each deliverable, resulting in a higher number of contract deliverables. Determining if all tasks in each deliverable were complete was not well documented and could not be verified. Kentah and ACRO deliverables were indentified on monthly invoices without any indication of the percentage of completion of a task, what tasks were completed, and when.

The WSD and Deloitte have continually been fixing defects and adding enhancements to the application. System implementation took over three years, and the application still has defects needing remediation and outstanding enhancements. During the course of the project the federal DOL supplied new requirements, leading to additional enhancements to the system. Enhancements require modification of the whole application rather than individual components. As of May 17, 2013, approximately 568 defects are still outstanding with 390 having either a critical or a high severity. Remediation of these defects is essential prior to implementing additional enhancements to the application, due to the possibility of dependencies on defective code. The WSD shortened the warranty period to save money for enhancements to the application. Deloitte will remediate all defects recorded prior to April 30, 2013, and defects reported thereafter require an additional service level agreement.

The new UI system is complex and can be difficult for users to navigate. The overall functionality of the application works for basic purposes, however, the complexity of the application may be too cumbersome for the unemployed claimants. The WSD requires claimants to complete the initial claims form for benefits on-line or complete the intake through a customer service agent by calling the toll-free number. Now as in the past a claimant cannot file a self-service initial claim using the Interactive Voice Response (IVR) system but can file on-line or via a customer service agent.

Under the legacy system the UI claimant provided initial information to the WSD on the phone and it took 15 minutes to complete the initial intake. The new system captures more information during initial claims entry and may take up to an hour to complete because more is required up front. The LFC staff did not evaluate whether there are efficiencies gained in the claim process that result in fewer overpayments, appeals, and adjudications.

Data conversion defects, limited application testing and the lack of a contingency and disaster recovery plan create conditions for on-going risks to the new UI system. Any IT system as complex as the UI system is going to have inherent risk. The data conversion module has numerous defects that have yet to be remediated. Data conversion was not included in Deloitte's scope and warranty; therefore, all data conversion defects must be addressed by the WSD.

Workforce Solutions Department did not follow best practices or the state's security policy for application security testing.

The WSD has not updated the disaster recovery and contingency plan to reflect the new UI system.

Weekly claims certifications can be filed on-line or through the interactive voice response system.

Dissemination of unemployment insurance information to the public and locating unemployment insurance resources on the WSD website is challenging.

The WSD reported the average wait time for the operations center increased to 56 minutes in the third quarter up from 27 minutes in the second quarter.

Application functionality testing is limited throughout the UI application. After reviewing the source code, the LFC IT consultant determined only 51 of 15 thousand files contained unit testing code. Of the 51 files that were located in the application source code, each file covered four to five application functions or parcels of code. This metric does not cover the 2 million lines of code within the application. Unit testing involves analyzing each portion of code individually to locate and identify defects and determine whether the application's internal functions perform properly.

User acceptance testing (UAT) was incomplete and delayed the project start date. The UAT started in April 2012 and was completed in November 2012. According to Deloitte, the UAT took too long, and resulted in the delay of the project completion. The WSD conducted UAT on the application using scripts or scenarios created by the WSD staff. Pre-written test scripts were written to cover normal business interactions with the application. Just using this type of scripts will not show the effects of user mistakes. Deloitte provided some automated scripts for the UAT, which were all not utilized for undisclosed reasons.

High call volumes resulted in claim determination delays and longer call times. The WSD upgraded its Interactive Voice Response (IVR) system, recognizing both call volume and that the legacy IVR system was insufficient. Although the IVR system was upgraded, the call center continues to have issues with response time and call activity. The WSD significantly modified the operations of its call center in 2012, now titled the operation center.

The WSD reported issues with the call center as early as October 2011. In 2010, 35 individuals were answering phones, rising to 75 individuals in 2011 and 2012 and to 160 in 2013. Currently the WSD has 122 total customer service agents (CSA) with 75 full-time call takers, including Tax, Benefit Payment Control, and Adjudication. The CSAs have rotating shifts based on workload and wait times. At the time of this writing the WSD was in the process of hiring 12 additional CSA.

Total operation center traffic has remained relatively consistent with traffic in previous years, though calls spiked considerably in January 2013. The WSD reports the significant increase in calls in January 2013 resulted from calls about passwords, questions about the new system, changes related to federal benefit extensions, and employers using the system for the first time. Immediately after initiating the new UI system in January 2013, total operation center traffic exceeded 633 thousand calls. In February 2013, total call center traffic returned to a level only slightly higher than the total traffic recorded in February 2012.

Since the implementation of the new UI operation center, maximum call wait times remain long. With the new UI system, new claims intake processing can take up to an hour to complete due to more data from the claimant being collected. As a result, average transaction calls will take more time. Since implementation of the system, excluding January 2013, maximum wait times average four hours and 18 minutes.

Key Recommendations:

The Workforce Solutions Department should:

- Modify its invoicing requirements to identify which tasks are complete and the percentage complete for each deliverable;
- Establish a standard process and acceptance criteria for all contract deliverables;
- Ensure Deloitte corrects all defects identified during the warranty period;
- Limit additional enhancements until all outstanding defects are remediated;
- Conduct a customer survey on use of the new system and its website and make improvements accordingly;
- Conduct extensive application functionality testing to include unit, integration, and regression testing;
- Create a disaster recovery and contingency plan associated with the UI Tax and Claims application; and
- Conduct a workflow analysis at the operations center to determine the root cause for delays in wait times and identify areas for improvement.

The Department of Information Technology should:

- Comply with administrative rule requiring independent verification and validation for large and high risk projects;
- Establish criteria for granting IV&V waivers; and
- Make approvals of information technology professional contracts and contract amendments for large and high-risk projects contingent on independent verification and validation.

The Information Technology Commission should meet as statutorily required to review and approve:

- The development and implementation of the state information technology (IT) strategic plan;
- Critical IT initiatives for the state;
- Identification of IT needs of state agencies;
- Strategies for identifying IT projects that affect multiple agencies; and
- The state information architecture and the state IT strategic plans for updates and compliance by executive agencies.

BACKGROUND INFORMATION

The New Mexico Workforce Solutions Department (WSD) Unemployment Insurance (UI) Systems Modernization project replaces the state's outdated unemployment insurance system. The WSD initiated the UI System Modernization project in August 2009, and began implementation January 2013, with an estimated completion date of December 31, 2013. WSD is currently updating the system to implement the Federal sequestration reductions mandated by the U. S. Department of Labor (DOL). The multi-phase project included Employer Self-Service, UI Tax and UI Claims, Overpayments, and Program Integrity. The system collects unemployment taxes from employers (UI Tax), processes claims and payments of benefits (UI Claims), and manages overpayment transactions related to normal business and fraud related overpayments. The UI system is to provide a single repository of all UI business functions. The funds to pay unemployment benefits are provided by UI contributions (taxes) paid by employers who meet the state's liability requirements.

The WSD issued a request for proposals (RFP) in August 2009, notifying over 200 vendors with only two companies (Deloitte Consulting LLP and Saber Software, Inc.) responding to the RFP. Both Deloitte and Saber, well-established, stable companies in the UI Tax marketplace, have proven track records having successfully implemented UI Tax system products for other states. The proposal evaluation included an assessment of the proposed key personnel, project implementation strategy and plan, proposed costs, and a thorough evaluation of the proposed UI Tax system framework. Out of a possible 1,000 points, Deloitte received 956.2 and Saber received 838.83 points. Deloitte proposed project costs of \$19.6 million and Saber proposed \$25.8 million. Following the evaluation, the WSD awarded a \$17.2 million contract to Deloitte in January 2010 and has amended the contract five times, now valued at \$38.6 million. The WSD issued three major contracts for the UI system modernization project. In addition to Deloitte, the WSD contracted with the Kentah Group to provide project management services, and ACRO to provide IT professional services for web development for the new UI system and programming support to augment WSD's application development staff. A summary of contractor's costs are shown in **Table 1 and 2**.

**Table 1. UI System Modernization Project
Major Contracts - IT Professional Services**
(as of 5/8/13)

Vendor	Contract Value	Expenditures	Balance
Deloitte Consultants			
10-631-00-05505	\$38,613,277	\$29,904,773	\$8,708,504
Kentah Group			
10-631-5001-00108	\$2,693,850	\$1,792,503	\$901,347
ACRO			
13-631-5001-00027	\$3,356,508	\$912,425	\$2,444,083
Purchase Orders (16)	\$2,328,615	\$2,099,724	\$228,891
Total	\$46,992,250	\$34,709,425	\$12,282,825

Source: WSD files and SHARE

**Table 2. UI System Modernization Project
Summary of Major Contract Expenditures by Fiscal Year**
(as of 5/8/13)

Fiscal Year	Deloitte	Kentah	ACRO	Total
FY10	\$4,057,517		\$120,935	\$4,178,452
FY11	\$10,652,621	\$315,039	\$449,542	\$11,417,202
FY12	\$9,254,235	\$619,902	\$1,529,247	\$11,403,384
FY13	\$5,940,400	\$857,562	\$912,425	\$7,710,387
Total	\$29,904,773	\$1,792,503	\$3,012,149	\$34,709,425

Source: SHARE Voucher Inquiry Reports and Sunshine Portal

Project Budget and Funding. The project budget is based on the available federal funding. The original project budget of \$39.3 million was constrained by projected and available Federal grants. The project budget has risen to \$48 million. The federal stimulus funding for this project did not include money for personnel services.

Table 3. UI System Modernization Project Funding
(in thousands)

Fiscal Year	Amount	Funding Source
UI Tax		Federal Funds – Reed Act
		<ul style="list-style-type: none"> Laws 2003, Ch. 76, Sec. 7, (13), original Laws 2005, Ch. 33, Sec. 7, (20), re-appropriated Laws 2006, Ch. 109, Sec. 7, (19), extend period through FY07 Laws 2007, Ch. 28, Sec. 7, (23), extend period through FY09 Laws 2009, Ch. 124, Sec. 7 (9), extend period through FY10
FY03	\$10,960.0	
FY10	\$16,000.0	Federal Funds – Reed Act
		<ul style="list-style-type: none"> Laws 2010, Ch. 6, Sec. 5, (9)
UI Tax Total	\$26,960.0	
UI Claims		Federal Funds – ARRA
		<ul style="list-style-type: none"> Laws 2010 (2nd Special Session), Ch. 6, Sec. 5 (9) Laws 2010 (2nd Special Session), Ch. 6, Sec. 5 (11) Recovery Act Emergency Compensation Funding (EUC)
FY11	\$1,882.4 \$7,725.6 \$2,793.0	
UI Claims Total	\$12,401.0	
Overpayments Module		US DOL Supplemental Budget Request (2009)
		<ul style="list-style-type: none"> UIPL 31-09 for State UI Technology Infrastructure Grants
FY10	\$1,242.3	
FY10	\$137.0	WSD – Unemployment Insurance Division Operating Budget
FY11	\$1,437.2	WSD – Unemployment Insurance Division Operating Budget
Overpayments Total	\$2,816.5	
Program Integrity		US DOL Supplemental Budget Request (2011)
		<ul style="list-style-type: none"> UIPL 19-11 for Reducing Improper Payments
FY11	\$2,326.4	
FY11	\$1,416.0	WSD – Unemployment Insurance Division Operating Budget
Program Integrity Total	\$3,742.4	
Interactive Voice Response (IVR)		
FY11	\$172.1	Laws 2010 (2 nd Special Session), Ch. 6, Sec. 5 (11)
IVR Total	\$172.1	
Other	\$2,033.0	WSD Reconciliation item – includes infrastructure and contract support
Project Total	\$48,125.0	

Source: Project Certification Documentation, June 2012 and WSD

Although the WSD presented the project budget to the Department of Information Technology’s Project Certification Committee (PCC) by phase, it did not track project costs by phase, instead by available federal funding. The table below shows a summary of the project budget and expenditures by year.

Table 4. UI Modernization Project Budget and Expenditures
(in millions)

	FY10	FY11	FY12	FY13	TOTAL
Budget	\$4.9	\$13.7	\$14.1	\$15.4	\$48.1
Expended	\$4.9	\$13.7	\$14.1	\$5.5	\$38.2
Balance	\$0.0	\$0.0	\$0.0	\$9.9	\$9.9

Source: WSD

As long as the federal DOL continues to require new mandates and the WSD continues with additional system enhancements, the cost of the UI system will continue to grow. In general, the total cost of ownership for the new UI system includes the purchase price plus the cost of operations. The WSD IT operating and maintenance expenses for hardware and software tied to the UI application are \$4 million for licenses and \$671 thousand for maintenance for the first year. These amounts do not include the cost for Deloitte’s maintenance and operations support (contract amendment No. 5) of \$560 thousand per month, or \$6.7 million annualized. In addition, maintenance and operations costs for the overall infrastructure shared across UI, Employment Services, Labor Relations, Finance, and the Office of the Secretary are not included.

Operating Budget. The WSD’s FY13 operating budget of \$62.4 million includes \$8.4 million for the Workforce Technology program. The Workforce Technology program provides and maintains information technology services for the department and its service providers such as the local workforce boards and training institutions.

**Table 5. Summary of WSD
Approved Budget**
(in millions)

	FY11	FY12	FY13
Capital	\$0.2	\$0.0	\$0.0
Operating Budget	\$53.3	\$56.7	\$62.4
Other	\$57.1	\$30.1	\$10.9
Special Appropriation	\$10.9	\$3.5	\$0.0
Total	\$121.5	\$90.3	\$73.3

Source: Sunshine Portal

The WSD submitted budget adjustment requests (BARs) to transfer UI Administration funding from the UI bureau in the Transition Services program to the Workforce Technology program. UI Administration funding is obligated for five quarters, or fifteen months, for administration purposes. After five quarters, UI Administration funding can be used for automation acquisition. Automation is defined as the costs of goods and services (no staff charges) directly related to the automation of UI operations. The term does not include maintenance and other costs relating to current operations and services.

**Table 6. UI Administration
Fund Transfers to
Workforce Technology
Program**
(in thousands)

Federal FY	Amount
FY11	\$4,155.3
FY12	\$985.4
FY13	\$0.0
Total	\$5,140.7

Source: WSD and LFC records

The UI Administration funds may be used for additional staff to handle UI claims. The LFC did not verify why the WSD did not use the UI Administration funds to fill vacancies to support the call center, additional claims examiners, and adjudicators or for other administrative purposes instead of transferring the funds to the Workforce Technology program.

FINDINGS AND RECOMMENDATIONS

WORKFORCE SOLUTIONS DEPARTMENT'S PROFESSIONAL SERVICES CONTRACTING PRACTICES FAIL TO CONTROL COSTS

The Deloitte contract, amended five times and valued at \$38.6 million, has over 100 deliverables and expires January 31, 2014. The WSD awarded the UI system modernization contract to Deloitte in January 2010 based on "best value," with an original contract value of \$17.2 million and the contract term expiring December 31, 2013 for the UI Tax system. The increase in cost of the contract is attributed to amendment one for \$9.7 million for the UI Claims system, amendment two for \$2.3 million for the UI Program Integrity (U.S. Department of Labor requirement), and amendment three for \$9.3 million for extended operational readiness support and optional post-warranty maintenance. Amendment one also changed the warranty period from 12 months to six months and amendment three subsequently changed the warranty period from six months to four months.

The department processed a \$9.3 million amendment for the Deloitte contract for extended operational readiness support and optional post-warranty maintenance, including enhancements through December 2013. This amendment changed the warranty period from six months to four months, ending April 30, 2013, after system acceptance. At the time of the amendment in February 2012, Deloitte and the WSD were still conducting unit testing and fixing system defects. The scheduled completion date was extended from March 2012 to August 31, 2012, and subsequently to January 6, 2013. In December 2012, WSD defined the enhancements in amendment four, prior to the implementation of the new UI system in January 2013. The exercised option for post-warranty support also extended the contract term through January 31, 2014 and post-warranty support is scheduled to begin June 1, 2013. Later, amendment five specified deliverables for post-warranty enhancement support. In part of amendment five for project close-out the contract states Deloitte will address critical and high defects related to the enhancements prior to acceptance and sign off.

The WSD issued a \$3.4 million sole source IT professional services (staff augmentation) contract with ACRO in July 2012 for a 30-month term to support the system modernization project. While the procurement file contained a sole source justification it did not have documentation supporting the Department of Finance and Administration's (DFA) approval of the 30-month term. As a best practice, the DFA Contract Management Bureau's professional services procedure manual limits the term of a sole source contract to 12 months. There was no evidence in DFA's records to support an exception to the 12-month term. The DFA stated the approval of the contract term was an oversight. Currently all contract approvals and sole source determinations for professional services contracts, including IT professional services contracts are made by DFA. Although DoIT also signs the IT professional services contracts, DoIT does not see the contract until after the sole source determination is made. In addition, the compensation is based on a fixed cost per deliverable and although pricing is based on a statewide price agreement, no documentation supports how the fixed cost per deliverable was determined.

ACRO provided IT professional services to WSD for \$2 million under state price agreements since the beginning of the project in 2010. In addition to the \$3.4 million contract, the WSD issued several purchase orders to ACRO just below or at the \$200 thousand threshold for state price agreements, circumventing the procurement system. Services included software development on existing UI claims system, web development for the new UI system, data base maintenance and legacy support. In addition, ACRO provided programming assistance for the data conversion and migration of the legacy data. ACRO has been supporting the Workforce Technology Program over a long period of time, prior to the UI system modernization project. The WSD, like other state agencies, has stated hiring qualified application developers and other IT professionals is difficult because the state salaries for IT professionals are lower than industry.

The project management services contract experienced cost growth of 219 percent which may be a result of incomplete requirements in the request for proposals (RFP). The WSD's project management professional services contract with the Kentah award was initially \$845 thousand and grew to \$2.7 million, a 219 percent increase in two years as a result of four amendments. Understandably two amendments added deliverables for project management activities (\$753 thousand) to incorporate the claims portion into the project. However, other amendments added deliverables for post-implementation management (\$157 thousand) and software development lifecycle release management (\$939 thousand). It is unclear why the WSD did not contemplate these deliverables in the RFP process. The WSD designated three vendors as finalists in response to the RFP. One vendor withdrew its proposal and another declined to present its proposal to the evaluation committee and was disqualified from consideration. Therefore, Kentah, the sole offeror, was awarded the contract.

Recommendations:

The Department of Finance and Administration (DFA) provisions for all IT professional services contract should be contingent on the Department of Information and Technology Department's (DoIT) review and approval prior to the DFA approval to ensure the contract meets DoIT's requirements.

The Department of Information Technology Department should improve its request for proposals (RFP) review and approval processes of agency's RFP to ensure RFP requirements are comprehensive to minimize the need for contract amendments.

WORKFORCE SOLUTIONS DEPARTMENT LACKED EXTERNAL OVERSIGHT, INCLUDING DEFICIENT INDEPENDENT VERIFICATION AND VALIDATION FOR A \$48 MILLION PROJECT

External project oversight was limited to the Department of Information Technology (DoIT) relying on the WSD's monthly status reports and minimum status reporting to the Project Certification Committee and the IT Commission. The purpose of IV&V is to obtain an objective assessment, ensure compliance with specified requirements, and provide early detection of risks and issues to ensure a project's compliance with performance, schedule, and budget requirements. As a best practice from the technology industry, IV&V activities should be performed by an entity technically, managerially, and financially independent from project developers and project managers. The WSD's processes for IV&V were not conducted by a third party, independent of the software developers and project managers.

With an inactive IT Commission, the UI project did not have adequate external oversight and approval. The New Mexico IT Commission has not met since November 2010. The commission is supposed to be an independent body, representing a range of stakeholders, acting in an oversight capacity to guide a strategic IT plan for the state. The IT Commission is required to meet at least quarterly to review and approve the state IT plan, which includes identifying key IT initiatives for the state and key projects for state agencies.

Although DoIT regulations require IV&V for all certified IT projects the secretary of DoIT did not authorize a waiver for IV&V for the UI project. In June 2011, the WSD terminated its IV&V contract and discontinued the use of an IV&V contractor. The WSD determined IV&V tasks were already being delivered through the project management services contractor (Kemtah) and were receiving quality risk management services from Kemtah. According to the WSD, the IV&V tasks were redundant and the quality between the contractors was not consistent. As an alternative, the WSD relied on Kemtah and the executive steering committee to monitor the project, neither of which is independent. The Kemtah contract called for review of agency provided IV&V reports and for Kemtah to present action plans to the steering committee on activities required to mitigate risks in project particularly those identified by the IV&V report. Because WSD terminated its IV&V contract, there are no IV&V reports after June 2011.

Risk management is an integral part of IT project management. Deloitte and Kemtah engaged WSD project leadership to help identify, analyze, and mitigate the project risks as part of the risk mitigation plan. The project team established a risk register containing a list of identified risks, list of potential responses, and root causes of risks. The risk register includes the priority of project risks, risks grouped by category, risks requiring response in the near-term, risks requiring additional analysis or response, watch lists of low priority risks, and any trends noticed during the risk analysis process. While the risk mitigation plan was in place, the lack of IV&V increases the potential for unidentified risks.

The WSD's monthly project reporting to DoIT showed the overall project status as yellow and red during the project. The project began with an aggressive schedule; however, project managers expanded the scope, partly due to federal requirements, which increased the difficulty to meet timelines. Consequently, the WSD missed its target "go-live" dates. Since project initiation in 2009, the WSD attended the Project Certification Committee (PCC) five times for change requests to expand scope, budget and schedule and only twice to provide status. The last change request to add scope to incorporate an upgrade to the telephone access system was June 2012. The DoIT relied on the WSD's monthly status report and did not request the WSD to provide detail status to the PCC since April 2011. However, the WSD recently provided a project status to the PCC in May 2013 where the WSD reported major progress with the system launch in January. The project is still experiencing problems regarding critical interfaces with other systems, data conversion issues, and the lack of proper training for staff. Without an IV&V review this status has not been independently verified.

Until August 2012 DoIT attended WSD's weekly status meetings but the WSD cancelled the meetings in early September. In late August 2012, the DoIT conducted a "deep dive" review of the project, with it being ranked "red" due to significant schedule slips as well as the limited status reporting to DoIT with the WSD eliminating

IV&V. The DoIT stated its goal of the assessment was to help ensure a successful project. However, the results of the assessment were inconclusive in that field work was limited, lacking a review of project documentation, in part because the WSD was not timely or did not have the documentation DoIT requested.

According to the WSD, the project scope, budget, and schedule changed because of the federal DOL requirements. For example, in June 2011 the DOL issued a directive mandating integrity and reporting requirements for the Unemployment Insurance Program. As a result the WSD requested an additional five months and \$5 million for the project to implement the federal DOL integrity and reporting requirements and legislative changes regarding extended benefits and tax rates for expansions. Because of delays with data conversion, additional user acceptance testing, and program integrity requirements, the project deadline was extended from March 2012 to December 2013.

The WSD process for formal acceptance of all deliverables was inconsistently applied, making it difficult to determine if all tasks for each deliverable were complete. Other than the chief information officer's (CIO) sign-off and approval of the vendor invoices, the WSD did not have a formal acceptance process for Kemtah and ACRO deliverables. Both vendors had a number of deliverables with specific tasks defined within each deliverable, resulting in a higher number of contract deliverables. Determining if all tasks in each deliverable were complete was not well documented. For example, the business transition plan, a Kemtah deliverable, included 23 documents, one for each business unit; many of those documents were in draft and without evidence of WSD's review and approval. In another instance Deloitte and Kemtah were responsible for different parts of the same deliverable and evidence of what portion Kemtah delivered was not clear in the approval process. Kemtah and ACRO deliverables were indentified on monthly invoices without any indication of the percentage of completion of a task, what tasks were completed, and when. Similarly under the ACRO contract, other than the CIO's approval on the invoices which only includes a high level description of the deliverable, there was no evidence of the specific tasks completed or the percentage of completion of the deliverable.

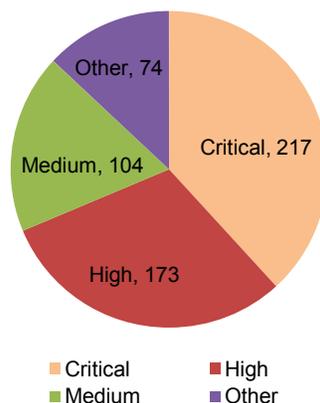
By contract, with over 100 deliverables the WSD process for sign-off and approval of Deloitte's contract deliverables included a deliverable expectations document (DED). The DED includes acceptance criteria and identifies who reviewed and approved the deliverable and in some cases conditions of acceptance.

Project management costs were the high end of industry standards at 18 percent of total project costs. Overall, project management costs for Deloitte were \$5.7 million and \$2.7 million for Kemtah. Total project management costs of \$8.4 million are 18 percent of the overall project costs. Depending on the size and complexity of a project, best practices for project management costs are between 8 percent and 18 percent of the overall project budget.

Cost overruns required the WSD to reduce the warranty period from 12 months to 4 months. The WSD limited the warranty period at the expense of enhancements and federal DOL requirements. With the warranty period ending April 30, 2013, any new defects are not covered under the warranty. The warranty required the WSD and Deloitte to log but not correct all defects by the end of the warranty period. The completion of all defects under warranty will be marked by the CIO's signature on the final warranty deliverable due sometime in June 2013, which will release the retainage. The WSD will incur additional costs for any defects identified after the warranty period.

The WSD and Deloitte have continually been fixing defects and adding enhancements to the application. System implementation has taken over three years, and the application still has defects needing remediation and outstanding enhancements. During the course of the project the federal DOL supplied new requirements, leading to additional enhancements to the system. Enhancements require modification of the whole application rather than individual components. As of May 17, 2013, approximately 568 defects are still outstanding with 390 having either a critical or a high severity. Remediation of these defects is essential prior to implementing additional enhancements to the application, due to the possibility of dependencies on defective code. The WSD shortened the warranty period to fund enhancements to the application. Deloitte will remediate all defects recorded prior to April 30, 2013, and defects reported thereafter will require an additional service level agreement.

**Chart 1. UI System
Defects as of May 17, 2013**



Source: WSD

Remediation of the defects is extremely important to maintain data integrity within the application and ensure all disbursements are correct. A major function of the application is to perform calculations for monetary disbursements. If the application is not functioning correctly, this could result in inaccurate payments and will cost the WSD a substantial amount of funds. A critical defect ready for test (UITSM00012725) states "claimant received pmt when had fraud penalty." All issues of this nature must be identified by the WSD and through IV&V activities and remediated immediately.

Deloitte designed the UI system using a waterfall model which is not conducive to a project where frequent requirement changes are expected and inevitable. With the waterfall model all requirements of the application must be defined upfront at the beginning of the software development life cycle. Requirements or features added after design phase incur greater implementation costs using this methodology. The waterfall methodology is a classic methodology used and proven effective for simple development projects and is recommended for shorter duration projects (within six months). An agile model is the desired method for producing large applications that have changes throughout the software development life cycle.

A study by AIG Consulting stated, "Companies defined as immature in requirements definition [at beginning of implementation] fail half of the times to reach goals set for an application, and require 35 percent more time and budget to achieve them."

Recommendations:

The Department of Information Technology (DoIT) should comply with administrative rule requiring independent verification and validation (IV&V) for large and high risk projects and establish criteria for granting waivers. In addition, DoIT should make approvals of IT professional contracts and contract amendments for large and high-risk projects contingent on IV&V.

The Workforce Solutions Department should:

- Modify its invoicing requirements to identify which tasks are complete and the percentage of the deliverable that is complete;
- Establish a standard process and acceptance criteria for all contract deliverables;
- Ensure Deloitte corrects all defects identified during the warranty period; and
- Limit additional enhancements until all outstanding defects are remediated.

THE NEW UI SYSTEM IS COMPLEX AND CAN BE DIFFICULT FOR USERS TO NAVIGATE

The overall functionality of the application works for basic purposes, however, the complexity of the application may be too cumbersome for the claimant. Before accessing the UI claims and benefits system, all individuals applying for and receiving unemployment insurance benefits are required to log into the New Mexico Workforce Connection Online System. The WSD requires claimants to complete the initial claims form for benefits on-line or complete the intake through a customer service agent by calling the toll-free number. Now as in the past, a claimant cannot file a self-service initial claim using the Interactive Voice Response (IVR) system but can file on-line or via a customer service agent.

Under the legacy system the UI claimant provided initial information to the WSD on the phone and it took 15 minutes to complete the initial intake. The new system captures more information during the initial claims entry and may take up to an hour to complete because more information is necessary up front. According to the WSD, completing the initial claims information on-line can take up to an hour depending on how many questions apply. If a UI claimant logs off before completion, it is not clear if the claimant can continue where they left off when logging-in again. The LFC staff did not evaluate whether efficiencies gained in the claim process that result in fewer overpayments, appeals, and adjudications.

Weekly claims certifications can be filed on-line or through the IVR system. The table below shows a summary of claim certifications activity since the implementation of the new system.

Table 7. Claims Certifications

January 2013 – May 24, 2013

Month	Online	IVR	Total
Jan-13	89,186	33,133	122,319
Feb-13	73,463	24,428	97,891
Mar-13	72,397	23,124	95,521
Apr-13	77,272	26,158	103,430
May 1-24	56,771	14,856	71,627
Total	369,089	121,699	490,788
% of Total	75.2%	24.8%	

Source: WSD

For unemployed individuals with little knowledge of computers, completing the claims process can be confusing. Applying for benefits requires unemployed claimants to traverse 25 different screens for initial intake and input all the required information to initiate the claim process. The LFC observed that although requested items for the initial claim information appear to be straight forward, it is lengthy and time consuming to complete. If there is an error with a required field or an instance where a required field is not apparent, it adds time to complete the required information.

The application has links to provide clarification of required fields throughout the questionnaire. However, the links are designed to open up a new window; some browsers open the link and do not allow back-button operation to return to the original form. The new window opened by the links provides no "back" operation, and closing the window is the only way to get back to the question. It is not an intuitive design for using the UI system. Also, first time claimants may be discouraged from closing the clarification windows, not knowing if the system will potentially close the browser and have to restart the registration process.

Dissemination of unemployment insurance information to the public and locating unemployment insurance resources on the WSD website is challenging. Access to the UI system is primarily through an internet-based employer and claimant self service portal located on the WSD's website. Although the UI system login is apparent on the WSD's home page, identifying information about the system and what is required to file a claim can be cumbersome (**Appendix B**). In addition, locating the link for access to the UI claimant's on-line user guides is not obvious.

In contrast, other states' websites for unemployment insurance program information are easily accessible and user friendly. For example, Minnesota's home page for its unemployment program offers two choices "Applicants" or "Employers and Agents" (**Appendix C**). Also, Florida's UI website for the unemployment claims process notifies the claimant how long filing a claim online will take and includes online tutorials for each step of the process.

Data conversion defects, limited application testing and the lack of a contingency and disaster recovery plan create conditions for on-going risks to the new UI system. Any IT system as complex as the UI system is going to have inherent risk. The following represent increased risk to the UI system in particular.

The WSD was responsible for the data conversion from the legacy system to the new UI system and Deloitte's role was limited to providing guidance to the WSD in the data conversion process. Deloitte and WSD created mapping documents between the existing databases to the new database. Once the mapping was completed, WSD was required to perform the actual coding to move the information. The WSD contracted with ACRO to perform the data conversion to facilitate the migration to the new UI application. Contracting Deloitte for the data conversion subsystem would have been a more practical alternative for the following reasons:

- The UI system is dependent on the existing legacy data;
- WSD does not have knowledgeable staff for performing the migration;
- Deloitte is knowledgeable regarding destination table structures;
- Deloitte is not responsible for issues with conversion defects; and
- Responsibility of other issues may be attributed to the data conversion subsystem.

The conversion consists of extracting all the information, cleansing the data, and migration of the data from the legacy system. The data required formatting to assure proper insertion into the new system. The migration of data from the legacy system is a critical part of the software's functionality. If this conversion is not conducted correctly, there could be issues with the accuracy and consistency of data or the ability to retrieve records prior to the new UI system deployment.

Presently, the data conversion module has numerous defects that have yet to be remediated. For instance, defect UITSM00012072 logged on December 19, 2012, remains open as of May 17, 2013, and the defect states "ORT_Reported earnings did not convert." Another defect identified in the production environment (UITSM00012627) states "missing wages from conversion." All defects discovered pertaining to the data conversion module are not included in Deloitte's scope and warranty and must be addressed by WSD.

Application functionality testing is limited throughout the source code. The purpose of testing an application is to identify errors within the application that could produce erroneous results. Unit testing involves analyzing each portion of code individually to locate and identify defects and determine whether the application's internal functions perform properly. Since a small portion of the code is being tested individually, a precise analysis of the code will help identify problematic areas. After reviewing the UI system code, the LFC IT consultant determined only 51 of 15 thousand files contained unit-testing code. Of the 51 files that were located in the application source code, each file covered four to five application functions or parcels of code. This metric does not cover the 2 million lines of code within the application.

Deloitte also developed testing scripts to identify any malfunctions with the application. The scripts were based on normal business logic, so each script incorporated normal input and examination of scripts outcome. During the testing phase, Deloitte and the WSD omitted test scripts. Reasons for not running the scripts were not documented. Limited available documentation stated "a total of 941 scripts were withdrawn from testing as agreed upon by Deloitte and the WSD. Reasons for withdrawal include duplicate or not consistent with specification."

The National Institute of Standards and Technology (NIST) provide directives for developing standards and guidelines for providing adequate information security to government entities. According to NIST Special Publication 500-235, "All code worth developing is worth having basic functional and structural testing. Each requirement in a detailed functional specification should be tested."

In addition, the WSD did not follow best practices or the State's security policy for application security testing. The New Mexico State Security Policy states all state agency applications must be tested via manual and automated penetration testing.

User acceptance testing was incomplete and delayed the project start date. User acceptance testing (UAT) started in April 2012 and was completed in November 2012. According to Deloitte, UAT was taking too long and resulted in the delay of project completion. User acceptance testing is the final set of validation activities for a product. In some environments, acceptance tests are planned and performed by the customer. In other environments the vendor, with customer approval, plans and conducts acceptance tests.

The WSD conducted UAT on the application using scripts or scenarios created by WSD staff. Pre-written test scripts were written to cover normal business interactions with the application. Just using this type of scripts will not show the effects of user mistakes. This type of testing is not feasible for an application of this size and complexity. Deloitte provided some automated scripts for UAT, which were all not utilized for undisclosed reasons. Automated testing is critical to performance issues and discovering applicable defects. Enterprise applications are extremely susceptible to defects and can easily become unmanageable if automated testing is not adequate.

The WSD has not updated the disaster recovery contingency plan to reflect the new UI system. The WSD's current business continuity disaster recovery plan has the general framework but it has not been updated to reflect the changes from the legacy system to the new UI system. The WSD does not maintain a contingency or disaster recovery plan to facilitate a proactive approach to remediate issues with the system.

An application of this magnitude and importance should maintain documentation for any unforeseen disasters. A disaster recovery plan involves restoration of major physical disruptions to the information systems. A formalized disaster recovery plan would include the following information:

- Information regarding secure data storage,
- Backup procedures,
- Detection mechanisms,
- Off-site locations for recovery,
- Infrastructure redundancy,
- Employee's intervention with disasters,
- Succession planning for employee replacements, and
- Employee awareness of the disaster recovery plan.

The disaster recovery and contingency plan must maintain a business impact analysis to determine the potential threat to the organizations business processes without having access to the UI system. The plan must address all the proposed threats through a risk assessment analysis. Once determining all the potential risks and evaluating all possible outcomes, controls are evaluated to perform a cost benefit analysis. According to National Institute of Standards and Technology, the organization develops a contingency plan for the information system that:

- Identifies essential missions and business functions and associated contingency requirements;
- Provides recovery objectives, restoration priorities, and metrics;
- Addresses contingency roles, responsibilities, assigned individuals with contact information;
- Addresses maintaining essential missions and business functions despite an information system disruption, compromise, or failure;
- Addresses eventual, full information system restoration without deterioration of the security measures originally planned and implemented; and
- Is reviewed and approved by designated officials within the organization.

The WSD should have addressed the following prior to the acceptance of the current application:

- Completing vigorous unit and penetration testing;
- Identifying and remediating performance issues;
- Improving application user interface; and
- Implementing the contingency and disaster recovery plan.

Once these have been addressed, it would ensure the application will perform the UI system functionality as intended.

Recommendations:

The Workforce Solutions Department should:

- Conduct a customer survey on use of its website and make improvements accordingly;
- Conduct extensive application functionality testing to include unit, integration, and regression testing; and
- Create a disaster recovery and contingency plan associated with the new UI Tax and Claims application.

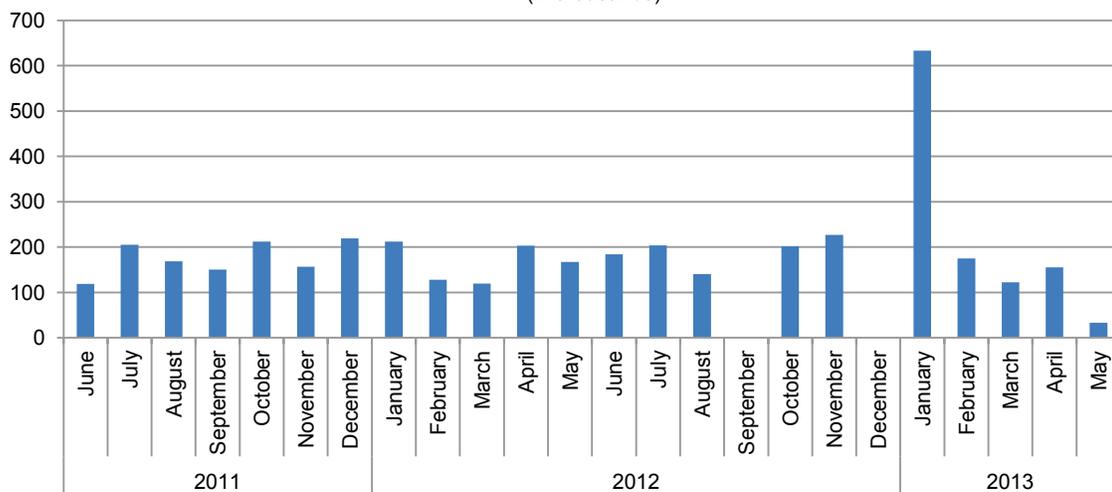
HIGH CALL VOLUMES RESULTED IN CLAIM DETERMINATION DELAYS AND LONGER CALL TIMES

Although the Interactive Voice Response (IVR) system was upgraded, the call center continues to have issues with response time and call activity. The IVR is a telephone based service that provides a subset of the functionality available through the online system. The WSD upgraded its IVR system, recognizing both call volume and that the legacy IVR system was insufficient. The WSD significantly modified the operations of its call center in 2012, now titled the operation center. The WSD reported issues with the call center as early as October 2011. In 2010, 35 individuals were answering phones, rising to 75 individuals in 2011 and 2012 and to 160 in 2013. Currently, the WSD has 122 total customer service agents (CSA) with 75 full-time call takers, including Tax, Benefit Payment Control, and Adjudication. The CSAs have rotating shifts based on workload and wait times. At the time of this writing the WSD was in the process of hiring 12 additional CSA.

The WSD tracks all calls and monitors calls once a caller has accessed the queue within the system. The IVR for the new UI system has 14 different queues, including Spanish, which route the individual to the location for services. Each queue is skill based with a customer service agent assigned to handle calls off each queue. The WSD can adjust the queues based on expected call volume and depends on daily staffing levels. Calls to the operation center are initially routed according to three options: claimants, Spanish, or employers. Claimant calls are then routed to either UI recertification or customer service for additional queue options. Customer service calls are routed according to whether the call involves a new or an existing claim, tracked through the client social security number.

Total operation center traffic has remained relatively consistent with traffic in previous years, though calls spiked considerably in January 2013. The WSD stated total traffic reflects all claimants who call the operations center and select either the UI recertification or customer service option. Calls made outside of the operation center’s business hours are considered an invalid client selection and are in the reported total traffic. Since 2011, typical operation center traffic has fluctuated between roughly 33 thousand and 225 thousand calls per month.

Chart 2. Operation Center Total Traffic FY12-FY13
(in thousands)



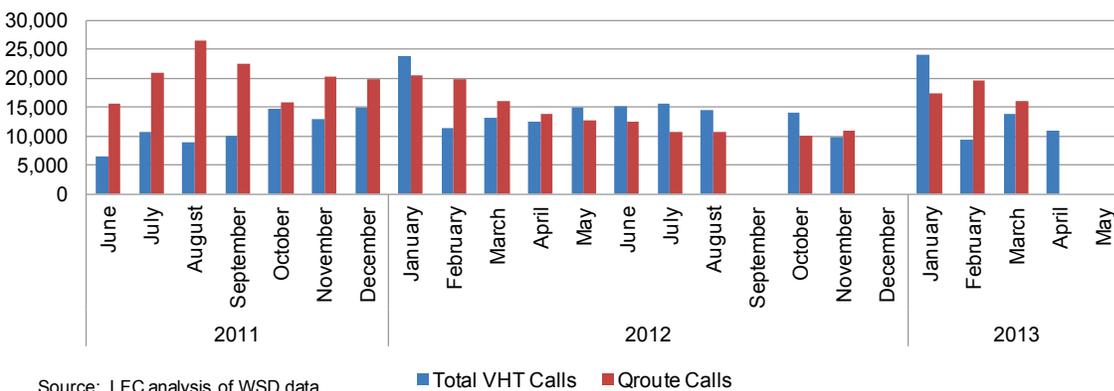
Source: LFC analysis of WSD data

The WSD reports the significant increase in calls in January 2013 resulted from calls about passwords, questions about the new system, changes related to federal benefit extensions, and employers using the system for the first time. Immediately after initiating the new UI system in January 2013, total operation center traffic exceeded 633 thousand calls. In February 2013, total call center traffic (174,843) returned to a level only slightly higher than the total traffic recorded in February 2012 (128,188 calls).

Clients receiving UI benefits must recertify eligibility weekly online or through the operation center call. The UI recertification calls are included in total traffic but reported separately from Qroute and virtual hold calls. Qroute calls involve self-service queues that are ultimately assigned to a customer service agent according to client queue selection. Virtual hold is available to a limited capacity of calls and is dependent on the level of call volume. If this option is available, it allows the caller to stay on hold or have the department call back in a set amount of time, essentially holding the caller’s place in line without keeping the caller tied to a phone.

Virtual hold and Qroute call data do not reveal a significant spike in call volume following the transition to the new UI operation system in January 2013, unlike the observed trend in total call traffic. The difference between total call traffic (633 thousand) and VHT (24 thousand), Qroute (17 thousand), and UI Certification (24 thousand) calls is 567 thousand calls, suggesting that over 90 percent of the total phone traffic to the operation center in January 2013 was not for one of these three purposes.

**Chart 3. Operation Center Virtual Hold and Qroute Calls
June 2011- mid-May 2013**



Source: LFC analysis of WSD data

■ Total VHT Calls ■ Qroute Calls

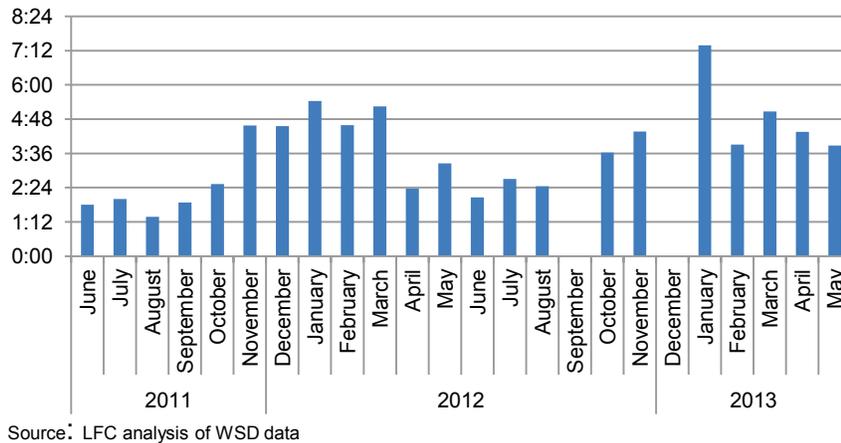
The dramatic influx of calls not accounted for by these three purposes may suggest the newly implemented online system is difficult to navigate, prompting clients to call the operation center for assistance during January. The reported virtual hold and Qroute call volumes reported in January, February, and March are similar in volume to those reported during 2012.

While MyUI Certification call data was provided by the WSD, data included in this call category was collected differently prior to the implementation of the new UI system, preventing trend analysis. As a result, the data was not included in this summary. Under the legacy system, certifications were captured regardless of eligibility, payment, an appeal, or in adjudication, so the certification counts were skewed. Currently MyUI certifications only count completed certifications, not attempts, and do not count calls for general inquiry, self-service status calls, or those people that are immediately sent to an agent.

Since the implementation of the new UI operation center system, maximum call wait times remain long.

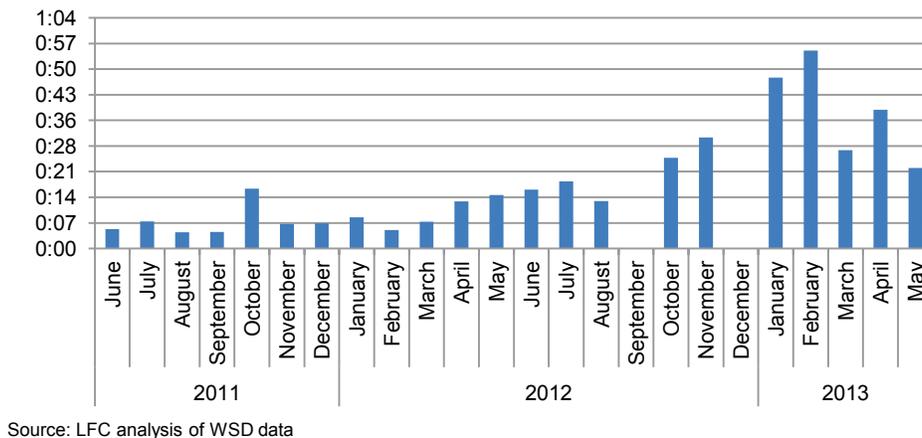
With the new UI system, new claims intake processing requires can take up to an hour to complete due to more data from the claimant being collected. As a result, average transaction calls will take more time on the front end. Maximum call wait times spiked during January 2013, with the longest customer wait time exceeding seven hours. Since implementation of the system, excluding January, maximum wait times average four hours and 18 minutes.

Chart 4. Maximum Call Wait Time
(hours:minutes)



While average monthly wait times were reported by the WDS, analysis conducted using the provided information suggests average wait times have also increased since the implementation of the new UI system in January 2013. Based on the available data, average monthly wait times between January 2013 and April 2013 (42 minutes) have not returned to the average monthly wait time reported during the same months in 2012 (9 minutes).

Chart 5. Operation Center Average Wait Time
June 2011- mid-May 2013
(hours:minutes)



The WSD’s third quarter report card (**Appendix D**) also indicates performance for the average time to complete a transaction with the unemployment insurance operations center significantly decreased. The WSD reported the average wait time for the UI operations center increased during the third quarter to 56 minutes from 27 minutes in the second quarter. According to the WSD, high call volume from claimants making extended benefit inquiries and employers accessing the new system became the main focus of the UI operations center the first months of implementation.

Since the upgrade, the WSD’s annual telecommunications costs including the IVR and toll-free number will increase from \$1.1 million to \$2.2 million, by 100 percent. With the WSD owing a large past-due amount to DoIT for enterprise services, it is not clear when these additional telecommunication costs will be paid. As of March 2013, the WSD was delinquent in paying its DoIT bill with an outstanding balance of \$1.4 million.

Recommendations:

The Workforce Solutions Department should:

- Conduct a workflow analysis at the operations center to determine the root cause for the delays in wait times and to identify areas for improvement; and
- Develop a payment plan for the increased telecommunication costs as well as what is past due and submit the plan to the Department of Information Technology for approval.

**SUSANA MARTINEZ
GOVERNOR**



**CELINA BUSSEY
SECRETARY**

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July 12, 2013

David Abbey, LFC Director
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Dear Mr. Abbey:

I am in receipt of the revised and final LFC Report #13-05 in regards to the Unemployment Insurance Systems Modernization Project. NMDWS stands behind the responses submitted in the agency response letter submitted yesterday, July 11, 2013.

I appreciate the clarification offered in the final report and look forward to next week's hearing.

Respectfully,

A handwritten signature in blue ink, appearing to read "Celina Bussey".

Celina Bussey
Cabinet Secretary

SUSANA MARTINEZ
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STATE OF NEW MEXICO
DEPARTMENT OF WORKFORCE SOLUTIONS
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July 11, 2013

David Abbey, LFC Director
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Dear Mr. Abbey:

Thank you for the opportunity to respond to the LFC Draft Report #13-05 in regards to the Unemployment Insurance (UI) Modernization Project. For the purpose of tomorrow's exit conference, and as a baseline for the Department's presentation to the LFC on July 17th, NMDWS is providing the following initial comments and responses.

- Background Information (page 3): "These amounts do not include the cost for Deloitte's maintenance and operations support of \$540 thousand per month, or almost \$6.5 million annualized."
 - NMDWS response: The \$6.5 million is not an annual cost related to any particular contract. This is the total projected cost for the first 12 months following the warranty period and is subject to available funding. The 12 months following the warranty period will be dedicated to system enhancements, a necessary activity related to a system and a program of this complexity.
- Background Information (page 4): "The UI Administration funds may be used for additional staff to handle UI claims. The LFC did not verify why WSD did not use the UI Administration funds to fill vacancies to support the call center, additional claims examiners, and adjudicators or for other administrative purposes instead of transferring the funds to the Workforce Technology program."
 - NMDWS response: Since January 2011, NMDWS has maintained increased staffing levels throughout the UI Operations Center to deal with increased workloads. Staffing levels have been sustained through a variety of federal funding sources outside of baseline UI administration funds. The United States Department of Labor (USDOL) does not directly fund IT costs related to the administration of the UI program. Therefore, a certain amount of UI administration funds have to be available to support ongoing maintenance,

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contracts, and enhancement activity. NMDWS is currently working collaboratively with the Department of Finance & Administration and the Governor's Office to evaluate existing and projected funding to support the UI program.

- Findings and Recommendations (page 5): “The project management services contract experienced cost growth of 219 percent which may be a result of incomplete requirements in the request for proposals (RFP).”
 - NMDWS response: Existing deliverables that pertained to project management services were in alignment with the initial scope of work that went out with the RFP. That RFP only pertained to the UI tax project. With the first major amendment to the Deloitte contract, NMDWS added the claims portion of the modernization project in 2010, which significantly increased the need for project management services, thus adding substantial deliverables directly tied to the complexity of the claims project. It is the opinion of NMDWS that the expansion of these services was a necessary action in order to ensure the success of the project. A final point on this issue is that the NMDWS executive management team, at the time the contract was amended to include the claims project, was not privy to, nor involved in the development of the initial RFP or its deliverables.

- Findings and Recommendations (page 7): “WORKFORCE SOLUTIONS DEPARTMENT AVOIDED EXTERNAL OVERSIGHT, INCLUDING THE LACK OF INDEPENDENT VERIFICATION AND VALIDATION FOR A \$48 MILLION PROJECT”
 - NMDWS response: NMDWS adamantly disagrees with this statement. There was no avoidance of any such external oversight, but rather, a business and financial decision that the services being provided through IV&V services were a duplication of effort of those services and activities already being provided by Kentah, Deloitte, and NMDWS. NMDWS agrees that for projects of this scope and size, quality IV&V services are of tremendous value to both the agency and the State of New Mexico. However, this was not the case for the services being provided under the scope of this project.

- Findings and Recommendations (page 7): “With the absence of the IT Commission, the UI project did not have adequate external oversight and approval.”
 - NMDWS response: NMDWS has no opinion as to the impact that the New Mexico IT Commission would have had on the implementation of the new system. It is the understanding of NMDWS IT Commission will resume meeting in the near future.

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- Findings and Recommendations (page 7): "The project managers for WSD, Deloitte and Kentah used the risk register in lieu of status meetings and IV&V reports."
 - NMDWS response: At no time was a risk register used in lieu of status meetings or IV&V reports. By September 2012, the weekly "Steering Committee" meetings had become redundant of several technical and management related meetings occurring weekly, if not even daily. Key personnel from all involved parties, DWS, Deloitte and Kentah were involved in all such meetings. As User Acceptance Testing (UAT) wound down, data conversion and training quickly moved to the forefront and by the fall of 2012 these "Steering Committee" meetings were an inadequate and inefficient use of key personnel time.

- Findings and Recommendations (page 8): "The results of the assessment were inconclusive in that DoIT's field work was limited, lacking a review of project documentation, in part because WSD was not timely or did not have the documentation DoIT requested."
 - NMDWS response: NMDWS adamantly disagrees with this statement. NMDWS fully complied with the "deep dive" analysis conducted by DoIT and provided all available documentation. NMDWS has not received any further requests related to this "deep dive" analysis.

- Findings and Recommendations (page 9): "The Workforce Solutions Department should:
 - Modify its invoicing requirements to include which tasks are complete and the percentage complete of the deliverable;
 - Establish a standard process and acceptance criteria for all contract deliverables;"
 - NMDWS response: In large part both the Kentah and ACRO contracts involved significant elements of staff augmentation. This additional contract technical support was necessary to ensure the successful development and implementation of the UI system. Contracts with ACRO and Kentah and the subsequent "contractors" report directly to NMDWS personnel. Their productivity and performance is not conducive to traditional deliverable based provisions in state contracts, nor is presenting a percentage completed of the tasks assigned to them. The tasks are continuously assigned based on workload that demands their involvement. This type of activity is significantly different than the activity of the Deloitte personnel who answered directly to their chain of command and had their respective progress on certain deliverables reviewed. Furthermore the deliverables which appear in more than one contract (business transition plans, etc.) were shared responsibilities by design due to the technical expertise of each of the partners. NMDWS accepts that some documents or deliverables are still in progress and business decisions were made earlier to prioritize work items leading up to implementation.

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- Findings and Recommendations (page 10): “THE UI SYSTEM IS COMPLEX AND CAN BE DIFFICULT FOR USERS TO NAVIGATE; The overall functionality of the application works for basic purposes, however the complexity of the application may be too cumbersome for the claimant.”
 - NMDWS response: NMDWS takes significant issue with this statement. In fact, the UI program itself is complex. It is layered in both federal and state laws with significant emphasis on very stringent monetary and individual eligibility. Those provisions, by design, have been built into the UI system out of both federal and state mandate, not out of personal choice. No past IT system for the UI program in NM has been capable of handling the numerous and significant requirements passed on an annual basis by Congress, USDOL, and the NM Legislature. This system is the first of its kind for our state and will provide a continuous solution when such mandates are passed. As to the customer friendliness of the system, NMDWS has taken, and continues to take, significant time in evaluating the overall flow of business transactions and the feedback from our customers. This is another example of the importance on ongoing enhancements and IT support for this application. NMDWS is currently compiling a comprehensive statistical analysis of the customer traffic associated with the system to demonstrate that in increasing numbers our customers, both claimants and employers, are utilizing the self-service functionality of this system. This fact completely contradicts a statement such as “functionality of the application works for basic purposes.” In fact, the functionality of the application is working for all purposes, both basic and complex to the satisfaction of the majority of our customer base.

- Findings and Recommendations (page 10): “WSD requires claimants to complete the initial claims form for benefits on-line or complete intake by a customer service agent by calling the toll-free number. A claimant cannot file an initial claim through self-service by using the Interactive Voice Response (IVR) system...”
 - NMDWS response: NMDWS contends that this statement is misleading. Claimants have been able to file claims for benefits through an online application or through the Operations Center for years. Claimants have never been able to complete such an application through the IVR due to the fact that the initial claim requires detailed information about last employer, wages earned, separation issues, dependents, etc. This information is impossible to collect via the IVR and that option has never existed. This is neither a new business process nor requirement related to the implementation of the of the new UI system and should be clarified or deleted.

- Findings and Recommendations (page 10): “If a UI claimant logs off before completion, it is not clear if the claimant can continue where they left off when logging-in again.”
 - NMDWS response: All information is stored in the database. The data is stored for one week, allowing a claimant to log back into the system and complete their application. After the week time lapse, the system purges the incomplete application.

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- Findings and Recommendations (page 10): “Dissemination of information to the public and locating resources on the WSD website is challenging.”
 - NMDWS response: NMDWS asks that such statements be removed from this report for the following reasons. First, the NMDWS main website is for information about all services and programs administered by the department, not solely UI. Our customer base goes far beyond those looking to locate information about the UI program exclusively. Secondly, the purpose of this report is to evaluate the UI modernization project. The NMDWS main website was not part of that project. All such references should be removed. Finally, the comparison to the Minnesota website is not even an accurate comparison. The images contained in Attachment A are of the NMDWS main website homepage, however the images contained in Attachment B are not of Minnesota’s main website homepage. If such comparisons of websites or public information are to be made, then the comparisons should be a direct reflection of the issue being compared. Attachments A-C to this response include the true image of the Minnesota main website homepage and that same image of NMDWS’s homepage, as well as comparable images of both states’ jobs and UI systems.

- Findings and Recommendations (page 11): “Deloitte designed the UI system using a waterfall model the software development life cycle (SLDC). This model requires all functionality of the application be determined upfront at the beginning prior to the implementation phase of SLDC. The waterfall model is not preferred for enterprise application lifecycle management when frequent requirement changes are expected because all requirements must be defined prior to development.”
 - NMDWS response: While NMDWS agrees that industry best practices suggest that a waterfall approach to enterprise application development of this size be avoided and RAD, or agile development methodologies, be used, the complexity and tightly coupled workflow processes that govern UI makes this impossible. NMDWS and their contractor, Deloitte, use the waterfall methodology which is the industry standard for UI modernization projects regardless of state or vendor.

- Findings and Recommendations (page 11): “*WSD was responsible for the data conversion from the legacy system to the new UI system and Deloitte’s role was limited to providing guidance to WSD in the data conversion process.* Deloitte and WSD created mapping documents between the existing databases to the new database. Once the mapping was completed, WSD was required to perform the actual coding to move the information. WSD contracted with ACRO to perform the data conversion to facilitate the migration to the new UI application. Contracting Deloitte for the data conversion subsystem would have been a more practical alternative for the following reasons:
 - The UI system is dependent on the existing legacy data;
 - WSD does not have knowledgeable staff for performing the migration;
 - Deloitte is knowledgeable regarding destination table structures;
 - Deloitte is not responsible for issues with conversion defects; and
 - Responsibility of other issues may be attributed to the data conversion subsystem.

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- NMDWS response: NMDWS disagrees that contracting with Deloitte would have been a more practical alternative for the exact reasons mentioned. NMDWS/ACRO had far better knowledge of the legacy application, their table and data structures, and its overall operability. Deloitte was contracted to do the transformation of NMDWS/ACRO extract files. The joint effort allowed NMDWS staff to better understand the overall data structure of the new UI system, and the effort was such a success that many other states considering UI Modernization projects are considering this approach as a best practice.
- Findings and Conclusions (page 12): “WSD conducted UAT on the application using scripts or scenarios created by WSD staff with testing normal values. Pre-written test scripts were written to cover normal business interactions with the application. This type of testing is not feasible for an application of this size and complexity. Deloitte provided some automated scripts for UAT, which were all not utilized for undisclosed reasons. The reasons for not running the scripts were not documented, but instead “Twenty-four were declined as duplicates or not defects.”
 - NMDWS response: This is not accurate. Deloitte did provide NMDWS with a significant number of scripts to run; however, based on the population of New Mexico, further testing was required in certain areas and less testing in other areas based on the constituents that we serve. Constituents vary from state to state and alterations needed to be made. The 24 declined duplicates were not test scripts provided by Deloitte. They were duplicated or overlapping UAT scripts written by different NMDWS testers and were removed as such. These are two different issues entirely.
- Findings and Conclusions (page 14): “WSD provided conflicting and incomplete data as shown in the graphs below. Additionally, total traffic data for the same collection period submitted to LFC staff on different dates was not the same and has not yet been explained or corrected.”
 - NMDWS response: NMDWS adamantly disagrees with such a statement. The charts provided clearly show that the information provided was accurate and consistent. Furthermore, the information was explained multiple times during the audit/program evaluation outlining why the trends can be so erratic which include: changes to the IVR; changes to the reports; increased/decreased staffing levels; and federal changes that all directly impact call volumes, wait times, and handle times. Emails can be provided upon request showing the agencies detailed explanation as stated above.
- Findings and Conclusions (page 16): “While average monthly wait times were reported by WSD, three weeks of missing data prevent meaningful analysis or conclusions. Analysis conducted using the provided information suggests average wait times have also increased since the implementation of the new UI system in January 2013. Based on the available data, average monthly wait times between January 2013 and April 2013 (42

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minutes) have not returned to the average monthly wait time reported during the same months in 2012 (9 minutes).”

- NMDWS response: NMDWS disagrees that three weeks of missing data that happened during staff or system transition periods where two years of data was provided makes an analysis impossible. The analysis performed by the LFC analyst of increased wait times is a direct correlation to the increased handle times which is a direct correlation to the amount of data that is captured at intake and which is a direct correlation to federal mandates around program integrity initiatives. This is the life cycle of our normal business operation, and the analysis shows that.

NMDWS acknowledges certain areas of the report where deficiencies have been identified and subsequent recommendations made. NMDWS agrees as that as the department moves forward such issues are of the utmost priority to us.

I am hopeful that this report and the department’s response will provide for a productive conversation with the LFC and others in regards to the implementation of the new UI application. This effort has many layers and facets to it, all of which deserve our collective time and effort in analyzing. Due to the successful effort of this project, New Mexico is positioned to be a lead state on the efforts of modernizing UI systems around the country. The importance of focusing all interested parties on the continuous enhancements and improvements to such a system cannot be understated.

I thank you for the opportunity to respond to the report, and I look forward to our upcoming meetings.

Respectfully,

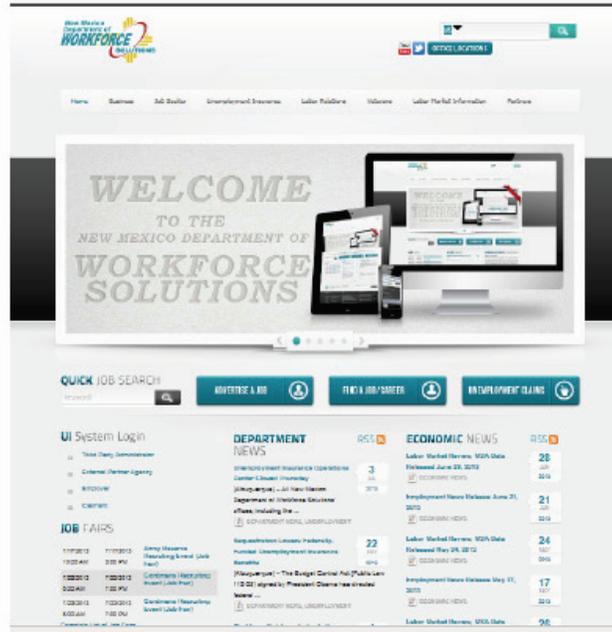


Celina Bussey
Cabinet Secretary

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Attachment A

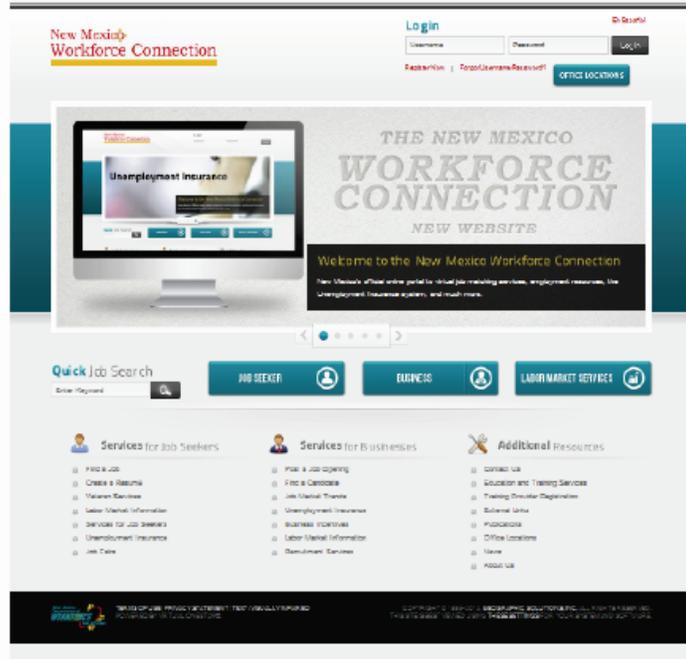
Websites for the New Mexico Department of Workforce Solutions and the Minnesota Department of Employment and Economic Development



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Attachment B

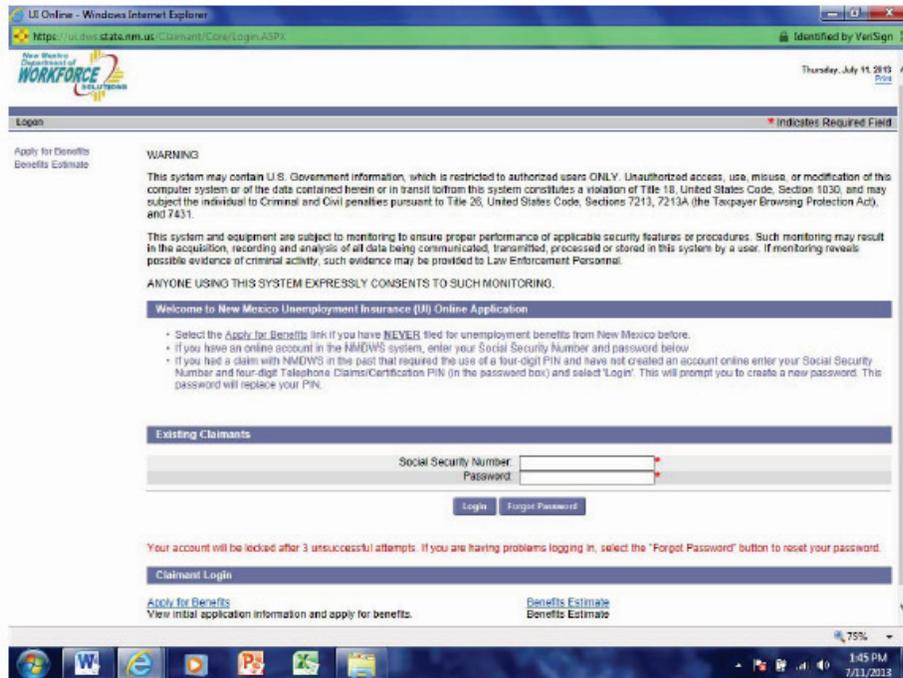
Jobs/Reemployment System Websites for the New Mexico Department of Workforce Solutions and the Minnesota Department of Employment and Economic Development



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Attachment C

UI System Websites for the New Mexico Department of Workforce Solutions and the Minnesota Department of Employment and Economic Development



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APPENDIX A: Evaluation Objectives, Scope and Methodology

Evaluation Objectives.

- Assess the status of implementation and system functionality.
- Assess the effectiveness of planning, project management and oversight.
- Review budget allocation and expenditures.

Scope and Methodology.

- Reviewed state statutes, available project status and IV&V reports.
- Reviewed guidelines specified by the National Institute of Standards of Technology (NIST).
- Conducted interviews with Workforce Solutions Department's Chief Information Officer, Deloitte Principal Project Manager, and other key project personnel.
- Reviewed project contracts and financial and performance data.
- Reviewed the project management plan and project deliverables.
- Observed application demonstrations in the development environment.
- Conducted source code analysis to include testing coverage, penetration testing and defect analysis.
- Reviewed other state's websites, press releases, and media reports relevant to the evaluation.

Evaluation Team.

Brenda Fresquez, Lead Program Evaluator
Dustin Oldham, IT Consultant

Authority for Evaluation. The LFC is authorized under the provisions of Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies, and institutions of New Mexico and all of its political subdivisions; the effects of laws on the proper functioning of these governmental units; and the policies and costs. The LFC is also authorized to make recommendations for change to the Legislature. In furtherance of its statutory responsibility, the LFC may conduct inquiries into specific transactions affecting the operating policies and cost of governmental units and their compliance with state laws.

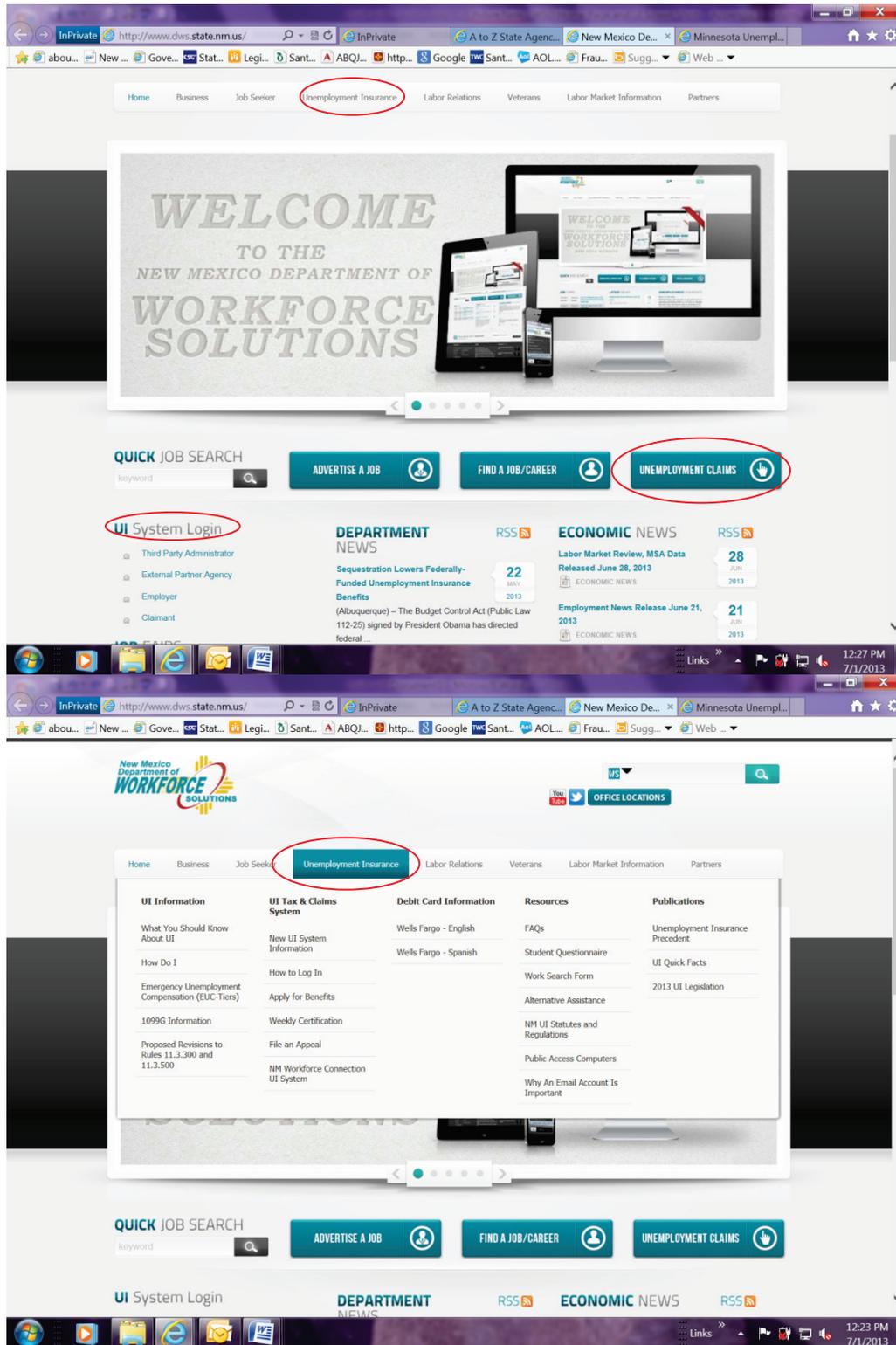
Exit Conference. The contents of this report were discussed with the Workforce Solutions Department during the exit conference on July 12, 2013. A report draft was provided the department on July 2, 2013 for formal written response.

Report Distribution. This report is intended for the information of the Office of the Governor, the New Mexico Workforce Solutions Department, the Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report, which is a matter of public record.

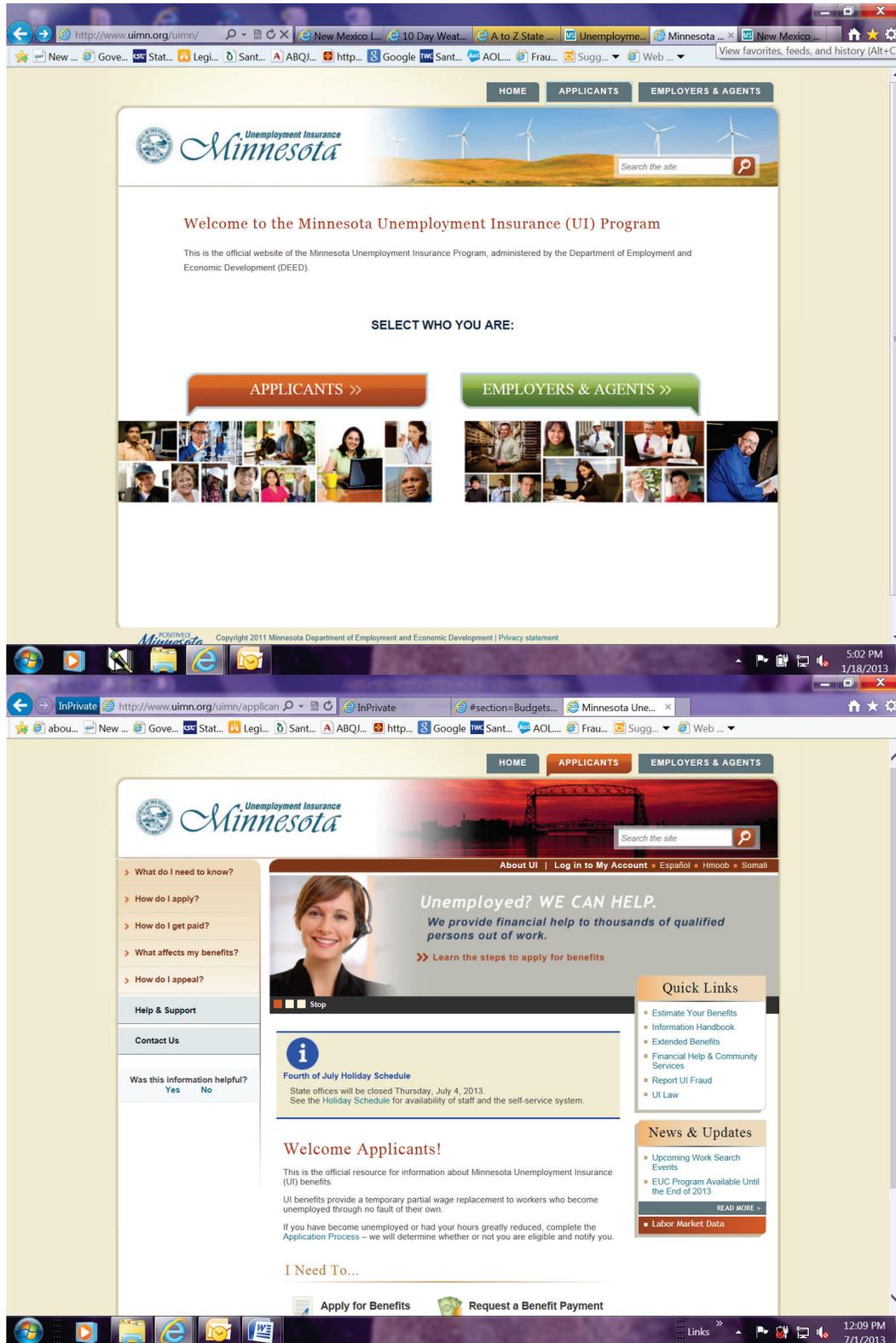


Charles Sallee
Deputy Director for Program Evaluation

APPENDIX B: Workforce Solutions Department Website Homepage



APPENDIX C: Minnesota UI Program Website Homepage



APPENDIX D: Workforce Solutions Department 3rd Quarter Report Card – FY13

Performance Report Card Workforce Solutions Department Third Quarter, Fiscal Year 2013

Performance Overview: In early January, the WSD officially launched the new fully-integrated Unemployment Insurance system. High call volumes resulted in claim determination delays and longer call times. The new system replaced a 30-year-old tax system. Staff vacancies and high turnover continue to negatively impact the Unemployment Insurance Bureau and the Labor Relations Program.

Workforce Transitions Services	Budget: \$23,702.2	FTE: 371	FY11 Actual	FY12 Actual	FY13 Target	Q1	Q2	Q3	Rating
1	Percent of adult participants receiving workforce development services through the public workforce system who are employed in the first quarter after the exit quarter*		63%	64%	67%	67%	67%	n/a	G
2	Percent of Workforce Investment Act dislocated workers receiving workforce development services who are employed in the first quarter after the exit quarter*		71%	72%	71%	72%	74%	n/a	G
3	Percentage of youth participants who are in employment or enrolled in post-secondary education and /or advanced training in the first quarter after the exit quarter*		52%	57%	55%	57%	57%	n/a	G
4	Percent of adult Workforce Investment Act participants employed in both the second and third quarter following the exit quarter		80%	91%	85%	87%	89%	n/a	G
5	Percent of Workforce Investment Act dislocated worker participants employed in both the second and third quarter following the exit quarter		81%	87%	90%	86%	87%	n/a	Y
6	Percent of eligible unemployment insurance claims that will be issued a determination within twenty-one days from the date of claim*		75%	72%	80%	78%	91%	54%	R
7	Average time to complete a transaction with the unemployment insurance call center, in minutes*		43	15	<5	22	27	56	R
Program Rating			R	Y					Y

Comments: Workforce Investment Act measures follow federal reporting schedules and will not be available until after May 30. The WSD is focused on improving the retention of dislocated workers through better skill assessments, such as WorkKeys, to understand the gap between job seeker skills and skills needed for employment and retention. Performance significantly decreased in the timeliness of unemployment insurance claims determinations during the third quarter. According to the WSD, the extension of Emergency Unemployment Compensation benefits, the data conversion from the legacy system to the new Unemployment Insurance (UI) Tax & Claims system, and the launch of the new system caused delays in UI claims determinations. High call volume from claimants making extension inquiries and employers accessing the new system became the main focus of the UI Operations Center the first months of implementation. The average wait time for the UI call center increased during the third quarter to 56 minutes. The agency reports the complexity of individual claims continues to keep the wait time above the target. Additionally, the agency states a shortage in Spanish speaking customer service representatives negatively impacted the queue wait time. With the new UI tax claims system, new claims intake processing requires all fact finding to be done on the initial claim. As a result, average transaction calls will take more time on the front end.

Labor Relations	Budget: \$5,246.6	FTE: 36	FY11 Actual	FY12 Actual	FY13 Target	Q1	Q2	Q3	Rating
8	Number of backlogged Human Rights Commission hearings pending each quarter		0	0	0	0	0	0	G
9	Percent of wage claims investigated and resolved within one-hundred and twenty days*		93%	89%	90%	88%	89%	91%	G
10	Number of targeted public works inspections completed*		1,570	1,184	1,500	347	385	534	G
11	Number of discrimination claims investigated		523	597	500	161	119	146	G
Program Rating			Y	Y					G

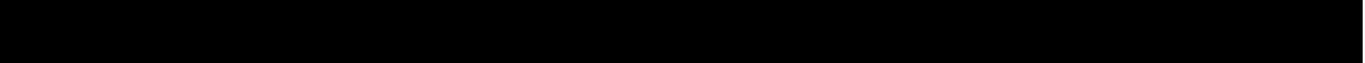
Comments: Positions in the program remained vacant for extended periods of time, yielding significant vacancy savings. The WSD submitted a budget adjustment request to transfer \$307 thousand, or 15 percent, of personal services and employee benefits budget to contractual services in order to automate division tasks. The Human Rights Commission hearings measure is not indicative of the commission's performance; therefore, this measure should be revised. As of April 3, 2013, there were eight cases pending a hearing and nine cases pending the commission's decision. There are currently three vacancies on this eleven-member commission.

Workforce Technology	Budget: \$8,435.6	FTE: 40	FY11 Actual	FY12 Actual	FY13 Target	Q1	Q2	Q3	Rating
12	Percent of time unemployment insurance benefits are paid within two business days of claimant certification*		n/a	n/a	95%	100%	94.8%	100%	G
Program Rating			n/a	n/a					G

Comments: The LFC is conducting an evaluation to assess implementation of the new unemployment insurance system including planning, project management and oversight, budget allocation and expenditures and system functionality.

Business Services	Budget: \$4,068.9	FTE: 31	FY11 Actual	FY12 Actual	FY13 Target	Q1	Q2	Q3	Rating
13	Percent of employers sampled reporting customer satisfaction		98%	99%	98%	99%	99%	96%	Y
14	Number of personal contacts made by field office personnel with New Mexico businesses to inform them of available services or provide actual services*		45,805	54,858	43,000	29,328	24,498	24,871	G
Program Rating			G	G					Y

Comments: There is insufficient information in the quarterly report to assess the division's performance in depth. The measures need to be revised to better reflect the business services being provided.



Suggested Performance Measure Improvement

Staff recommends deletion of the following measures: number of contacts made by field office personnel with New Mexico businesses to inform them of available services and percent of employers sampled reporting customer satisfaction. These measures do not provide useful information for assessing the Business Services Division. LFC staff also recommends the agency develop performance measure relating to the unemployment insurance program including the average number of benefit weeks paid quarterly, a fund balance measure, and a fraud recovery measure for the Unemployment Insurance Trust Fund.

* Denotes House Bill 2 measure