SOUTH CAROLINA GENERAL ASSEMBLY

Legislative Audit Council

L A C

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A MANAGEMENT REVIEW OF THE DEPARTMENT OF EMPLOYMENT AND WORKFORCE

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A MANAGEMENT REVIEW OF THE DEPARTMENT OF EMPLOYMENT AND WORKFORCE

LAC/18-1-DEW

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Introduction

Audit Objectives

Section 112 of Act 146 of 2010 requires the Legislative Audit Council to conduct periodic management audits of the Department of Employment and Workforce's (DEW) finances and operations. This engagement is the last one required by the act. Our audit objectives are:

- Provide a detailed accounting of the revenues and expenditures from the Unemployment Insurance Trust Fund since FY 13-14.
- Determine the adequacy of the process for notifying state officials of the financial status of the Unemployment Insurance Trust Fund.
- Assess alternatives for maintaining the solvency of the Unemployment Insurance Trust Fund.
- Examine the unemployment eligibility benefit process for efficiency and compliance with law and agency policy.
- Evaluate DEW's programs for returning claimants to work.
- Review the contingency assessment account for propriety.
- Evaluate DEW's fraud and overpayment process.
- Review of human resource issues.

Scope and Methodology

The period of this review was generally 2014 through 2018 with consideration of earlier or later periods when relevant. Information used in this report was obtained from a variety of sources including:

- Interviews with DEW staff.
- DEW financial records and audited financial statements.
- State law and agency policy.
- Unemployment Insurance Trust Fund Annual Assessment reports.
- U.S. Department of Labor (USDOL) publications.
- Claimant records.

Criteria used to measure performance included state laws, agency policies, practices in other states, and USDOL guidance. We used several samples, which are described in the audit report. We reviewed agency internal controls related to the audit objectives, including overpayments, tax collection practices, use of contingency assessment funds, claimant eligibility, and unemployment data validation. Our findings are detailed in the report.

When addressing some of our objectives, we relied on computer-generated data maintained by DEW. Where possible, we compared this data to other agency records to determine its validity. When viewed in relation to other evidence, we believe the data used in this report is reliable. DEW did not provide source documents we requested in some instances; these are noted in our report.

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

Scope Impairment

Generally Accepted Government Auditing Standards (GAGAS), as listed in the U.S. Government Accountability Office's (GAO) Government Auditing Standards publication, requires that we report significant constraints imposed upon the audit approach that limit our ability to address audit objectives. The limitations noted in this audit that constituted a scope impairment include:

- Denials or excessive delays of access to certain records or individuals. We incurred both denials and excessive delays of access to records, particularly source documents, and cogent, on-point explanations.
- Significant delays in receiving information that should be readily available.
- Responses to inquiries that were unclear, vague, or otherwise insufficient.
- Multiple requests for one piece of information.

We experienced significant delays in receiving the documentation we needed to conduct the audit. DEW delayed answering our requests and at times, provided incomplete or erroneous information. For example, one request for financial data took more than five months to obtain. We received two general ledger expense lists for the same expense account and both had the same total expense. However, one of the lists contained 31 entries that the other list did not have. We requested explanation and our request was ignored.

The average turnaround time for our data requests was approximately 37 days from request to receipt. Although we understand that some requests may take a week or more to compile, it is rare, in our audit experience, for requests to take over a month to complete and most requests are processed and data provided within five to seven business days. We had to repeat the requests and remind DEW that the requests were outstanding. Oftentimes the data received was incomplete/insufficient or did not address the issue, which required another data request and another delay.

Table 1.1: Requests for Documentation Delays

Time to Fulfill Requests for Information	Number of Instances*
0-9 days	33
10-29 days	34
30-99 days	30
100+ days	10

* Includes instances of ignored requests.

Most requests required us to follow up and request the information again.

- One request for information on the differences between DEW's prior automated payment system and the new Southeast Consortium Unemployment Insurance Benefits Initiative (SCUBI) was fulfilled several months after the initial request and after five follow-up requests. We ultimately received a copy of a manual for the prior system. This request could have been readily fulfilled with minimal delay and without the need for any follow-up requests.
- A request for source documentation regarding the implementation of previous audit recommendations took over two months to fulfill and necessitated four follow-up requests.

We encountered dozens of examples of easily answerable questions that, nonetheless, saw significant delays in responses.

- A request for a template, an existing document, took over two months to fulfill. This could have been sent immediately upon request.
- A request for a manual took 47 days to receive. Manuals are readily available and should be available without any significant delay.

Certain responses to relatively simple requests contained insufficient, vague, or unclear information.

- A request for examples of monitoring reports was responded to after four months with a one-sentence answer, and no examples were provided.
- We requested the number of employees who work in DEW's Benefit Payment Control (BPC) and Fraud, Investigation, Recovery and Enforcement (FIRE) programs. DEW responded in a vague manner by saying that all unemployment staff are involved in fraud detection. Questions on the specific number of personnel working in distinct divisions of DEW should be easily answerable.
- A response for a request for financial data consisted of a spreadsheet with undecipherable codes that did not include a key to interpret the codes.

We were not provided with several documents.

- We requested a sample of DEW's Benefit, Timeliness, and Quality (BTQ) reviews. The BTQ reviews involve review of DEW's claims files for a determination of whether they were processed properly. Our lack of access to these files prevented us from examining an area with potential findings for improvement of the unemployment claims process.
- We had planned on reviewing multiple years of contingency assessment expenditures; however, since the response was so slow, we were only able to review one year.

Although we were eventually able to complete most of the audit work necessary to meet the audit objectives, these constraints significantly delayed the completion of the audit report. Delays in responses in the early stages of the process compound the time it takes to complete the audit process.

Continuation/Revision of DEW's Programs

S.C. Code §2-15-50(b)(2) requires us to review the effectiveness of an agency to determine if it should be continued, revised, or eliminated. DEW operates a federal program at the state level. We did not conclude from this review that DEW should be eliminated; however, we made a number of recommendations for improvement.

Background

The unemployment insurance program was created in 1935 by the Social Security Act as a federal-state partnership. Each state, acting as an agent of the federal government, is responsible for administering its individual state unemployment insurance program. The South Carolina Department of Employment and Workforce (DEW), formerly the Employment Security Commission, was established in 1936. DEW is responsible for:

- Paying unemployment insurance (UI) benefits.
- Collecting unemployment taxes from employers.
- Assisting individuals in finding employment.
- Finding employees for companies.
- Collecting and disseminating state and federal employment statistics.

The federal government maintains the federal unemployment Trust Fund in the United States Treasury, which contains individual UI accounts for each state.

DEW staff are state employees, but DEW receives federal grant funds from USDOL for operational activities and expenses. USDOL oversees state programs to ensure compliance with federal laws. As of June 30, 2018, DEW operated with the following resources.

Table 1.2: DEW Resources as of June 30, 2018

Number of Employees			FY 17-18 Funding
Full-time	Temporary Grant	Temporary	
640	31	26	$191,338,735*

* 99.7% federally funded through federal grants, appropriated by the General Assembly.

Sources: DEW, Appropriations Act

According to the website for SC Works, there are 51 SC Works Centers in the state, which are operated by contracted vendors. These centers provide reemployment services in 12 designated workforce areas. Since July 1, 2011, local Workforce Development Boards select SC Works Center operators through a competitive bidding process. If the operator is a consortium of three or more SC Works Centers' partners, the operator can be selected through a non-competitive process. DEW operated the majority of the workforce centers until 2011. According to the Legislative Audit Council's review of the Workforce Investment Act Program in 2010, it was determined to be a conflict of interest for DEW to be an operator of a one-stop center, by law. DEW decided to stop contracting for either WIA or one-stop operators in local areas as of June 30, 2011.

State Workforce Development Board members are appointed by the Governor and primarily comprised of business leaders, but also may include legislators, local elected officials, workforce partners, and representatives from community-based organizations. The board provides direction to DEW on workforce development issues to help ensure the operation of a quality and effective workforce system for the state.

A memorandum of understanding (MOU), reviewed and renewed annually, is entered into by the local partner agencies in the workforce system in accordance with the federal Workforce Innovation and Opportunity Act (WIOA). WIOA is a federal law that was signed in 2014 which superseded the Workforce Investment Act (WIA). In general, WIOA consolidated federal reemployment programs to facilitate coordination among the reemployment programs administered by the states. The MOU must be signed by a representative from each partner agency, and, in addition to general agreements, designates:

- The responsibilities of the local Workforce Development Board.
- The responsibilities of and services provided by each local partner.
- An Infrastructure Funding Agreement (IFA) and budget to establish a plan to fund the services and operations through shared costs.

The partner agencies provide services in their respective areas of expertise, and have representatives at the SC Works Centers for the convenience of customers (employers/jobseekers) who often are in need of multiple services. Of the MOUs we reviewed, examples of the local partner agencies include the following.

LOCAL WORKFORCE DEVELOPMENT BOARD
Administers the local SC Works delivery system, including developing the MOU.

DEPARTMENT OF EMPLOYMENT AND WORKFORCE
Provides unemployment and employment services, trade adjustment assistance, Jobs for Veterans State Grants programs, and Migrant and Seasonal Farmworkers programs.

LOCAL COUNCIL OF GOVERNMENTS
Oversees the adult, dislocated worker, and youth programs.

S.C. VOCATIONAL REHABILITATION DEPARTMENT
Assists persons with disabilities, with the exception of those who are blind.

S.C. COMMISSION FOR THE BLIND
Assists persons who are blind and visually impaired.

S.C. DEPARTMENT OF EDUCATION AND COUNTY SCHOOL DISTRICTS
Provides adult education and literacy activities.

S.C. DEPARTMENT OF SOCIAL SERVICES
Provides food assistance under the Supplemental Nutrition Assistance Program (SNAP), ensures the safety of those who cannot protect themselves, and assists families to achieve stability through child support, child care, financial, and other temporary benefits while unemployed.

S.C. OFFICE OF ECONOMIC OPPORTUNITY
Provides employment and training activities under the federal Community Services Block Grant.

S.C. TECHNICAL COLLEGE SYSTEM
Implements the mission of the Carl D. Perkins Career and Technical Education Act of 2006 under WIOA to increase access to technical education programs.

TELAMON
Private telecommunications company to provide referrals and electronic linkage for the Migrant and Seasonal Farmworker programs.

Unemployment Insurance Tax Structure

Federal Tax

The Federal Unemployment Tax Act (FUTA) authorizes the Internal Revenue Service to collect an annual federal employer tax used to fund state workforce agencies. The federal tax covers the costs of administering the unemployment insurance and job service programs in all states. In addition, the federal tax pays one-half of the cost of extended unemployment benefits (during periods of high unemployment) and provides for a fund from which states may borrow, if necessary, to pay benefits.

The FUTA tax is paid by employers and is currently 6.0% of the first $7,000 of taxable wages earned by employees. However, employers who pay the state unemployment tax on a timely basis receive a credit of up to 5.4% against the federal tax. Thus, the net federal tax rate is generally 0.6% (6.0% - 5.4%), for a maximum tax of $42 per employee (0.006 x $7,000 = $42), per year.

South Carolina State Tax

Each state sets its own unemployment insurance tax rate. South Carolina's state unemployment insurance tax (SUTA) is paid by employers on the first $14,000 of taxable wages earned by employees. Current tax rates range from 0.060% to 5.460% depending on the employer's benefit ratio and tax rate class from 1 to 20 (see *Assessing Unemployment Trust Fund Solvency*). South Carolina uses a single tax table to determine an employer's base tax and does not consider the business size or type. In FY 17-18, DEW collected $322,917,743 in UI taxes and paid UI benefits of $179,080,609, which is 55% of the tax assessed. There is a class of employers who do not pay unemployment taxes. These employers, known as "reimbursable employers," do not pay into the unemployment tax system, but pay the cost of their employees' UI claims directly.

Unemployment Rates

The U.S. Census Bureau, designated by the U.S. Bureau of Labor Statistics of USDOL, conducts a monthly survey known as the Current Population Survey (CPS) of approximately 60,000 households nationwide to determine the national unemployment rate. The survey includes households in every state and the District of Columbia with about 1,000 households selected in South Carolina. The employment status for the previous week of all household members who are age 16 or older is determined by the census interviewers. Individuals holding a job are classified as employed; individuals with no job, but available and actively seeking employment, would be classified as unemployed.

The state's unemployment rate is determined using:

- The CPS;
- Another survey conducted by the U.S. Department of Labor known as the Current Employment Statistics (CES) survey; and
- State unemployment agency data.

The CES survey produces data for all non-farm employment, women employees, and average hourly, weekly, and overtime earnings in manufacturing industries.

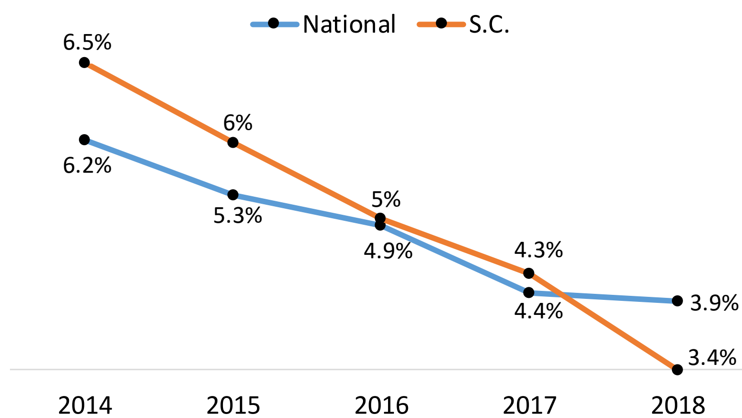
The state's unemployment rate is measured using two methods; the total unemployment rate—the most commonly used indicator of unemployment data used by economists and government officials, and the insured unemployment rate—an indicator of labor market conditions.

$$\text{Total Unemployment Rate} = \frac{\text{South Carolinians Out of Work}}{\text{Total S.C. Civilian Workforce}}$$

$$\text{Insured Unemployment Rate} = \frac{\text{South Carolinians Receiving Unemployment Benefits}}{\text{S.C. Labor Force}}$$

South Carolina's average annual unemployment rate has improved in recent years, falling slightly below the national rate. Chart 1.3 depicts South Carolina's unemployment rates, by calendar year.

Chart 1.3 Average Annual Unemployment Rates *



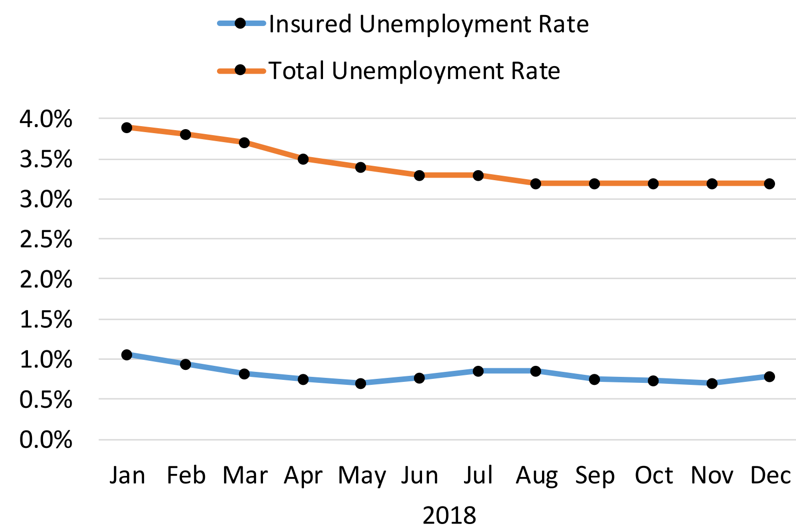
*UI rates are based on the calendar year average.

Source: U.S. Bureau of Labor Statistics

South Carolina's *total unemployment rate* ranged from 3.9% in January 2018 to 3.2%—its lowest point ever—in December 2018.

South Carolina's *insured unemployment rate* ranged from 1.1% in January 2018 to 0.79% in December 2018.

Chart 1.4: South Carolina 2018 Unemployment Rates



Sources: U.S. Bureau of Labor Statistics and U.S. Department of Labor

We also compared South Carolina's total unemployment rate and rank to the national average and other southeastern states from 2014–2018.

In 2018, South Carolina's unemployment rate was 3.4% and was ranked 16th among the states and below the national average of 3.9%.

Table 1.5: Comparison of Unemployment Rank/Rate 2014–2018

State	2014		2015		2016		2017		2018	
	Rank	Rate	Rank	Rate	Rank	Rate	Rank	Rate	Rank	Rate
SC	**33**	**6.5%**	**38**	**6.0%**	**29**	**5.0%**	**26**	**4.3%**	**16**	**3.4%**
NC	29	6.3%	34	5.7%	33	5.1%	31	4.6%	26	3.9%
TN	35	6.6%	32	5.6%	24	4.7%	16	3.7%	21	3.5%
GA	44	7.1%	38	6.0%	39	5.4%	35	4.7%	26	3.9%
FL	29	6.3%	31	5.5%	25	4.8%	24	4.2%	22	3.6%
National Average	6.2%		5.3%		4.9%		4.4%		3.9%	

Source: U.S. Bureau of Labor Statistics

Unemployment Benefits

Table 1.6 reflects an overview of unemployment benefits. The average weekly claim in South Carolina as of January 31, 2019 was $255. A benefit year runs from the effective date of a claimant's first or new claim, and each claimant must serve a waiting period of one week before benefits begin. When a claimant becomes reemployed and earns more than the weekly benefit amount, the claimant's benefits end. If a claimant exhausts the maximum benefit amount before the end of the benefit year, a new initial claim for benefits cannot be filed during the same benefit year. In order to be eligible during a second benefit year, a claimant must have earned at least eight times the weekly benefit amount after the effective date of the first claim.

Benefits are paid by unemployment taxes charged to South Carolina employers. Unemployment taxes paid by employers are based on a portion of the annual wages earned by employees—currently the first $14,000 of wages earned by each of their respective employees.

Table 1.6: Unemployment Benefit Data

South Carolina			National Average Duration of Benefits ***
Weekly Benefit		Maximum Weeks Allowed *	
Maximum *	Average **		
$326	$255	20	15.27 Weeks

* Set by South Carolina law.
** As of January 31, 2019.
*** Over the past 12 months, ending January 31, 2019.

Sources: U.S. Department of Labor, S.C. Code §41-35-50, and DEW.

Eligibility

S.C. Code §41-35-110 states that in order for claimants to qualify for unemployment compensation, they must be registered for work, be able and available for work, and have been unemployed for a waiting period of one week. They also must be separated from their most recent employers through no fault of their own, and participate in reemployment services if they have been determined to likely exhaust their benefits.

As of February 2013, DEW ceased providing in-person unemployment insurance assistance to the majority of claimants as part of a new delivery system implemented due to a lower state unemployment rate, a decrease in workload, and a decrease in federal funding. Claimants must make their initial claims for unemployment benefits online. DEW first reviews the claim to determine if the applicant qualifies monetarily. Claimants qualify monetarily by earning wages during the base period, which is four out of the last five completed quarters. DEW may also use an alternate base period, the four most recently completed calendar quarters, based on the effective date of the claim.

Under the law since 2010, claimants must meet three requirements in order to establish a weekly benefit amount:

1. Earn wages of at least $1,092 in covered employment during the high quarter of the claimant's base period;
2. Earn wages of at least $4,455 in covered employment during the claimant's base period; AND
3. Total base period wages must equal or exceed one and one-half times the total of the claimant's high quarter wages.

After a claimant has been determined monetarily eligible, DEW determines if the individual meets other eligibility criteria needed to qualify for unemployment benefits. This consists primarily of ensuring that the worker has lost his/her job through no fault of his/her own. After the initial claim is filed, the employer is notified. Statements are taken from the applicant and the employer as to the reason for separation, and DEW issues an eligibility determination. Either party who disagrees with the determination may initiate an appeal (see *Chapter 5*).

Continuing Eligibility

In order to continue receiving unemployment benefits, a claimant must contact DEW weekly by telephone or through DEW's online claim system and answer several questions:

- Did you work?
- Did you quit a job, or were you dismissed from a job since you filed your claim?
- Were you able to work, available for work, and looking for work as instructed by the claims office?

With the implementation of SCUBI in September 2017, claimants are required to respond to eleven additional questions. State law requires claimants to actively seek work. The minimum requirement for job contacts, as determined by DEW and approved by the General Assembly, is two job searches per week. Both job searches must be conducted through DEW's SC Works Online Services (SCWOS), which is an electronic portal for claimants to enter data related to benefit claims. Prior to May 26, 2017, four job searches per week were required, with at least one search being conducted through SCWOS. The job search requirements were stipulated in provisos issued by the General Assembly until the end of FY 16-17. However, as proposed by DEW, a change was made in Regulation 47-104 effective May 2017 requiring two job searches per week through SCWOS, so that the search can be electronically verified.

Reemployment Services

DEW focuses on providing a variety of employment-related labor exchange services, including, but not limited to, job search assistance, job referral, and placement assistance for job seekers, reemployment services to unemployment insurance claimants, and recruitment services to employers with job openings. Services are delivered in one of three modes:

- Self-assisted (in which the individual receives no staff assistance);
- Basic core services; or
- Intensive services.

Depending on the needs of the labor market, other services such as job seeker assessments of skill levels, abilities and aptitudes, career guidance, job search workshops, and referrals to training are available.

Employer Services

The services offered to employers, in addition to referral of job seekers to available job openings, include such things as working with employers to develop job opportunities, recruiting assistance, transitional assistance, and business tax credits. Additionally, employers have access to space at SC Works centers to conduct interviews and employment candidate screenings.

Computer Systems

Review of DEW's computer systems was not in the scope of our audit. However, DEW conducted walkthroughs in order for us to gain familiarity with their computer systems. The computer systems chosen for walkthroughs were:

SOUTHEAST CONSORTIUM UNEMPLOYMENT INSURANCE BENEFITS INITIATIVE (SCUBI)
New system implemented in September 2017 used to file unemployment claims, resolve appeals, and improve UI program quality, accountability, performance, and integrity.

STATE UNEMPLOYMENT INSURANCE TAX SYSTEM (SUITS)
New system implemented in March 2018 used by businesses to pay the business' unemployment tax.

SOUTH CAROLINA WORKS ONLINE SYSTEM (SCWOS)
Existing system used by claimants to find work and for employers to post jobs and find employees.

Claimants, businesses, and DEW employees all use SCUBI and SCWOS, while only businesses and DEW employees use SUITS.

Revenues, Expenditures, and Uncollectible Taxes

Revenues and Expenditures

Section 112 of Act 146 of 2010 requires that we provide a detailed accounting of the revenues and expenditures of the South Carolina Unemployment Insurance (UI) Trust Fund since 2000. Trust Fund taxes are used to pay for UI benefits to workers who qualified for unemployment in South Carolina. The UI Trust Fund (the Trust Fund) includes two components, which are set in state law.

BASE RATE
A charge to employers for payment of UI claims..

SOLVENCY SURCHARGE
A surcharge to pay off the federal Trust Fund loans while there was an outstanding loan balance. Once the loan balance was paid in full in June 2015, the surcharge has been applied to rebuilding the Trust Fund.

Table 2.1 summarizes the status of the Trust Fund and state unemployment rate from FY 13-14 through FY 17-18, while Table 2.2 shows the detailed financial history of the Trust Fund from FY 00-01 through FY 17-18.

Table 2.1: Status of the UI Trust Fund and Unemployment

Fiscal Year	UI Trust Fund Balance	Benefits Paid *	Average Annual Unemployment Rate in S.C. **
13-14	$54,858,638	$328,372,168	6.5%
14-15	$302,080,171	$216,457,413	6.0%
15-16	$567,908,686	$201,288,326	5.0%
16-17	$777,064,687	$195,228,061	4.3%
17-18	$963,056,453	$179,080,609	3.4%

* DEW did not provide information on the amount of benefits paid by reimbursable employers.

** Based on the calendar year using the month of June, the end of the fiscal year.

Sources: DEW and U.S. Bureau of Labor Statistics

For the $179 million in total benefit payments made in FY 17-18, we requested that DEW provide the amount of benefits paid from state taxes on contributory employers in the state and the amount attributable to reimbursable employers who pay the actual cost of benefits paid to their employees and are not a part of the contributory tax system. DEW did not respond to our request, but had been able to provide the necessary data during LAC's prior audit published in May 2014.

Table 2.2 reflects all activity of the Trust Fund since FY 00-01, including federal, state, other states, and local government revenue and benefits paid and is, therefore, not limited to just the S.C. state-funded components.

Table 2.2: Financial History of the UI Trust Fund

Fiscal Year	Contributions/ Revenue	Interest Earned	Adjustments*	Less: Benefits/Expense	Balance**	Loans***
00-01	---	---	---	---	$783,127,019	---
01-02	$375,147,580	$42,285,263	($7,646,875)	$526,885,659	$666,027,328	---
02-03	$371,048,320	$33,361,075	$30,302	$546,319,189	$524,147,836	---
03-04	$366,629,987	$23,411,433	$40,404	$493,549,031	$420,680,629	---
04-05	$313,147,518	$13,465,859	$4,303,918	$366,581,162	$385,016,762	---
05-06	$332,208,460	$13,718,890	$0	$364,828,359	$366,115,753	---
06-07	$338,470,410	$12,621,783	($604,927)	$389,823,906	$326,779,113	---
07-08	$341,698,171	$10,040,353	$0	$449,511,155	$229,006,482	---
08-09	$783,340,333	$2,326,473	$386,917	$1,332,327,180	($317,266,975)	$344,881,505
09-10	$1,583,830,508	$0	$0	$2,027,711,376	($761,147,843)	$541,780,847
10-11	$2,344,115,627	$0	$0	$2,171,063,209	($588,095,425)	$115,174,767
11-12**	$1,208,925,058	$0	$0	$1,059,341,778	($438,512,145)	---
12-13**	$852,370,532	$0	$0	$612,344,506	($198,486,119)	---
13-14	$592,597,473	$0	$10,880,548	$328,372,168	$54,858,638	---
14-15	$470,402,516	$745,382	$7,468,952	$216,457,413	$302,080,171	---
15-16	$446,794,448	$7,192,500	($13,129,893)	$201,288,326	$567,908,686	---
16-17	$394,228,932	$12,208,042	$2,052,912	$195,228,061	$777,064,687	---
17-18	$349,069,857	$16,935,578	$933,060	$179,080,609	$963,056,453	---

* Between-year adjustments consist of corrected balance forwards, immaterial transfers from the general fund, Reed Act proceeds, FUTA credit adjustments, and payments returned to the federal government.

** Includes General Assembly state budget appropriations of $146 million in FY 11-12 and $77 million in FY 12-13, which reduced taxes paid by contributory employers by 23% and 12%, respectively.

*** Loans were obtained from the federal government to pay unemployment benefits because the UI Trust Fund was underfunded by employer contributions.

Source: DEW's audited financial statements

During our review of revenues and expenditures from the audited financial statements for the Trust Fund for FY 16-17, we found the report recorded a weakness in accounting procedure. DEW management was not reviewing and reconciling the tax assessments receivable balance with the financial records throughout the year but was only making year-end adjustments. By not reviewing and reconciling the records on a monthly basis throughout the year, there is a greater chance the financial statements will be misstated.

Federal Loans

From late 2008 through early 2011, DEW obtained federal loans totaling approximately $1 billion to continue to provide unemployment benefits to claimants due to the high number of unemployment claims but has not received any federal loans since April 2011. Table 2.3 reflects the voluntary loan repayments beginning in 2011. The repayments have allowed the agency to avoid loss of the Federal Unemployment Tax Act (FUTA) tax credit since 2010 while continuing to maintain a sufficient balance to pay unemployment claims. DEW was obligated to repay the loans by S.C. Code §41-31-45(B), which states:

> For each calendar year during which the state Unemployment Insurance Trust Fund is in debt status, the department must estimate the amount of income necessary to pay benefits for that year, the amount of income necessary to avoid automatic FUTA credit reductions, and an amount of income necessary to repay all outstanding federal loans within five years. Additional estimates of interest costs shall be determined concurrently.

Early Repayment of Federal Loans

As of June 2015, all loans from the federal government had been repaid, earlier than the ending of the five-year repayment plan set by the General Assembly which became effective January 1, 2011, in S.C. Code §41-31-45(B). The loans were repaid in part through a one-time increase of $35.67 million in federal taxes for tax year 2010 due to South Carolina losing a portion of federal FUTA tax credit and DEW's voluntary payments to the federal government totaling $468.82 million made between 2011 and 2015. In the FY 15-16 audited financial statement report, DEW's management claimed that the voluntary loan repayments resulted in approximately $12.5 million in interest savings for the state because the loans were paid in full ahead of schedule. DEW provided us with recreated documents supporting the interest savings as a result of the early payments.

Table 2:3: UI Trust Fund Voluntary Loan Repayments

Date	Millions			Reason Per DEW *
	Paid	Due	Additional Paid	
09/15/11	$115.20	$0.00	$115.20	Voluntary Payment
11/07/11	68.70	68.20	0.50	FUTA Avoidance
08/20/12	106.50	102.90	3.60	FUTA Avoidance
05/31/13	144.02	140.00	4.02	FUTA Avoidance
10/09/13	75.00	0.00	75.00	Voluntary Payment
04/24/14	60.00	60.00	0.00	FUTA Avoidance
09/02/14	126.00	126.00	0.00	FUTA Avoidance
12/05/14	75.00	0.00	75.00	Voluntary Payment
03/26/15	75.00	0.00	75.00	Voluntary Payment
06/11/15	120.50	0.00	120.50	Voluntary Payment
TOTAL	$965.92	$497.10	$468.82	

* FUTA avoidance payments made prior to November 9 each year avoided loss of the FUTA 5.4% credit and saved interest costs. Additional amounts paid also led to an earlier loan payoff date.

Sources: DEW; LAC Calculations

Employers paid an interest surcharge during the years DEW had an outstanding federal loan balance which was required to be applied to the loan interest. Table 2.4 shows an example of what an employer would have to pay during calendar year 2014, including an interest surcharge, for the average tax contribution rate (rate class 12).

Table 2.4: Interest Surcharge, CY 2014

Rate Class 12	
Base Rate and Loan Repayment *	1.840%
Interest + Contingency **	0.156%
TOTAL Effective Rate	1.996%

* The base rate is the amount charged for paying unemployment claims (benefits), loan repayments, and any amount left over placed in the UI Trust Fund for solvency.

** DEW taxed employers 0.096% to pay interest on federal loans, contingency rate is always 0.060% (0.156% - 0.060% = 0.096%).

Source: 2014 Tax Rate Contribution Table

Although DEW claimed that the interest charges could not be paid using regular employer tax contributions, they could not provide us with the accounting records to show that it was paid from a separate fund other than the Trust Fund. DEW has stated that the Governor is required to submit a letter to the Secretary of Labor certifying that the interest payment was not from the Trust Fund.

Revenue

Revenue for the Trust Fund includes a number of different components.

Tax Revenue from Contributory Employers
This is the primary source of funds for the payment of state-funded benefits. Prior to January 1, 2011, when the tax system was changed and designed to have tax collections equal benefit payments plus funds required for solvency goals, there had been a significant difference between the amount of taxes collected from contributory employers and the amount of the benefits paid, with benefits exceeding taxes collected (see Chart 2.5). This resulted in the state borrowing money from the federal government in order to pay state UI benefits during the economic decline of the Great Recession.

Revenue from Reimbursable Employers
Governments and non-profit organizations can choose the option to reimburse the UI Trust Fund for the actual costs of benefits paid to their employees.

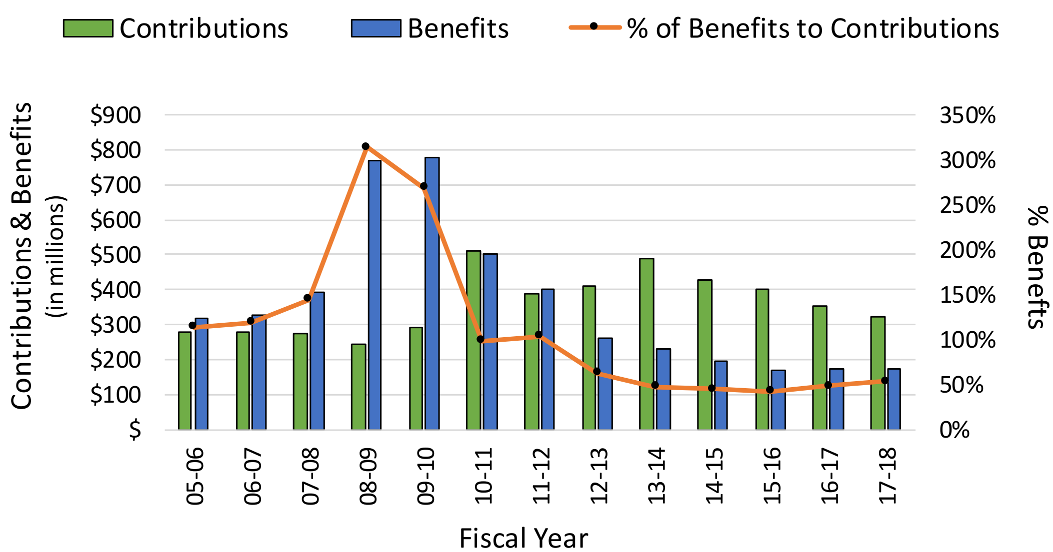
Interest Income from the United States Treasury
The Trust Fund was not eligible to earn interest when outstanding loan balances were owed to the federal government. During the last quarter of FY 14-15 after the loans were fully repaid, the UI Trust Fund began earning interest income from the United States Treasury.

Federal Unemployment Tax Act (FUTA) Tax Revenue
The state lost a portion of the FUTA tax credit in 2010 because it was unable to repay all of its federal loans (see FUTA Credit). This caused the federal UI tax on employers to be increased from 0.8%, the rate that year, (subsequently changed to 0.6%) to 1.1% and resulted in $35 million in additional revenue, which was used to pay down the federal loans for FY 10-11. However, since that time before the loans were fully repaid, the state had been able to pay enough on the loans each year to avoid loss of the FUTA tax credit, resulting in the FUTA tax rate reverting to 0.6%. The UI Trust Fund has had no outstanding loan balances since 2015.

Federal Revenue

The General Assembly appropriated $28.8 million in federal nonrecurring revenue for FY 15-16, $23.2 million for FY 16-17, and $23.3 million in FY 17-18 for the Southeast Consortium Unemployment Insurance Benefits Initiative (SCUBI) project. DEW primarily receives federal grant funding but must request spending authority from the state through the state's appropriations act for its federal, state, and other funds.

Chart 2.5: Unemployment Tax Contributions and UI Benefits Paid, FY 05-06–FY 17-18



Source: DEW report entitled "Management and UI Trust Fund Review"

Expenditures

Expenditures from the Trust Fund are made entirely from UI benefits paid to claimants. These benefits consist of:

Regular UI Benefits
This consists of the first 20 weeks of UI benefits, and these benefits are paid entirely by the state.

Federal Extensions of UI Benefits
The federal government provided additional benefits to claimants who exhausted the first 20 weeks of benefits through the Emergency Unemployment Compensation (EUC) program, a temporary federal program. This program last offered an additional 29 weeks of benefits that expired on December 31, 2013. These benefits were paid entirely by federal funds and had no impact on the balance of the UI Trust Fund.

Federal Benefits for Other Types of Claimants
Federal funds are also used to pay 100% of benefits for certain claimants, such as ex-federal employees, ex-service members, and workers who have lost their jobs due to disaster or foreign trade.

Treatment of Unpaid Unemployment Taxes

We reviewed DEW's process for designating unpaid taxes as uncollectible and found that the agency:

- Misstated the uncollectible tax amount for FY 13-14.
- DEW provided an aged accounts receivable report with its response to our draft report during the final days of the audit, but provided no documentation of procedures showing how it utilizes the report in its collection effort.
- Does not include a projection for uncollectible taxes when determining the tax rates for an upcoming year.

The FY 17-18 audit report of the unemployment compensation fund issued by the Office of the State Auditor (OSA) found incomplete records, improper computing of the allowance for doubtful (unlikely to be collected) accounts, and unrecognized revenue from the collection of bad debts. Audit reports issued by OSA prior to the FY 17-18 report did not find as many deficiencies (see *Reports Issued by Other Agencies*).

In FY 16-17, DEW reported uncollectible taxes of $36.6 million owed to the Trust Fund by employers. This was an increase over the prior year's $33.4 million, although tax rates had declined resulting in lower tax revenue from $446.8 million in FY 15-16 to $394.2 million in FY 16-17, a nearly 12% decrease. DEW indicated cost savings for employer tax rates of 13.9% between calendar years 2015 and 2016 and 9.1% between calendar years 2016 and 2017.

We reviewed the uncollectible tax amounts from FY 13-14 through FY 17-18, which are cumulative, and found that the amounts of uncollectible taxes and the amounts written off have fluctuated over the past few years, as shown in Table 2.6. The amount of taxes written off by DEW may have been less if the agency had implemented better collection efforts (see Chart 2.8).

We found unemployment rates *decreased* by:

- 48% (6.4% to 3.3%) from June 2014 to June 2018
- 16% (5.1% to 4.3%) from June 2016 to June 2017

From FY 15-16 to FY 16-17, uncollectible taxes *increased* by 10%, from $33.4 million to $36.6 million (see Table 2.6 and Chart 2.7).

Table 2.6: Allowance for Doubtful Accounts and Amounts Written Off as Uncollectible, FY 13-14–FY 17-18

Fiscal Year	Gross Taxes Receivable	Allowance for Doubtful Accounts	Uncollectible Taxes Written Off *	Unemployment Rate in June
13-14	$161,999,288	$36,955,064 ±	$3,834,066	6.4%
14-15	$162,233,383	$49,350,550 ±±	$4,226,967	6.0%
15-16	$145,808,939	$33,399,262 ±±±	$9,932,639	5.1%
16-17	$142,859,858	$36,613,827	$5,257,201	4.3%
17-18	$142,327,444	$29,373,688	**	3.3%

* Provided by DEW as amount is not listed separately in the audited financial statement report.

** DEW did not provide the FY 17-18 amount.

± DEW listed $12.8 million for allowance for doubtful accounts. During the FY 14-15 audit, the independent financial auditors discovered this was a mistake and corrected it to the proper amount of $37 million.

±± During FY 14-15, according to the independent financial auditors, a new method, recommended by USDOL, for calculating doubtful accounts resulted in an increase in the allowance by $1.8 million (included in the increase from FY 13-14). DEW was otherwise unable to provide information on the increase from $36.9 to $49.3 million. All benefit overpayment receivable balances over 451 days were deemed to be uncollectible without comparing to the prior year's amounts.

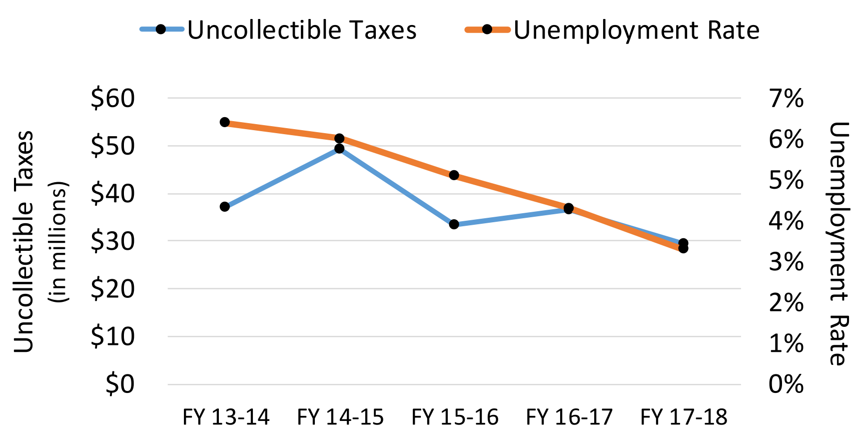
±±± During FY 16-17, the independent financial auditors made an adjustment decreasing the allowance for doubtful accounts. This was necessary because the auditors concluded that DEW did not previously estimate this amount in accordance with policy, which was to compute the allowance for uncollectible accounts based on previous collection history.

Sources: Audited Unemployment Compensation Fund Reports; USDOL; DEW

The audited financial statements for FY 14-15 indicate DEW changed its method of estimating its allowance for doubtful accounts to what USDOL recommended and DEW management considers a more accurate method. That method is to consider all taxes not collected as of 451 days from the time it was assessed as uncollectible. However, DEW recently indicated that it uses historical data to determine the allowance for doubtful accounts, which conflicts with the notes in the audited financial statements. It is unclear which method DEW has been using.

There was an adjustment to the allowance for doubtful accounts in FY 15-16, with the financial auditors restating it from $57.9 million to $33.4 million in the FY 16-17 audit of the unemployment compensation fund. The adjustment was necessary because DEW had not computed the allowance according to the Trust Fund's policy, which was to base the allowance on previous collection history for all outstanding account balances up to 24 months old.

Chart 2.7: Uncollectible Taxes and Unemployment Rates, FY 13-14–FY 17-18

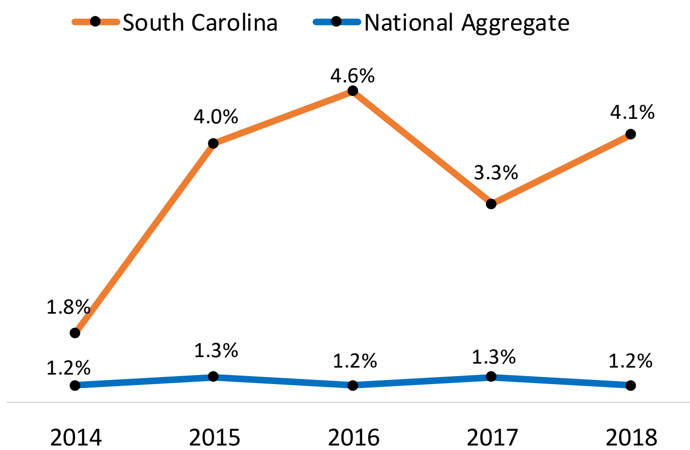


Sources: DEW's audited financial statements; USDOL

DEW's collection efforts have historically been ineffective as has been indicated in its internal audit reports, failing reviews for at least the past seven years (see *Taxpayer Services Reports*). Audit reports issued by OSA and LAC have recommended that DEW utilize subsidiary records on a regular basis to improve collection efforts. DEW's collection efforts were well below the national aggregate from calendars years 2014 through 2018, with DEW having a higher percentage of uncollectible receivables, as indicated in Chart 2.8.

In LAC's previous audit, we recommended DEW use an aged receivable report, a tracking and reporting system, to better identify and target tax debt before the amounts aged enough to lower the likelihood of collection. As debt ages, it becomes harder to collect. DEW provided an aged accounts receivable report attached to its response to our draft report. However, it is unclear how DEW uses the report in its collection effort because DEW provided no accompanying procedures or explanation on its use.

Chart 2.8: Percentage of Uncollectible Receivables, CY 2014–CY 2018



Source: USDOL

DEW attributed the increase in the amount of uncollectible taxes written off in FY 15-16 to the ending of the Emergency Unemployment Compensation (EUC) program and a legislative change in 2011 from a reserve ratio to a benefit ratio, which effectively increased taxes to rebuild the Trust Fund. DEW has provided no documentation to corroborate this. We found that DEW's explanation of the increase for the debt written off in FY 15-16 is inadequate for the following reasons:

- Federal funds were used to pay extended benefits through the EUC program. Therefore, those funds would not have been relevant to the collections and policies for the Trust Fund and would not be related to the tax write-off amount.
- Since CY 2011 when the tax system was changed from a reserve ratio to a benefit ratio, tax rates were highest in CY 2011, but stabilized in CYs 2013 and 2014. Those higher taxes likely resulted in higher uncollectible taxes in the years that followed. Therefore, it is reasonable to conclude that there were more uncollectible debts and write-offs as a result. However, DEW did not provide us with documentation supporting how much of the increase in write-offs of $4.2 million in FY 14-15 to $9.9 million in FY 15-16 were attributed to the increased taxes.

DEW reported it incurred no debt from uncollectible taxes and does not consider uncollectible taxes when setting the tax rate for each upcoming year.

According to the agency's audited financial statements, all assessments receivable over 24-months old are being classified as an allowance for uncollectible accounts. However, some receivables up to 10-years old, although classified as uncollectible accounts, could remain on the books as a receivable and the agency continues to pursue collection of them. The total net receivables as of June 30, 2018 amounted to $112,953,756. Although DEW is not permitted to continue collection efforts on a debt that has been written off, considering the large amount of uncollectible debt, more strategic collection efforts early on may decrease the amount of uncollectible taxes reaching the maximum collection period.

The FY 17-18 audit report of the unemployment compensation fund issued by the OSA reported findings (material weaknesses—the most severe deficiency) for, among other things:

- Incomplete accounting subsidiary records leading to the omission of significant balances due to employers. This condition exists because DEW's accounting department is not reconciling subsidiary ledgers to the general ledger on a timely basis. This led to the understatement of contributions payable and the overstatement of assessments revenue, requiring an audit adjustment of $4,279,264.
- Improper computing of the allowance for uncollectible accounts for assessments receivable and benefit overpayments by not ensuring it is based on historical collection rates and previous write-off history. This leads to the likelihood that the allowance is not accurately reflected as it more likely will include accounts that should not be deemed uncollectible and exclude accounts that should be deemed uncollectible.
- Unrecognized revenue from the collection of bad debts which had previously been written off, leading to the overstatement of the allowance for assessments receivable and the understatement of bad debt recovery revenues, requiring an audit adjustment of $5,265,761.

See also *Reports Issued by Other Agencies*.

These misstatements resulted in management receiving incorrect information during the year and could have affected management decisions regarding how much tax revenue was needed in the future tax. These misstatements could have resulted in management misallocation of resources deployed in collecting the tax. Additionally, more labor may have been needed to more aggressively collect the taxes due or some labor could have been directed to other agency activities rather than collecting the taxes.

DEW's employer tax debt policy states that debt under $150 is deemed uncollectible six months after a notice of assessment (NOA) is sent to the employer. A tax lien is issued at the time of the NOA for tax debt over $150 and the tax is deemed uncollectible six months after the issuance of the tax lien. While reviewing DEW's collection procedures, we found the procedures for employer tax debt refer to SCATS (South Carolina Automated Tax System), a computer system no longer used after the implementation of SUITS in March 2018. DEW acknowledged it is working to update the terminology and methodologies associated with the new system. Outdated procedures may contribute to the failure of collection efforts, leading to more debt being written off than would have been expected.

In addition to its own collection efforts, DEW utilizes collection agencies and programs that are used to offset debts using tax refunds (the Treasury's Offset Program and the Department of Revenue's State Offset Debt). DEW provided the S.C. Code sections related to its procedures for writing off uncollectible debt, but provided no internal policies relating to debt write-offs. By law, the time period before a debt can be written off varies by the type of debt involved, as indicated in Table 2.9

Table 2.9: Time Periods for Debt Write-Offs Based on S.C. Statutes

S.C. Code Section	Type of Debt Covered	Time Period before Write-off
§41-31-310	Tax assessments *not under* a legal judgment.	4 Years
§41-31-400 §15-39-20	Tax assessments *under* a legal judgment.	10 Years
§41-41-40(A)(5)	Unpaid UI benefit overpayments *not due* to fraud.	5 years
	Unpaid UI benefit overpayments *due* to fraud.	8 Years

Sources: S.C. Code and DEW

Recommendations

1. The S.C. Department of Employment and Workforce should reconcile assessments receivable subsidiary records to the financial records monthly to help ensure accurate financial reporting.

2. The S.C. Department of Employment and Workforce should maintain an updated subsidiary accounting ledger to reflect accurate balances due from employers.

3. The S.C. Department of Employment and Workforce should update its collection procedures to reflect the implementation of a new computer system for employer tax debt.

4. The S.C. Department of Employment and Workforce should ensure that it consistently uses its historical collection rates and write-off history to determine uncollectible debt.

5. The S.C. Department of Employment and Workforce should include revenue received from previously written-off debt as revenue in the year collected.

6. The S.C. Department of Employment and Workforce should analyze its tax receivable account each year for increases or decreases in order to determine if its collection efforts are effective and to identify deficiencies.

7. The S.C. Department of Employment and Workforce should use an aged accounts receivables report and review the balances routinely.

8. The S.C. Department of Employment and Workforce should include in its annual financial audit report the amount of uncollectible taxes written off during the year.

Contingency Assessment Funding

Section 112 of Act 146 of 2010 requires the LAC to evaluate the effectiveness of DEW's efforts in assisting claimants in returning to work. The contingency assessment, payable by employers in addition to the tax employers pay to fund unemployment claims, is, by law, to be used to assist in returning claimants to work and furthering the agency's reemployment goal.

We encountered significant delays in receiving financial documentation we requested in order to complete our audit. The *average* turnaround for financial documentation was 51 days from request to receipt (see *Scope Impairment*). Additionally, audited financial statement reports for FY 16-17 and FY 17-18 have not been released as of June 2019, making the earlier report more than 12 months later than it has been released in at least the past 10 years.

Overview

We reviewed contingency assessment revenues and expenses in order to determine the rate of growth of the funding and how funds were used. We reviewed DEW's compliance with proviso 83.5 that stipulated 30% of the contingency assessment funds collected was to be used for certain, specific DEW services aimed at reemployment of unemployed claimants, such as the Wagner-Peyser program. We found:

- Contingency assessment balance increased from $9.6 million in FY 12-13 to $26 million in FY 16-17.
- The contingency assessment per employee, paid by employers, has doubled from $4.20 in 2010 to $8.40 since 2015, its final increase required by law, leading to increased contingency assessment revenue.
- DEW did not provide documentation to show which reemployment services it funds with contingency assessment revenues.
- DEW no longer performs some of the reemployment services it conducted in the past, such as seated meetings with all claimants and random verification of job contacts. However, DEW continues to conduct seated meetings for RESEA participants, which represent a very small portion of the claimant pool.

- A portion of the revenue collected from the contingency assessment was spent on collecting the assessment.
- DEW could not demonstrate it was in compliance with the appropriations act provisos for FY 13-14 through FY 16-17 concerning how contingency assessment funds were to be spent.
- We requested documentation from DEW for the planned use of the contingency assessment funds for the next two fiscal years, but received no response.

Table 3.1: Contingency Assessment Revenue and Expenditures FY 12-13–FY 17-18

Fiscal Year	Contingency Assessment	
	Revenue	Expenditures
12-13	$9,940,949	$11,355,249
13-14	$9,982,526	$7,811,736
14-15	$13,852,135	$7,322,424
15-16	$12,651,389	$11,380,654
16-17	$14,868,691 *	$8,465,575 *
17-18	UTD **	UTD **

* Obtained from DEW since the audited financial statements have not been released by the contracted accounting firm, issued through the Office of the State Auditor (see *Reports Issued by Other Agencies).*

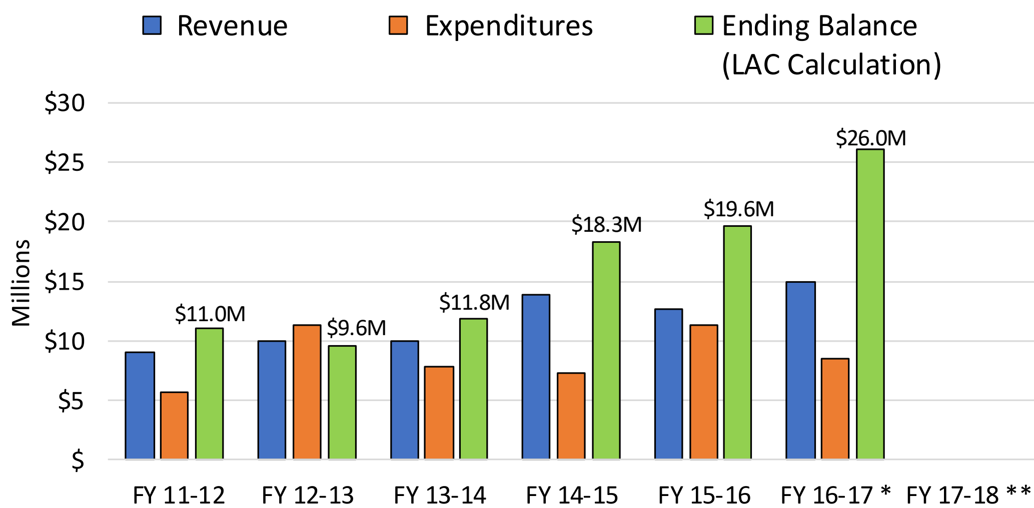
** UTD = unable to determine. Audited financial statements have not been released, and DEW did not respond to our requests for documentation.

Sources: Audited Financial Statements and DEW

Contingency Assessment Fund Balance

Contingency assessment revenue increased approximately 50% between FYs 12-13 and 16-17 (see Table 3.1). The contingency assessment balance increased from $9.6 million in FY 12-13 to $26 million in FY 16-17, as shown in Table 3.2. An independent consultant's report stated that the General Assembly could repurpose the funds if the balance grows too large (see *Reports from Other Agencies*).

Chart 3.2: Contingency Assessment Overview FY 12-13–FY 16-17



* Obtained from DEW since audited financial statements have not been released (see *Reports Issued by Other Agencies*).

** UTD = unable to determine. Audited financial statements have not been released, and DEW did not respond to our requests for documentation.

Sources: Audited Financial Statements and DEW

Contingency Assessment

S.C. Code §41-27-410 created the contingency assessment of 0.06% on the taxable wages paid by employers. The assessment is applied to the wages earned by employees each year up to the limit imposed by S.C. Code §41-27-380(B), the same taxable wage base as the Trust Fund, which was $14,000 in 2018. In 2015 the taxable wage base increased from $12,000 to $14,000, the maximum allowed by current law. Table 3.3 illustrates the impact of increased tax on employers as the contingency assessment per employee has doubled from $4.20 in 2010 to $8.40 since 2015, its final increase required by law, increasing the amount by 100%.

Table 3.3: Taxable Wage Base for Tax Years 2010–2018

Tax Year	Wage Base	Contingency Assessment Rate	Per Employee Total Assessment	Increase Over Base Year
2010	$7,000	0.06%	$4.20	-
2011	$10,000	0.06%	$6.00	$1.80
2012–2014	$12,000	0.06%	$7.20	$3.00
2015–2018	$14,000	0.06%	$8.40	$4.20

Sources: S.C. Code §§41-27-380(B) and 41-27-410; LAC Analysis

Use of Funds

Expenditures from the contingency assessment fund averaged $8.7 million per year, ranging from $7.3 million to $11.4 million for FY 13-14 through FY 16-17. We could not report FY 17-18 data, because the audited financial report has not been issued (see Table 3.1).

According to DEW officials during LAC's 2014 audit, the contingency assessment was initially implemented in 1986 to offset cuts in federal funds. S.C. Code §41-33-710(B) specifies that the funds are to be used to:

- Assist with the reemployment of unemployed workers.
- Undertake a program or activity that furthers the goal of the department.
- Supplement basic employment security services with special job search and claimant placement assistance.
- Provide employment services, such as recruitment, screening, and referrals.
- Provide otherwise unobtainable information and analysis to the Legislature and program managers about issues related to employment and unemployment.

We find the law to be very broad since nearly any expenditure would fit the description, "undertake a program or activity that furthers the goal of the department… ."

Per the law, the main purpose of the contingency assessment was to provide funds for programs and services designed to assist those needing help in obtaining employment. It appears that the funds spent were not for services and personnel *directly* related to reemployment but for other, unrelated expenses, including roof replacement, general maintenance, etc. The documentation the agency provided is not specific enough to determine whether the funds were used for reemployment services (see *Use of Funds*).

Contingency Assessment Expenditures

We obtained lists of contingency assessment expense transactions for FY 13-14 through FY 16-17 from FARS (Financial Accounting and Reporting system), DEW's accounting system. The total expense balances agreed to the totals listed on DEW's audited financial statement for the respective fiscal years. However, we could not verify the FY 16-17 total amount as the financial audit report has not been released by the Office of the State Auditor.

DEW initially provided the FARS expense transactions in hard copy form and, at a later date, in electronic format. We found the latter list of expenses had 31 more transactions than were on the hard copy list, although the total amount of expenditures agreed on both versions. This brings into question the accuracy of DEW's records. We requested DEW provide an explanation, but we received no response.

We requested DEW also provide us with the equivalent reports from the S.C. Enterprise Information System (SCEIS), state government's accounting system, which DEW is required to use. The SCEIS reports provided by DEW for contingency assessment expenses did not match the FARS expense amounts for any of the years, being less by as much as $5 million in FY 15-16. For FY 16-17, the difference between the FARS and SCEIS contingency assessment expense records was just over $1.2 million, with SCEIS showing less expense. We requested DEW provide a reconciliation to account for the differences in the two accounts, but no explanation or documentation was provided. Therefore, it is unclear whether DEW is actually keying all expense transactions into SCEIS, as it is into FARS.

Test of Expenditures

We selected a sample of contingency assessment expenditures for FY 16-17 to review for propriety and compliance with state law. We reviewed 44 expenditure transactions totaling $7,605,873.84 for FY 16-17 out of total expenditures of $8,465,575. We categorized the expenditures for analysis in Table 3.4 (see also Chart 3.5).

DEW did not provide responses to all of our requests for the year we selected for review. As a result, we found many of the expenditures appeared to be for a business purpose and might be related to reemployment services, but it is unclear. In many cases, we cannot be sure of the nature or purpose of the expense, as DEW did not provide the corroborating documents.

We intended to review expenditures for additional years, but DEW's slow response time to our requests impeded our efforts.

Table 3.4: LAC Analysis of Contingency Assessment Fund Expenditures for FY 16-17

<table>
<tr><th>Category</th><th>Amount</th><th>Description</th><th>Propriety of Expense (See Legend)</th></tr>
<tr><td>Building Maintenance</td><td>$471,147</td><td>Roof repairs, parking lot study, solar roller blinds, carpet.</td><td>U</td></tr>
<tr><td colspan="4">LAC Analysis: DEW spent $302,625 of contingency assessment funds on roof replacements at two workforce center buildings. Roof replacement fits the broad parameters for spending stipulations placed in the law—undertake a program or activity that furthers the goal of the department—which allows DEW to have flexibility. However, it is not clear if the General Assembly intended the contingency funds would be used in this manner, which is not directly related to putting people back to work. DEW receives federal funds that could be used for building maintenance, receiving $1,900,611 in FY 16-17 for such purposes.</td></tr>
<tr><td>Computer Equipment Lease</td><td>$162,193</td><td>Computers</td><td>LD</td></tr>
<tr><td colspan="4">LAC Analysis: Although DEW has a need for computers and the expense is generally considered to be a necessary business expense, no cost analysis was provided to us to show that leasing computers was more cost effective than purchasing them. Additionally, DEW did not provide details regarding where the computers are located and who uses them.</td></tr>
<tr><td>Employment Services</td><td>$258,382</td><td>Virtual OneStop maintenance and support.</td><td>L</td></tr>
<tr><td colspan="4">LAC Analysis: Appears to be an appropriate expense.</td></tr>
<tr><td>IT</td><td>$295,808</td><td>Computer software</td><td>L</td></tr>
<tr><td colspan="4">LAC Analysis: Appears to be an appropriate expense.</td></tr>
<tr><td>JAG Program *</td><td>$1,010,833</td><td>Jobs for America’s Graduates, a state-based non-profit organization run by DEW to provide assistance in helping the most at-risk students to remain in school.</td><td>LD</td></tr>
<tr><td colspan="4">LAC Analysis: Although DEW provided cost documentation from participating schools, it did not provide specific details, such as names of the JAG specialists. DEW stated the JAG program is audited by the financial coordinator on a continual basis. However, in response to our request for the most recent JAG audit, a 2016 report was provided by DEW that had not reviewed costs, but the program structure and outcomes. Although it appears to be an appropriate expense, more specific documentation would be needed to be certain.</td></tr>
<tr><td>Proviso</td><td>$4,200,970</td><td>Provisos were in effect through FY 16-17 stipulating that DEW spend 30% of contingency assessment funds on reemployment services, such as eligibility reviews.</td><td>I</td></tr>
<tr><td colspan="4">LAC Analysis: DEW internally transferred 30% of contingency assessment revenue to general expense, but did not separately track expenses paid with these funds and could not provide documentation for specific expenses. There is no accountability for how the 30% was spent and whether DEW’s efforts for putting people back to work were effective. DEW continues to transfer 30%, although the proviso was not in effect after FY 16-17. Without detailed, itemized documentation for the expense, we cannot determine the nature of the expense, or have any assurance it was spent on personnel engaged in putting people back to work. We encountered this same issue during our prior audit in 2014 and recommended that DEW track the specific expenses related to the services and discontinue the transfer. See below for more details on provisos (Provisos for Spending Restrictions of Contingency Assessment Funds).</td></tr>
</table>

* According to DEW, the agency currently provides grant funding for 15 schools and partial funding for 3 schools, but has operated in up to 28 schools since 2005.

Table 3.4: (continued)

CATEGORY	AMOUNT	DESCRIPTION	PROPRIETY OF EXPENSE (SEE LEGEND)
TEGL Adjustment	$1,498,363	Training and Employment Guidance Letter (TEGL) 6-05, issued by the U.S. Department of Labor.	L
LAC Analysis: TEGL 6-05 requires that costs to collect non-unemployment insurance taxes (contingency assessment) may not be paid from federal grant funds. See below (*Costs to Collect Contingency Assessment Tax*).			
Training	$47,542	Training on unemployment insurance-related procedures.	L
LAC Analysis: Training at DEW's Columbia office was for representatives from DEW, SC Works, and Department of Education ($21,160) and DEW employees on a separate occasion ($26,382). Appears to be an appropriate expense.			
Vehicle Purchase	$66,764	Purchase of three vehicles.	U
LAC Analysis: DEW paid $21,678 for a van and $45,086 for two pick-up trucks. DEW stated the van is used for postal and courier services and the trucks are used for building maintenance. Appears to be an appropriate expense, but it is unclear if the expense fits the intended purpose.			
Year-end Adjustment	($377,901)	End-of-year adjustment to the general ledger.	I
LAC Analysis: DEW stated a year-end adjustment of ($377,901) was made to balance the general ledger. The adjustment decreased expenses; therefore, there is minor audit concern. However, we inquired about the purpose of the adjustment, but DEW provided no other details for the adjustment. The FY 16-17 audited financial statements, which may have been able to provide more details for the adjustment, have not been released.			
Insurance Refund	($28,227)	Additional money received from the insurance company to pay for asbestos abatement found during repairs to the building after hurricane damage.	N/A
LAC Analysis: This was income received rather than an expense. DEW provided documentation for an insurance supplement of $24,328, which was approximately $4,000 less than reported in DEW's expense records, but provided no documentation for the discrepancy.			
Total	$7,605,874		

LEGEND

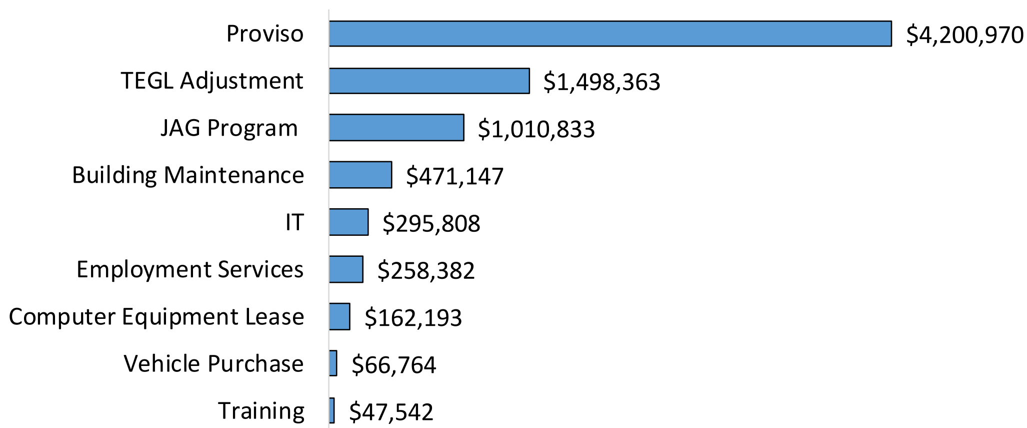
I – Insufficient documentation provided by DEW; we were unable to make a determination of the appropriateness.
L – Appears to be a legitimate business-use expense.
LD – Appears to be a legitimate business-use expense. However, without sufficient corroborating documentation, we cannot conclude with certainty the appropriateness of the expense.
U – Appears to be a legitimate expense, but it is unclear if the General Assembly intended contingency assessment funds to be used for this purpose.
N/A – Not applicable; money was received, not spent.

Sources: FARS, DEW, and LAC Analysis

In the sample reviewed above, we found a specific internal control issue. A DEW employee (A) signed another employee's name (B) on Employee B's signature title line on nine orders totaling $400,611 for workstations, computer equipment, building improvements, and two vehicles. Employee A wrote his own initials under the date. DEW explained that Employee A had signed on Employee B's behalf as denoted by the initials, but provided no explanation or policy to support that this practice was acceptable.

Although the purchases did not appear to be for personal use, this practice could be subject to abuse by not providing proper oversight over purchases.

Chart 3.5: FY 16-17 Contingency Assessment Expenditures Reviewed



Note: Transactions not shown include a year-end adjustment of ($377,901) and an insurance refund of $28,227. See additional explanations of expenditures in Table 3.4.

Source: LAC Analysis of Documentation Provided by DEW

Provisos for Spending Restrictions of Contingency Assessment Funds

There were provisos issued by the General Assembly from FY 11-12 through FY 16-17, which stipulated how DEW was to spend 30% of contingency assessment funds, listed in Table 3.6. DEW stated that, pursuant to S.C. Code §41-33-710, it has continued to transfer 30% of the contingency assessment revenue to be used for eligibility reviews, random verification of job contacts, wage cross matches, and seated meetings with UI claimants.

However, we found DEW no longer performs eligibility reviews for all claimants, and job searches are performed electronically in SCWOS. In 2013, DEW began offering unemployment services only through call centers, no longer assisting claimants in-person at a physical location.

Table 3.6: Provisos Relating to Agency Contingency Assessment Funds for FY 12-13–FY 18-19

Fiscal Year	Proviso Section	Instructions for Spending of Contingency Assessment
12-13	67.7	Thirty percent of the contingency assessment funds collected shall be spent for eligibility reviews, random verification of job contacts and wage cross matches, to ensure seated meetings with Unemployment Insurance claimants, and requiring that one of a claimant's four required weekly job search contacts be conducted through SC Works Online Services (SCWOS) so that it can be verified. The agency must also inform claimants in advance that eligibility reviews and random verification of job contacts will be used by the agency to verify compliance with law.
13-14	83.6	Same as in FY 12-13.
14-15	83.6	Same as in FY 12-13.
15-16	83.5	Same as in FY 12-13.
16-17	83.5	Same as FY 12-13 with the exception of job searches. It now reads: Job searches may be conducted and will be accepted if done by the applicant in person or through SC Works Online Services (SCWOS). Searches completed through SCWOS will be electronically verified through methods currently used by SCDEW. *
17-18	N/A	No proviso addressed the contingency assessment spending.
18-19	N/A	No proviso addressed the contingency assessment spending.

* Records indicate the Governor vetoed Proviso Section 83.5; the veto was not overridden by the General Assembly.

Sources: S.C. Code and State Appropriations Act Records

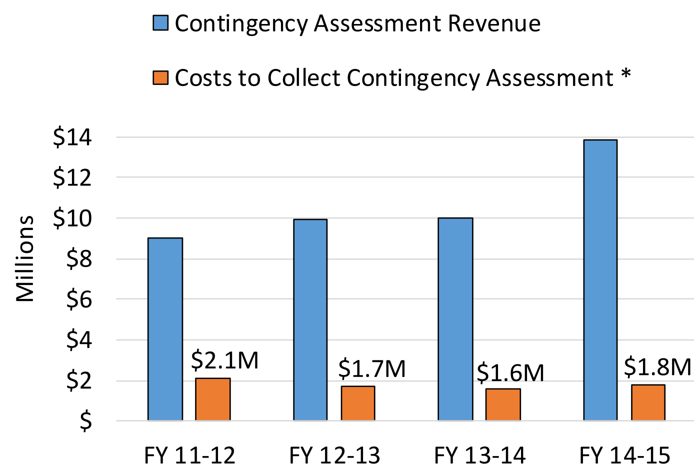
Costs to Collect Contingency Assessment

Federal guidance letter TEGL 6-05 (Training and Employment Guidance Letter), issued by USDOL, states that the federal government prohibits states from paying the costs of collecting non-unemployment compensation taxes from federal grant funds. The contingency assessment is a non-unemployment compensation tax; therefore, federal funds cannot be used to collect the tax.

DEW does not separate the costs of collecting the state unemployment insurance tax from the cost to collect the contingency assessment tax. Rather, DEW has developed a cost allocation plan to separate these costs in lieu of having the actual, direct costs. Currently, DEW's cost allocation plan to collect the contingency assessment is paid from contingency assessment revenue based on the percentage of computer bytes utilized by each function within FARS, the agency's accounting software. This plan has been approved by the USDOL. With the implementation of the State Unemployment Insurance Tax System (SUITS), DEW may need to reevaluate its methodology for the allocation of costs associated with the collection of the contingency assessment to determine if the methodology remains applicable.

A portion of the revenue collected from the contingency assessment is spent on collecting the tax, amounting to approximately $1.8 million in FY 14-15, as shown in Chart 3.7. Although costs to collect the contingency assessment were on the decline after FY 11-12, collection costs were on the rise in FY 14-15 and may have increased even more if we had been able to include more recent data in our analysis. However, DEW did not provide documentation for more recent years as we requested.

Chart 3.7: Costs to Collect Contingency Assessment for FY 11-12–FY 14-15



* DEW did not respond to our requests for cost data regarding FY 16-17 and FY 17-18.

Sources: Audited Financial Statements and DOL-Approved Indirect Cost Allocations

Planned Use of Contingency Assessment Funds

DEW did not respond to our request for the planned use of the contingency assessment funds for the next two fiscal years. Therefore, we referred to LAC's 2014 report to review how DEW had planned to spend its future contingency revenues. DEW's planned use of contingency assessment funds totaled approximately $25.7 million as indicated in Table 3.8.

Table 3.8: FY 13-14 Planned Contingency Expenditures

PLANNED EXPENDITURES *	MILLIONS
Collecting contingency assessment.	$4.0
Implement legislation regarding seasonal UI benefits.	1.5
Various capital improvements, miscellaneous items, and program enhancements designed to put people back to work.	9.6
UI activities as required by proviso 83.6 in the FY 13-14 appropriations act. **	6.6
Replace a cut in federal WIA funding.	4.0
TOTAL	$25.7

* DEW provided planned expenditures in its response to LAC's draft report, which indicates upgrades to the Harper Building (used for appeal activities, not reemployment activities, see *Use of Funds* for approved expenses) and for other office and grounds upgrades (see Appendix D).

** Proviso 83.6 is no longer applicable.

Source: DEW (as reported in LAC's 2014 report)

Also in LAC's 2014 report, DEW's comments indicate that DEW depended on contingency assessment funds to purchase a generator for the claims information technology center, preventing a major disruption in UI services. This expenditure could have been considered an emergency.

Options to Change Contingency Assessment Collection

A bill, H 3648, was introduced in the S.C. House of Representatives in February 2017 to review the contingency assessment to determine if it should be maintained, eliminated, or reduced. The bill was referred to the Committee on Labor, Commerce, and Industry and was carried over to the 2018 session without further action.

DEW has the option to recommend to the General Assembly a change in the way in which the contingency assessment is assessed, which could reduce the related revenue received by DEW and help to ensure the fund balance does not grow larger than the General Assembly may have intended.

By definition, the word contingency means an event (such as an emergency) that may, but is not certain, to occur. The contingency assessment fund could be utilized as an emergency fund to be used only for situations deemed to be an emergency as specified by the General Assembly.

Decreased contingency assessment would provide some tax relief to employers, which may be helpful to all employers, but especially those who may be struggling financially. The effect of taxes on the business community is unknown but could negatively affect business expansions, promotions, pay increases, and the hiring of new employees.

Potential Options to Reduce Contingency Assessment

Options to reduce and control growth of the contingency assessment funds include:

- Set the wage base to a different amount than the UI tax—back to $7,000 per year as it was from 1986 to 2010.
- Set the wage base to a different amount than the UI tax—back to $7,000 per year, the amount it was in 2010 and tie future increases to an economic index, such as the consumer price index (CPI), a measure of the average change over time in prices paid by urban consumers for a market basket of goods and services. This would help ensure the funding keeps pace with inflation.
- Set a low wage base, such as approximately $3,000 per year, in order to accumulate a small balance, and have some funds on hand as needed and request additional state funds from the Other Funds Oversight Committee as greater or emergency needs arise. The Other Funds Oversight Committee is a Joint Committee of the General Assembly that authorizes spending of Other Funds.

- Compare contingency assessment revenue growth with expense growth at the end of the fiscal year, and reduce the contingency assessment by the percentage that revenue exceeds expenses. This assumes the expenses are worthy and necessary.

- Eliminate the contingency assessment and request additional state funds from the Other Funds Oversight Committee as needs arise or are predicted to arise.

Use of Similar Funds in Other States

According to the USDOL Comparison of State Unemployment Insurance Law report, 21 states do not have a contingency assessment or similar administrative tax. It also shows that a few states with contingency assessments or similar administrative (non-UI) taxes have implemented restrictions to the tax collections based on certain criteria. For example:

- Mississippi suspends collection of the tax when the insured unemployment rate (based on the number of persons receiving unemployment insurance) is greater than 5.4% until the rate is less than 4.5%.
- Louisiana collects the tax when the Trust Fund balance is greater than $750 million.
- Washington terminates the tax if federal funding increases.
- Oregon collects the tax the 1st quarter of every odd-numbered year.

The USDOL publication that lists these assessments does not specify whether these funds are used for reemployment services. The number of states without such taxes has declined slightly since LAC’s 2014 report of DEW when 22 states did not have a contingency assessment or similar administrative tax.

Recommendations

9. The General Assembly should consider a method to reduce the growth of the contingency assessment fund balance.

10. The General Assembly should consider amending S.C. Code §41-33-710(B) to be more specific in the spending restrictions for the contingency assessment funds.

11. The S.C. Department of Employment and Workforce should establish and implement policies to strengthen internal controls over purchasing.

12. The S.C. Department of Employment and Workforce should use the statewide accounting system, SCEIS, for all of its financial reporting.

13. The S.C. Department of Employment and Workforce should reevaluate its cost methodology for the collection of the contingency assessment and submit a new cost proposal to the U.S. Department of Labor upon fully implementing tax and accounting systems.

14. The S.C. Department of Employment and Workforce should compute the costs to collect the contingency assessment for the years since FY 14-15 and, if costs are excessive, should evaluate reasons for the increase.

15. The S.C. Department of Employment and Workforce should discontinue transferring 30% of the contingency assessment revenue to its general expense fund, as the proviso spending restriction for that portion is no longer in effect.

16. The General Assembly should examine the contingency assessment to determine if the assessment should be maintained, eliminated, reduced, modified, or funded in another manner.

Chapter 3
Contingency Assessment Funding

Assessing Unemployment Insurance Trust Fund Solvency

Attaining Solvency

We reviewed the South Carolina unemployment insurance tax contributions set by DEW to determine whether the agency's plan for tax revenue, paid by employers, will allow it to comply with the legislative requirement of attaining solvency of the Trust Fund in a five-year period from calendar years 2016–2020. We also reviewed the tax tables to determine the proportionality of the tax rates and the method of tax setting, which is defined in the S.C. Code. Additionally, we compared South Carolina's zero tax bracket to other states to determine how many states currently have a zero tax bracket, the reasons for such a tax bracket, and the propriety of having a zero tax bracket.

We found:

- The tax rates appear to not be proportional from rate class 13 to rate class 20 (see *Current Laws and Proportionality of the Tax Structure* for discussion of rate classes). DEW cannot provide support for the relationship of the benefit ratio as to being in proportion to the tax in each rate class. Rate class 13 is the first significant disproportionate rate, and rate classes 14 through 19 are even more disproportionate when compared to the increases from rate classes 2 through 12. Rate class 20 is required to be 5.4% by state law.
- DEW did not explain how the General Assembly and Governor's Office provide their input to DEW to determine the Trust Fund rebuild amounts per year.
- South Carolina may have imposed unnecessarily high tax rates on employers in the early years during the five-year rebuild period without considering the effect of these rates on employers.
- Ninety-nine percent of the required tax revenue was collected in the first three years of the five-year Trust Fund rebuild period. The pace of the revenue collected was faster than necessary in order to attain Trust Fund solvency by 2020.
- DEW has one rate class, also referred to as a zero tax bracket, in which employers are not charged rates commensurate with the actual risk they present to the fund. There are 21 other states that have a zero tax bracket.

Current Laws Pertaining to Tax Structure

We found that, under South Carolina law, the tax rates charged employers by DEW may not be consistent throughout the rate classes 1 through 20. As of 2011, South Carolina implemented a 20-tier array tax structure in which there is a tax rate set for each tier. Rates are set based on estimates of:

- How much revenue must be levied and collected in order to pay unemployment benefits (the base tax rate); and
- How much revenue is necessary to replenish the Trust Fund reserve balance to a desired level (the solvency surcharge).

DEW could not provide us with information as to whether the tax rates paid are disproportionately higher to one another, relative to the amount of benefits and solvency rebuild paid in each class. Those employers with higher benefit ratios are placed in higher rate classes because their claims payouts have been greater in the past. Therefore, employers in higher rate classes pose more risk for higher UI claims payout in the future, which leads to a higher tax rate.

We found that tax rates are set relatively proportional to one another from classes 2 to 12. Table 4.1 demonstrates these rate classes are approximate 10% to 12% higher than the one before it. Beginning with rate class 13, we see the first rate class that is more than relatively proportional to the class before it. Rate class 13, by law, is increased by 20% of the previous tax rate, rate class 12.

Rate classes 14 through 19 are more disproportionate than rate class 13. This is because rate class 19 is set at a higher rate than rate class 20, which is never less than 5.4%. Rate classes 14 through 18 are all 90% of the following rate class, beginning with rate class 18 being set at 90% of rate class 19. Rate class 17 is 90% of rate class 18, etc.

- It is unknown whether employers are paying more tax than what is necessary to cover paying unemployment claims for their employees.
- It is likewise unknown whether the solvency tax is set at a rate that reflects the relative risk these rate class employers pose to solvency in the event of a future recession or if the solvency tax and resulting revenue is enough to cover their fair share of rebuilding the Trust Fund—disproportionately higher than the other classes, given their risk factor.

This lack of clarity is because DEW could not provide us with unemployment claims paid, by rate class. Without claims paid by rate class, we could not complete an analysis to determine the proportionality of the taxes paid by the higher rate classes. We also could not determine if employers in certain rate classes should continue to contribute at the same rate to pay claims and replenish the Trust Fund.

It would be beneficial for DEW to collect and keep track of this data to ensure equity between rate classes, that is, to determine whether certain rate classes are being disproportionally taxed in relation to their benefit payout and solvency contribution.

If South Carolina is disproportionately taxing employers in the higher tax rate classes, it could have had, and may continue to have, an adverse effect on these employers. This could result in reduced capital available to employers to provide raises, expand operations, retain employees, etc. Increasing the number of rate classes may eliminate significant rate increases between classes.

DEW has not reviewed the tax rates to determine if the tax structure is equitable; therefore, it could not make recommendations to the General Assembly regarding possible changes. Establishing a more equitable tax structure may prevent businesses from being taxed more than necessary. This may allow for all businesses to pay a fairer share of unemployment taxes.

Table 4.1 illustrates:

- Tax rates for each rate class in CY 2018.
- Percentage increase between lower tax rate classes 2–12 reflect relatively proportional increases to one another of between 10% and 12%.
- Tax rate increases in the higher rate classes when compared to rate class 13 (e.g. the percent increase between rate class 13 and 14 is 76%).
- Tax rates for rate classes 15 through 20 range from 95% to 339% more than the tax rate for rate class 13.
- A hypothetical scenario of the maximum amount an employer will pay for each employee per rate class, given that the employee is making at least $14,000 per year, the maximum amount of wages subject to unemployment tax.

See *Appendix B* for a complete table of the tax rates for years 2004–2018.

Table 4.1: 2018 Tax Analysis—Proportionality of Rate Classes

Rate Class	Tax Rate	% Tax Rate Increase Between Rate Classes	Compare Tax Rate to Rate Class 13	Scenario Based on Employee Making at Least $14,000 Per Year
1	0%	N/A*	---	$0
2	0.360%	N/A**	---	$ 50.40
3	0.400%	11%	---	$ 56.00
4	0.440%	10%	---	$ 61.60
5	0.490%	11%	---	$ 68.60
6	0.551%	12%	---	$ 77.14
7	0.610%	11%	---	$ 85.40
8	0.670%	10%	---	$ 93.80
9	0.750%	12%	---	$105.00
10	0.830%	11%	---	$116.20
11	0.930%	12%	---	$130.20
12	1.030%	11%	---	$144.20
13 ±	1.230%	19%	---	$172.20
14	2.160%	76%	76%	$302.40
15	2.400%	11%	95%	$336.00
16	2.660%	11%	116%	$372.40
17	2.960%	11%	141%	$414.40
18	3.290%	11%	167%	$460.60
19	3.650%	11%	197%	$511.00
20	5.400%	48%	339%	$756.00

* Since this is the first rate class, there is no previous class for comparison.

** Since rate class 1 is zero, the percentage increase between rate classes 1 and 2 cannot be quantified.

± S.C. Code §41-31-50(2)(b)(iv) requires rate class 13 to be set at 120% of rate class 12. In this year, this reflects a 19% increase over rate class 12.

Sources: DEW 2018 Tax Rate Contribution Table; LAC Calculations

Loan Repayments, Trust Fund Solvency, and Trust Fund Rebuild

According to state regulation, the Trust Fund goal was to achieve solvency within a five-year period, between 2016–2020. Calendar year 2016 was the first year that a solvency surcharge was levied on employers for rebuilding the Trust Fund. According to USDOL, "…planning to rebuild the Trust Fund in no more than 5 years is probably a prudent amount of time," because the average interval between the 12 recessions since 1945 has been 5 years.

In June 2015, South Carolina repaid its federal Trust Fund loan and began to rebuild the Trust Fund ahead of schedule to ensure the rebuild was met within the timeframe set by law and regulation. The 2015 tax rates were set in 2014 for loan repayments and benefits. Funds remaining after benefits and loans were paid were used to rebuild the Trust Fund. The solvency surcharge is imposed on contributory employers in each year that the Trust Fund is insolvent and does not meet the fund adequacy target. Only employers in rate class 1 are not required to pay the solvency surcharge.

Table 4.2 depicts the historical projected and actual benefit and solvency surcharge amounts, along with the total taxes collected and benefits paid, by calendar year from 2014–2019. DEW sets the tax rates for each component of the Trust Fund separately.

DEW must annually calculate the income necessary to pay benefits and reach the Trust Fund adequacy target for the unemployment Trust Fund to pay for unemployment claims during the next recession, as depicted in Table 4.2. According to a DEW official, the agency obtains taxable wage data for the most recently completed year from its tax database and compares that amount to its prior tax year estimate. The agency then considers that in the determination of income necessary for the next tax year. DEW also obtains unemployment rate estimates from the Congressional Budget Office (CBO) and guidance on using historical wage growth from USDOL's financial handbook. These data are used to determine the projected benefit (base rate) cost per year for South Carolina.

According to a DEW official, the General Assembly and Governor's Office staff have input in setting the Trust Fund rebuild plan amount. However, DEW did not provide the rationale behind how the General Assembly and Governor's staff make recommendations and contribute in determining this amount.

Table 4.2: Benefits and Solvency Rebuild Contributions Needed—Projected and Actual

Rate Year (CY)	Millions			
	Estimated Contributions Projected		Actual Contributions by CY	
	Benefits	Trust Fund Rebuild/ Solvency	Base and Rebuild Collected	Benefits Paid
2019	$205	$58	Not Available*	Not Available*
2018	$185	$130	Not Available*	$133 **
2017	$220	$120	$338	$177
2016	$192	$142	$334	$182
2015	$223	$180 ***	$397	$184
2014	$290	$170 ***	$429	$206

* DEW stated that both of these figures will not be available until the release of the FY 18-19 and FY 19-20 annual Trust Fund assessment reports in October of each year.

** Benefits paid as of October 2018.

*** In 2014 and 2015, there was a surcharge to repay outstanding federal loans. This surcharge was in effect until 2016, when the loan repayment surcharge was converted to a solvency surcharge to replenish the Trust Fund.

Sources: DEW Tax Rate Source Documentation and DEW Annual Trust Fund Assessment Reports

The level of rebuild is set by S.C. Regulation 47-501, and is defined in terms of an Average High Cost Multiple (AHCM) of 1.0, which indicates that a state has reserves equivalent to one year of average recession level benefits. This level should be sufficient to fund benefits during a "moderate" recession for one year. For South Carolina's Trust Fund, that amount is projected to be $965,300,000 in 2020 (see Table 4.3).

In a 1996 report, the Advisory Council on Unemployment Compensation (ACUC) recommended the AHCM as the measure of the solvency level of the UI Trust Fund. The ACUC was established by federal law and was responsible for evaluating the unemployment compensation programs and making recommendations for improvement.

The ACUC recommended that state UI trust funds be maintained at a level equal to an AHCM of 1.0. The USDOL has adopted and agreed with the ACUC's recommendation. In 2010, a subcommittee of the House Ways and Means Committee asked the Lucas Group, a government solutions consulting firm, to review the South Carolina unemployment insurance system and address the ways to restore the Unemployment Insurance Trust Fund to solvency. The Lucas Group agreed with both ACUC's and USDOL's recommendation of an AHCM of 1.0. Lucas Group and USDOL generally advocate for a rebuild within a five-year period.

If the desired amount is not accumulated in the Trust Fund when the next recession hits, then the state will be required to find money to pay benefits once the Trust Fund is exhausted or if the recession is of longer duration or more severe than a moderate recession. Other funding will likely be required to pay unemployment benefits.

According to DEW, in order to minimize interest costs, DEW made loan repayments to the federal government as aggressively as possible in order to avoid a loss of the Federal Unemployment Tax Act (FUTA) credit, and to pay off the loans quicker, while balancing the need to lower taxes. Once the loan was repaid, leftover tax collections from the 2015 tax rates contributed to the rebuild. The official rebuild period began in 2016 with a balance of $307 million and will continue through 2020.

In 2017, for that year's tax rate, DEW received legislative feedback that advocated for a faster rebuild process and agreed with DEW's benefit projection option that added $20 million to the Trust Fund rebuild, and still maintained an average tax cut of 12%. However, legislative involvement in the rebuild process is not required by state law.

Trust Fund Solvency Rate of Rebuild

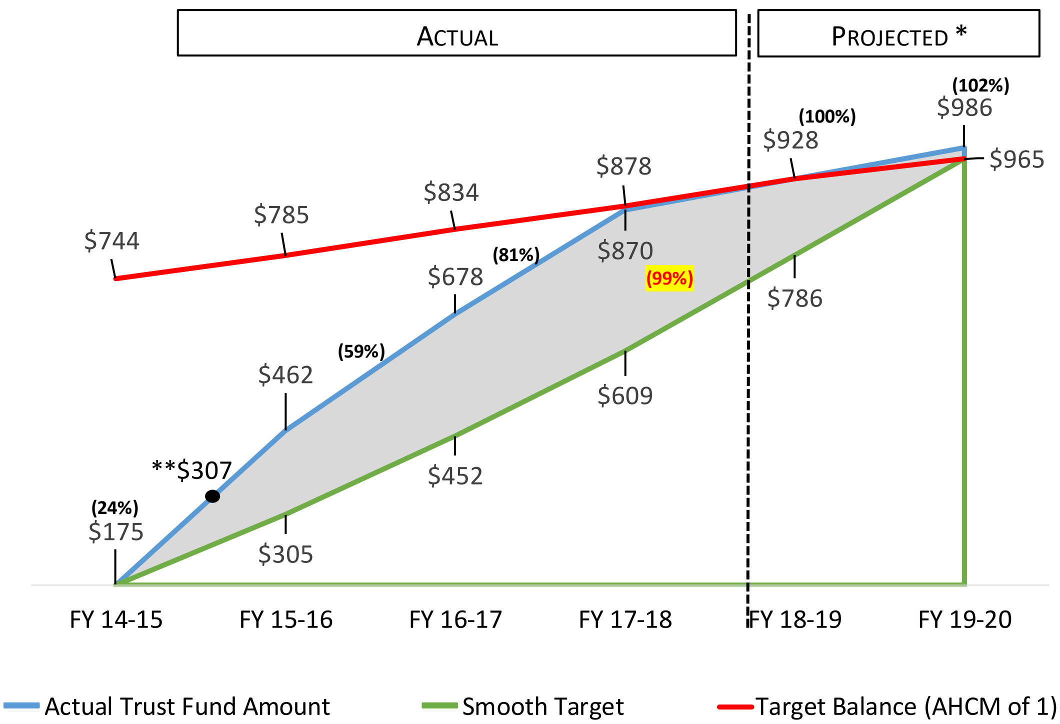
DEW did not implement a "smoothed," or evenly graduated, solvency plan and has been ahead of schedule in replenishing the Trust Fund, more than necessary. Once the federal loans were paid off in 2015 using the funds from the Trust Fund surcharge, the proceeds were converted to replenishing the Trust Fund before the plan to start the rebuild in 2016.

The lack of a smoothed solvency method resulted in an overly-robust tax rate for employers, who may have been charged more than necessary. Ninety-nine percent (99%) of the required tax revenue was collected in the first three years of the five-year Trust Fund rebuild.

While the law does not require that a smoothed solvency method to raise enough revenue to replenish the Trust Fund within five years, USDOL recommends rebuilding the Trust Fund in no more than five years. Collecting the majority of the Trust Fund balance necessary during the first three years may negatively affect some businesses. Some businesses may operate on thin profit margins, and extra taxes placed on them during certain years may have affected whether they continue to stay in business, or experience other adverse effects such as the inability to expand their operations, give raises, purchase equipment, etc. DEW and other state agencies do not track employers who went out of business during this time and the reasons why.

Chart 4.3 depicts the actual versus smoothed Trust Fund amounts as of June of each year, the year-to-year Trust Fund increase, and solvency levels between FY 14-15 to FY 19-20. We chose to measure at the end of June each year because this conforms to DEW's annual Trust Fund assessment reports, which are based on the fiscal year.

Chart 4.3: Actual Versus Smoothed Trust Fund Amount and Target Balance by Fiscal Year (in millions)



The Trust Fund balance in this chart is based on the federal TreasuryDirect.gov figures, which uses a cash method of accounting. We used these source balances because DEW uses this source in calculating Trust Fund solvency levels in their Trust Fund Annual Assessment reports. DEW's audited financials, created using the accrual method of accounting, lists a balance of approximately $963 million at fiscal year-end June 2018. DEW appears to be understating the solvency status using this method.

Each number on the Smoothed Target line represents an annual increase in the solvency level by 15.3%. DEW began the rebuild period with a leftover balance from the loan repayment surcharge of $175 million (approximately 24% of the AHCM solvency level). Thus, a 15.3% increase in solvency level over the next five years would be needed to reach the target solvency level of 100%.

AHCM (Average High Cost Multiple) of 1.0 is the amount of Trust Fund reserves that would be required to withstand a "moderate" recession. The target balance increases as projected wages increase. Wage increases bring a potential commensurate increase in unemployment benefits.

* 2019 and 2020 are projections.

** This represents the Trust Fund balance at the beginning of the regulatory rebuild period in January 2016.

Sources: TreasuryDirect.gov; USDOL's 2016 State Unemployment Insurance Trust Fund Solvency Report; DEW Trust Fund reporting; LAC Calculations

Table 4.4 also shows how much more in taxes DEW collected during the actual rebuild period, which was accomplished in an accelerated manner compared to the amount in taxes that could have been collected under the smoothed method of Trust Fund rebuild. In the smoothed solvency scenario, employers would have been taxed less during the early years of the Trust Fund rebuild.

Table 4.4: Trust Fund Solvency Rebuild—Actual Taxes Collected Compared to Taxes that Would Have Been Levied for a Smoothed Trust Fund Rebuild

Tax Method	Millions		
	FY 15-16	FY 16-17	FY 17-18
Amount Collected in Accelerated Taxes	$286	$217	$192
Amount Collected in Smoothed Taxes	$130	$147	$158
Increase Over Smoothed Amount	$157	$70	$34

Sources: DEW and USDOL Trust Fund reporting, TreasuryDirect.gov, LAC Calculations

In June of 2015, DEW could have recognized that it was ahead of schedule in replenishing the Trust Fund and could have adjusted the 2016 taxes accordingly, since those tax notices were sent in November of 2015. Although the taxes have decreased, implementing a smoothed path toward solvency could have allowed for lower taxes in the earlier years of the rebuild, even more than in Table 4.5.

Table 4.5: Tax Cost Changes

Calendar Year	Tax Cost Change Between Years
2019	-17%
2018	-9%
2017	-9%
2016	-14%
2015	-10%
2014	Base Calculation*

* 2014 is the base calculation, as it is the first year that compares the amount of cost savings from 2014 and 2015.

Sources: DEW Contribution Tables and LAC Calculations

Table 4.6 shows that, in 2018, South Carolina contributes more to the Trust Fund rebuild per dollar compared to Georgia and the national average while North Carolina contributes the most.

Table 4.6: 2018 Amount of Benefits and Trust Fund Rebuild Paid for Every $1 Collected

	Benefits	Trust Fund Rebuild
South Carolina	43¢	57¢
North Carolina	39¢	61¢
Georgia	49¢	51¢
National Average	91¢	9¢

Source: USDOL

As of June 30, 2018, the Trust Fund balance equaled approximately $870,154,660, with an AHCM of 99%. At this rate, the Trust Fund only has to collect $95.1 million to reach its target AHCM of 1.0 (which is equivalent to $965,300,000). This shows that the Trust Fund was replenished faster than necessary.

Under the "smoothed" solvency approach, Trust Fund solvency levels could have increased by approximately 15.3 percentage points each year, in order to replenish the Trust Fund and reach an AHCM of 1.0 by 2020, instead of increasing the Trust Fund solvency level by approximately 35.2, 22.5, and 17.8 percentage points for 2016–2018, respectively.

Alternate Smoothed Solvency Method

DEW could have implemented another method, not depicted on the chart, by collecting 20% each year of the balance needed to reach solvency by 2020. Since DEW had already accumulated approximately $307 million in the Trust Fund as of January 1, 2016, DEW could have collected $131,660,000 each year for five years, resulting in the target balance of approximately $965 million. Therefore, taxes would have been lower in the first three years of collecting the solvency tax.

Placing Employers into Rate Classes in South Carolina

State law defines how the tax rates are structured and how employers are placed into rate classes. Annually, DEW must calculate a contribution rate based upon each qualified employer's experience rating, expressed as a benefit ratio. An experience rating is determined based on the amount of unemployment claims that an employer has. Employers in rate classes 13–20 have more experience, or greater unemployment claims.

State law requires that each employer's base rate for the 12 months commencing January 1 of any calendar year be determined on the basis of its record up through June 30 of the preceding calendar year. New employers without 12 consecutive months of coverage after becoming liable for contributions are placed in rate class 12. After the employer completes 12 months of coverage, its base rate is then computed based upon its record of unemployment (as are all other existing employers) and is placed in the rate class category according to the calculated benefit ratio, for the next tax cycle.

The benefit ratio is used to determine into which tax rate class the employer will be grouped, along with other employers with similar benefit ratios. The S.C. Code §41-31-5(1)(b) calculates a benefit ratio as:

$$\text{Benefit Ratio} = \frac{\text{Sum of all benefits charged to an employer during the 12 calendar quarters immediately preceding calculation date.}}{\text{Sum of employers taxable payroll for same period.}}$$

To determine an employer's *benefit ratio* rank, DEW must list all employers from lowest to highest benefit ratios and divide the list into classes ranked 1 through 20 as provided by law in S.C. Code §41-31-50.

All businesses with the same benefit ratio must be assigned to the same rate class. Approximately 5% of the total taxable wages are placed into each rate class, excluding employers with less than 12 months of accomplished liability. The businesses with a benefit ratio of zero are assigned to rate class 1, which makes this rate class account for a greater amount of taxable wages, and the remaining taxable wages are distributed as evenly as possible among the other 19 rate classes, given the restriction that employers with identical benefit ratios are assigned to the same rate class. This accounts for approximately 23% of taxable wages classified in rate class 1 and approximately 4% of taxable wages placed in the other 19 rate classes in 2018.

Placement of New Employers in Rate Class 12

DEW has not documented the rationale as to why new employers are placed in rate class 12. According to a DEW official, the General Assembly was responsible for deciding that rate class 12 would be where new employers are placed after listening to testimony from multiple stakeholders, including businessmen, claimant advocates, and state agencies.

Table 4.7 depicts South Carolina's increase in the taxable wage base, which is the amount of each worker's wages subject to unemployment insurance taxation, from 2012 to current. In 2015, the taxable wage base increased $2,000, from $12,000 to $14,000.

Table 4.7: Taxable Wage Base

Taxable Wage Base	Effective Date
$10,000	January 1, 2011
$12,000	January 1, 2012
$14,000	January 1, 2015

Sources: S.C. Code §41-27-380(B) and LAC DEW 2012 Audit Report

How Tax Rates Are Set By Law

S.C. Code §41-31-50 explains how rate classes are determined. Table 4.2 depicts the amount of revenue, or taxes, raised each fiscal year from FY 14-15 through FY 17-18.

Table 4.8: Formulas to Calculate Tax Rate Classes

TAX RATE CLASS	FORMULA
1	Rate class 1 is zero
2 – 11	90% of the rate for the succeeding class
12*	(20 x average tax rate computed to pay the total amount of benefits and reach the solvency target) — 5.4% ÷ 19
13**	120% of the rate calculated for rate class 12
19	Allows for average contributions, beginning with class 18 and ending with 14, that are equal to 90% of the preceding rate class
20	Must be at least 5.4%

* Calculation example:
Required Revenue = $315 million
$315 million ÷ Taxable Wages = $25,263,075,481
Multiply Average Statewide Tax Rate of 1.25% x 20 = 0.25
Subtract 0.25 – 0.054 ÷19 = 1.03% (base rate for rate class 12)

** Most disproportionate tax rate class.

Sources: DEW Tax Rate Calculations and S.C. Code of Laws

Tax rates are calculated based on anticipated revenue for the following year. DEW generally sends out tax notices in November to employers for the next year.

Meeting Trust Fund Solvency by 2020

Comparing South Carolina to Other States

To provide information to the General Assembly, we compared South Carolina's tax rate structure to seven other states that annually calculate tax rates and use a benefit ratio method to place employers.

We found:

- Five of the states have zero tax brackets, including South Carolina.
- The taxable wage base varies from as low as $9,000 in Texas and Michigan to as high as $49,800 in Washington.
- Three states, including South Carolina, Vermont, and Washington, have tax rate tables and rate class tiers.
- In South Carolina, new employers are placed in rate class 12 (the average tax rate), whereas in other states, employers pay a specific rate or are assigned a predetermined tax rate based on their industry.
- The amount of time it takes for employers to become "experienced" varies from one to four years.

Table 4.9: Tax Comparison to Other States

State	Zero Tax Bracket * Economic Schedule		Taxable Wage Base	Number of		New Employer Placement ***	Time It Takes for Employers to Become "Experienced"
	Favorable	Least Favorable		Tax Rate Tables	Tax Rates		
SC	Yes	Yes	$14,000	1	20	Rate class 12. The total Trust Fund tax rate is 0.81% x $14,000 taxable wage base, which is equivalent to a maximum cost per employee of $113.40. The total effective rate, including the contingency assessment, is 0.87% x $14,000 taxable wage base, which is equivalent to a maximum cost per employee of $121.80.	1 year
CT	No	No	$15,000	Formula ***		Pay a rate of 3.4%	At least 1 full fiscal year ending the preceding June 30.
MI	Yes	Yes	$9,000	Formula **		Pay a rate of 2.7% for the first year of liability	2 years
NM	No	No	$24,800	Formula ***		Pay a rate of 1%, or a rate that is the greater of the employer's industry average Unemployment Insurance Contribution Rate	2 years
TX	Yes	Yes	$9,000	Formula ***		Employers begin with a predetermined tax rate set by the Texas Unemployment Compensation Act (TUCA); the North American Industry Classification System (NAICS) assigns an average tax rate for each industry; Texas law sets an employer's tax rate at his/her NAICS industry average, or 2.7%, whichever is higher.	After the completion of the employer's first four chargeable quarters and any interim tax rate period.
VT	No	No	$15,600	5 *	21	Pay a rate of 1%	At least 2 years
WA	Yes	Yes	$49,800	1	40	Assigned a rate based on the employer's industry. For 2019, new employers will pay 90% of the average rate for all businesses in their respective industries.	Experience rating is based on an average of the employer's layoff history over the past 4 fiscal years.
WY	Yes	Yes	$25,400	Formula***		Pay UI taxes based on the average tax rate of their corresponding industry.	3 Years

* In VT, the highest tax rate schedule applies when the economy is the least favorable.

** MI uses a flat rate of 2.7% to place new employers for the first 2 years of liability.
The 3rd year of liability formula is calculated by adding 1/3 of the Chargeable Benefits Component (CBC) + 1.8%. The 4th year of liability formula is calculated by adding 2/3 of the CBC + 1%. For the 5th year and beyond, the liability formula is calculated by adding the CBC + ABC (Account Building Component) + NBC (Nonchargeable Benefits Component).

CBC = 60 months of benefits paid/60 months of taxable payroll
ABC = (required reserve)-(actual reserve) x 0.5/total payroll for 12 months ending last June 30
NBC = 1% for all contributing employers, but can be as low as 0.1% for employers with no benefit charges against their account in 9 years.

*** The remaining states without formal tax tables and rate tiers have their own variation of tax rate formulas use to place employers.

Sources: USDOL's 2018 *Comparison of State Unemployment Insurance Laws*; state unemployment insurance departments' current tax structure

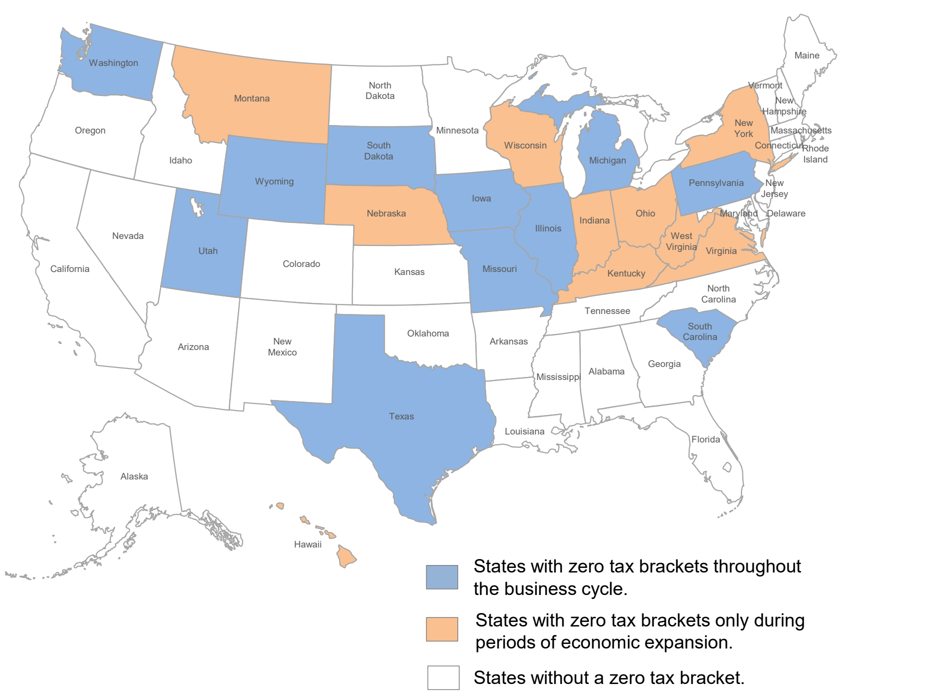
Zero Tax Bracket for the Unemployment Insurance Trust Fund

The zero tax bracket refers to the lowest tax rate class, in which employers are categorized and do not pay Trust Fund taxes. The zero tax bracket is also referred to as *rate class 1* and is the lowest rate class for the Trust Fund unemployment insurance tax. In South Carolina, rate class 1 employers do not contribute toward unemployment insurance, including benefits and solvency surcharge, as designed by law. Independent of the unemployment insurance tax, all employers in every rate class are subject to a contingency assessment tax of 0.06%, which is added to the base rate and solvency surcharge to fund DEW operations. The maximum cost per employee in rate class 1 is $8.40, the tax on one employee with wages of $14,000 or more annually (see *Chapter 6*).

We found that the zero tax bracket is not implemented in the majority of the states. According to the 2018 Comparison of State Unemployment Insurance Laws, published annually by USDOL, less than half of the states have a zero tax bracket in their tax structure. Twenty-one states have a zero tax bracket during periods of economic expansion, whereas eleven of those states have a zero tax bracket throughout the business cycle.

Map 4.10 depicts the states with zero tax brackets.

Map 4.10: States with Zero Tax Brackets for the Unemployment Insurance Trust Fund



Source: USDOL's 2018 Comparison of State Unemployment Insurance Laws

Rationale for Rate Class 1 Employers Being Taxed

Employers placed in rate class 1 are so classified as a result of not having had any unemployment claims paid on their behalf. Employers in this rate class may not always be able to avoid layoffs and reductions in force; when that occurs, unemployment for their employees will be paid for from other employers' contributions, in the first year the unemployment occurs, as those in rate class 1 have made no contributions to the unemployment fund. Further, if rate class 1 employers continue to experience unfortunate business developments, they may go out of business, and this could occur before they contribute any taxes to the unemployment compensation fund. Thus, other employers have effectively subsidized these employers and borne the burden of paying claims for employees who were not their own. All employers have a risk of reducing their number of employees, and insurance concepts generally make risk assessments. Eliminating the zero tax bracket may lead to a more equitable tax rate structure because all employers present quantifiable risk to the fund.

Recommendations

17. The S.C. Department of Employment and Workforce and the General Assembly should consider eliminating the zero tax bracket.

18. The S.C. Department of Employment and Workforce and the General Assembly should make the tax rates and the tax structure more equitable for all rate classes, proportionate to the risk presented by employers, and should increase the number of rate classes to eliminate significant rate increases between classes.

19. The S.C. Department of Employment and Workforce and the General Assembly should collect data on revenue amounts collected and unemployment claims paid by rate class, each year.

20. The S.C. Department of Employment and Workforce and the General Assembly should consider the implementation of a smoothed solvency method in the future, should the Trust Fund need to be replenished.

21. The S.C. Department of Employment and Workforce and the General Assembly should consider the impact on employers prior to implementing an accelerated Trust Fund rebuild in the future.

Ratio of Contingency Tax Versus Trust Fund Tax Levied

We conducted an analysis as information for the General Assembly to determine the ratio of the contingency assessment tax levied to the amount of Trust Fund tax levied between CYs 2015–2019. We found that for every dollar of contingency tax levied, employers were taxed from $0 for rate class 1 up to $100, the highest amount, for rate class 20 in CY 2015. Other observations include:

- In 2019, for every dollar of contingency tax levied, the following amounts were levied for the Trust Fund:
  - Rate class 1 employers—$0.
  - Rate class 12 employers—$14.
  - Rate class 20 employers—$90 (see Table 4.11).
- Rate class 20 is considerably higher than rate class 19 in most years, because rate class 20 is required by law to be a minimum of 5.4%.
- As the amount of tax needed has decreased each year, all rate class rates decreased, except 1 and 20. The tax rate for class 19 has continued to decrease, but 20 has remained stable between CYs 2016–2019.

In addition to the levied amounts discussed above, we also calculated the ratio of actual contingency expenses paid each year from that account to Trust Fund expenses each year.

TRUST FUND ACTUAL EXPENSE
: Amount of funds used from the Trust Fund to pay unemployment benefits.

CONTINGENCY EXPENSE
: Amount of funds spent for the purpose of reemploying South Carolinians.

We found that for every dollar spent on contingency assessment expenses, $5, the lowest amount, through $100, the highest amount, was contributed to the Trust Fund from rate classes 2–20 for CY 2015 through CY 2019. Both of these fund accounts accumulate and carry a balance, and those balances are not included in the calculation the ratio of expenses of contingency expenditures to Trust Fund expenditures.

In addition, Proviso 97.4 for FY 18-19 states that the lesser of 2% or $200,000 of the Unemployment Compensation fund balance shall be paid out annually to the Office of the Comptroller General to recover the administration costs for collecting the contingency fund.

We calculated the ratio of dollars levied for the contingency tax to the dollars levied for the Trust Fund in CY 2019, with emphasis on rate classes 1, 10, 12, 13, 19, and 20. These rate classes were selected for comparison because they provide a relatively broad range snapshot of the variance in taxes levied through the whole array of tax rates. Also, rate class 12 is the average tax rate, as set by law. See Appendix A for the ratio of contingency taxes levied to Trust Fund taxes levied for all rate classes. See also Table 4.11 for the ratios by rate class for CYs 2015 through 2019.

In calculating the levied tax amounts in Table 4.11, we assumed that all employees were taxed on $14,000. There may be instances where this is not the case, and would occur when an employee did not earn a full $14,000 during the calendar year because the employee:

- Had a relatively low paying job.
- Left employment during the year.
- Began working for the company late in the calendar year.

Table 4.11 contains the dollar amounts levied for the contingency tax versus the dollar amounts levied for the Trust Fund, for CYs 2015–2019, for six of the rate classes. For CYs 2015–2019, we also compared the ratio between the total contingency assessment revenue versus the total Trust Fund tax.

Table 4.11: Ratios by Rate Class for CYs 2015–2019

Rate Class	Contingency	Trust Fund				
		2019	2018	2017	2016	2015
1*	$0	$0	$0	$0	$0	$0
2	$1	$5	$6	$7	$8	$9
10	$1	$11	$14	$16	$18	$20
12	$1	$14	$17	$20	$22	$25
13	$1	$16	$21	$23	$27	$48
19	$1	$50	$61	$67	$73	$90
20	$1	$90	$90	$90	$90	$100**

* Rate class 1 employers pay no Trust Fund tax; however, it is subject to the contingency assessment tax of 0.06%.

** Total taxes were higher in CY 2015; Trust Fund tax rate for rate class 20 was 5.97%, which is greater than the minimum state requirement of 5.4%, S.C. Code §41-31-50(1)(c). All years except 2015 were taxed at the minimum rate for rate class 20.

Sources: DEW Contribution Tables and LAC Calculations

See *Appendix A* for ratio calculations for all rate classes from CYs 2015–2019.

Table 4.12: Total Contingency Versus Total Trust Fund Tax, 2015–2017

	2017	2016	2015
Total Contingency	$13,760,040	$13,251,762	$11,917,331
Total Trust Fund Tax	$338,042,259	$334,214,688	$396,958,404
Rounded Ratio	$1:$25	$1:$25	$1:$33

Note: The audited financial statements for FY 16-17 have not been released.

Sources: DEW's Audited Financial Statements, DEW's Annual Trust Fund Assessment Reports (unaudited), and LAC Calculations

Notification to State Officials

We reviewed the notification process that DEW uses to notify the General Assembly of the status of the Trust Fund and DEW operations. The process uses two annual reports that are required by state law, the *South Carolina Unemployment Insurance Trust Fund Annual Assessment* and the *Management and Trust Fund Review of the Department of Employment and Workforce*. We reviewed these reports for the past five years and found:

- Legislative staff and government officials indicated DEW's reports do not stand out from other reports and might be noticed more if they were designed differently.
- The Trust Fund line graphs that depict the financial status of the unemployment Trust Fund are often listed on the last page of the report.
- They do not contain a glossary of DEW acronyms.
- DEW's use of italics for reporting financial numbers within the reports was not always easy to read.
- DEW reports the cash or estimates of the Trust Fund balance versus the actual balance from the audited financial statements. In the 2017 report, this variance in reporting was $97 million.
- One report combining all the critical information from the two reports that are provided to the General Assembly may be more meaningful and less material for state officials and staff to read.

Section 112 of Act 146 of 2010 requires that we "…determine the adequacy of the process for notifying state officials of the financial status of the Unemployment Insurance Trust Fund."

Unemployment Trust Fund Reports

S.C. Code §41-29-280 requires that, no later than January 15 of every year, DEW must submit to the Governor and the General Assembly an annual report on the administration and operation of DEW and the unemployment Trust Fund.

S.C. Code §41-33-45 requires that by October 1 of every year, DEW submit a report on the unemployment Trust Fund (which must include a five-year trend line within it) to the Governor, the General Assembly, and the DEW Review Committee (a committee created by S.C. Code §41-27-700 to evaluate DEW's performance).

We reviewed all of the January and October DEW reports since 2014 and found that the reports were meeting state law requirements, including the required trend lines. These reports are sent to:

- Governor's Office
- President of Senate Pro Tempore
- Speaker of the House
- Clerk of the Senate
- Clerk of the House
- Senate Labor, Commerce, and Industry Committee
- House Labor, Commerce, and Industry Committee
- DEW Review Committee

Many of the state officials have staff whose responsibility it is to review the report and keep the state officials informed of important material contained in the reports. We also reviewed the notification process by DEW to state officials and their staff and found that DEW has been submitting the reports to all of the required state officials.

However, we found ways to improve the reports. We also received some criticism of the reports upon contacting all of the state officials who are required to receive the DEW reports to verify receipt, including the following:

- One mentioned that they receive so many reports that it would be in DEW's best interest if it could make the reports stand out, such as adding more color, larger fonts on the cover page, etc.
- The Trust Fund trend line graphs are often on the last page of the agency's reports. Locating the graphs on the first page of the report would be better.
- Officials' staff stated that a glossary of acronyms used by DEW in the reports would be helpful.

We also found the Trust Fund balance reported in DEW's annual reports was from Trust Fund bank account statements from June of each fiscal year rather than from the audited financial statements. The bank account statements may have been the most accurate numbers available for DEW at the time it began to put the report together, but once the Office of the State Auditor completed the audited financial statements each fiscal year, those numbers should have been used to replace the bank account statement numbers before the reports were published in October and January of the following year.

For example, the October 2018 Trust Fund report submitted by DEW was underreported by $98,916,248 and lists the Trust Fund balance for FY 16-17 as $678,148,439, whereas the Office of the State Auditor's report for FY 16-17 shows the Trust Fund balance as $777,064,687.

Finally, both the January and October DEW reports since 2014 are similar and contain much of the same information; however, they also contain different information. Table 4.14 compares the two reports.

Table 4.13: Comparison Between DEW Trust Fund Reports

Report Topic	UI Trust Fund Annual Assessment	Management and Trust Fund Review
Mission and information about agency		X
Performance measures		X
Total and average UI claims	X	X
UI benefit timeliness		X
Five year Trust Fund balance numbers	X	X
Trust Fund balance trend line	X	X
UI Trust Fund loan balance chart	X	X
Contributions by tax rate	X	

Source: LAC Comparison of DEW Reports

A combined report could be more meaningful than providing two reports to the General Assembly within three months of each other, and if all critical data elements are included in a single report, there is one less report for legislators and staff to read. This may help the report stand out and allow DEW to focus on making one annual report that is most informational and user-friendly for state officials.

Other States

We reviewed other states' unemployment Trust Fund reports for comparison to DEW's reports. By seeking insight from external sources and including more information in the agency's reports, DEW could ensure that our state's decision makers have as much reliable information as possible.

Tennessee

Tennessee collaborates with the Director for Business & Economic Research at the University of Tennessee by requesting the professor's unemployment Trust Fund projections for the upcoming 18 months. The professor's projections are then compared to the projections made by the Tennessee Department of Labor and Workforce Development's projections to develop the most accurate projections possible.

Virginia

Virginia Employment Commission's unemployment Trust Fund report found several items included in the report, not included in DEW's report, that could be helpful to our state officials. The Virginia report contains:

- A chart showing a three-year trend of unemployment exhaustion rates for Virginia claimants. This statistic measures a percentage of claimants that received all of the unemployment benefits they were entitled to without finding a job.
- A comparison of Virginia to four neighboring states and the District of Columbia in terms of unemployment Trust Fund balance, average tax rates, and weekly benefit amounts, etc.
- Virginia's and its neighbors' average unemployment tax costs per employee for paying unemployment claims and replenishing the Trust Fund to solvency.

Recommendations

22. The S.C. Department of Employment and Workforce should work to make the agency's required reports to state officials regarding the unemployment Trust Fund standout from other similar reports.

23. The S.C. Department of Employment and Workforce should move the Trust Fund trend line graphs in the agency's reports to the first page of the reports.

24. The S.C. Department of Employment and Workforce should continue to use the Trust Fund cash balance for its reporting of balance in its annual Trust Fund report, and also report the financial statement balance as a footnote to the reporting.

25. The General Assembly should amend state law to require the Department of Employment and Workforce to submit one annual report on the unemployment Trust Fund and the agency per year in a month of its choice.

26. The S.C. Department of Employment and Workforce should consider obtaining outside unemployment Trust Fund projections from an independent third party.

27. The S.C. Department of Employment and Workforce should incorporate into its reports information including, but not limited to:

    - List of acronyms used in the report.
    - Trend of unemployment exhaustion rates.
    - Comparison between South Carolina and neighboring states.
    - Average cost, per employee, for unemployment insurance taxes to include both the amount to pay unemployment claims and the amount to contribute to the Trust Fund solvency.

Unemployment Insurance Program

Performance Measures

USDOL requires that DEW report a variety of performance measures to gauge the effectiveness of DEW's unemployment insurance programs. USDOL requires reported performance measures of timeliness and quality of claims paid, and claims appeals adjudicated. We reviewed DEW's UI performance measures for the three quarters beginning October 2017 and ending September 2018 (following the implementation of SCUBI), and found that DEW failed to meet performance measure thresholds for:

- Nonmonetary determination quality.
- First payment promptness.
- Nonmonetary determination time lapse.

Prior to the implementation of SCUBI, DEW met performance measures for all but one category (nonmonetary determination time lapse) from October 1, 2015 through September 30, 2017. According to DEW, performance measure declines since 2017 are due to the transition to SCUBI. DEW states that these measures are expected to improve going forward (see below). We also found that DEW:

- Does not have an adequate system in place to ensure that federal performance measures for unemployment insurance are met.
- Does not have an internal, comprehensive action plan that provides analysis of performance measure issues and remedial actions.
- Does not have specific training in place that prioritizes meeting federal performance measures.
- Did not document potential savings resulting from the implementation of SCUBI despite stating that savings would be realized in its FY 18-19 agency budget plan.

Summary

DEW's performance measures for UI programs are mandated by USDOL. Generally, the federal measures look at the timeliness of adjudicating and processing unemployment claims and the quality of the eligibility determinations of the claims. The measures relate to the performance of DEW's unemployment insurance programs.

Table 5.1: Federal Core Unemployment Insurance Performance Measures

Measure	Description	Federal Acceptable Level of Performance	DEW's Performance				
			10-1-2015 thru 9-30-2016	10-1-2016 thru 9-30-2017 (Pre SCUBI)	10-1-2017 thru 9-30-2018 (Post SCUBI)	2018 3rd Quarter	2018 2nd Quarter
First Payment Promptness	The percentage of 1st payments made to claimants within 14/21 days after the week ending date of the first compensable date in the benefit year.	≥87%	91.2%	91.3%	82.1%	88.6%	90%
Nonmonetary Determination Time Lapse*	The percentage of nonmonetary determinations made within 21 days of the date of detection of an issue.	≥80%	79.9%	82.4%	75.4%	91.6%	73.8%
Nonmonetary Determination Quality-Nonseparations**	The percentage of nonseparation determinations with quality scores greater than or equal to 95 points based on a sample.	≥75%	94.8%	87%	80.2%	75%	92.6%
Nonmonetary Determination Quality-Separations	The percentage of separation determinations with quality scores greater than or equal to 95 points based on a sample.	≥75%	79.7%	76.9%	71.6%	62.1%	71%
Average Age of Pending Lower Authority Appeals	The sum of the ages, in days from filing, of all pending lower authority appeals divided by the number of lower authority appeals.	≤30 days	11.2 days	12.5 days	30 days	30 days	37 days
Average Age of Pending Higher Authority Appeals	The sum of the ages, in days from filing, of all pending higher authority appeals divided by the number of higher authority appeals.	≤40 days	20.3 days	26.4 days	26 days	26 days	21 days
Lower Authority Appeals Quality	The percentage of lower authority appeals with quality scores equal to or greater than 85% of potential points based on a sample.	≥80%	97.5%	100%	90.4%	94.7%	84.2%

* Nonmonetary determinations involve situations in which claimants have qualified for UI benefits based on wages earned but have potential issues that could affect their benefits, such as being separated for misconduct or failing to search for work.

** Nonseparation issues involve situations in which a claimant's benefits may be impacted by issues that do not involve his separation from employment, such as failing to search for work while receiving benefits.

Highlighted measures did not meet federal performance thresholds.

Source: USDOL

As shown in Table 5.1, from the period October 1, 2017 to September 30, 2018, DEW met four of the core measures and did not meet three measures. However, for the 3rd quarter of 2018, DEW failed to meet only one performance measure, which pertained to the quality of nonmonetary separation determinations. Although DEW met six of the measures for the 3rd quarter, it saw a decline in performance for four of the measures.

SCUBI, DEW's new UI system, was implemented beginning in September 2017 and continues to be in use. We asked DEW for explanations as to why it failed to meet the performance measures it did, for each measure, before and during the implementation of SCUBI, and asked for written documentation to support those reasons.

DEW mostly attributed the "misses" to extra workload created SCUBI's triggers for detecting and deterring improper payments. DEW provided a report showing an increase in the adjudication workload for non-separation cases. Nonseparation cases involve situations in which a claimant's benefits may be impacted by issues that do not involve his separation from employment, such as failing to search for work while receiving benefits. The workload report did show an increase in non-separation adjudications from 3,924 cases in October 2017 to 13,169 cases in November 2017. The workload remained over 6,000 cases per month from March to October 2018.

Although DEW demonstrated an increase in non-separation adjudication workload, it did not provide documentation showing that the workload increase was a result of SCUBI's integrity triggers or further explanation when asked. Additionally, there was no documentation provided regarding DEW's workload for separation decisions.

In their response, DEW also stated that it attempts to reach federal performance measure thresholds by using a daily reporting structure to monitor caseload and adjust resources as necessary to continue to meet its measures. However, as noted, DEW was unable to provide documentation that this system exists.

Analysis and Commentary on Meeting Performance Measures

We asked DEW for the reasons for the fluctuations in its performance measures. Below we have listed, for each performance measure, DEW's stated reason for missing the standard, the documentation it provided, and the written explanation it provided. Although DEW has given us explanations and remedies for its performance issues, DEW has been unable to provide documentation to back up those explanations and remedial actions. A narrative explanation without documentation provides no basis upon which to apply audit procedures to test assertions, through documentation analysis, used to support or refute the narrative.

First Payment Promptness

REASON PROVIDED BY DEW

Extra workload as a result of SCUBI implementation.

DOCUMENTATION PROVIDED

Workload report.

EXPLANATION

DEW provided documentation of an increase in workload for non-separation adjudication workload. DEW stated that adjustments to this increase in workload will allow the agency to meet this measure. However, DEW did not provide information on what adjustments were made. There was a decline in performance from 90% in the 2nd quarter 2018 to 88.6% in the 3rd quarter.

DEW stated that it attempts to reach federal performance level thresholds by using a daily reporting structure to monitor caseload and adjust resources as necessary to continue to meet its measures. However, DEW did not provide us with documentation of this system when asked.

Nonmonetary Determination Time Lapse

REASON PROVIDED BY DEW

Extra workload due to the SCUBI system's fraud and improper payment triggers.

DOCUMENTATION PROVIDED

Workload report

EXPLANATION

DEW stated that it expects to meet this measure in the future due to adjustments to the SCUBI system, though the nature of those adjustments was not provided to us when asked. DEW met this measure in the most recent quarter audited.

Separation Determination Quality

REASON PROVIDED BY DEW

Extra workload due to SCUBI system's fraud and improper payment triggers.

DOCUMENTATION PROVIDED

Workload report

EXPLANATION

DEW provided documentation for an increase in workload for non-separation adjudication workload. However, DEW did not provide information on adjustments made in response to the workload. DEW has failed to meet this measure for the last two quarters.

Nonseparation Determination Quality

REASON PROVIDED BY DEW

Extra workload due to SCUBI system's fraud and improper payment triggers.

DOCUMENTATION PROVIDED

Workload report

EXPLANATION

DEW provided documentation for an increase in workload for non-separation adjudication workload. However, DEW did not provide information on adjustments made in response to the workload. DEW has met the standard for this measure for the last two quarters, but its performance declined from 92.6% for the quarter ending June 30, 2018 to 75% for the quarter ending September 30, 2018.

Lower Authority Appeals Quality

REASON PROVIDED BY DEW

Extra workload due to SCUBI system's fraud and improper payment triggers.

DOCUMENTATION PROVIDED

Workload report

EXPLANATION

DEW's lower authority appeals quality score went from 100% in the 3rd quarter of 2017 to 85% in the 4th quarter. It then went back up to 100% for the 1st quarter of 2018, dropped to 84.2% in the 2nd quarter, and went back up to 94.7%.

DEW provided documentation for an increase in workload for non-separation adjudication workload. However, DEW did not provide information on adjustments made in response to the workload.

One process change made by DEW to improve lower authority appeals quality is by "bundling" appeals. When filing an appeal, the claimant may select multiple issues to appeal. Each issue filed creates a separate appeal, which could result in multiple hearings for the same case. During audit fieldwork, DEW stated that they attempt to avoid multiple hearings by manually bundling appeals into one hearing. In their initial response to our draft, DEW stated that they now bundle the appeals, but DEW did not provide documentation that automatic bundling takes place. Automating the bundling process could help speed up the review process and improve quality.

Average Age of Lower Authority Appeals

REASON PROVIDED BY DEW

Extra workload due to SCUBI system's fraud and improper payment triggers.

DOCUMENTATION PROVIDED

Workload report

EXPLANATION

DEW experienced wide fluctuations in the average age of lower authority appeals. DEW met the federal standard of 30 days for the period of October 1, 2017 to September 30, 2018. However, quarterly results varied widely, with an average age of 10.6 days for the 2nd quarter of 2017 and a high of 50 days for the 1st quarter of 2018.

DEW again stated that the fluctuations were a result of an increase of workload due to SCUBI's fraud detection triggers. DEW claimed that it made adjustments to remedy the increased workload, but did not describe nor provide documentation of those adjustments.

Action Plans to Improve Performance

We asked DEW to provide us with specific action plans for improving performance measures. DEW did not provide us with internal action plans that specify the methods it is using to meet its federal performance measures. DEW and other state unemployment agencies are required to submit annual corrective action plans (CAP) to USDOL that explain the steps taken to meet federal measures. Although the CAP is helpful in broadly explaining performance measure issues, it does not provide specifics on how the performance will be improved and guidance for DEW employees.

A comprehensive internal performance improvement plan could specify federal performance areas needing improvement, reasons for failures or declines in performance, and guidance to employees for meeting the performance standard. Additionally, such plans could be reviewed periodically to ensure that their proposals have been implemented and were effective in improving performance.

DEW stated that it attempts to reach federal performance level thresholds by using a daily reporting structure to monitor caseload and adjust resources as necessary to continue to meet its measures. However, DEW did not provide us with documentation of this system. Documenting this system and resource allocation could ensure that resources are effectively utilized to meet performance standards.

Consultant Recommendation Regarding Training to Improve Performance

In 2014, DEW contracted with a consultant for $349,632 to review its processes, resulting in a recommendation that DEW implement training programs that emphasize meeting federal performance measures and that these programs be updated frequently. We asked DEW whether it has such targeted training programs, and DEW did not provide us with evidence that it has training specifically geared towards meeting federal performance measures. DEW has not given any reason for not following up on this recommendation. Training DEW staff on the importance of meeting federal performance measures and periodically updating that training can ensure that DEW more consistently meets federal performance measures.

Recommendations

28. The S.C. Department of Employment and Workforce should implement a comprehensive performance improvement plan for meeting federal unemployment performance standards that includes but is not limited to:

    - Reasons for performance failures or declines.
    - Specifics on how it will meet and improve its federal performance for unemployment insurance.
    - Guidance to employees on how to implement the provisions of the plan.
    - A review of the previous performance improvement plan and whether it has been implemented and successful.

29. The S.C. Department of Employment and Workforce should document daily reporting structures to monitor caseloads and resource adjustments in order to meet federal performance standards.

30. The S.C. Department of Employment and Workforce should document the impact of systems changes to workload and steps taken to ensure those changes positively impact federal unemployment performance.

31. The S.C. Department of Employment and Workforce should develop a system for manually combining multiple appeal issues that arise from the same claim.

32. The S.C. Department of Employment and Workforce should document potential savings resulting from the implementation of the SCUBI system.

33. The S.C. Department of Employment and Workforce should implement training programs that emphasize meeting federal unemployment performance measures and ensure that all employees are aware of those standards.

Discharges for Cause

We were directed by South Carolina law to review operations of the benefit eligibility process, of which discharges for cause are a part. We found:

- The law regarding whether a claimant is discharged for cause is unclear, which can lead to inconsistency regarding determinations on whether to impose a disqualification, and increases the appeal workload.
- The law is unclear as to how many weeks of disqualification should be imposed if a claimant is determined to have been discharged for cause.
- DEW has not provided guidance for adjudication personnel in defining appropriate disqualification based on previous rulings regarding disqualification for cause.

The S.C. Code allows for the disqualification of claimants from receiving UI benefits who are discharged for misconduct, gross misconduct, or cause in the following manner:

- Claimants discharged for misconduct are required to be completely disqualified from receiving unemployment benefits.
  S.C. Code §41-35-120(2)(a).
- Claimants discharged for gross misconduct are indefinitely disqualified from receiving benefits and must go back to work and earn eight times their weekly benefit amount before they can requalify.
  S.C. Code §41-35-120(4).
- Claimants discharged for cause other than misconduct must be partially disqualified for at least 5 and no more than 19 weeks.
  S.C. Code §41-35-120(2)(b).

Table 5.2 summarizes the different types of disqualification and penalties.

If a claimant is determined not to be at fault (e.g. lost his job due to a reduction in force), the claimant will be found eligible for benefits. Most states either hold claimants ineligible due to misconduct or eligible for benefits and do not have an intermediate “for cause” disqualification.

Table 5.2: Unemployment Benefits Disqualification Summary

Category	Definition	Penalty	Requalification Requirements
Discharge for Misconduct*	Conduct showing such willful and wanton disregard of an employer's interests as is found in deliberate violations or disregard of standards of behavior which the employer has the right to expect of his employee.	Complete disqualification from receiving benefits for all 20 weeks of the claim.	Individual would have to go back to work, earn $4,445 during the base period (4 of 5 calendar quarters), earn $1,092 in his highest earning quarter during the base period, and have base period wages greater than or equal to 1.5 times the high quarter wages.** **Minimum time to requalify: 12 months.**
Discharge for Gross Misconduct	Specific statutorily-defined offenses including (but not limited to) willful neglect of duty, consumption of alcohol on employer property, and willful or reckless damage to employer property.	Indefinite disqualification. No set time length for disqualification; disqualified until re-eligible for benefits.	Claimant must secure employment and earn wages equal to at least eight times the weekly benefit amount of his claim to requalify. **Minimum time to requalify: 8 weeks.**
Discharge for Cause Other Than Misconduct	Conduct demonstrating fault of the employee not rising to the level of misconduct.	Partial disqualification for no less than five nor more than the next nineteen weeks. For example, if an individual is disqualified for seven weeks, he will not receive benefits for seven weeks and begin to receive benefits on the eighth week.	Claimant will receive benefits at the end of his disqualification period (between 5 and 19 weeks). **Minimum time to requalify: number of weeks imposed for disqualification.**

* Examples of misconduct could include such things as chronic unexcused absenteeism, inappropriate behavior towards coworkers, breaking company rules, and fighting on the job.

** An individual may become eligible for UI benefits in 12 months under the alternate base period, which is comprised of the four most recently completed calendar quarters. This is used when one cannot qualify under the standard base period. Under the standard base period, it may take claimants up to 15 months to become monetarily eligible.

Source: S.C. Code of Laws

It is unclear why there is a statutory difference between the penalties for misconduct and gross misconduct. Even though the term "gross misconduct" implies worse misconduct than regular misconduct, the penalty for gross misconduct is less than the penalty for regular misconduct. An individual disqualified for gross misconduct can go back to work and requalify for benefits by earning eight times his weekly benefit amount (however it long it takes to earn this amount of wage), whereas an individual disqualified for regular misconduct is disqualified for at least the claim year.

Criteria Unclear for Discharges for Cause Other Than Misconduct

There are insufficient criteria for determining whether a claimant was discharged for cause for behavior that does not rise to the level of the other misconduct categories, both misconduct, or gross misconduct, as listed below:

- The law does not clearly define what discharge for cause is, yet requires that an individual discharged for cause be held partially ineligible for no less than 5 nor more than 19 weeks.
- DEW's guidance for its employees to follow regarding making a discharge for cause determination is unclear.
- DEW does not track what types of disqualifications get reversed most often (misconduct, for cause, gross misconduct, etc.).

Based on our review, approximately 66% of reversals that occurred during the appeals process to the Administrative Law Court (ALC) involved disagreements between the appellate tiers regarding terminations for cause.

S.C. Code §41-35-120 states that an individual discharged for cause other than misconduct must be found partially ineligible for unemployment insurance. The period of ineligibility must begin with the effective date of the request and continue not less than 5 nor more than the next 19 weeks, in addition to the waiting period. A corresponding and mandatory reduction of the insured worker's weekly benefits must be made.

Although the law requires that an individual discharged for cause must be held partially ineligible, the law does not clearly define what discharge for cause is. S.C. Regulation 47-100 defines discharge for cause as:

> …. conduct that demonstrates a level of fault of the employee but does not rise to the level of deliberate disregard for the standards of behavior which the employer has the right to expect of his or her employee. Fault includes those acts or omissions of employees over which an employee exercised reasonable control and which violate reasonable requirements of the job.

This potentially causes disagreements between the different adjudication levels, which results in certain claimants ultimately found ineligible receiving overpayments and other claimants ultimately found eligible whose payments are delayed.

Although the law and regulation define discharge for cause as fault not rising to the level of misconduct, it is difficult to gauge what that level of fault is without further guidance. Neither provides examples of terminations for cause, unlike the definitions and explanations of misconduct and gross misconduct.

In guidance dated 2012, DEW expressed a desire to provide such guidance beyond the definitions in the statute and regulation, once an ample number of discharge for-cause cases were adjudicated. However, our review indicates it has not provided that clarity and guidance in its policies and procedures.

For Cause Appeals

Claimants and employers have the right to appeal determinations at various levels:

- The initial determination, as a result of an employer discharge of the employee, which is made by a first-line DEW adjudicator.
- The appeal tribunal, in which a DEW administrative officer makes a determination after conducting a hearing and examining relevant evidence.
- The appellate panel, in which a board of review examines the record of the tribunal to make a determination.
- The ALC, which is a separate court that examines decisions appealed from the appellate panel.

Adjudicators are instructed to ask UI division management if they have questions as to whether someone was discharged for cause other than misconduct. However, written guidance for discharge for cause, including examples of previous adjudications, could allow for greater efficiency and accuracy. Employees could refer to clear, uniform, written guidance instead of asking management for clarification or limit the amount of questions. The guidance could be revised if case law on at least discharge for cause is updated.

The lack of guidance regarding discharges for cause may result in initial determinations being ruled incorrect on appeal and confusion as to whether an individual was discharged for cause, for misconduct, or through no fault of his own (such as lack of work).

We reviewed 50 decisions of the ALC that have been published since January 2017. We reviewed these decisions in part because we were not provided access to benefit, timeliness and quality (BTQ) reviews. The decisions we reviewed dealt with instances in which there was disagreement on the reason for an individual's separation from employment.

In our review, we found:

- 18 cases (36%) were overturned at some point during the appeals process due to disagreements between the initial adjudicator, appellate tribunal, appellate panel, and/or the ALC as to whether an individual was discharged for cause.
- Decisions involving terminations for cause that were overturned occurred at all levels of appeal.
- The number of overturned decisions involving a discharge for cause may be a result of the lack of clear guidance on the subject.

Some of the decisions overturned are outlined in Table 5.3.

Table 5.3: Sample of Actual Cases "For Cause" Overturned

Description	Initial Adjudicator Determination	Appeals Tribunal Determination	Appellate Panel Determination	Administrative Law Court Determination	Administrative Law Court Rationale
Claimant discharged for following supervisor's orders, resulting in a customer complaint.	Claimant discharged through **no fault of her own.**	Claimant discharged **for cause.**	Claimant discharged through **no fault of her own.**	Claimant discharged through **no fault of her own.**	Since claimant was fired for following the direct order of a supervisor, claimant was **at no fault of her own,** thus eligible for benefits.
Claimant arrived to workplace during claimant's off hours under the influence of prescription drugs.	Discharge **for misconduct**.	Discharge **for misconduct**.	Claimant discharged **for cause.**	Claimant discharged through **no fault of his own.**	Claimant was through **at no fault of his own** because claimant was following the instructions of a physician. Thus, claimant was eligible for benefits.
Claimant engaged in a verbal altercation with a co-worker during work hours.	Claimant discharged through **no fault of his own.**	Claimant discharged **for cause.**	Claimant discharged **for misconduct.**	Claimant discharged **for misconduct.**	ALC upheld the Appellate Panel's determination that the claimant a discharged **for misconduct**. Claimant was thus completely ineligible for benefits.
Claimant found sleeping at work.	Claimant discharged **for misconduct.**	Claimant discharged through **no fault of his own.**	Claimant discharged **for misconduct.**	Claimant discharged **for cause.**	ALC found that, although the claimant was at some level of fault, the facts of the case did not support the finding of misconduct. Claimant was held terminated **for cause** and disqualified for 10 weeks.
Claimant was terminated for instances of tardiness and absence.	Claimant discharged **for cause.**	Claimant discharged **for cause.**	Claimant discharged **for cause.**	Claimant discharged through **no fault of her own.**	ALC found that all of the claimant's absences were a result of medical and legal reasons beyond claimant's control. Claimant was thus terminated through **no fault of her own**. Thus, claimant eligible for benefits.

Source: S.C. Administrative Law Court

In one case that was not overturned, the adjudicator held that the claimant was discharged for cause. The ALC upheld the lower authority's decision that the claimant was *discharged for cause*, but in the body of the opinion stated that the claimant was *discharged for misconduct*, which is different than a discharge for cause. The ALC thus partially disqualified the claimant for 16 weeks. The fact that the ALC simultaneously held that a claimant was discharged for misconduct and penalized him for a discharge for cause illustrates possible confusion regarding the difference between discharges for cause and discharges for misconduct, necessitating clarification in the law.

The number of reversals and disagreements between the different levels of adjudication suggests that there is not sufficient guidance regarding what differentiates discharges for cause from discharges for misconduct or discharges through no fault of the claimant. In some cases, it is not clear as to why one level held that a claimant was discharged for misconduct and another level held that a claimant was discharged for cause other than misconduct.

In their response to our report, DEW stated that differences in evidence heard between the initial adjudication and the appeals tribunal are a reason for the reversals and modifications regarding terminations for cause. Although several cases involved the appeals tribunal reversing the initial adjudicator, 14 out of 18 decisions involved the appellate panel or Administrative Law Court also reversing lower authorities' decisions. Clearer guidance in laws and regulations and clearer internal guidance at DEW could provide more consistency regarding cases of discharge for cause.

Additionally, DEW does not keep statistics on reversal rates for the specific categories, such as the percentage of misconduct decisions overturned by the appellate panel. Such statistics could help DEW pinpoint the reasons that specific types of decisions that are frequently reversed on appeal, which could allow for appropriate corrective action to minimize reversals.

Length of Disqualifications

DEW has nearly completely left out the use of the disqualification range of 11 to 15 weeks for disqualifications for cause in favor of using disqualifications of 1 to 10 and 16 to 19 weeks. DEW policy allows only for individuals discharged due to medical absenteeism to be disqualified in the 5- to 10-week range, and nearly all other discharges for cause must be disqualified in the 16- to 19-week range.

Currently, claimants who are discharged for cause must be disqualified from receiving benefits for 5 to 19 weeks pursuant to S.C. Code §41-35-120(2)(b). However, the statute does not clarify how the range of disqualification weeks is to be determined. We received conflicting information from DEW regarding how it applies the statute in determining where the penalty falls within the range prescribed by law.

DEW has not given a rationale for why absenteeism for medical reasons should be disqualified in the 5- to 10-week range, why other reasons for disqualification should be placed in the 16- to 19-week range, or why no discharges for cause be penalized in the 11- to 15-week range. These parameters within the 5- to 19-week range are internal DEW policies and are not prescribed in statute or regulation.

DEW provided us with an interoffice communication regarding disqualification parameters for discharges for cause. These parameters were put forth by DEW in July 2012 and are summarized in Table 5.4.

Table 5.4: DEW Policy Regarding Weeks of Disqualification for Separations for Cause

Reason for Separation for Cause	Weeks of Disqualification
Absenteeism for Medical Reasons	5 to 10 weeks
No Discharge Reasons Assigned.*	11 to 15 weeks
Other Reasons	16 to 19 weeks

* DEW disqualifies individuals terminated for cause for the 11- to 15-week range in less than 1% of their cases.

Source: DEW

As shown in Table 5.4, DEW's only internal parameters for disqualifying claimants is to provide for a 5-10 week range of penalties for claimants discharged for cause related to medical reasons and 16–19 weeks for all other reasons. DEW has no other disqualification parameters; for example, there are no parameters to determine whether an individual should receive a disqualification of 6 or 10 weeks for a discharge for cause for medical reasons.

A DEW official stated that DEW administers disqualifications on a case-by-case basis. The official stated that determining the disqualification period for discharges for cause is subjective. DEW could utilize the 11- to 15-week disqualification range for less-serious, non-medical absenteeism cases that might currently be penalized in the 16- to 19-week range.

DEW provided us with the disqualification range for discharges for cause from 2014 to January through September of 2017. Table 5.5 suggests that DEW is largely using the disqualification ranges of 5 to 10 weeks (almost 24% of decisions) and the disqualification ranges of 16 to 19 weeks (almost 76% of decisions). Fewer than 1% of claimants are disqualified for 11 to 15 weeks.

Table 5.5: Instances of Disqualification Weeks Imposed

Weeks Disqualified	2014	2015	2016	2017*
5	799	957	824	445
6	48	30	28	17
7	88	75	56	63
8	70	50	48	40
9	6	4	3	1
10	184	292	291	218
11	0	3	3	2
12	11	1	0	1
13	1	6	1	2
14	7	3	1	0
15	2	0	2	1
16	2428	3037	2648	1668
17	836	838	797	596
18	579	366	350	227
19	87	86	100	47
TOTAL	5,146	5,748	5,152	3,328

* January–September 10

Source: DEW

Recommendations

34. The General Assembly should consider revising S.C. Code §41-35-120 to clarify the definition of a discharge for cause.

35. The General Assembly should consider clarifying the law regarding the differences in penalties between disqualifications for misconduct and gross misconduct.

36. The General Assembly should consider amending S.C. Code §41-35-120 to give more clarity to what disqualification ranges should be imposed for disqualifications for cause.

37. The S.C. Department of Employment and Workforce should submit regulations to the General Assembly that clarify the difference between discharges for cause versus other types of discharge.

38. The S.C. Department of Employment and Workforce should track the number of cases overturned at each appellate level relating to discharges for cause, discharges for misconduct, and discharges for gross misconduct.

39. The S.C. Department of Employment and Workforce should provide clearer guidance to its employees regarding the difference between discharges for cause versus other types of discharge, taking into consideration the decisions of the Administrative Law Court.

Data Validation

We reviewed DEW's performance measures as a part of our objective of determining DEW's operations effectiveness. During our review, we found that DEW:

- Consistently failed to meet the data validation requirements of USDOL. Data validation problems can negatively impact the ability of DEW to manage its unemployment benefit programs.
- Provides unspecific reasons year-after-year, as to its analysis of why it failed some of its data validation standards.
- Does not create detailed action plans, submitted to USDOL, to signal to USDOL what deficiencies DEW plans to address in the data validation process.
- Has not provided the LAC with documentation on pass/fail documentation to identify which data elements failed and which passed in the current program year.
- May be underreporting or over reporting certain data, such as unemployment claims processed, which could result in the agency being overfunded or underfunded for that activity.

Data validation is a procedure used by USDOL to verify the accuracy of unemployment insurance reports submitted to USDOL by state unemployment agencies, including DEW. According to USDOL, the data submitted for the validation process helps determine allocation of administrative funding (funding the agency may receive in the future), fund utilization (for what purpose the funds are spent), and state performance. For example, data submitted on the volume of claims helps to determine how much federal funding is allocated to DEW's claims processing programs. Likewise, data regarding performance measures help determine what areas require improvement at DEW and help to determine proper allocation of resources. Without validated data, these decisions are potentially being made with inaccurate data.

Data Validation Performance

USDOL's data validation procedures require states to submit unemployment insurance data for specific data populations on a monthly and quarterly basis. In the data validation process, DEW conducts data validation with software provided by USDOL. After conducting the data validation process, the results are submitted by DEW to USDOL. Due to the structure of the validating software, USDOL has indicated that data manipulation is rare and any such issues must be resolved.

DEW's data validation results are shown in Table 5.6. The table reflects that it failed the overall data validation process for the last three years. The individual elements' pass/fail status is on the table. Failing data validation could have numerous negative effects. For example, inaccurate data could result in program areas being overfunded/underfunded or hinder program performance.

Table 5.6: Results of Unemployment Benefits State Quality Service Plans for Data Validation, 2016–2018

Data Population	Pass/Fail*			Data Population Description
	2016	2017	2018	
Weeks Claimed	F	F	P	Interstate and intrastate weeks of unemployment benefits claimed.
Final Payments	F	F	F	The number of final payments made to claimants.
Initial Claims, monetary determinations	F	F	F	New claims reported.
Additional Claims	F	F	P	Additional initial claims.
Payments	F	F	F	Timeliness of benefit payments.
Nonmonetary Determinations	F	F	F	Separation and nonseparation nonmonetary determinations.
Lower Appeals Filed	P	F	P	Number of lower authority appeals filed.
Higher Appeals Filed	P	P	P	Number of higher authority appeals filed.
Lower Appeals Decided	F	F	F	Number of lower authority appeals decisions rendered.
Higher Appeals Decided	P	P	P	Number of higher authority appeals decisions rendered.
Lower Appeals Aging	P	F	F	The average age of lower authority appeals reported.
Higher Appeals Aging	P	P	P	Calculates the average age of higher authority appeals recorded.
Overpayments Established by Cause	P	F	F	Detection of benefit overpayments.
Overpayment Reconciliation	F	F	F	Overpayments recovered and reconciled.
Overpayment Aging	F	F	F	Overpayments received and resolved.
Overpayment Established by Detection Method	F	F	F	Method states use to detect and establish overpayments.
Module 4: Benefits quality reviews for nonmonetary determinations and appeals.	F	F	F	Validating samples used to measure the quality of nonseparation and separation determinations and lower authority appeal decisions.
Overall Data Validation	F	F	F	

* For the purposes of this table, failing grades include instances in which DEW did not submit data validation reports to USDOL. Passing grades include instances in which DEW passed validation in previous years.

Source: USDOL

For example, if DEW reports 1,000 first payments during a month through the data validation software, DEW must:

- Produce a file containing the 1,000 first payments, including relevant characteristics of the transaction such as the mail date and claimant Social Security Number.
- Use validation software to reconstruct the numbers to ensure that the data reported to the national UI database and the validation file match.
- Validate a sample of the data by tracing the data from its source in the original claims files to ensure a “match.” This process ensures that the data counts, such as weeks of unemployment payments made, and final payments, etc., reported by the agency to USDOL, is accurate and that the data elements in that data (i.e. the original claims files) are correctly classified.

The data validation sample will examine the sample validation with the reported validation counts to see if they match. If there is a variance of ±2% between the populations, the sample will have failed data validation. States that fail data validation or do not submit data for validation must address those problems in the annual State Quality Service Plan (SQSP). The SQSP is a performance and grant document submitted by states to USDOL. In the SQSP, state workforce agencies, including DEW, explain performance deficiencies such as missed performance measure goals and data validation problems. The SQSPs created by DEW that we reviewed include brief, undetailed corrective action plans to address the performance deficiencies.

For its FY 17-18 SQSP, DEW failed data validation by not submitting data validation criteria for 10 of 15 unemployment benefit data populations and for the unemployment benefit module relating to benefit, timeliness, and quality reviews. Data validation problems could negatively impact the ability of DEW to effectively manage its unemployment benefit programs. For example, if the age of appeals cases is not validated, it is difficult to determine whether additional resources are necessary to ensure that case aging of appeals meet federal performance measures. Likewise, if the amount of overpayments data is not validated, it is difficult to determine whether additional or fewer resources must be dedicated to reducing overpayments.

Lack of Action Plans

We reviewed DEW's last five State Quality Service Plans (SQSP) submitted to USDOL. In the FY 17-18 SQSP, DEW provided a brief discussion of its data validation issues. That discussion almost exclusively attributed data validation problems at DEW to the implementation of the SCUBI benefits system. In the SQSP, DEW stated that, upon the full implementation of SCUBI, it will devote more resources to the data validation process. However, DEW has failed data validation every year since Federal Fiscal Year 2014, several years before the implementation of SCUBI. In previous SQSPs, DEW did not cite SCUBI transition as a reason for failing validation. For example, in the SQSP for 2014, DEW stated that unspecific "data extraction errors" and limited staffing resulted in validation failures. Table 5.7 includes explanations from DEW in its previous SQSPs for why it failed data validation.

Table 5.7: Reasons for Data Validation Failures

Year	Reasons for Data Validation Failure
2018	DEW stated that its aging benefits system made it difficult to pass data validation. DEW predicted that SCUBI would improve data validation.
2017	No specific reasons for failure given. DEW stated that it was focusing on improving areas that narrowly failed validation, increasing resources to help with validation efforts, and working with the SCUBI vendor in preparation for going live.
2016	No specific reasons for failure given. DEW stated that it was focusing on improving areas that narrowly failed validation, increasing resources to help with validation efforts, and training staff.

Source: USDOL State Quality Service Plans

Although DEW's SQSPs over the years provide some explanation for its data validation issues pursuant to USDOL's prescribed format, they do not provide a comprehensive explanation for data validation problems or an action plan for how it will address the problems. It does not include detailed timelines for when the issues are expected to be addressed for each population. Additionally, although the FY 17-18 SQSP generally discusses DEW's data validation issues, it does not provide details on specific data populations, such as the number of final payments and timeliness of payments. A separate, comprehensive action plan would provide a useful framework for DEW to address its validation issues for each validation element.

We asked whether DEW has a comprehensive data validation action plan with timelines for completion and did not receive a response. A comprehensive action plan could include the following information for meeting data validation requirements for each data population:

- Implementation of specific process improvements for each validation element.
- Personnel responsibilities for meeting validation for each population.
- Specifics on IT improvements and how those improvements will affect each data validation population.

According to a DEW official, DEW has passed data validation for 9 data populations for calendar year 2018. However, DEW has not answered our request for documentation showing passage and failure of data validation in 2018. Although DEW has submitted its SQSPs to USDOL for at least the last five years, we were not provided with a comprehensive internal plan for addressing data validation for 2018 when requested.

The lack of proper data validation increases the likelihood of inaccurate data being produced by DEW. Inaccurate data could result in numerous problems. For example, the inability to validate the number of initial claims filed could result in inaccurate data. If the number of claims is less than what is being reported, DEW programs dealing with claims could be overfunded. Conversely, if the number of claims is more than what is being reported, DEW programs dealing with claims could be underfunded.

Also, without the validation of DEW's figures regarding the on-time payment of benefits, the agency could be missing its timeliness standards, yet reporting the standards as met. Thus, DEW might not have accurate data on the resources needed to address performance issues. A comprehensive data validation plan that is properly implemented could allow DEW to better optimize its usage of limited resources.

Recommendations

40. The S.C. Department of Employment and Workforce should implement controls to ensure that required federal reports are properly submitted and meet federal data validation standards.

41. The S.C. Department of Employment and Workforce should develop and implement an internal master plan to ensure that it fulfills federal data validation standards. The master plan should include, at a minimum:

- Specific reasons for validation failures for each relevant population.
- Specific process improvements to address validation failures for each relevant population.
- Timelines for passing validation for each population.
- Specific responsibilities for all relevant employees.

Job Search Requirements

We reviewed DEW's requirement for unemployment claimants' job searches, which is one of the stipulations for unemployed South Carolinians, otherwise eligible, to receive unemployment benefits.

We found that DEW did not research the effect that changing the work search requirement from four to two searches might have on the amount of unemployment benefits paid and on the amount of time it takes for claimants to be reemployed.

The following is a timeline of recent job search requirements in South Carolina.

FY 13-14
The General Assembly mandated, through Budget Proviso 83.6, that claimants be required to complete four job searches per week and that one of those job searches had to be within South Carolina Works Online Services (SCWOS) for DEW's verification purposes.

FY 16-17
DEW sought a change to the proviso that would have required all four job searches be completed in SCWOS. However, through amendments to the proviso, the requirement to perform a job search through SCWOS was removed, and claimants would have been allowed to perform job searches through any method they chose. This proviso was vetoed by the Governor and sustained by the General Assembly.

2017
According to agency officials, as a compromise, DEW proposed S.C. Regulation 47-104, which required two job searches each week with both being conducted within SCWOS. This regulation became effective May 26, 2017.

When filing for UI, the claimant is required to also register in the SCWOS. This system is used by claimants to look for jobs, employers to post jobs, employers to look for employees, and DEW staff for agency functions. Much like other work search websites (such as Indeed.com, Monster.com, etc.), SCWOS users can search by specific types of jobs (such as accounting, electrical, welding, etc.) or general jobs to return a greater number of possible employment opportunities.

Table 5.8 shows the number of overall job searches and SCWOS job searches required for unemployment claimants for FY 13-14 through FY 17-18, as well as South Carolina's unemployment rate for calendar years 2014 through 2018.

Table 5.8: Job Search Requirements and Unemployment Rate

Fiscal Year	Job Search Requirements	
	Total	In SCWOS
13-14	4	1
14-15	4	1
15-16	4	1
16-17	4 then 2*	1 then 2*
17-18	2	2

* S.C. Regulation 47-104, which required two job searches conducted within SCWOS each week, went into effect May 26, 2017.

Source: DEW

DEW stated that it has not researched the effect on the state's unemployment rate of requiring claimants to perform two job searches instead of four job searches. By not monitoring the effect that the number of job searches required for claimants has on the amount of time unemployment claimants spend on unemployment, DEW may not have the data to determine if there is a correlation between unemployment and job searches during worsening economic times when unemployment is higher.

A requirement of being on unemployment in all states is that the claimant look for work. However, all states have flexibility in how this requirement is enforced. States determine:

- Number of job searches claimants are required to perform.
- What counts as a job search.
  - Some states count actions such as attending a job fair or taking a civil service test as a job search.
- States decide how their agencies will verify the claimant's job search.
  - Eligibility reviews, either online, by telephone, random audit, etc.

Table 5.9 compares South Carolina's required number of job searches to neighboring states. Also included are the states' unemployment rates, for informational purposes, since every state's economy is different.

Table 5.9: Neighboring States' Job Search Requirements and Unemployment Rates as of FY 17-18

State	Job Search Requirements	Unemployment Rate (Last Two Calendar Years)
South Carolina	2	4.3% (2017) 3.4% (2018)
North Carolina	3 or 5*	4.5% (2017) 3.9% (2018)
Georgia	3	4.7% (2017) 3.9% (2018)
Florida	5	4.2% (2017) 3.6% (2018)
Tennessee	3	3.8% (2017) 3.5% (2018)
Virginia	2	3.7% (2017) 3.0% (2018)

* Depends on when the claimant initially filed for unemployment.

Sources: USDOL and Other State Workforce Agencies

Counting South Carolina, three of the six states have changed the number of job searches required by unemployment claimants within the last couple of years. South Carolina and North Carolina reduced their job search requirements, while Florida increased its job search requirement. Based on the information obtained on other states' job searches, there does not appear to be a correlation between job search requirements and the unemployment rate.

DEW verifies that claimants are looking for work by requiring claimants to perform two job searches in SCWOS per week. Although claimants are required to search for jobs, they are not required to apply for any jobs in their search. DEW states that in many cases it is unable to verify that someone has actually applied for a job because the claimant usually has to complete the job application either in person at the business or on the company's own website. DEW also stated that the business community has indicated to the agency that it does not want to be put into the position of having to verify whether an individual has applied for a job or not.

If a claimant fails to search for two jobs within SCWOS during a given week, then the SCWOS system flags SCUBI to tell that system to withhold the claimant's unemployment benefits for that week. Benefits are stopped until the claimant searches for work. This occurs whether a claimant files for unemployment online or over the phone using the Telclaim system.

Recommendation

42. The S.C. Department of Employment and Workforce should monitor and research the effect that the number of job searches required for unemployment claimants has on claimants' length of time spent on unemployment, and thus the state's overall unemployment rate.

SCUBI System Savings

In its FY 18-19 agency budget request, presented to the General Assembly, DEW stated that SCUBI "…will yield a potential savings of approximately $5,646mm [sic]." However, DEW did not provide documentation of how that number was derived in the budget plan. We asked DEW for documentation of how the SCUBI savings amount was derived and did not receive a response.

DEW's FY 19-20 agency budget plan contained some detail on potential savings. It noted that the projected savings resulting from SCUBI implementation in its first year would equal $865,000. DEW stated that the savings would be derived from hours saved through the automation of claims processes. However, it did not contain an explanation for its estimated savings from the FY 18-19 report. Without accurately documenting potential savings, it is difficult to assess whether investments in SCUBI have resulted in projected savings.

Recommendation

43. The S.C. Department of Employment and Workforce should thoroughly document rationale for cost savings when making budget requests to the General Assembly.

Reemployment Services

Performance Measures

One of the functions of DEW is to facilitate the reemployment of individuals who are searching for work. In our review of how DEW puts people back to work and assists all job seekers and what DEW reports to USDOL, we found:

- The performance measures used by DEW do not capture the effectiveness of its reemployment programs. The federal Government Accountability Office (GAO) found that the performance measures used for employment programs do not capture effectiveness of the programs and noted that impact studies can help measure program outcomes.
- Unlike in the past, DEW's Reemployment Services and Eligibility Assessments (RESEA) program's federal rules do not require comparison of the outcomes of program participants to non-participants with similar barriers to employment to measure effectiveness. In our last audit, we found that participants in RESEA's predecessor program received UI benefits longer than non-participants.
- DEW does not have specific training for its employees who provide services for the RESEA program.
- DEW did not provide documentation to show that it has tested its profiling model for selecting claimants to participate in the RESEA program to ensure that those claimants are the claimants most likely to exhaust their unemployment benefits. The USDOL Inspector General has noted this issue with the RESEA program.
- DEW did not provide documentation to show that claimants who failed to report to required RESEA program meetings were disqualified from receiving UI benefits.
- Due to the USDOL's attempts to implement a performance measure statistical adjustment model that adjusts state performance measures to account for local conditions, DEW's employment performance measures have not been finalized.

DEW runs the Wagner-Peyser program, which is the federal government's job services program. The Wagner-Peyser program provides for job matching and job training services, such as skills assessments, career guidance, etc. DEW also runs veterans' reemployment programs and reemployment programs dealing with the Trade Adjustment Assistance program (TAA).

Additionally, DEW runs the RESEA program, which is designed to get claimants most likely to use up all of their unemployment benefits back to work quicker. RESEA also serves individuals who receive Unemployment Compensation for Ex-servicemembers (UCX). Table 6.1 provides information about each program.

Table 6.1: Reemployment Programs

Program	Customers	Services
Wagner-Peyser	Individuals seeking employment. UI claimants are required to register.	Resume writing, interview skills, skills assessments, job referrals, assist customers with the SC Works online program.
Trade Adjustment Assistance (TAA)	Individuals who lost their jobs due to the effects of foreign trade.	Job search assistance (similar to Wagner-Peyser services), training referrals, Trade Readjustment Allowances (income support after the exhaustion of regular UI benefits, relocation allowances).
Veterans Services	Veterans and disabled veterans.	Job search assistance (similar to Wagner-Peyser Services), 24-hour priority over non-veterans for job referrals, priority of service over non-veterans for the receipt of employment and training services.
Reemployment Services and Eligibility Assessment (RESEA)	UI claimants determined to be most likely to exhaust their unemployment benefits and veterans who receive Unemployment Compensation for Ex-servicemembers (UCX). Participation in the RESEA program is mandatory.	Individual appointments, assessment review to determine appropriate services to help claimant reenter the workforce, individual employment plans, job search assistance (i.e. Wagner-Peyser services).

Sources: DEW and USDOL

Summary

For the purposes of determining how DEW has assisted unemployed individuals, the primary performance measures used by DEW for these programs are:

- Employment rate for participants in the 2nd quarter after their exit from the program. This measure identifies how many participants who obtained DEW services were employed in the 2nd quarter after completing DEW's service program.
- Employment rate for participants in the 4th quarter after their exit from the program. This measure identifies how many participants who obtained DEW services were employed in the 4th quarter after completing DEW's service program.
- Median earnings for participants in the 2nd quarter after their exit from the program. This measure identifies median earnings of participants in the 2nd quarter after their exit from DEW's service programs.

DEW negotiates with USDOL to agree to performance goals for its employment programs. These negotiations take into account factors such as past performance, local economic conditions, and goals for continual improvement. DEW has tracked and reported performance measures for the Wagner-Peyser program regarding claimants employed after exit and wages after exit since at least 2011.

The veterans and TAA programs have also adopted those measures. Since those measures have been newly adopted for the veterans program, there is no baseline for the first year as part of WIOA. Based on program performances nationwide for these measures, baselines performance goals for the veterans program will be negotiated in the future. For the TAA program, we have compared South Carolina's statistics to the national average (see Table 6.4).

USDOL Statistical Adjustment Model

According to USDOL officials, it is currently working on a statistical adjustment model for state employment performance measures.
This model will allow USDOL to adjust state employment performance measures to account for various factors in a state's economy that may affect the setting of the standard and the ongoing measurement and reporting of the performance.

Further, this adjustment model does not create new performance measures; it simply adjusts performance measures to account for differences in states' unique economic circumstances. Because this model is not yet complete, USDOL has not been determining whether states have passed or failed their performance measures. A USDOL official commented that states will be assessed for passage or failure of performance measures again in Program Year 2020.

Table 6.2: Wagner-Peyser Performance Measures, Program Year 2017 (July 1, 2017–June 30, 2018)*

Measure	Negotiated Federal Passage Standard	Actual Performance
Employment Rate 2nd Quarter After Exit	64.0%	71.6%
Employment Rate 4th Quarter After Exit	66.0%	71.3%
Median Earnings (2nd Quarter After Exit)	$4,405	$4,492

* Due to the U.S. Department of Labor's lack of an updated Statistical Adjustment Model, these measures are not final.

Sources: USDOL and DEW

Table 6.3: Veterans' Services Performance Measures (Program Year 2017)

Measure	Negotiated Federal Passage Rate*	Actual Performance
Employment Rate 2nd Quarter After Exit	TBD	61.1%
Employment Rate 4th Quarter After Exit	TBD	62.0%
Median Earnings (2nd Quarter After Exit)	TBD	$5,719

* These measures were newly implemented under the WIOA program. These measures' baselines will be determined in the future (TBD).

Sources: USDOL and DEW

Table 6.4: Trade Adjustment Assistance Performance Measures (FY 16-17)

Measure	U.S. Average	S.C. Performance
Employment Rate 2nd Quarter After Exit	74.8%	72.9%
Employment Rate 4th Quarter After Exit	74.0%	76.5%
Median Earnings (2nd Quarter After Exit)	$8,039	$6,851

Sources: USDOL and DEW

Although the lag in DEW's performance measures limits the ability to gauge DEW's performance, a USDOL official said that some states have implemented models that allow them to adjust their performance measure trends to anticipate USDOL's adjustment model. DEW has not attempted to take into account local factors to create its own model.

Shortcomings in Performance Measures

In addition to there being a lag in the finalization of DEW's most recent federal performance measures, the performance measures currently used by USDOL, and thus DEW, do not measure the actual impact of DEW's employment programs. The measures regarding the employment rates in the second and 4th quarters after exit and earnings have the following problems:

- DEW's measure of the employment rates for participants in the second and 4th quarters after exit for program participants captures the number of participants that enter employment but does not capture whether DEW's reemployment programs directly contributed to a participant entering employment.
  - A claimant who uses DEW's SCWOS job search engine who obtained a job through other means would still be counted as entering employment for performance measure purposes.
- The measures do not show whether an individual has retained employment, only whether they are working after exiting the program.
  - An individual who is employed in the 4th quarter after exit may have only recently gotten the job, so it is not known whether that individual has been able to keep the job.
  - Whether a program participant is able to keep a job after exiting the program is a useful measure of program effectiveness that is not currently being captured.

Although the current performance measures have shortcomings regarding gauging program effectiveness, the current measures can be helpful in other ways:

- The measures could be an indicator of the overall economy without reflecting on the actual effectiveness of the reemployment services themselves.
- The measures could be an indicator of problems in the data reported, identify a problem with the services provided, or show the need for other or additional services. For example, a significant decrease in the percentage of participants who obtain employment in the second and 4th quarter after exiting the program during a strong economy could indicate to management problems with the effectiveness of the reemployment programs.

An impact study could be used to gauge the actual impact of DEW's reemployment programs, which would address the shortcomings of the current performance measures, with more precision than even the new statistical adjustment model. An impact study assesses the net effect of a program by comparing outcomes with an estimate of what would have happened in the absence of a program.

An example of an impact study could compare the outcomes of DEW employment service participants with those of nonparticipants by using a randomly assigned comparison group. Such a study would isolate the impact of DEW's reemployment services program from factors such as independent job search efforts.

In its review of USDOL's performance measures for reemployment programs, the federal Government Accountability Office (GAO) noted that impact studies are considered by many researchers to be the best method of determining the extent to which a program is causing participant outcomes. USDOL did not address impact studies in its response to the GAO.

Reemployment Services and Eligibility Assessment Program

One reemployment program currently used by DEW is the federally funded RESEA program. Claimants unemployed due to a reduction in force who are identified through a profiling model as most likely to exhaust their unemployment benefits are required to participate in the RESEA program. The program also serves ex-service members who are receiving unemployment compensation. RESEA requires the selected claimants to participate in a series of services in order to facilitate their reemployment as quickly as possible. RESEA services include meetings at workforce centers, development of employment plans, and job referrals. If a claimant is selected for the RESEA program, he is required to participate or potentially lose his eligibility for benefits.

Activities required to be provided by the RESEA program include:

- Enrollment in the Wagner-Peyser program.
- Provision of assistance for a claimant to develop and implement an individual reemployment plan.
- Providing information and access to services such as resume writing assistance, skills assessments, and labor market information.
- Providing referrals to specific reemployment services and training opportunities, as appropriate.

RESEA Performance Measures

We found that the RESEA program does not have performance measures that effectively gauge the program's effectiveness. Like the measures for Wagner-Peyser services, the current performance measures used by the RESEA program examine the employment status of individuals who participated in the program. However, as noted by the USDOL Inspector General in a 2017 report, the RESEA performance measures do not compare RESEA participant outcomes to outcomes of other claimants with similar barriers to employment or specifically assess the impact of the RESEA program.

The USDOL Inspector General noted that, although the RESEA program was transitioning to measure the employment rate and average wages of RESEA participants, it did not have a plan to compare its results to other claimant outcomes. Thus, with the current measures, it is unknown whether a claimant's outcome through participation in RESEA is better than if the claimant did not participate in RESEA at all.

In the past, the USDOL required states to have a comparison group for participants in the RESEA program's predecessor program, the Reemployment and Eligibility Assessment (REA) program. The program compared claimants who participated in the REA program with unemployment insurance recipients who had similar characteristics that did not receive REA services. However, USDOL has since waived the requirement for a comparison group. The lack of a comparison group makes it difficult to determine whether the program is effective.

In our 2014 review of DEW, we examined the performance of the RESEA program's predecessor REA program. A comparison study found instances in which program participants from March 31, 2010 to March 31, 2012 had longer unemployment durations than individuals in the comparison group who did not receive the intensive services. Only one quarter saw REA participants average fewer weeks of UI benefits than the comparison group.

Table 6.5: Average Weeks to Reemployment and Average Duration of UI Benefits for REA Participants and Comparison Group, 2010–2012

Period Ending	Average Weeks of Unemployment Benefits	
	Comparison Group	REA Participants
03/31/2010	16.0	16.2
06/30/2010	15.2	15.0
09/30/2010	14.9	15.0
12/31/2010	14.7	15.0
03/31/2011	14.3	15.4
06/30/2011	12.4	13.8
09/30/2011	11.3	11.7
12/31/2011	10.9	11.9
03/31/2012	11.0	11.3

Sources: DEW and USDOL

Given that the RESEA program's predecessor program saw claimants who got intensive services received UI for longer than those who did not, it would be prudent to examine the RESEA program's effectiveness through a comparison group study. These comparison groups should have comparable skills, work history, education, etc. This could ensure that the RESEA program's goal of minimizing the duration of unemployment claims is met.

Lack of Training Materials

We also found that training materials specifically tailored for the RESEA program have not been developed. In response to our request for training materials, we received instructions for creating an individual employment plan and instructions for attaching job resumes to work referrals. These materials were created generally for DEW employees and do not specifically instruct RESEA employees.

Given that RESEA program participants are identified as being most likely to exhaust benefits, specialized training for DEW employees who work with that population is necessary. Training and instructional materials designed specifically for RESEA program employees could help ensure that claimants most likely to exhaust benefits are being adequately served.

Profiling System

We asked DEW for information on its profiling system for selecting claimants most likely to exhaust benefits. Although DEW provided us with some information on the profiling model for the RESEA system, DEW did not provide documentation for us to verify its claims. We were not provided with a policy for how the profiling model works, how many claimants are selected, or examples of profiling scores when asked. Without a formal, written policy and records supporting whether the agency is using the proper methodology and selecting the right participants, DEW might not be selecting the proper claimants for participation in RESEA.

According to DEW, claimants are graded on their likelihood to exhaust benefits based on the following factors:

- Weekly benefit amount.
- How long they had their last jobs.
- How long between their separation dates and when they filed their claims.
- The unemployment rate in the county of residence.
- The ratio of their weekly benefit amounts to their prior wage rates.
- The number of weeks of unemployment for which they were eligible.
- Their previous occupations and industry.

According to DEW, individuals receive a score on a scale from 0 to 0.99, and RESEA offices fill their appointment schedules with individuals most likely to exhaust benefits. However, as noted above, we did not receive information with which we could confirm that this system is used to profile claimants through documentation. Additionally, we did not receive confirmation from DEW that it has conducted tests to ensure that its current profiling model selects the claimants most likely to exhaust their benefits.

Missed Appointments

Pursuant to federal law, claimants who are selected for the RESEA program are required to participate in the program. Federal RESEA requirements state that claimants who fail to participate in the program may have their eligibility adjudicated unless they miss their RESEA appointment for "good reason" (such as a scheduled job interview). We found that:

- In the 1st quarter of 2018, 439 claimants who failed to report to their RESEA appointments were not disqualified from receiving UI benefits. Since the average total benefits paid per claimant in that quarter was $3,079, those claimants received approximately $1,351,681 in benefits.
- For the 4th quarter of 2017, 129 claimants who failed to report to their RESEA appointments were not disqualified from receiving UI benefits. Since the average total benefits paid per claimant in that quarter was $3,064, those claimants received approximately $395,256 in benefits.

In their response to our audit report draft, DEW stated that approximately $143,000 would have been withheld from the claimants who missed RESEA appointments. However, DEW did not provide documentation showing the amount of benefits that were withheld. When asked for an explanation as to why these individuals were not disqualified from receiving benefits, DEW noted that a claimant may remain qualified despite not participating in RESEA if he had a scheduled job interview, lived more than 50 miles from a workforce center, or obtained employment before his scheduled appointment.

However, DEW did not provide a copy of a policy stating the specific reasons for allowing claimants to remain eligible despite failing to report when asked. Additionally, DEW did not provide a listing of the specific reasons why the individuals remained eligible when asked, so we were not able to verify whether those individuals should have remained eligible. Thus, it is possible that individuals who should be disqualified are improperly receiving benefits and DEW may be out of compliance with this federal grant program.

Recommendations

44. The S.C. Department of Employment and Workforce should consider implementing an adjustment model to estimate its achievement of federal performance measures.

45. The S.C. Department of Employment and Workforce should conduct an impact study to assess the effectiveness of its employment service programs.

46. The S.C. Department of Employment and Workforce should conduct a study that examines the duration of benefits of Reemployment Services and Eligibility Assessment program participants with that of a comparison group.

47. The S.C. Department of Employment and Workforce should track the employment retention rate of claimants who have exited its employment service programs.

48. The S.C. Department of Employment and Workforce should improve training materials for employees who conduct the Reemployment Services and Eligibility Assessment program.

49. The S.C. Department of Employment and Workforce should document how claimants are selected for the Reemployment Services and Eligibility Assessment Program and implement a written policy for selecting participants for this program.

50. The S.C. Department of Employment and Workforce should review its profiling model for selecting claimants for the Reemployment Services and Eligibility Assessment Program to ensure that its profiling model accurately selects claimants most likely to exhaust their benefits.

51. The S.C. Department of Employment and Workforce should comply with federal law regarding the disqualification of individuals from receiving unemployment benefits who fail to report to Reemployment Services and Eligibility Assistance Program appointments.

52. The S.C. Department of Employment and Workforce should have a written policy specifying the circumstances for individuals to remain eligible for unemployment insurance benefits despite missing their Reemployment Services and Eligibility Assessment appointments.

53. The S.C. Department of Employment and Workforce should verify that the reasons for individuals remaining eligible for unemployment insurance benefits despite missing Reemployment Services and Eligibility Assessment appointments are valid.

Reemployment Services and Rapid Response

As part of our requirement to review DEW's reemployment services, provided for in statute, we reviewed the Rapid Response services to determine whether DEW was effective at channeling information to companies and employees regarding reemployment services offered to help dislocated workers find jobs. DEW's Rapid Response services are meant to channel information to employees being affected by pending layoffs in order to help them get new jobs as quickly as possible. We focused on how DEW channeled information to companies and employees who were laid off from the V.C. Summer Nuclear Plant and MOX Fuel Fabrication Facility closings. We found:

- DEW does not track outcome and performance data related to the Rapid Response services, as required by federal guidelines.
- DEW did not have a policy in place that would have provided guidance to DEW personnel on how to deliver services to companies experiencing layoffs during the time of the most highly publicized layoffs in South Carolina that we reviewed.
- DEW's response to layoffs do not consistently adhere to its Rapid Response protocol, available on its website, when channeling services to companies and dislocated workers.

Tracking Outcomes and Establishing Policy

DEW does not track outcome and performance data, related to the Rapid Response services provided, as required by federal guidelines. As a result, DEW cannot measure whether its efforts to channel information on reemployment services to company management and dislocated workers are effective at putting people back to work. Without this information, DEW also cannot measure if changes need to be made to improve the program.

The federal guidelines state that the operators responsible for carrying out Rapid Response are required to track outcome and performance data, along with information related to the activities of the program's services.

According to a DEW official, DEW does not track the following:

- Number of employees who received new jobs after receiving reemployment services, and how long it took them to receive new jobs.
- Number of employees who were unemployed that live in South Carolina or out-of-state.
- Number of employees who received unemployment insurance after the closings.
- The exact amount that has been expended from the unemployment Trust Fund to pay for claims.

The federal guidelines for Rapid Response outcome and performance data are broad, and interpretation is left up to the discretion of the state program operators. DEW has stated it has recently delivered a rapid response guidance manual on February 28, 2019 to local office staff. However, this manual was not provided to us during the audit. It is beneficial for outcome and performance data to be tracked to determine if people are becoming reemployed from the services channeled through the program.

An internal policy, stating the specific outcomes desired within an established timeframe, may be more useful than following broad federal guidelines. An internal policy can specify the types of outcomes and performance data necessary to determine if the program is successful at helping people obtain the services needed to find new jobs.

Role of Reemployment Services

The role of Rapid Response and the protocol to provide services are described below.

Rapid Response

Part of the Rapid Response services is to refer affected employees to SCWOS and to hold employee group orientation sessions on-site prior to the initial layoff to prepare dislocated workers for job search activity. The goal of Rapid Response is to help dislocated workers find jobs and offer training.

According to DEW's Rapid Response protocol, found on its website, when plant closings and layoffs occur and affect 50 or more employees, DEW's Dislocated Worker Unit (DWU) goes into action for various reasons, including, but not limited to, plant relocation, bankruptcy, company downsizing, and natural disaster.

The DWU contacts an employer to offer and coordinate *Rapid Response* services when an employer voluntarily notifies a local SC Works Center or DWU, when the DWU learns of such an event, or when it receives a Worker Adjustment and Retraining Notification (WARN) from the employer. A WARN offers protection to workers by requiring employers to provide notice 60 days in advance of covered plant closings and mass layoffs, a federal requirement. Exceptions to the 60-day rule include:

- Faltering company, which applies to plant closings.
- Unforeseeable business circumstances.
- Natural disaster.

From there, a management meeting is required to be held with DEW and the company's management staff to discuss topics such as the anticipated layoff schedule and reemployment services. Following the management meeting, the Rapid Response team is supposed to inform the affected workers of available reemployment services, such as resume writing, interviewing skills, basic computer skills, and financial workshops. The team also prepares them for job search activity in an onsite employee group orientation session, which is held prior to the first layoff.

DEW also creates Rapid Response reports for each company involved in a layoff or closing, which cite the following information:

- Date and location of the layoff.
- Reason for the layoff.
- Type of event (i.e., layoff, closure, etc.).
- Number of workers affected by the layoff.
- Group orientation schedule dates.
- Number of individuals that attended each group orientation.
- Workers' demographic information.
- Notes, including the date that DEW received the company's WARN notice and the number of workers that attended the group orientation events.

DEW's Response to Layoffs

The timeline of DEW's response to the layoffs does not consistently adhere to Rapid Response protocol. Although DEW does not have a formal Rapid Response policy, it does have an explanation of the protocol personnel should follow on its website. This protocol was not consistently followed for the VC Summer Nuclear Plant and the MOX Project closings. We chose to examine these closings because they were two of the most prominent, recent mass layoff events.

VC Summer Nuclear Plant Closing

Four companies issued WARN notices due to the closing of the VC Summer Nuclear Plant, between July 31, 2017 and January 23, 2018. Westinghouse (nuclear energy) was the general contractor of the VC Summer Nuclear Plant Project. The other companies working on the project included SCANA (electric and natural gas public utility company), Fluor (engineering), and CB&I (engineering).

Table 6.6 depicts the dates that DEW received the WARN notices, the dates of DEW's response, as well as the dates of management meetings, group orientations, and layoffs.

Table 6.6: VC Summer Rapid Response Timeline

Company		Warn Process				Reemployment Process		
		Issued by Company	Received by DEW*	DEW's Initial Contact with Company	Number of Days from Receipt	Management Meeting **	Group Orientation ***	Expected Layoff
SCANA		7-31-17	7-31-17	8-2-17	2	No Record	No Record	9-30-17
Fluor Corporation		8-1-17	8-1-17	8-1-17	Same Day	No Record	9-13-17	8-1-17
Westinghouse	Jenkinsville	8-10-17	8-10-17	8-10-17	Same Day	No Record	8-15-17 8-16-17 8-17-17	8-31-17 Thru 5-31-18
Westinghouse	Rock Hill	8-11-17	8-11-17	8-12-17	1	8-14-17 (minutes not provided)	8-31-17	8-31-17
CB&I	Jenkinsville	8-3-17	8-7-17	8-7-17	Same Day	No Record	No Record	7-31-17
CB&I	Laurens	9-15-17	9-21-17	9-21-17	Same Day	10-5-17 (minutes not provided)	10-10-17 10-11-17 11-29-17	3-30-18

* WARN standard—DEW is supposed to contact the company as quickly as possible after the receipt of the WARN. Other states, such as North Carolina and Tennessee, have 48 hours to contact the company.

** Management meeting standard— A meeting with the company's management staff is held after the WARN process, but there is no standard timeframe. DEW has not provided documentation to show why these management meetings were not held.

*** Group orientation standard—Group orientation is held after the management meeting, based on an agreed-upon schedule and is held on-site prior to the first layoff, but there is no standard timeframe. DEW has not provided documentation to show why these group orientations were not held.

Sources: Company WARN notices, DEW Rapid Response Reports, DEW's timeline of events

Management Meetings

Management meetings were not documented as being held, and additional documentation was not provided to show the minutes from the Westinghouse-Rock Hill and CB&I Services-Laurens meetings. Management meetings are meant to give an opportunity to the Dislocated Worker's Unit (DWU) to explain to the affected companies the benefits of early intervention assistance, describe available reemployment services, and schedule a group orientation for the affected employees. Management meetings are held at the discretion of the employer. However, we do not know if the meetings that were not held were due to the company's management's decision, or were not documented. Without management meetings, the ability of DEW to work with affected companies to put forth an effective Rapid Response is hindered.

Group Orientations

There were two instances of group orientations that were either held more than 30 days after the layoff date or on the same day as the layoff. Part of the goal of group orientations is to provide employees a chance to search for work and otherwise get acclimated to DEW's services prior to being laid off. Group orientations are held at the discretion of the employer. However, we do not know if these group orientations reflected on Table 6.6 were not held due to the company's management's decisions or were just not documented. By not having orientations prior to the first layoffs, employees lose their chance at a head start on their job searches, which could hinder their reemployment efforts.

CB&I Areva MOX Services, LLC (MOX Project) Closing

Two companies issued WARN notices due to the MOX Project closing on November 8, 2018: CB&I (engineering) and Orano (a global nuclear fuel cycle company). The MOX Project was contracted by the U.S. National Nuclear Security Administration to design, build, and operate a fuel fabrication facility at the Savannah River Site in Aiken.

Table 6.7 depicts the dates that DEW received the WARN notices, the dates of DEW's response, as well as the dates of management meetings and group orientations.

Table 6.7: MOX Rapid Response Timeline

Company	Warn Process				Reemployment Process		
	Issued by Company	Received by DEW*	DEW's Initial Contact with Company	Number of Days from Receipt	Management Meeting **	Group Orientation ***	Expected Layoff
Orano	11-8-18	11-13-18	11-13-18 11-14-18	Same Day	11-13-18 (offered)	11-30-18 12-07-18	1-7-19
CB&I	11-8-18	11-8-18	11-8-18	Same Day	11-8-18 (offered)	11-30-18 12-7-18	1-7-19 thru 1-20-19

* WARN standard—DEW is supposed to contact the company as quickly as possible after the receipt of the WARN. Other states, such as North Carolina and Tennessee, have 48 hours to contact the company.

** Management meeting standard— A meeting with the company's management staff is held after the WARN process, but there is no standard timeframe.

*** Group orientation standard—Group orientation is held after the management meeting, based on an agreed-upon schedule and is held on-site prior to the first layoff, but there is no standard timeframe.

Sources: Company WARN notices, DEW Rapid Response Reports, DEW's timeline of events

According to DEW's event timeline, the agency contacted both of the companies involved in the layoffs within 24 hours after the WARN notices were received.

The group orientations were held prior to the beginning of the layoffs for CB&I and Orano. DEW also offered management meetings to be held with CB&I and Orano officials, but a DEW official stated that the only information received from the companies was by e-mail and phone.

MOX Project's Assessment of DEW's Rapid Response Services

We contacted companies involved in the VC Summer and MOX layoffs to determine their opinions on DEW's response to the layoff, and we received a response from MOX. A MOX official rated DEW at a 5, on a scale of 1-10, with 10 being the best response to the layoffs, and 1 being the worst response. The official stated that customer service issues marred the first phone conversation between DEW and MOX because DEW was pressuring the company to give information about their employees that the company could not yet provide. However, the official noted that there was one DEW employee in particular that MOX thought was very helpful. Besides that, the MOX official stated that DEW was responsive in its efforts.

We asked DEW whether the agency has a policy in place to guide Rapid Response activities throughout the process. DEW stated that it is currently developing a Rapid Response manual. Having a written policy manual may help ensure that the Rapid Response process is conducted in an optimal manner.

Record Keeping of Rapid Response Activities

We found discrepancies in DEW's recordkeeping. We found:

- The events in DEW's timelines were not entered contemporaneously to when they occurred.
- Several instances of inaccurate recording of data.

When we asked DEW why the timelines contained inaccurate and missing entries, the agency did not respond to our inquiry. Instead, the agency provided us with updated timelines, with the corrections made. We have no assurance that this data is accurate since it was previously omitted from the original documented timeline. We could not determine that DEW has sufficient supervisory review of the timeline document.

SC Works Regional Workshop Calendars

DEW did not upload its October 2018 Midlands regional workshop calendar in a timely manner. As of October 9, 2018, the October Midlands regional workshop calendar was not posted on DEW's website to replace the September calendar. These calendars list the dates and times of free events offered each month, to prepare dislocated workers for finding new jobs. Some of the events offered include resume writing, interviewing skills, and Workforce Innovation and Opportunity Act (WIOA) information sessions.

This could have a real effect on jobseekers during the period between October 1^{st} and October 9^{th}, as dislocated workers may not have had access to events offered during that time. This can delay them in obtaining the proper resources needed for re-employment. Jobseekers may become discouraged if the workshop calendars are not available in a timely manner.

Recommendations

54. The S.C. Department of Employment and Workforce should track outcome and performance data, related to the Rapid Response services, as required by federal guidelines.

55. The S.C. Department of Employment and Workforce should establish its own policy manual and method, stating how to implement Rapid Response services within an established timeframe, in order to help reemploy dislocated workers.

56. The S.C. Department of Employment and Workforce should ensure that, when carrying out Rapid Response services, the protocols taken to provide these services are documented and delivered consistently. This includes for both official and unofficial protocols and policies, including but not limited to:

    - Management meetings with companies that receive Rapid Response services.
    - Group orientation sessions with affected employees prior to layoffs when possible.

57. The S.C. Department of Employment and Workforce should ensure that an agency official is responsible for checking the event timelines and agency documentation for errors by establishing internal controls, in order to improve its recordkeeping process.

58. The S.C. Department of Employment and Workforce should ensure that all new regional workshop calendars are posted on the website by the first day of every month.

SC Works Centers

During our review of DEW, we were informed that specific audits of the SC Works Centers were not conducted. The SC Works Centers are facilities operated throughout the state to provide reemployment services. However, the Restructuring & Seven-Year Plan submitted by DEW in April 2015 states that DEW's Audit Services department (internal audit) conducts audits and reviews including:

- Operational audits of Workforce Center processes.
- Financial monitoring reviews of Workforce Centers.

This could be misleading as a reader may perceive that DEW actually conducts audits of the SC Works Centers.

DEW does not track intake data at the workforce centers, although customers are initially asked what program they will be using when they enter a workforce center. By tracking and monitoring specific services provided to individual customers, DEW could better measure its effectiveness at assisting customers in finding employment.

Recommendations

59. The S.C. Department of Employment and Workforce should ensure accuracy in its reporting function.

60. The S.C. Department of Employment and Workforce should track intake data at the workforce centers for all services provided to customers.

Overpayments, Collections, and Fraud

Section 112 of Act 146 of 2010 requires the LAC to examine ways to make the unemployment insurance program at the DEW more efficient and legally compliant. One aspect of the UI program that increases the efficiency and legality of the program is the discovery and recollection of improper UI overpayments.

We found that, while the state's unemployment rate has decreased 34% from 6.5% in 2014 to 4.3% in 2017, DEW has had much larger decreases in its efforts to identify, and thus collect, overpayments. DEW has no documentation or meaningful analysis to demonstrate why these decreases have occurred. These decreases include:

- 93% in fraud overpayment cases identified from FY 14-15 to FY 17-18.
- 46% in non-fraud overpayment cases identified from FY 14-15 to FY 17-18.
- 65% in fraud alerts identified by its main in-house fraud software system from calendar years 2014 to 2017.
- 67% in non-fraud alerts identified by its main in-house fraud software system from calendar years 2014 to 2017.

We also found that DEW is not:

- Using all fraud computer systems available to it that could improve or enhance its identification and collection of overpayment efforts.
- Consistently answering its fraud hotline and does not have a method for callers to leave a message (e.g. a voicemail system).
- Meeting federal guidelines regarding the agency's improper payment rate.
- Publicizing the names of persons convicted of fraud as a deterrent to unemployment fraudulent activity.
- Aggressively prosecuting individuals involved in fraudulent overpayments having prosecuted only two cases in the past four years, with the last one occurring in FY 16-17.

We also found that DEW is paying a full-time temporary grant position for an individual to investigate fraud cases, resulting in only two cases prosecuted in the last four years.

Discovery of Overpayments

Overpayments occur when claimants receiving unemployment benefits gain employment, but do not inform DEW and continue to receive their benefits. Claimants are required to stop filing for benefits upon reemployment with earnings in excess of their weekly benefit amount. Overpayments may also be the result of unreported or under-reported earnings. Some overpayments are the result of a lack of understanding on behalf of claimants, while others are the result of deliberate fraud.

DEW has several methods to discover overpayments. These include:

- A proprietary fraud algorithm called Barts Fraud X (from private company OnPoint Technology, Inc.) runs within DEW's unemployment system (SCUBI).
- Computer interfaces/cross matches with several government and private company databases, listed below.
- Audit Command Language (ACL) computer program—although agency officials stated that this program was rarely used, see page 112.
- DEW also receives tips via an online portal on its website, email, phone, and via mail (this is a small percentage of the leads that DEW receives).

Also, DEW has several computer interfaces to try and discover when one of the agency's claimants has begun a new job. These computer interfaces and when they are run include:

- Federal New Hire Database (weekly).
- State New Hire Database (real time hits).
- Appriss, Inc., a private company cross match performed on presently-incarcerated individuals (weekly).
- Wage Demand, a cross match of wage information reported by employers (run five times a year on wages reported the previous quarter).
- Social Security Administration (real time).
- S.C. Public Employee Benefit Authority (PEBA) (first of the month).

When overpayments are discovered, DEW sends the claimant a letter informing them of the overpayment (whether fraudulent or non-fraudulent). Claimants are allowed 10 business days from the date of the mailing to appeal the overpayment to DEW. Once a decision is reached, claimants can repay overpayments through a variety of voluntary and involuntary ways.

These methods include:

- Voluntary payment plan.
- Voluntary wage withholdings.
- Involuntary wage withholdings.
- Involuntary South Carolina state income tax refund confiscation.
- Involuntary federal income tax refund confiscation.

Voluntary payments stem from a claimant's acknowledgement and agreement that there was an overpayment, and the claimant agrees to repay the debt. When a claimant does not agree to repay the overpayment, DEW takes action to force collection by the means listed above.

Use of these voluntary and involuntary collection efforts enabled DEW to recover several million dollars each year until FY 17-18 of overpaid UI claims (see Table 7.1 and Table 7.2).

DEW classifies overpayments into two categories: non-fraud and fraud. Non-fraudulent overpayments are usually the result of an error by the claimant whereas fraudulent overpayments are intentionally collected. Both non-fraudulent and fraudulent overpayments are subject to the same recovery efforts by DEW. Both have seen a decrease in the number and amounts of overpayments identified.

Non-Fraud Overpayments

Table 7.1 shows the number and amounts of non-fraud overpayments that DEW identified for FY 14-15 through FY 17-18. Over this time period, the quantity of non-fraudulent overpayments identified by DEW has decreased 46%, while the state's unemployment rate has only decreased by 45% over this same time period.

Table 7.1: Non-Fraud Overpayments Identified

Fiscal Year	Non-Fraud Overpayments	
	Number	Amount
14-15	13,538	$4,758,281
15-16	13,757	$4,952,845
16-17	8,441	$4,233,408
17-18	7,243	$4,391,190

Source: DEW's Quarterly Reports to USDOL

Fraud Overpayments

Overpayments of unemployment benefits are considered fraudulent when an individual intentionally seeks to receive unemployment insurance knowing he/she is not entitled to it. DEW investigators make this determination based on claimants either making false statements or intentionally failing to report material facts. S.C. Code §41-41-45 requires DEW to add a 33% penalty to fraudulent overpayments.

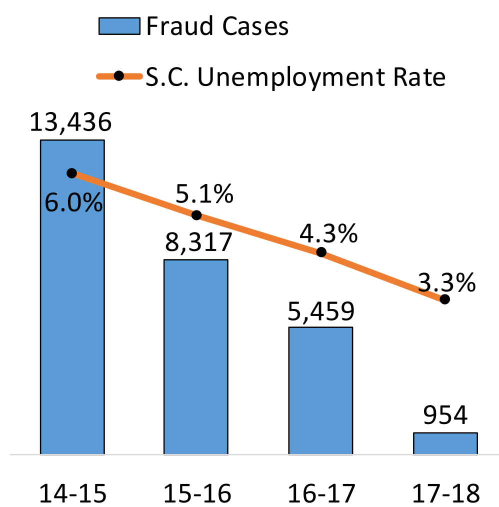
Table 7.2: Fraud Overpayments Identified

Fiscal Year	Fraud Overpayments		
	Number	Amount	Change from Previous Year
14-15	13,436	$9,933,776	---
15-16	8,317	$6,977,036	-38%
16-17	5,459	$5,429,615	-34%
17-18	954	$1,298,993	-81%

Source: DEW's Quarterly Reports to USDOL

Table 7.2 shows the number and amounts of fraudulent overpayments that DEW discovered from FY 14-15 through FY 17-18. Over this time period, the quantity of fraudulent overpayments identified by DEW has decreased 93%, which indicates that the number of cases identified most currently reported for FY 17-18 is just 7% (954) of what it was in FY 14-15 (13,436), while the state's unemployment rate has decreased by 45% over this same time period. It is possible that there is a correlation between the unemployment rate and fraud, however, there could be other factors that influence these data.

Chart 7.3: Fraud Cases Compared With S.C. Unemployment Rate as of June of Each Year



Unemployment rate reported as of June of each year.

Source: U.S. Bureau of Labor and Statistics

According to DEW, the reduction in fraud cases was a result of the agency's more effective case management system within SCUBI, by using technology and resource allocation. However, DEW could not or did not provide us with any of the following:

- Workload reports.
- Reports showing more overpayment potential cases identified.
- Documentation of how the better technology works.
- Documentation of an increase in personnel engaged in identifying and stopping overpayments.
- Data or documentation showing any efforts the agency made to accomplish the goal in its strategic plan to meet or exceed USDOL's measures on improper payment rates.

It is not clear what types of technology and resource allocations the agency could be referring to without more information from the agency.

DEW reported a large decline in detected fraudulent unemployment overpayments was reported for FY 17-18, the year after SCUBI implementation.

We identified the following technology and resource utilization items that might have influenced the ability of DEW to identify fraud overpayments:

- The implementation of SCUBI and its interface with the BARTS Fraud X algorithm. Implementation of new system processes often experience operational issues or "bugs" or other integration problems affecting system accuracy and output.
- Changes to how fraud is discovered. All automated alerts have to be investigated by a human being and proven to show intent to defraud, as a result of updated USDOL guidance to the states.
- Less emphasis on overpayments and fraud by the agency.
- Disbanding of the Organizational Integrity Division.

Collection, Non-Collection, Waivers, and Write-Offs of Overpayments

DEW has its own collection unit located within the agency that seeks to collect debts owed to the agency. If DEW has been unable to recover the overpayment in the specified time, the debt is written off as uncollectible. Also, DEW has the option to waive the debt if it is not a result of fraud. The waiver can occur shortly after the overpayment is determined to be non-fraud.

Table 7.4 shows the options and timeframes for writing off and waiving overpayments.

Table 7.4: Rules for Writing Off and Waiving Overpayments

Type of Overpayment	Written Off	Waived
Non-Fraud	After 5 years	At DEW's discretion*
Fraud	After 8 years	Not able to be waived

*The written request from the claimant is required and it must be received within 10 days of the notice of determination.

Sources: DEW and S.C. Code

In order for a claimant to receive a waiver from DEW:

- Overpayment cannot have been a result of fraud.
- Overpayment had to be made through no fault of the claimant. A no fault overpayment would be the result of an agency or employer error.
- Recovery of the overpayment would have to create a financial hardship on the claimant. In considering whether a claimant qualifies for a hardship waiver, DEW considers the claimant's monthly income and monthly expenses.

Claimants have to apply for waivers from DEW. Once DEW receives all of the information, then the agency makes a decision whether to grant the waivers.

Table 7.5 shows the amount of non-fraudulent overpayments recovered, waived, and written off by DEW for FY 14-15 through FY 17-18 as reported to USDOL.

Table 7.5: Non-Fraud Overpayments Recovered, Waived and Written Off, FY 14-15–FY 17-18

Fiscal Year	Non-Fraud Overpayments		
	Recovered	Waived	Written Off
14-15	$4,962,503	$85,717	$262,056
15-16	$5,174,203	$64,335	$3,736
16-17	$3,555,082	$76,340	$5,136
17-18	$1,772,390	$60,009	$1,219

Source: DEW's Quarterly Reports to USDOL

Table 7.6 shows the amount of fraudulent overpayments recovered and written off by DEW for FY 14-15 through FY 17-18.

Table 7.6: Fraud Overpayments Recovered and Written Off, FY 14-15–FY 17-18

Fiscal Year	Fraud Overpayments	
	Recovered	Written Off
14-15	$7,714,473	$319,867
15-16	$9,850,064	$7,814
16-17	$7,388,552	$4,795
17-18	$2,873,967	$1,982

Source: DEW's Quarterly Reports to USDOL

DEW's only explanation for the large fraud and non-fraud write-offs was that those debts were established prior to FY 14-15. This is consistent with the significant decrease in number of cases identified, as are listed in Table 7.2, which resulted in a decrease from 13,436 in FY 14-15 to 954 in FY 17-18. DEW wrote the debts off according to the S.C. Code §41-41-40(A)(5) which states:

> Notwithstanding any other provision of this section, no action to enforce recovery or recoupment of any overpayment may begin after five years from the date of the final determination for nonfraudulent overpayments nor after eight years from the date of the final determination for fraudulent overpayments.

Agency Integrity Restructuring and Auditing Computer Programs

In 2014, DEW paid a consultant approximately $700,000 to examine agency overpayment recovery efforts. DEW hired the consultant through its use of an emergency procurement, which is questionable.

S.C. Regulation 19-445.2110 states that an emergency procurement may be used in a "situation which creates a threat to public health, welfare, or safety such as may arise by reason of floods, epidemics, riots, equipment failures, fire loss, or other such reason...." DEW's need for assistance regarding ways to reduce overpayments does not meet the regulatory definition of an emergency.

Among the recommendations that the private consultant recommended was that the agency be restructured, and that a new division, the Organizational Integrity Division (OID), be created to emphasize finding and collecting overpayments, including fraudulent overpayments. The agency implemented this recommendation in 2014 and had an OID, which included the Fraud, Investigation, Recovery, and Enforcement (FIRE) unit. OID operated for approximately two years. The information on Tables 7.5 and 7.6 tend to suggest that more fraud was identified and recovered when OID was in operation.

DEW management disbanded this division approximately three years ago and placed the FIRE unit back under the unemployment insurance division at the agency. According to agency officials, the division was disbanded in order to put investigators closer to the UI program and to emphasize that everyone at the agency is involved in the detection of overpayments and fraud. We requested DEW provide us with more information concerning the changes in agency structure, the number of employees, and when the agency's structure was changed, but it did not provide such data.

During the period OID was in existence, it was awarded a federal grant for $150,000 (plus $10,000 provided by DEW) to purchase a computer program called Audit Command Language (ACL). A former agency official stated that ACL could allow DEW employees to look for trends and anomalies and engage in largescale data mining in efforts to combat fraud and overpayments. However, according to agency officials, this program is rarely, if ever, used. According to a former DEW official, by not fully utilizing the ACL program, DEW may have impaired its collection efforts. By not using this program, DEW might not be availing itself of all tools to reduce overpayments. Should USDOL audit for grant compliance, DEW's lack of use of ACL may be questioned.

Decrease in Alerts and Overpayments Discovered

DEW's fraud alerts and the resulting overpayments discovered through its in-house computer systems (SCUBI and Fraud X) have decreased dramatically over the last four years. The SCUBI computer system and Fraud X computer algorithm work together to locate possible alerts of claimant overpayments. These alerts are investigated to determine if they are valid.

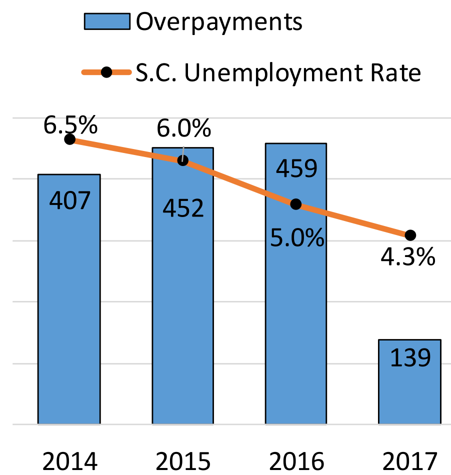
Table 7.7 shows the number of overpayments and the related dollar amounts, by year, while Chart 7.8 shows the number of overpayments in relation to the unemployment rate.

Table 7.7: Overpayments Discovered by Internal Computer System

	FRAUD		NON-FRAUD		TOTAL	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
2014	251	$517,393	156	$51,246	407	$568,639
2015	328	695,120	124	45,565	452	740,685
2016	299	468,602	160	62,909	459	531,511
2017	88	165,348	51	36,615	139	201,963
TOTAL	966	$1,846,463	491	$196,335	1,457	$2,042,798

Source: DEW

Chart 7.8: Overpayments Discovered by Internal Computer System Compared With S.C. Unemployment Rate



*The UI rate is based on the calendar year average

Source: U.S. Bureau of Labor Statistics

The number of overpayments identified by DEW's systems decreased 65% from 2014 to 2017 while the number of non-fraudulent overpayments decreased 67% over the same period. Over that same period, South Carolina's unemployment rate dropped from 6.5% to 4.3%, a 34% difference. The drop in unemployment may not be solely responsible for the drop in cases flagged for investigation by DEW for potential overpayment and/or fraud. Chart 7.8 shows South Carolina's unemployment rate from 2014 to 2017.

DEW stated that the decrease in overpayments established, as well as the decrease in dollar amounts in 2017, was due to an effective case management system within SCUBI, the use of technology, and resource allocation (see Table 7.7).

Fraud Hotline

In addition to DEW's computer system alerts, DEW obtains tips on potential fraud from other sources, such as claimant submissions on DEW's online portal, emails, and letters. However, we did not test DEW's online portal, email, and letter system as we would not have been able to remain anonymous as auditors.

DEW has a fraud hotline which individuals can call if they have information on someone committing UI fraud. We called DEW's fraud hotline over the course of our audit and found that the phone line was not always answered, and no option to leave a message was available. We found:

- After five calls were made during normal business hours, one call was not answered after several rings.
- After five calls were made after normal business hours, the hotline was not answered any of those times.
- In the six times the phone was not answered, there was no option to leave a message or directions to otherwise report the potential fraudulent activity.

Without setting up the agency's fraud hotline with the ability to take voicemail messages, DEW could miss the opportunity to receive information on potential fraudulent activity.

USDOL Overpayment Requirements

The USDOL requires states to be under 10% on improper payments (i.e., overpayment rate plus underpayment rate, then subtracting overpayments recovered) within each federal fiscal year. The improper payment rate is determined by using a quality control statistical survey used to identify errors and support corrective action in each state's unemployment program. The survey is administered by DEW's Benefit Accuracy Measurement (BAM) staff. DEW has been over 10% on overpayments every year for the last four years.

Table 7.9: DEW's Improper Payment Rate as Reported to USDOL, 2014-2017

CY 2014	CY 2015	CY 2016	CY 2017
11.140%	14.918%	11.472%	11.077%

Source: DEW

DEW could not provide a reasonable explanation for its failure to meet the federal standards, but stated that it was currently taking corrective action to fix the issue, such as improving the agency's messaging to claimants and employers (for example, the alerts within DEW's computer system reminding claimants to report when they start working).

Lack of Prosecutions

In order for a claimant to be prosecuted for fraud, they must receive over $2,000 in fraudulent overpayments or have some other substantial factor involved in the fraud case (such as fictitious employment). According to agency officials, DEW staff have referred 166 cases to the agency's office of general counsel for consideration of prosecution over the last four state fiscal years. However, DEW has only prosecuted two of those claimants for fraud.

The agency stated that prosecuting individuals for fraud is a lot of effort (investigating, going to court proceedings, etc.), and that if the individual is found guilty and put on probation that it is harder for the agency to collect the money that is owed to the agency. Once a claimant is on probation, DEW cannot use any of the other collection methods (such as wage withholdings and income tax intercepts) available to the agency against the claimant.

The agency also stated that a class-action lawsuit in Michigan (filed in 2015) regarding automated computer system fraud alerts resulted in USDOL providing guidance to states' employment agencies that they must not create and send overpayment letters without investigative human intervention.

DEW stated it hired an individual in January 2016 to help investigate cases in conformity with the USDOL guidance (see below), as well as assist in prosecuting fraud cases. DEW has presented no evidence that this individual works on identifying and pursuing overpayments, short of those being determined to be fraud. It is the function of the FIRE group to identify and pursue overpayments. After FIRE personnel determine that there is fraud, the fraud cases are pursued.

Table 7.10 shows the number of prosecutions made by DEW for FY 14-15 through FY 17-18.

Table 7.10: Number of Cases Referred for Prosecution by DEW, FY 14-15 – FY 17-18

Fiscal Year	Number of Cases
14-15	0
15-16	0
16-17	2
17-18	0

Source: DEW's Quarterly Reports to USDOL

The agency suggests that it would rather focus its efforts on collecting the money owed to the agency through federal and state tax refund intercepts, wage withholdings, payment plans, etc., rather than prosecute fraud cases.

However, the lack of prosecutions could possibly have the effect of incentivizing individuals to commit fraud, as the absence of public notices of fraud prosecutions might result in the public thinking that:

- If they commit fraud, it might not be discovered, and if fraud was discovered, there may be no penalty and only repayment would be required.
- The individual would know that they would not be faced with any sort of criminal prosecution that could affect future employment.

During our 2010 audit, *A Management Review of the S.C. Employment Security Commission* (the predecessor of DEW), we found that that the agency had stopped prosecuting fraudulent overpayments. In our 2012 report *A Management Review of the Department of Employment and Workforce*, we found that DEW had referred 80 cases to the Office of the Attorney General. Currently, the agency has reverted back to not prosecuting fraudulent cases.

Along with DEW's lack of prosecutions, the agency no longer publicizes fraud cases. The agency used to list individuals who committed fraud and the amounts of the individual's fraud on one of its webpages on the agency's website. However, the agency no longer does this. If the agency was to once again list fraud cases on its website, this could deter individuals from committing UI fraud in the future.

Fraud Investigator

As mentioned, DEW employs an individual to perform investigations. The individual has been at DEW since 2016. The employee verifies probable cause, obtains search warrants, and subpoenas individuals. However, given that DEW has only prosecuted 2 of 166 individuals for fraud over the last four years, it is unclear if this is the best possible use of this employee.

Recommendations

61. The S.C. Department of Employment and Workforce should comply with state law regarding the use of emergency procurements.

62. The S.C. Department of Employment and Workforce should use the fraud finding computer programs that it purchased.

63. The S.C. Department of Employment and Workforce should change the agency's fraud hotline to allow the ability for an informant to leave a message during and after normal business hours.

64. The S.C. Department of Employment and Workforce should increase its focus on discovering and collecting overpayments back to previous levels commensurate with the level of unemployment.

65. The S.C. Department of Employment and Workforce should increase its prosecutions of individuals committing unemployment insurance fraud.

66. The S.C. Department of Employment and Workforce should list individuals committing unemployment insurance on the agency's website.

67. The S.C. Department of Employment and Workforce should evaluate the agency's use of a fraud investigator to verify if it is the best use of the agency's resources.

Management and Administrative Processes

Use of Financial Accounting and Reporting System (FARS)

We reviewed DEW's use of FARS, its financial accounting software, pertaining to its recording contingency assessment expenses and found:

- DEW did not have a reconciliation between FARS and SCEIS to demonstrate all the expense and revenue transactions that were entered into FARS were also entered into SCEIS.
- No explanation for FARS and SCEIS' records not matching.
- Neither FARS nor SCEIS could give the current balance of the contingency assessment fund.
- FARS is the financial accounting system that DEW has audited by an independent accounting firm, which conflicts with SCEIS' status as the state's official accounting system.
- FARS costs millions to maintain, but DEW could not identify the actual cost to maintain the system with any specificity.
- DEW could not provide analysis comparing the cost of using FARS and the cost of buying and using Microsoft Dynamics® AX, a software package that would allow DEW to eliminate double accounting entries to provide SCEIS the necessary data.
- DEW is out of compliance with fully using SCEIS, and has not sought a computerized solution since 2016.

Use of SCEIS and FARS

We were asked to review DEW's use of contingency funds (see *Use of Funds*). We obtained a listing of DEW's financial records from FARS pertaining to these expenses in order to test the expenses for propriety. We found DEW uses FARS for its auditable accounts and SCEIS because it is the official state accounting system, which DEW is required to use. However, we found SCEIS records did not match FARS data as shown in Table 8.1. DEW stated the amounts do not agree, by fund, because SCEIS does not have the ability to allocate indirect costs per federal guidelines.

An agency official also stated that FARS and SCEIS records do not match and that FARS is a better indicator of the current financial information. It is unclear why SCEIS' records do not match FARS' records. FARS tracks indirect costs associated with federal grants, but contingency assessment funds are not federal grant funds. No further explanation was provided by DEW. DEW recently hired an employee to perform a reconciliation between FARS and SCEIS, but did not provide a response to our request for more information, including if any reconciliations had been performed.

At least since FY 15-16, DEW has indicated in budgetary records submitted to the General Assembly that the FARS system is reconciled to SCEIS. However, DEW is currently making manual adjustments to correct the fund level variances and implementing procedures to balance SCEIS and FARS fund-level amounts.

Table 8.1: FARS and SCEIS Contingency Assessment Expenditures, FY 13-14–FY 16-17

Fiscal Year	FARS	SCEIS	Difference
13-14	$7,811,736*	$2,578,428	$5,233,308
14-15	$7,322,424*	$3,602,599	$3,719,825
15-16	$11,380,654*	$6,359,052	$5,021,602
16-17	$8,465,575**	$7,254,346	$1,211,229

* Audited financial statements. DEW did not respond to our request for FY 17-18 amounts.

** Unaudited amount.

Sources: DEW, Comptroller General, LAC Calculations

No Separate Tracking of FARS Indirect Grant Costs

DEW implemented FARS software in the 1970s, making it an older application that is costly to maintain. An agency official stated that FARS costs millions to maintain; however, DEW management informed us that FARS costs are not tracked separately within the mainframe, and it cannot supply those costs. Therefore, DEW cannot provide a cost comparison between keeping FARS and having the SCEIS team build a customized financial software module that will allow it to use SCEIS for its grant financial requirements for USDOL reporting.

However, DEW provided documentation showing the planned use of $2.2 million of federal funds for upgrading the mainframe server for FARS from FY 12-13 through FY 16-17. A customized module in SCEIS would decrease the likelihood of errors by eliminating the keying of double accounting entries and would eliminate mainframe costs. It would also allow DEW the ability to provide current, accurate financial records as it could not provide the current balance of the contingency assessment fund from FARS or SCEIS.

Agency Not Compliant with SCEIS for Tracking Grants

S.C. Code §11-53-20 requires state agencies, with certain exceptions, to use SCEIS. SCEIS was designed to standardize business processes for cost-effectiveness and efficiency. However, DEW also uses FARS for its financial accounting. DEW explored the possibility of replacing FARS and requested approval from the Office of the Comptroller General to purchase Microsoft Dynamics® AX software. This software would correct SCEIS' deficiencies in tracking federal grant funding. DEW's request was denied in late 2016 because it was not consistent with SCEIS' objective of maintaining one shared enterprise-wide system. The denial letter explained that the SCEIS team is committed to building a comparable program, tailored to DEW's specific needs, and suggested that DEW submit a project request to the SCEIS Executive Oversight Committee that handles software changes in SCEIS. DEW has not pursued any changes to its financial software after receiving the denial in 2016 for the purchase of the Microsoft® product.

The Department of Administration (DOA) documented the estimated costs of approximately $1.7 million to add Microsoft Dynamics® AX software to SCEIS. DOA also made a comparison between Microsoft Dynamics® AX and the module SCEIS would create which showed that SCEIS would have comparable functionality, but would require additional information from DEW.

A DEW official voiced concerns over the costs involved with the tailored program from DOA and, with it being a state agency, felt there would be no legal recourse if the work was not acceptable. DEW continues to be out of compliance with having all its financial transactions input to SCEIS to accurately reflect its financial position in SCEIS.

Recommendations

68. The S.C. Department of Employment and Workforce should submit a project request to the SCEIS Executive Oversight Committee to collaborate on a solution for the replacement of the Financial Accounting and Reporting System.

69. The S.C. Department of Employment and Workforce should enter all contingency assessment-related transactions into SCEIS.

70. The S.C. Department of Employment and Workforce should complete a monthly reconciliation of all contingency-related accounting transactions between FARS and SCEIS to ensure the accuracy of transactions entered into each system.

71. The S.C. Department of Employment and Workforce should produce a balance for the contingency assessment, both monthly and annually, for the use of its management staff, outside auditors, and reporting to the Legislature.

72. The S.C. Department of Employment and Workforce should comply with state law S.C. Code §11-53-20, which requires most agencies to use SCEIS, for all of its financial recordkeeping.

Human Resources

We reviewed human resources at the Department of Employment and Workforce (DEW) to evaluate hiring practices and employee turnover, particularly in executive positions. We also reviewed the internal audit function. We found:

- Organizational changes to executive positions were made over the past six years, reducing the number of assistance executive directors from eight to five.
- DEW does not formally and regularly track employee turnover, but provided the employee turnover rates for FY 10-11 through FY 17-18.
- The internal audit function at DEW does not report to the proper authority, which should be the Executive Director.
- DEW's internal audit department, consisting of three positions, has had no employees since December 2018. The three employees resigned during the previous two months.
- There were omissions and outdated information in employment data DEW submitted to the S.C. Department of Administration.

Employee Turnover

Although DEW stated it does not regularly track employee turnover, the human resources department provided employee turnover rates for FY 10-11 through FY 17-18 upon our inquiry. We found that turnover rates were highest in FY 12-13, when DEW had a major reduction in force, at 41% and in FY 17-18 at 19% as shown in Table 8.2.

DEW does not analyze the data it has regarding employee turnover. Therefore, it remains unaware if it has a turnover problem. By accumulating and analyzing employee turnover data, DEW would be in a position to take corrective action, which may lead to preventing the loss of institutional knowledge. This has been a concern, as noted in a report by an independent consultant contracted by DEW (see *Reports Issued by Other Agencies*).

Table 8.2: Employee Turnover

Fiscal Year	Number of Full-time Employees End of June	Turnover Rate
10-11	897	15%
11-12	907	14%
12-13 *	678	41%
13-14	691	15%
14-15	669	14%
15-16	628	17%
16-17	634	14%
17-18	610	19%

* DEW had a major reduction in workforce in FY 12-13 due to budgetary constraints.

Sources: Department of Administration and LAC Analysis

Changes to Organizational Structure

We reviewed executive turnover at DEW and found there was a pattern of organizational changes over a short period. Since FY 10-11, there have been four executive directors, excluding interim directors. DEW's current Executive Director was appointed by the Governor in April 2019; the previous Executive Director left the position in December 2018.
We reviewed executive staff positions, other than the Executive Director, from FY 10-11 to FY 17-18 and found that 59% had held the position no more than five years, as shown in Table 8.3 and Chart 8.4, which has contributed to a lack of institutional knowledge.

DEW made changes to its organizational structure throughout the past six years, reducing the number of assistant executive directors (AED) from eight to five and transferring those duties to other areas. DEW attributed the changes to a desire for the agency to have mission divisions for workforce and unemployment, administrative services, and legal services and to align with the overall reduction in agency staff.

We reviewed the reductions and found staffing was reduced by 294 employees between November 2012 and June 2013, with the UI division losing 127 employees and the Reemployment division losing 121 employees. The three AED positions eliminated included:

INTERNAL AUDIT

Now under the finance and assurance department (see *Internal Audit Function Independence*).

EMPLOYMENT AND TRAINING

Moved to the workforce and economic development division that was later split into two sections, workforce center operations and workforce innovations.

ORGANIZATIONAL INTEGRITY

After the resignation of the AED, DEW stated there was concern that the division had become too segmented and had lost sight of core unemployment knowledge. The FIRE (Fraud, Investigation, Recover, and Enforcement) and BAM (Benefits Accuracy Measurement) units were returned to the UI division; CISO (Chief Information Security Officer) and the Equal Opportunity Officer were moved to the legal division.

While we could not determine the impact of these changes, it is known that organizational changes have advantages and disadvantages.

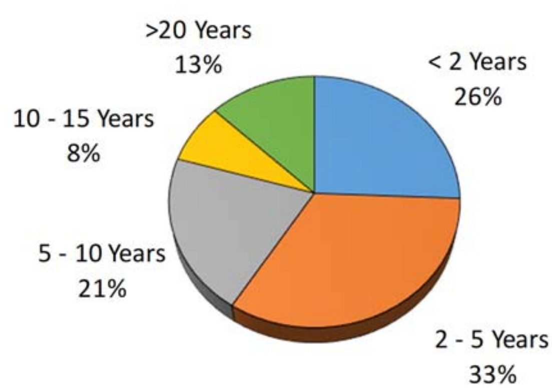
Table 8.3: Executive Staff Experience Since FY 10-11

Employment Ranges	Number of	
	Executive Staff	Executives Departing After June 2013 *
<2 Years	10	3
2 – 5 Years	13	7
5 – 10 Years	8	3
10 – 15 Years	3	1
15 – 20 Years	0	N/A
>20 Years	5	2

* A new Executive Director began at the end of FY 12-13.

Sources: Department of Administration and LAC Analysis

Chart 8.4: Executive Staff Years From FY 10-11 to FY 17-18 (in percentages)



Sources: Department of Administration and LAC Analysis

Internal Audit Function Independence

We were informed that the internal audit department was not given sufficient authority to audit, hindering the ability to effectively perform the job. We found that the organizational placement of the internal audit function within DEW does not report to the proper authority, which should be the Executive Director. The internal audit manager reports to the chief financial officer, the same person who is over the employee administratively. The reporting relationship affects internal audit's independence and scope of work. The organizational placement of the audit activity should have sufficient safeguards to prevent interference with internal audit's ability to perform its work and report the results objectively. Without independence, the internal audit function loses effectiveness.

DEW internal auditors had conducted a risk assessment for 2017, but the internal audits conducted had been only those that were mandated by USDOL—the risk assessment had not been the basis for determining which internal audits to conduct, as it should have been. Normally, internal auditors conduct risk assessments and assign a level of risk—high, medium, or low—to each area and focus on auditing areas with the most risk. The internal audits identified two areas with very high risk, however, internal audits of these areas were not conducted.

Near the end of 2018, there were no employees in the internal audit department at DEW. The five positions were vacated between August 1, 2018, through November 1, 2018. The vacancies remained as of mid-February 2019 with DEW having no employees in its internal audit department.

Inaccurate Employment Data Recorded in SCEIS

We requested DEW employment records from the S.C. Department of Administration (DOA) for FY 09-10 through FY 17-18, which DOA pulled from SCEIS. We found there were some errors and omissions in employment data DEW entered into SCEIS. A representative from DOA stated its records indicate data as it is entered by DEW. We found examples of omitted hire dates and a former employee listed as having a supervisor hired after the employee's departure. Without accurate and complete data entered by DEW, the credibility of state employment records maintained in SCEIS is compromised. Finding inaccuracies and omissions within a small amount of data brings into question whether DEW may have also submitted inaccurate data to USDOL, compromising the credibility and reliability of federal reports.

Recommendations

73. The S.C. Department of Employment and Workforce should track and monitor employee turnover.

74. The S.C. Department of Employment and Workforce should carefully analyze and document the impact of major organizational changes.

75. The S.C. Department of Employment and Workforce should fully staff and support its internal audit department.

76. The S.C. Department of Employment and Workforce should have the internal audit manager report directly to the Executive Directive.

77. The S.C. Department of Employment and Workforce should submit complete and accurate employment data to the S.C. Department of Administration.

Reports Issued by Other Agencies

We reviewed reports issued by other state, federal, and private agencies regarding the Department of Employment and Workforce. We found:

- The FY 16-17 report of DEW's financial statements had not been released by the Office of the State Auditor (OSA) as of June 2019, and is the latest audit report in at least the past ten years.
- The FY 17-18 OSA's audit report of the unemployment compensation fund (the Trust Fund) identified six material weaknesses. In prior years, only one material weakness was identified and none had been identified in the prior three years.
- DEW had not fully implemented two recommendations made in the OSA's FY 16-17 audit report of the Trust Fund by OSA.
- The tax collections function has failed Tax Performance System (TPS) review since 2011, requiring DEW to have a corrective action plan each year since 2013.
- DEW's responses in the TPS corrective action plan for each area were very similar to each other and were general in nature with no specific actions listed that would be taken.

- USDOL, in examining DEW's review of its TPS, could not conclude that DEW had performed the review correctly. This is because USDOL indicated DEW could not provide the appropriate documents and personnel appeared to lack understanding of the review process.
- A mid-2018 report of DEW by an independent consulting firm had several findings and recommendations for improvement of financial operations. However, DEW has not implemented the recommendations and has stated that it has no interest in doing so in the future.

State Auditor Reports

OSA conducts annual audits of DEW, using staff or a contracted public accounting agency, and releases two separate audit reports:

UNEMPLOYMENT COMPENSATION FUND
AGENCY FINANCIAL STATEMENTS

There are two categories which are used by auditors to determine the impact a finding may have:

Material Weakness
A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. It is a severe form of finding identified by auditors.

Significant Deficiency
A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Delay in FY 16-17 Financial Statement Audit Report

As of June 2019, the audit report of DEW's FY 16-17 financial statements had not been released, which is nearly two years after the end of the fiscal year. Based on prior audit release dates, it is feasible that the FY 17-18 report on the audited financial statements could have been published by March 2019 if there had not been a delay in the FY 16-17 audit.

Table 8.5 illustrates that all of the release dates for audits completed in the last ten years have all been released within 11 months of the end of the fiscal year under review. It is unclear why the FY 16-17 financial statement audit has taken nearly two years and is still not issued. Employee turnover in DEW's finance department may also have contributed to the delay in the completion of the financial audit. We saw no evidence that the auditors experienced problems in obtaining proper documentation in similar prior audits.

Table 8:5: Release Dates for State Auditor's Reports on DEW Financial Statements

Fiscal Year	Date of Cover Letter
16-17	Not Yet Released *
15-16	January 31, 2017
14-15	March 28, 2016
13-14	January 30, 2015
12-13	April 28, 2014
11-12	May 24, 2013
10-11	May 2, 2012
09-10	May 23, 2011
08-09	April 2, 2010
07-08	March 30, 2009
06-07	February 26, 2008

* The FY 16-17 report on the audited financial statements had not been published as of June 2019.

Source: DEW Audited Financial Statements

Review of Trust Fund Audit Reports

In reviewing the contracted CPA firm's audit of DEW's Trust Fund, we found that the FY 17-18 audit report of the Trust Fund identified six material weaknesses, whereas there had only been one material weakness identified in FY 16-17 and none in the three years prior as shown in Table 8.6.

The FY 17-18 audit of the unemployment Trust Fund found that two recommendations identified in the FY 16-17 audit report had not been fully implemented by DEW:

- In FY 16-17, the allowance for uncollectible accounts was not estimated in accordance with policy (material weakness) causing the allowance to be underestimated by $32,637,005. The FY 17-18 report indicates that DEW had computed the allowance based on the policy, yet it was overstated by $5,265,761 due to bad debt recoveries during the year. Therefore, DEW management agreed to accept the state auditor's recommendation to revise the policy and compute the allowance based on historical collection rates and write-off history.

    - Underestimating the allowance may result in DEW having less revenue available than was collected for UI taxes during the year and may cause DEW to run short of funds needed to pay UI claims, having to depend on the Trust Fund reserve to cover shortages. The allowance for uncollectible accounts reduces the total receivables (revenue) reported to reflect only the amounts expected to be paid, so if it is understated, then revenue is overstated.

- The general ledger did not have a subsidiary ledger function, leading to year-end adjustments (significant deficiency), which means that assessments receivable are not being evaluated for accuracy and to determine the collectability of employer debt before year-end.

    - An accounts receivable subsidiary ledger shows the account status and amounts owed by each employer or claimant at any point in time. Without referring to an updated accounts receivable subsidiary ledger throughout the year, DEW is not able to adequately track employer UI tax payments and claimant reimbursement payments which are due in order to determine the length of time debt has remained unpaid. Using the length of time a debt has remained unpaid and attempting to collect the debt sooner rather than later may allow DEW to see an increase in revenue collected and a decrease in the amount of debt written off as uncollectible. The longer a debt is unpaid, the more likely it will remain unpaid, eventually leading to the debt being written off.

Table 8.6: Comparison of Findings from Unemployment Compensation Fund Audits FY 13-14 – FY 17-18

Findings	Fiscal Year				
	17-18	16-17	15-16	14-15	13-14
Number of Material Weaknesses (MW)	6	1	0	0	0
Number of Significant Deficiencies (SD)	0	1	0	1	0
Contributions Payable (MW) Excluded material balances due to employers because the supporting subsidiary ledger was incomplete.	X				
Allowance for Uncollectible Accounts (MW) Allowance for uncollectible amounts for assessments receivable and benefits overpayments receivable are not computed based on historical collection rates and previous write-off history.	X *	X			
Bad Debt Recoveries (MW) Revenue from bad debt recoveries for collection of outstanding assessments receivable accounts that had previously been written off was not recognized.	X				
Assessments Receivable (MW) Significant balances due from employers were excluded because the subsidiary ledger was incomplete.	X				
Benefit Overpayments Receivable (MW) Excluded significant balances due from claimants because the supporting subsidiary ledger was incomplete and inaccurate.	X				
Timely Financial Reporting (MW) Audited financial statements for FY 17-18 were not submitted to the State Comptroller General's Office by the due date, October 1, 2018.	X				
Timely Reconciliation and Review of Assessments Receivable Subsidiary Records (SD) The Trust Fund's general ledger does not have a subsidiary ledger function; management relies on the Trust Fund's tax system for subsidiary activity and ending balances. Management is not reviewing the assessments receivable subsidiary ledger generated from the Trust Fund's tax system during the fiscal year to ensure accuracy and collectability of employer account balances.		X			
Timely Reconciliation and Review of Subsidiary Records (SD) General ledger balances were not reconciled to subsidiary records throughout the year. At year-end, summary level balances are obtained from the UI benefits information system and posted to the general ledger without subsidiary records being reviewed by the UI accounting staff.				X	

* Accounts that have been deemed to be uncollectible are not written off on a consistent basis.

Source: DEW Unemployment Compensation Fund Audit Reports

United States Department of Labor Report on the Tax Performance System

The TPS program is part of UI Performs, a comprehensive performance system in which federal reviewers annually assess whether state employment agencies are accurate in handling their processes of benefit charging to employers, collections of taxes owed, contributions assessed, etc. (see measurements below).

The USDOL conducted a required monitoring review of DEW's TPS program for calendar year 2015, which was originally completed by DEW internal audit staff, as is the normal procedure. USDOL's policy is to conduct a monitoring review every four years. The federal review team was able to confirm the accuracy of DEW's reviews in two areas, but was unable to confirm accuracy in several other areas as shown in Table 8.7.

DEW could not provide the necessary documentation in some cases and, most concerning to the federal review team, DEW's reviewers appeared to lack understanding of the processes for the TPS review. Therefore, USDOL could not conclude that DEW had properly conducted the TPS review or that the state's unemployment insurance tax system was running as effectively and efficiently as possible. The review team's report, issued February 2018 by USDOL, requested that DEW provide a response within 45 days of receipt; however, DEW did not provide a response until nearly a year later, on January 18, 2019. DEW's responses for each area were very similar to each other and were general in nature with no specific actions that would be taken. The majority of the responses were repeated sentences.

Table 8.7: Monitoring Review of DEW's 2015 TPS Program by the US Department of Labor

AREA	CONFIRMED? (YES OR NO)	REASON (IF NOT CONFIRMED)
Report Delinquency	Yes	N/A
Field Audit	Yes	N/A
Status Determinations *	No	1. New Status and Successor determinations were examined inaccurately. 2. Terminated/Inactivated status determinations were not thoroughly documented.
Contribution Report Processing	No	Information was incorrectly posted, computed, and reported in DEW's annual TPS report.
Collections **	No	The sampling was improperly conducted as the quarter reviewed was not noted, making it impossible to verify the sample.
Benefit Charging	No	The sample was improperly presented as the account numbers in USDOL's data system were not the accounts associated with the sample.
Credit Refunds	No	DEW did not provide the process procedures upon request, without which the samples could not be properly examined.
Reimbursable Employer Billing	N/A	Review was not completed due to the extended technical assistance offered during the review and the lack of resources.

* Includes three sub-areas: New, Successor, and Inactive employers.

** The Collections function has failed TPS review since 2011, requiring DEW to have a corrective action plan each year since 2013 (after three consecutive years of failing, a corrective action plan is required until a passing score is received).

Sources: DEW and USDOL TPS Reports

Independent Consultant Report on Financial Forecasting

DEW hired an independent consulting firm, Iknow LLC, in late 2017 at a cost of approximately $10,000 to evaluate the agency's financial forecasting tools and processes. Table 8.7 summarizes the findings from the consultant's report issued in May. The consultants noted the following:

- DEW used an Excel spreadsheet to prepare its cash flow forecasts on a monthly basis, a manual process which is time-consuming and subject to error.
- DEW's former director implemented the practice of management reporting binders for output reports, but admitted to not fully understanding all reports due to the complexity of some reporting metrics.
- DEW management cited concerns with large variations that had been experienced with the monthly projections which contributed to a lack of confidence in the accuracy.

The consultant advised DEW that commercial, off-the-shelf forecasting software should not be purchased until DEW had conducted modeling and forecasting requirements and recommended that DEW:

- Conduct a business analysis/research project to:
  - Identify causes of expense variability;
  - Define the optimal kinds of approaches for the various expense categories;
  - Build a prototype using Microsoft Excel® and run the prototype for approximately six months to assess and refine the models;
  - Prepare detailed recommendations for implementation;
  - Develop comprehensive documentation which will create standardized DEW policies and practices for forecasting.
- Conduct the necessary steps to create new management reports and dashboards.

The consultant concluded that the variability in DEW's financial forecasting was caused by lack of appropriate models and incorrect simplifying assumptions as they were not detailed enough. Upon our inquiry of the status of implementation or planned implementation of the recommendations, DEW informed us that no actions had been taken on the recommendations in the consultant's report by stating:

> A brief [management] meeting was held to discuss the report, but the report failed to provide any information that was not already known by management. Because there were no value added recommendations in the report, none have been implemented.

However, it appears the Iknow report had valid recommendations to assist DEW in being better prepared to select forecasting software that would best suit its needs. The scope of work DEW included in its request for quotes, indicates that DEW was concerned with its financial forecasting process and was seeking assistance for improvement. The scope of work for the project included:

- Meet with executive management and staff to gain an understanding of DEW's cash forecasting and other executive financial reporting needs.
- Review the current cash forecasting and other executive financial reporting tools and processes in order to gain an understanding of the approaches taken and the information provided relative to the executive reporting needs identified.
- Evaluate the tools, methods, techniques, and assumptions currently applied in the forecasting and executive financial processes used by DEW and develop best practices recommendations that DEW should consider in an effort to improve the efficiency and effectiveness of those processes.

DEW's response that there was no value-added information indicates the agency was aware of the steps needed to be taken to best determine what financial forecasting model it needed, but it appears DEW was not able to complete those steps without the assistance of a consultant. However, DEW has provided no indication it has taken any of the steps or has any interest in doing so in the future.

Table 8.8: Findings in Consultant Report

Findings
1. No supporting documentation for the Excel spreadsheet used for financial forecasts.
2. No standardized policies and practices for financial forecasting.
3. New data has to be entered into the spreadsheet manually as it is not integrated with external data sources, making the process time-consuming and subject to error.
4. DEW uses two financial systems, SCEIS and FARS, but the SCEIS Reporting team can create custom dashboards and reports.
5. The average time for the monthly financial close process is 20 calendar days with additional time needed to prepare forecasts and management reports, making it difficult to identify and quickly respond to issues.
6. Lack of documentation for forecasting instructions and clear modeling assumptions contributed to a loss of institutional knowledge. *
7. Although the contingency fund target was in the range of $10 million–$15 million, the balance at the time of the consultant's review was $20 million. Sound financial forecasting is necessary so as not to unintentionally spend contingency assessment funds or to unintentionally grow the funds, in which case the General Assembly may re-appropriate the funds to other needs.
8. There are enough general ledger accounts to provide detailed expense tracking data.
9. If grant-level models were determined to be appropriate, the small number of active grants could be modeled individually in a forecasting system.
10. The majority of input data needed for any future forecasting model is available to DEW in electronic format.
11. The SC Department of Administration has the necessary resources to create a custom application for DEW, including custom dashboards and reports.
12. All of the grant expense profiles reviewed by the consultant had significant variability from month to month.

* Without having processes documented, the high employee turnover in the Finance Department in the 18 months prior to the review led to a lack of institutional memory.

Source: Iknow Independent Consultant Report

Conclusion

Upon review of various reports of DEW, there are recurring themes of a failure to provide requested documentation, a lack of documentation, and concerns with its operating effectiveness and efficiency. DEW management has not been proactive in implementing recommendations presented by reviewers of the agency—federal, state, or private.

Recommendations

78. The S.C. Department of Employment and Workforce should evaluate its revenue forecasting and determine if it is a critical component of its financial operation.

79. The S.C. Department of Employment and Workforce should implement recommendations from the Iknow report if it has determined revenue forecasting to be a critical need, and should implement the remaining recommendations from the FY 16-17 Office of the State Auditor's audit of the Unemployment Compensation Fund (the Trust Fund).

Taxpayer Services Report

We reviewed DEW's participation in conducting tax performance system (TPS) audits, a review required by USDOL that the agency performs. We found that:

- DEW staff were told by management not to provide responses to a 2017 annual audit report of the TPS conducted by DEW's internal audit staff, the results of which are reported to USDOL.
- USDOL performed a monitoring review of DEW's 2015 annual TPS report and could not confirm its accuracy in five of the seven areas reviewed (see *Reports issued by Other Agencies*). The monitoring review is conducted every four years by USDOL as part of its oversight efforts.
- One of the thirteen areas did not pass the review of the 2017 TPS.
- Collections has not passed an annual internal audit evaluation since 2011, requiring corrective plans since 2013.

Table 8.9 identifies the areas the agency is required by USDOL to include in the review in order to determine the agency's performance scored as pass or fail.

Table 8.9: 2017 TPS Report

Tax Function Reviewed	Pass	Fail
Status – New Employer	X	
Status – Successor Employer	X	
Status – Terminated/Inactive Employer	X	
Cashiering	X	
Report Delinquencies	X	
Collections*		X
Field Audit	X	
Contributions Report Processing	X	
Debits/Billings Contributory	X	
Debits/Reimbursable	X	
Credits/Refunds	X	
Benefit Charging	X	
Tax Rates	X	

* Collections area has not passed an annual TPS internal audit evaluation since 2011, requiring corrective plans since 2013.

Source: DEW's 2017 Annual TPS Report

We reviewed the final report and found that each management response was vague and had been repeated throughout the audit report. Although the auditors made 17 distinct recommendations, DEW made only 7 vague, uniform responses, with an additional sentence in the response for the collections area and no response for the report delinquency area. Table 8.10 shows a sample of the recommendations, DEW's responses, and LAC's analysis.

Table 8.10: Example of TPS Recommendations

	TPS Recommendations	DEW Response	LAC Analysis
Collections *	Determine why tax liens are not being filed timely and ensure that tax liens are processed on or before the date on the Notice of Assessment.	As part of the Department's modernization efforts, S.C. has implemented a number of key strategies to enhance our program of integrity efforts statewide. The Department has implemented a multi-faceted approach to enhance operational security controls; enhance customer engagement and technology experience; workforce development and education; as well as legislative support to increase program integrity. *Pre-State Unemployment Insurance Tax System (SUITS) implementation, S.C. operated under a legacy system that proved to be inadequate to effectively case manage the Department's collection efforts due to the lack of triggers and workflow designation to identify account collection-cycles.* With the implementation of SUITS, S.C. has established configurable triggers to effectively case manage accounts at the various mechanisms within the account maintenance cycle in accordance with S.C. regulation and statue.	No specifics were given about what DEW would do to determine why tax liens had not been filed timely and what steps it would take to ensure tax liens are filed timely in the future.
	Provide training for staff that will enable the staff to execute the filing of the tax liens within the established timeframe.		Details about how DEW would train its employees to properly execute tax liens within the timeframe were not identified.
Contributions Report Processing	The Debits/Billing staff ensure that all employers' statement of accounts (SOA) are current, reflect the most recent transactions, and contain accurate calculations.	As part of the Department's modernization efforts, S.C. has implemented a number of key strategies to enhance our program of integrity efforts statewide. The Department has implemented a multi-faceted approach to enhance operational security controls; enhance customer engagement and technology experience; workforce development and education; as well as legislative support to increase program integrity. With the implementation of SUITS, S.C. has established configurable triggers to effectively case manage accounts at the various mechanisms within the account maintenance cycle in accordance with S.C. regulation and statue.	DEW did not specifically identify how it would review the SOA to ensure accuracy.
Credits/Refunds (Contributory)	The Contributions Unit should modify the current process to compute the contribution due by enforcing the billing of the additional amount due or crediting the additional amount based on the new calculations and a new SOA should be mailed to the employer.	As part of the Department's modernization efforts, S.C. has implemented a number of key strategies to enhance our program of integrity efforts statewide. The Department has implemented a multi-faceted approach to enhance operational security controls; enhance customer engagement and technology experience; workforce development and education; as well as legislative support to increase program integrity. With the implementation of SUITS, S.C. has established configurable triggers to effectively case manage accounts at the various mechanisms within the account maintenance cycle in accordance with S.C. regulation and statue.	Steps DEW would take to modify its current process so that the computation of contributions due would be accurate or how applicable billings or credits would be performed.
Report Delinquency	Management should consider developing procedures for delinquent employer accounts which are not resolved within a particular timeframe to ensure that the delinquency is resolved and documented appropriately.	No Response	DEW's lack of response makes its intentions unclear.

* Collections area has not passed an annual TPS internal audit evaluation since 2011, requiring corrective plans since 2013.

Sources: DEW's 2017 Annual TPS Report and LAC Analysis

We would have expected management's responses to outline how the implementation of SUITS and any other plans management has to address subpar collections performance, in order to receive a passing score in collections for the next audit. With such vague responses, during the next audit, it would be impossible for auditors to conclude if the recommendations were implemented.

We also found that the following impactful paragraph from the draft, which DEW provided before the report was finalized, regarding Contribution Report Processing had been omitted in the final report:

> Inaccurate SOAs [Statement of Accounts] defeat the purpose for which these are prepared. These SOAs are issued to provide accurate and up-to-date records of individual employer-account transactions. If these documents are not prepared accurately there is no confidence in the value of these documents or confirmation that the Contributions Report Processing function maintains accurate quarterly reports. That could mean that money which is owed to SCDEW will not be billed and therefore will not be collected. Collectively, this presents an opportunity for a loss of funds for the agency.

Recommendation

80. The S.C. Department of Employment and Workforce should evaluate its collection efforts to determine its effectiveness and implement plans for improvement in order to pass the annual review of the taxpayer services function.

Website Technical Issues

DEW dedicates the top portion of its website's homepage to place important announcements for users. However, DEW's homepage does not allow for the user to view all announcements across the top banner without waiting for them to automatically cycle through. Currently, a user has to remain on the homepage and wait for the various messages to automatically cycle through or revisit the homepage to see if a different announcement appears. The homepage could be improved by allowing the user to select button options to cycle through all announcements.

We also found that DEW's website is not updated regularly, which could lead to confusion. For example:

- DEW posts advance notices when its unemployment insurance tax computer system, SUITS, will be down for maintenance, but does not delete the message immediately after the date has passed.

- As of late January 2019, the homepage made reference to the new tax rates for 2018, which were not the current rates. This was also the case in early April 2019.

- The webpage containing a listing of job fairs around the state included several job fairs which had ended. In one case, a job fair that was held on May 15, 2019 was still listed on the job fairs' website as of June 12, 2019.

- DEW did not upload its October 2018 Midlands regional workshop calendar in a timely manner. As of October 9, 2018, the October Midlands regional workshop calendar was not posted on DEW's website to replace the September calendar (see *SC Works Regional Workshop Calendars*).

Additionally, we found that several data links were to outdated information or were not functional. For example:

- On the video resources webpage, clicking on the links to the video for how to create an account and how to file your weekly claim returned a YouTube webpage that stated the videos were unavailable. Links to three other video tutorials worked.

- On DEW's forms webpage, clicking on the link to the form to request an appeal of your UI claim (APP-100) returned a result that stated that the resource could not be found. Also, on DEW's frequently asked questions webpage for exemptions from UI coverage, the links to the forms for corporate officers or owners to apply for an exemption (UCE-1050 and UCE-1060) resulted in a "404-file or directory not found" message.

DEW is a customer service-oriented agency and documents, such as the form to request an appeal, are time-sensitive. While the information cited in the links was on DEW's website, and we were able to locate it through other web searches, visitors to DEW's website may encounter broken links and may not try to search for the information other ways or may assume the information is no longer available. This can result in frustration for the visitor and could result in delays in receiving services.

Recommendations

81. The S.C. Department of Employment and Workforce should revise its website to allow a user to cycle through all announcements on its homepage.

82. The S.C. Department of Employment and Workforce should regularly review its webpage to address any broken links and ensure that the information on the website is up-to-date.

Repeat Operational Issues

We are in a position to evaluate some of the operational issues that we repeatedly encountered having conducted three previous management reviews of DEW.

A Management Review of the South Carolina Employment Security Commission
(2010)
A Management Review of the Department of Employment and Workforce
(2012)
A Management Review of the Department of Employment and Workforce
(2014)

We find the following regarding some fundamental operational issues where some deficiencies persist.

Fraud Prosecution

2010

ESC referred for prosecution approximately $98,000 (less than 1%) of approximately $10.2 million in fraudulent overpayments from FY 06-07 and FY 07-08. ESC had stopped referring claimants for criminal prosecution and the last cases referred for prosecution were in February 2008. Claimants defrauded the agency out of $7.3 million.

2012

DEW struck an agreement with the South Carolina attorney general and selected 195 cases for prosecution totaling $2.7 million out of 1,844 cases identified totaling over $9.6 million. Several cases were settled with plea agreements.

2014

DEW did not pursue approximately $15 million in potential fraud or overpayments due to a failure to receive wage audit notices from employers (the wage audit notice assists DEW in determining whether overpayments or fraud have occurred).

2019

DEW has essentially stopped prosecutions for fraud, having prosecuted only two cases from FY14-15 through FY 17-18.

Reemployment Activities

2010

ESC does not track claimants who are most likely to exhaust benefits to determine if they have obtained employment. Also, DEW has not measured the effectiveness of its federally required Worker Profiling and Reenactment Services system, which requires agencies to use a system to identify claimants who are most likely to exhaust benefits.

2012

DEW is not adequately measuring the effectiveness of its services and that the effectiveness of services is questionable.

2014

DEW is unable to determine whether its REA program services are effective at returning people to work. DEW can do more to assess the effectiveness of its services on particular population groups, such as veterans, less-educated workers, and older workers.

2019

The performance measures used by DEW do not capture the effectiveness of its reemployment programs.

Accounting Issues

2010

External auditors cited ESC for not maintaining accounting records in accordance with Generally Accepted Accounting Principles (GAAP) and considered it a "material weakness" The weaknesses cited by the auditor included that the agency did not properly post adjusting entries, maintain complete trial balances, and recognized revenue in the wrong year.

2019

External auditors identified six material weaknesses in the audit of the unemployment Trust Fund for FY 17-18. DEW has failed its Tax Performance System reviews since 2011, requiring corrective action plans for USDOL. Also, DEW has not implemented recommendations from an independent consulting firm for improvement of financial operations and has stated it has no interest in doing so. Lastly, DEW is double keying some of its financial information into both SCEIS, the state's accounting system and FARS, its legacy accounting system, and has not sought a solution to this problem since 2016. The Department of Administration has indicated it could create software to solve the assertion by DEW that SCEIS does not properly handle grant spending.

Implementation Status of Prior LAC Recommendations

We reviewed seven of the recommendations made in the Legislative Audit Council's May 2014 report titled *A Management Review of the Department of Employment and Workforce* because they were the most relevant to DEW's processes related to measuring outcomes of its effectiveness of putting people back to work.

We found that two recommendations were implemented and five recommendations were not implemented.

STATUS OF RECOMMENDATIONS	NUMBER
Implemented	2
Not Implemented	5
TOTAL	7

Recommendation 11

The Department of Employment and Workforce should promulgate regulations pursuant to the South Carolina Administrative Procedures Act regarding its minimum work search requirements.

IMPLEMENTED

In our 2014 review, we found that DEW did not promulgate regulations for policies that have general applicability to the public, as required by the South Carolina Administrative Procedures Act. S.C. Code §41-29-110 states that DEW must promulgate regulations to carry out its duties. The law also requires claimants to actively seek work in order to be eligible for unemployment insurance benefits. DEW's policies of requiring claimants to make four job contacts a week in order to be eligible for unemployment insurance payments and requiring them to conduct at least one job contact a week on the South Carolina Works Online System (SCWOS) website was not put into regulations.

In our current follow-up review, we found that, effective May 2017, S.C. Regulation 47-104 requires that an active search for work includes at least two (2) job searches during one week, conducted through the SCWOS. The job search requirement may be waived for good cause, including language barriers, but is determined by the department on a case-by-case basis.

Recommendation 18

The Department of Employment and Workforce should incorporate a comprehensive wage analysis as part of its evaluation protocol for both Wagner-Peyser and Workforce Investment Act participants and publicize its findings annually.

NOT IMPLEMENTED

In our 2014 review, we found that DEW did not incorporate a comprehensive wage analysis as part of its evaluation protocol for Wagner-Peyser and Workforce Investment Act (WIA) participants.

In our current follow-up review, we found that DEW provided performance data collected on average earnings and retention rate for the Workforce Investment Act (WIA) and Wagner-Peyser participants for Program Year 2015, along with median earnings for participants in Program Years 2016 and 2017. However, it did not provide documentation to show that a comprehensive wage analysis report and findings were published annually.

A wage analysis report would explain, for example, why a veteran's average earnings in six-months totaled $11,511 in the Lower Savannah region, but totaled $17,035 in the Pee Dee region, along with a review of the factors that may explain variances, such as supply and demand of labor of particular jobs or industry sectors. To be a meaningful analysis, the type and amount of training, if any, must be included in order to evaluate the effectiveness of DEW services.

Recommendation 19

The Department of Employment and Workforce should perform wage analysis on key population subgroups of its participant population, including veteran status, age, and disability status.

NOT IMPLEMENTED

In our 2014 review, in conjunction with the Office of Research and Statistics (ORS) of the former Budget and Control Board, we conducted a wage analysis to determine the effect of DEW's reemployment services on program participants' earnings to determine whether participants earned more after receiving reemployment services. We analyzed data based on age, education level, veteran status, disability status, and whether they were receiving unemployment insurance benefits at the time they were receiving Wagner-Peyser services. We found that:

- Those who received intensive services, on average, benefitted from a higher percentage of earnings change than did the core and self-service participants, whether participants were receiving unemployment benefits or not.
- Those who received services with the assistance of a work center staff were receiving core services.
- Self-service participants relied on no staff assistance at all.

In our current follow-up review, DEW did not provide documentation to show that a wage analysis was conducted on key population subgroups to determine how effective DEW was in putting these people back to work.

DEW did provide one table that depicted total employment, percent of total employment, and the average hourly wage, by region, in the state, as well as statistics on groups with barriers to employment from various sources, including the U.S. Census Bureau, S.C. Department of Corrections, and a non-governmental organization called *DisabilityStatistics.org*. This is, however, not a wage analysis which should show the effect that specific types of training, provided by DEW specifically, had on subgroup earnings (as opposed to statistics from regional and national groups, not specific to efforts by DEW in South Carolina).

These compiled statistics do not provide DEW with any insight as to the variances in wages by subgroups, or the reasons for the variances and does not correlate types of training and other services to the wage amounts or other labor market conditions.

DEW also provided us with a document from Program Year 2015, which lists average earnings and employment retention rate in South Carolina. According to a DEW official, this information is reported to USDOL. This does not demonstrate that a wage analysis was performed on any subgroup populations.

Recommendation 21

The Department of Employment and Workforce should revise its evaluation of service recipients to determine if those receiving intensive services are retaining employment for longer periods than those receiving core or no staff-assisted services at all.

NOT IMPLEMENTED

In our 2014 review, we recommended that DEW revise its evaluation of service recipients to determine if those receiving intensive services are retaining employment for longer periods than those receiving core or no staff-assisted services at all.

In our current follow-up review, we found that, in Program Year 2015, DEW collected data on the retention rate of those categorized under Wagner-Peyser. However, DEW did not provide documentation to show that evaluations of service recipients were conducted to determine if those receiving intensive Wagner-Peyser services are retaining employment for longer periods of time than those receiving core or no staff-assisted services.

Under the Workforce Innovation and Opportunity Act (WIOA) performance accountability provisions, which took effect on July 1, 2016 and superseded the Workforce Investment Act (WIA) of 1998, retention rates were no longer required to be tracked. This data should continue to be helpful to DEW, as drops in retention of employment could go unnoticed if this metric is not tracked. Knowledge of changes to this rate would alert DEW and could prompt investigative action.

Recommendation 22

The Department of Employment and Workforce should analyze the duration of unemployment for Wagner-Peyser participants receiving core and intensive services. When the unemployment duration for those receiving services is longer than for those not receiving services, DEW should conduct analysis to determine the factors causing the longer duration.

NOT IMPLEMENTED

In our 2014 review, we found that those receiving intensive services remained on unemployment longer, on average, compared to those receiving core or no staff-assisted services. This was contrary to the expected result that providing reemployment services should shorten duration of unemployment insurance (UI). We concluded that, without further analysis by DEW, it is unclear that the cost of the investment in intensive services is offset by the longer-term benefit of higher earnings and/or longer periods of sustained, gainful employment.

In our current follow-up review, DEW cited various factors that influence the unemployment duration for individuals, such as barriers to entry (e.g. lack of certifications, lack of education, difficulty reading, etc.), which necessitate the need for skill upgrades and training. However, when asked, DEW did not show that it has implemented a process to analyze the duration of unemployment for Wagner-Peyser participants receiving core and intensive services and, therefore, did not provide source documentation to show that this recommendation has been implemented.

Recommendation 26

Once the data and methodological issues have been addressed, the Department of Employment and Workforce should compare duration of unemployment insurance benefits between those participating in Reemployment and Eligibility Assessment (REA) and those not participating. If the duration is found to be longer for those receiving services than for those not receiving services, the department should evaluate its reemployment services to determine how they can be made more effective.

NOT IMPLEMENTED

In our 2014 review, we found that DEW experienced data issues in measuring the effectiveness of the Reemployment and Eligibility Assessment (REA), which was a program designed to reduce the duration of unemployment benefits for individuals who were determined most likely to exhaust their unemployment benefits. Therefore, DEW was unable to determine whether the REA services contributed to a more positive outcome than the outcome experienced by those not participating in the program.

According to a report DEW filed with the USDOL at that time, most participants receiving REA services experienced longer periods of unemployment insurance (UI) duration than claimants in a comparison group with similar barriers to entry who did not receive services. This conflicted with one of DEW's strategic goals, which was to demonstrate shorter duration of UI benefits for claimants receiving REA services.

Since FY 15, REA has been replaced with a new but similar program called Reemployment Services and Eligibility Assessment (RESEA). Like REA, RESEA is a program designed to help claimants who are most likely to exhaust their unemployment benefits to reenter the workforce quicker (see *Chapter 5*).

In our current review, we found that DEW has not conducted a comparison of the duration of unemployment insurance benefits between those participating in RESEA and a control group of individuals with similar barriers to entry who are not participating (see *Chapter 5*). A DEW official stated that the U.S. Department of Labor (USDOL) does not require a comparison group study of the RESEA program. Additionally, DEW stated that, because the RESEA program serves the claimants who are most likely to exhaust their unemployment insurance benefits and may have potential barriers to reemployment, comparing both groups would not give an accurate picture of the effectiveness of the program.

However, comparing and reporting statistics on these individuals who receive RESEA services could provide a more accurate picture of program effectiveness. Even though conducting a comparison between both groups is not required by USDOL, it may provide useful data on periods of duration to evaluate how to make reemployment services more effective.

Recommendation 27

The Department of Employment and Workforce should develop policies and procedures governing its redesigned Wagner-Peyser service delivery model that allows users in the workforce center and in the main office to access key information necessary for implementation. At a minimum, the manual should include information on staffing and procedures for identifying and assisting those with barriers to employment.

IMPLEMENTED

In our 2014 review, we found that DEW did not have policies and procedures governing its redesigned Wagner-Peyser service delivery model that allowed users in the workforce centers and in the main office to access key information necessary for implementation. The materials that DEW provided contained no table of contents or index to which workforce center or main office staff could easily refer in order to ensure efficient and effective implementation of reemployment services to those who needed help finding employment.

In our current follow-up review, we found that, as of January 2018, DEW developed its own *Employment Services Manual*, which identifies staff responsibilities and the procedures that staff should undergo to identify and assist those with barriers to employment. The manual communicates the career services offered to jobseekers to help them access key information necessary for reemployment, both in-person and off-site, including career guidance, job referrals, individual assessments, and resume assistance.

The manual also includes a table of contents, with topics indexed to the corresponding page, which staff can refer to in order to ensure effective implementation of reemployment services.

Comparison of Contingency Tax to Trust Fund Tax Ratios

CY 2019 Tax Rate Calculation

Taxable Wage Base X Contingency *	Tax Rate Class	Total Base Rate + Solvency Surcharge ***	Trust Fund Levy **	Ratio Calculation
$84	1	0.000	$0	$0:$0
$84	2	0.028	$395	$1:$5
$84	3	0.031	$440	$1:$5
$84	4	0.035	$489	$1:$6
$84	5	0.039	$542	$1:$6
$84	6	0.043	$603	$1:$7
$84	7	0.048	$669	$1:$8
$84	8	0.053	$743	$1:$9
$84	9	0.059	$827	$1:$10
$84	10	0.066	$918	$1:$11
$84	11	0.073	$1,021	$1:$12
$84	12	0.081	$1,134	$1:$14
$84	13	0.097	$1,361	$1:$16
$84	14	0.177	$2,484	$1:$30
$84	15	0.197	$2,759	$1:$33
$84	16	0.219	$3,066	$1:$37
$84	17	0.243	$3,406	$1:$41
$84	18	0.270	$3,786	$1:$45
$84	19	0.300	$4,206	$1:$50
$84	20	0.540	$7,560	$1:$90

* FORMULA — Multiply the taxable wage base ($14,000) by the contingency (0.006).
** FORMULA — Divide the trust fund levy amount by $84.
*** Includes base rate and solvency surcharge amounts.

Sources: DEW Tax Rate Contribution Tables and LAC Calculations

CY 2018 Tax Rate Calculation

Taxable Wage Base X Contingency *	Tax Rate Class	Total Base Rate + Solvency Surcharge ***	Trust Fund Levy **	Ratio Calculation
$84	1	0.000	$0	$0:$0
$84	2	0.036	$504	$1:$6
$84	3	0.040	$560	$1:$7
$84	4	0.044	$616	$1:$7
$84	5	0.049	$686	$1:$8
$84	6	0.055	$770	$1:$9
$84	7	0.061	$854	$1:$10
$84	8	0.067	$938	$1:$11
$84	9	0.075	$1,050	$1:$13
$84	10	0.083	$1,162	$1:$14
$84	11	0.093	$1,302	$1:$16
$84	12	0.103	$1,442	$1:$17
$84	13	0.123	$1,722	$1:$21
$84	14	0.216	$3,024	$1:$36
$84	15	0.240	$3,360	$1:$40
$84	16	0.266	$3,724	$1:$44
$84	17	0.296	$4,144	$1:$49
$84	18	0.329	$4,606	$1:$55
$84	19	0.365	$5,110	$1:$61
$84	20	0.540	$7,560	$1:$90

* Formula — Multiply the taxable wage base ($14,000) by the contingency (0.006).
** Formula — Divide the trust fund levy amount by $84.
*** Includes base rate and solvency surcharge amounts.

Sources: DEW Tax Rate Contribution Tables and LAC Calculations

CY 2017 Tax Rate Calculation

Taxable Wage Base X Contingency*	Tax Rate Class	Total Base Rate + Solvency Surcharge ***	Trust Fund Levy **	Ratio Calculation
$84	1	0.000	$0	$0:$0
$84	2	0.041	$574	$1:$7
$84	3	0.045	$630	$1:$8
$84	4	0.050	$700	$1:$8
$84	5	0.056	$784	$1:$9
$84	6	0.062	$868	$1:$10
$84	7	0.069	$966	$1:$12
$84	8	0.077	$1,078	$1:$13
$84	9	0.085	$1,190	$1:$14
$84	10	0.095	$1,330	$1:$16
$84	11	0.105	$1,470	$1:$18
$84	12	0.117	$1,638	$1:$20
$84	13	0.140	$1,960	$1:$23
$84	14	0.236	$3,304	$1:$39
$84	15	0.262	$3,668	$1:$44
$84	16	0.292	$4,088	$1:$49
$84	17	0.324	$4,536	$1:$54
$84	18	0.360	$5,040	$1:$60
$84	19	0.400	$5,600	$1:$67
$84	20	0.540	$7,560	$1:$90

* FORMULA — Multiply the taxable wage base ($14,000) by the contingency (0.006).
** FORMULA — Divide the trust fund levy amount by $84.
*** Includes base rate and solvency surcharge amounts.

Sources: DEW Tax Rate Contribution Tables and LAC Calculations

CY 2016 Tax Rate Calculation

Taxable Wage Base X Contingency *	Tax Rate Class	Total Base Rate + Solvency Surcharge ***	Trust Fund Levy **	Ratio Calculation
$84	1	0.000	$0	$0:$0
$84	2	0.046	$644	$1:$8
$84	3	0.051	$714	$1:$9
$84	4	0.057	$798	$1:$10
$84	5	0.064	$896	$1:$11
$84	6	0.071	$994	$1:$12
$84	7	0.078	$1,092	$1:$13
$84	8	0.087	$1,218	$1:$15
$84	9	0.097	$1,358	$1:$16
$84	10	0.108	$1,512	$1:$18
$84	11	0.120	$1,680	$1:$20
$84	12	0.133	$1,862	$1:$22
$84	13	0.159	$2,226	$1:$27
$84	14	0.257	$3,598	$1:$43
$84	15	0.285	$3,990	$1:$48
$84	16	0.317	$4,438	$1:$53
$84	17	0.352	$4,928	$1:$59
$84	18	0.391	$5,474	$1:$65
$84	19	0.435	$6,090	$1:$73
$84	20	0.540	$7,560	$1:$90

* Formula — Multiply the taxable wage base ($14,000) by the contingency (0.006).
** Formula — Divide the trust fund levy amount by $84.
*** Includes base rate and solvency surcharge amounts.

Sources: DEW Tax Rate Contribution Tables and LAC Calculations

CY 2015 Tax Rate Calculation

Taxable Wage Base X Contingency *	Tax Rate Class	Total Base Rate + Solvency Surcharge ***	Trust Fund Levy **	Ratio Calculation
$84	1	0	$0	$0:0
$84	2	0.052	$728	$1:$9
$84	3	0.0581	$813	$1:$10
$84	4	0.064	$896	$1:$11
$84	5	0.071	$994	$1:$12
$84	6	0.079	$1,106	$1:$13
$84	7	0.088	$1,232	$1:$15
$84	8	0.098	$1,372	$1:$16
$84	9	0.109	$1,526	$1:$18
$84	10	0.121	$1,694	$1:$20
$84	11	0.134	$1,876	$1:$22
$84	12	0.149	$2,086	$1:$25
$84	13	0.286	$4,004	$1:$48
$84	14	0.317	$4,438	$1:$53
$84	15	0.353	$4,942	$1:$59
$84	16	0.392	$5,488	$1:$65
$84	17	0.435	$6,090	$1:$73
$84	18	0.484	$6,776	$1:$81
$84	19	0.538	$7,532	$1:$90
$84	20	0.597	$8,358	$1:$100

* FORMULA — Multiply the taxable wage base ($14,000) by the contingency (0.006).
** FORMULA — Divide the trust fund levy amount by $84.
*** Includes base rate and solvency surcharge amounts.

Sources: DEW Tax Rate Contribution Tables and LAC Calculations

Appendix A
Comparison of Contingency Tax to Trust Fund Tax Ratios

South Carolina Tax Rates

2019 Contribution Table

The tax rates applicable for wages paid between January 1, 2019, and December 31, 2019, are shown in the table below. An **Annual Tax Rate Notice** detailing individual rates was distributed to each employer. Individual rates are based on an employer's computed benefit ratio. The tax rate class assignment in the notice should be used for the full calendar year. Please note that tax rates are applicable to the first $14,000 each employee earns.

South Carolina 2019 Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate (Benefits)	Solvency Surcharge	Contingency Assessment	Total Effective Rate	Maximum Cost Per Employee
1	0.000000	0.000000	0.000%	0.000%	0.060%	0.060%	$8.40
2	0.000001	0.000300	0.220%	0.062%	0.060%	0.342%	$47.88
3	0.000301	0.000604	0.245%	0.069%	0.060%	0.374%	$52.36
4	0.000605	0.000917	0.272%	0.077%	0.060%	0.409%	$57.26
5	0.000918	0.001204	0.302%	0.085%	0.060%	0.447%	$62.58
6	0.001205	0.001382	0.336%	0.095%	0.060%	0.491%	$68.74
7	0.001383	0.001718	0.373%	0.105%	0.060%	0.538%	$75.32
8	0.001719	0.002064	0.414%	0.117%	0.060%	0.591%	$82.74
9	0.002065	0.002434	0.461%	0.130%	0.060%	0.651%	$91.14
10	0.002435	0.002917	0.511%	0.145%	0.060%	0.716%	$100.24
11	0.002918	0.003360	0.568%	0.161%	0.060%	0.789%	$110.46
12	0.003361	0.003919	0.631%	0.179%	0.060%	0.870%	$121.80
13	0.003920	0.004635	0.758%	0.214%	0.060%	1.032%	$144.48
14	0.004636	0.005688	1.383%	0.391%	0.060%	1.834%	$256.76
15	0.005689	0.007013	1.536%	0.435%	0.060%	2.031%	$284.34
16	0.007014	0.008434	1.707%	0.483%	0.060%	2.250%	$315.00
17	0.008435	0.010732	1.896%	0.537%	0.060%	2.493%	$349.02
18	0.010733	0.014922	2.108%	0.596%	0.060%	2.764%	$386.96
19	0.014923	0.023330	2.342%	0.662%	0.060%	3.064%	$428.96
20	0.023331	999.999999	4.209%	1.191%	0.060%	5.460%	$764.40

Source: DEW.SC.GOV

2018 Contribution Table

The tax rates applicable for wages paid between January 1, 2018, and December 31, 2018, are shown in the table below. A **Notice of Contribution Rate** detailing individual rates was distributed to each employer. Individual rates are based on an employer's computed benefit ratio. The tax rate class assignment in the notice should be used for the full calendar year. Please note that tax rates are applicable to the first $14,000 each employee earns.

South Carolina 2018 Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate (Benefits)	Solvency Surcharge	Contingency Assessment	Total Effective Rate	Maximum Cost Per Employee
1	0.000000	0.000002	0.000%	0.000%	0.06%	0.060%	$8.40
2	0.000003	0.000392	0.211%	0.149%	0.06%	0.420%	$58.80
3	0.000393	0.000672	0.235%	0.165%	0.06%	0.460%	$64.40
4	0.000673	0.001038	0.258%	0.182%	0.06%	0.500%	$70.00
5	0.001039	0.001312	0.288%	0.202%	0.06%	0.550%	$77.00
6	0.001313	0.001511	0.323%	0.227%	0.06%	0.610%	$85.40
7	0.001512	0.001825	0.358%	0.252%	0.06%	0.670%	$93.80
8	0.001826	0.002190	0.393%	0.277%	0.06%	0.730%	$102.20
9	0.002191	0.002599	0.440%	0.310%	0.06%	0.810%	$113.40
10	0.002600	0.003148	0.487%	0.343%	0.06%	0.890%	$124.60
11	0.003149	0.003654	0.546%	0.384%	0.06%	0.990%	$138.60
12	0.003655	0.004299	0.605%	0.425%	0.06%	1.090%	$152.60
13	0.004300	0.005102	0.722%	0.508%	0.06%	1.290%	$180.60
14	0.005103	0.006153	1.269%	0.891%	0.06%	2.220%	$310.80
15	0.006154	0.007470	1.410%	0.990%	0.06%	2.460%	$344.40
16	0.007471	0.009284	1.562%	1.098%	0.06%	2.720%	$380.80
17	0.009285	0.011490	1.738%	1.222%	0.06%	3.020%	$422.80
18	0.011491	0.016082	1.932%	1.358%	0.06%	3.350%	$469.00
19	0.016083	0.024765	2.144%	1.506%	0.06%	3.710%	$519.40
20	0.024766	999.999999	3.171%	2.229%	0.06%	5.460%	$764.40

Source: DEW.SC.GOV

2017 Contribution Table

The tax rates applicable for wages paid between January 1, 2017, and December 31, 2017, are shown in the table below. A Notice of Contribution Rate detailing individual rates was distributed to each employer during the fourth quarter of 2017. Individual rates are based on an employer's computed benefit ratio. The tax rate class assignment in the notice should be used for the full calendar year.

South Carolina 2017 Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate (Benefits)	Solvency Surcharge	Contingency Assessment	Total Effective Rate	Maximum Cost per Employee
1	0.000000	0.000004	0.00%	0.00%	0.06%	0.06%	$8.40
2	0.000005	0.000476	0.27%	0.14%	0.06%	0.47%	$65.80
3	0.000477	0.000822	0.29%	0.16%	0.06%	0.51%	$71.40
4	0.000823	0.001201	0.32%	0.18%	0.06%	0.56%	$78.40
5	0.001202	0.001570	0.36%	0.20%	0.06%	0.62%	$86.80
6	0.001571	0.001739	0.40%	0.22%	0.06%	0.68%	$95.20
7	0.001740	0.002084	0.45%	0.24%	0.06%	0.75%	$105.00
8	0.002085	0.002478	0.50%	0.27%	0.06%	0.83%	$116.20
9	0.002479	0.002986	0.55%	0.30%	0.06%	0.91%	$127.40
10	0.002987	0.003544	0.61%	0.34%	0.06%	1.01%	$141.40
11	0.003545	0.004305	0.68%	0.37%	0.06%	1.11%	$155.40
12	0.004306	0.005047	0.76%	0.41%	0.06%	1.23%	$172.20
13	0.005048	0.006031	0.91%	0.49%	0.06%	1.46%	$204.40
14	0.006032	0.007255	1.53%	0.83%	0.06%	2.42%	$338.80
15	0.007256	0.008828	1.70%	0.92%	0.06%	2.68%	$375.20
16	0.008829	0.010663	1.89%	1.03%	0.06%	2.98%	$417.20
17	0.010664	0.014051	2.10%	1.14%	0.06%	3.30%	$462.00
18	0.014052	0.018501	2.33%	1.27%	0.06%	3.66%	$512.40
19	0.018502	0.028432	2.59%	1.41%	0.06%	4.06%	$568.40
20	0.028433	999.999999	3.49%	1.91%	0.06%	5.46%	$764.40

Source: DEW.SC.GOV

2016 Contribution Table

The tax rates applicable for wages paid between January 1, 2016, and December 31, 2016, are shown in the table below. A Notice of Contribution Rate detailing individual rates was distributed to each employer during the fourth quarter of 2016. Individual rates are based on an employer's computed benefit ratio. The tax rate class assignment in the notice should be used for the full calendar year. Please note that as of January 1, 2015, tax rates are now applicable to the first $14,000 each employee earns.

South Carolina 2016 Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate (Benefits)	Solvency Surcharge	Contingency Assessment	Total Effective Rate	Maximum Cost per Employee
1	0.000000	0.000000	0.0000%	0.0000%	0.0600%	0.0600%	$8.40
2	0.000001	0.000543	0.2645%	0.1955%	0.0600%	0.5200%	$72.80
3	0.000544	0.000925	0.2933%	0.2167%	0.0600%	0.5700%	$79.80
4	0.000926	0.001340	0.3278%	0.2422%	0.0600%	0.6300%	$88.20
5	0.001341	0.001799	0.3680%	0.2720%	0.0600%	0.7000%	$98.00
6	0.001800	0.002282	0.4083%	0.3017%	0.0600%	0.7700%	$107.80
7	0.002283	0.002610	0.4485%	0.3315%	0.0600%	0.8400%	$117.60
8	0.002611	0.003181	0.5003%	0.3697%	0.0600%	0.9300%	$130.20
9	0.003182	0.003736	0.5578%	0.4122%	0.0600%	1.0300%	$144.20
10	0.003737	0.004510	0.6210%	0.4590%	0.0600%	1.1400%	$159.60
11	0.004511	0.005415	0.6900%	0.5100%	0.0600%	1.2600%	$176.40
12	0.005416	0.006232	0.7648%	0.5652%	0.0600%	1.3900%	$194.60
13	0.006233	0.007508	0.9143%	0.6757%	0.0600%	1.6500%	$231.00
14	0.007509	0.008943	1.4778%	1.0922%	0.0600%	2.6300%	$368.20
15	0.008944	0.010751	1.6388%	1.2112%	0.0600%	2.9100%	$407.40
16	0.010752	0.013465	1.8228%	1.3472%	0.0600%	3.2300%	$452.20
17	0.013466	0.017545	2.0241%	1.4959%	0.0600%	3.5800%	$501.20
18	0.017546	0.023047	2.2483%	1.6617%	0.0600%	3.9700%	$555.80
19	0.023048	0.034645	2.5013%	1.8487%	0.0600%	4.4100%	$617.40
20	0.034646	999.999999	3.1051%	2.2949%	0.0600%	5.4600%	$764.40

Source: DEW.SC.GOV

2015 Contribution Table

The tax rates applicable for wages paid between January 1, 2015 and December 31, 2015 are shown in the table below. A **Notice of Contribution Rate** detailing individual rates was distributed to each employer during the fourth quarter of 2014. Individual rates are based on an employer's computed benefit ratio. The tax rate class assignment in the notice should be used for the full calendar year. Please note that as of January 1, 2015, tax rates are now applicable to the first $14,000 each employee earns.

South Carolina 2015 Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate (Benefits)	Loan Repayment Rate	Contingency	Total Effective Rate	Maximum Cost per Employee
1	0	0.000001	0.000%	0.000%	0.060%	0.060%	$8.40
2	0.000002	0.000835	0.341%	0.179%	0.060%	0.580%	$81.20
3	0.000836	0.001356	0.373%	0.208%	0.060%	0.640%	$89.60
4	0.001357	0.001976	0.407%	0.233%	0.060%	0.700%	$98.00
5	0.001977	0.002516	0.446%	0.264%	0.060%	0.770%	$107.80
6	0.002517	0.003244	0.489%	0.301%	0.060%	0.850%	$119.00
7	0.003245	0.003957	0.536%	0.344%	0.060%	0.940%	$131.60
8	0.003958	0.004388	0.589%	0.391%	0.060%	1.040%	$145.60
9	0.004389	0.005097	0.648%	0.442%	0.060%	1.150%	$161.00
10	0.005098	0.006032	0.713%	0.497%	0.060%	1.270%	$177.80
11	0.006033	0.007252	0.786%	0.554%	0.060%	1.400%	$196.00
12	0.007253	0.008465	0.867%	0.623%	0.060%	1.550%	$217.00
13	0.008466	0.010073	1.603%	1.257%	0.060%	2.920%	$408.80
14	0.010074	0.012395	1.775%	1.395%	0.060%	3.230%	$452.20
15	0.012396	0.014895	1.965%	1.565%	0.060%	3.590%	$502.60
16	0.014896	0.018018	2.177%	1.743%	0.060%	3.980%	$557.20
17	0.018019	0.022927	2.412%	1.938%	0.060%	4.410%	$617.40
18	0.022928	0.031571	2.673%	2.167%	0.060%	4.900%	$686.00
19	0.031572	0.046238	2.964%	2.416%	0.060%	5.440%	$761.60
20	0.046239	999.999999	3.286%	2.684%	0.060%	6.030%	$844.20

Source: DEW.SC.GOV

2014 Contribution Table

The tax rates applicable for wages paid between January 1, 2014 and December 31, 2014 are shown in the table below. A **Notice of Contribution Rate** is distributed to each employer during the fourth quarter of 2013. Individual rates are based on an employer's computed benefit ratio. The tax rate class assignment in the notice should be used for the full calendar year.

South Carolina 2014 Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate/Replenish	Interest + Contingency	Total Effective Rate
1	0.000000	0.000005	0.00	0.089	0.0890
2	0.000006	0.001169	0.64	0.092	0.7320
3	0.001170	0.001978	0.71	0.096	0.8060
4	0.001979	0.002725	0.79	0.100	0.8900
5	0.002726	0.003735	0.88	0.105	0.9850
6	0.003736	0.004654	0.98	0.110	1.0900
7	0.004655	0.005422	1.09	0.116	1.2060
8	0.005423	0.006347	1.21	0.122	1.3320
9	0.006348	0.007066	1.34	0.129	1.4690
10	0.007067	0.008232	1.49	0.137	1.6270
11	0.008233	0.009767	1.66	0.146	1.8060
12	0.009768	0.011427	1.84	0.156	1.9960
13	0.011428	0.013325	3.52	0.244	3.7640
14	0.013326	0.015630	3.91	0.264	4.1740
15	0.015631	0.018632	4.34	0.287	4.6270
16	0.018633	0.023455	4.83	0.312	5.1420
17	0.023456	0.029894	5.36	0.340	5.7000
18	0.029895	0.039541	5.96	0.371	6.3310
19	0.039542	0.059014	6.62	0.406	7.0260
20	0.059015	999.999999	7.36	0.445	7.8050

Source: DEW.SC.GOV

2013 Contribution Table

The tax rates applicable for wages paid between January 1, 2013 and December 31, 2013 are shown in the table below.

South Carolina 2013 Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate/Replenish	Interest + Contingency	Total Effective Rate
1	0.000000	0.000001	0.00	0.095	0.0950
2	0.000002	0.001974	0.64	0.099	0.7390
3	0.001975	0.003536	0.71	0.103	0.8130
4	0.003537	0.004663	0.79	0.108	0.8980
5	0.004664	0.005844	0.88	0.113	0.9930
6	0.005845	0.007204	0.98	0.119	1.0990
7	0.007205	0.008307	1.08	0.126	1.2060
8	0.008308	0.009568	1.20	0.133	1.3330
9	0.009569	0.011401	1.34	0.141	1.4810
10	0.011402	0.013071	1.49	0.150	1.6400
11	0.013072	0.015295	1.65	0.160	1.8100
12	0.015296	0.017819	1.84	0.171	2.0110
13	0.017820	0.020744	3.51	0.273	3.7830
14	0.020745	0.024920	3.90	0.297	4.1970
15	0.024921	0.029429	4.34	0.323	4.6630
16	0.029430	0.036190	4.82	0.352	5.1720
17	0.036191	0.043311	5.35	0.384	5.7340
18	0.043312	0.054182	5.95	0.420	6.3700
19	0.054183	0.075548	6.61	0.460	7.0700
20	0.075549	999.999999	7.35	0.505	7.8550

Source: DEW.SC.GOV

2012 Revised Contribution Table

In the fiscal year 2012-13 budget, the SC General Assembly appropriated $77 million to the Department of Employment and Workforce (DEW) to make repayments on outstanding loans. Funds received from the General Assembly reduce the unemployment insurance tax rates for businesses.

In late September 2012, businesses received a revised tax rate notice that showed the new tax rate that businesses should use when paying third and fourth quarter taxes in October 2012 and January 2013.

Since first and second quarter taxes were paid at the higher rate, businesses received credits on any overpayments. The revised rate notice showed any applicable credit that the business received.

Due to federal regulations, refunds are **not** available for first and second quarter taxes. Because these taxes were paid accurately under the law that was in effect at the time they were paid, only credits can be issued for overpayments. Credits can be used against any future unemployment tax liability and do not expire.

The 2012 revised rates are shown in the table below.

South Carolina 2012 Revised Tax Rates

Rate Class	Lower Benefit Ratio	Upper Benefit Ratio	Base Rate/Replenish	Interest + Contingency	Total Effective Rate
1	0.000000	0.000013	0.00	0.098	0.0980
2	0.000014	0.002175	0.61	0.102	0.7120
3	0.002176	0.003907	0.68	0.107	0.7870
4	0.003908	0.005084	0.76	0.112	0.8720
5	0.005085	0.005928	0.84	0.118	0.9580
6	0.005929	0.007516	0.94	0.125	1.0650
7	0.007517	0.008601	1.04	0.132	1.1720
8	0.008602	0.010330	1.16	0.140	1.3000
9	0.010331	0.012091	1.28	0.149	1.4290
10	0.012092	0.013907	1.43	0.159	1.5890
11	0.013908	0.016098	1.58	0.170	1.7500
12	0.016099	0.019060	1.76	0.182	1.9420
13	0.019061	0.022324	3.37	0.292	3.6620
14	0.022325	0.026485	3.74	0.318	4.0580
15	0.026486	0.032421	4.16	0.347	4.5070
16	0.032422	0.039447	4.62	0.379	4.9990
17	0.039448	0.049122	5.14	0.414	5.5540
18	0.049123	0.060059	5.71	0.453	6.1630
19	0.060060	0.084817	6.34	0.497	6.8370
20	0.084818	999.999999	7.04	0.546	7.5860

Source: DEW.SC.GOV

2011 Contribution Table

The tax rates applicable for wages paid between January 1, 2011 and December 31, 2011 are shown in the table below.

South Carolina 2011 Tax Rates

Tax Class	Base Rate	Interest Surcharge	Contingency Assessment	Total Effective Rate	Estimated Cost per Worker	Lower Benefit Ratio	Upper Benefit Ratio
1	0.00%	0.043%	0.06%	0.1030%	$10.30	0	0.000001
2	0.71%	0.048%	0.06%	0.8180%	$81.80	0.000002	0.002158
3	0.79%	0.053%	0.06%	0.9030%	$90.30	0.002159	0.003671
4	0.88%	0.059%	0.06%	0.9990%	$99.90	0.003672	0.004738
5	0.98%	0.066%	0.06%	1.1060%	$110.60	0.004739	0.005738
6	1.09%	0.073%	0.06%	1.2230%	$122.30	0.005739	0.007117
7	1.21%	0.081%	0.06%	1.3510%	$135.10	0.007118	0.008299
8	1.34%	0.090%	0.06%	1.4900%	$149.00	0.0083	0.010035
9	1.49%	0.100%	0.06%	1.6500%	$165.00	0.010036	0.012092
10	1.66%	0.111%	0.06%	1.8310%	$183.10	0.012093	0.013992
11	1.84%	0.123%	0.06%	2.0230%	$202.30	0.013993	0.01601
12	2.04%	0.137%	0.06%	2.2370%	$223.70	0.016011	0.018711
13	3.91%	0.263%	0.06%	4.2330%	$423.30	0.018712	0.022235
14	4.35%	0.292%	0.06%	4.7020%	$470.20	0.022236	0.026332
15	4.83%	0.324%	0.06%	5.2140%	$521.40	0.026333	0.032546
16	5.37%	0.360%	0.06%	5.7900%	$579.00	0.032547	0.039836
17	5.96%	0.400%	0.06%	6.4200%	$642.00	0.039837	0.050293
18	6.62%	0.445%	0.06%	7.1250%	$712.50	0.050294	0.065183
19	7.36%	0.494%	0.06%	7.9140%	$791.40	0.065184	0.088588
20	8.18%	0.549%	0.06%	8.7890%	$878.90	0.088589	1000

Source: DEW.SC.GOV

2010 – 2004 Contribution Table

These tax rates were in effect for wages paid between December 31, 2010 and January 1, 2004.

South Carolina 2010 – 2004 Tax Rates

Employer's Reserve Ratio	Base Rate	<2.00% 0.10%	<1.90% 0.20%	<1.80% 0.30%	<1.70% 0.40%	<1.60% 0.50%	<1.50% 0.60%	<1.40% 0.70%
+9% or More	0.54%	0.64%	0.74%	0.84%	0.94%	1.04%	1.14%	1.24%
+8% but <9%	0.89%	0.99%	1.09%	1.19%	1.29%	1.39%	1.49%	1.59%
+7% but <8%	1.24%	1.34%	1.44%	1.54%	1.64%	1.74%	1.84%	1.94%
+6% but <7%	1.59%	1.69%	1.79%	1.89%	1.99%	2.09%	2.19%	2.29%
+5% but <6%	1.94%	2.04%	2.14%	2.24%	2.34%	2.44%	2.54%	2.64%
+4% but <5%	2.29%	2.39%	2.49%	2.59%	2.69%	2.79%	2.89%	2.99%
<+4% but >-5%	2.64%	2.74%	2.84%	2.94%	3.04%	3.14%	3.24%	3.34%
-5% but <-10%	2.99%	3.09%	3.19%	3.29%	3.39%	3.49%	3.59%	3.69%
-10% but <-15%	3.34%	3.44%	3.54%	3.64%	3.74%	3.84%	3.94%	4.04%
-15% but <-20%	3.69%	3.79%	3.89%	3.99%	4.09%	4.19%	4.29%	4.39%
-20% but <-25%	4.04%	4.14%	4.24%	4.34%	4.44%	4.54%	4.64%	4.74%
-25% but <-30%	4.39%	4.49%	4.59%	4.69%	4.79%	4.89%	4.99%	5.09%
-30% but <-35%	4.74%	4.84%	4.94%	5.04%	5.14%	5.24%	5.34%	5.44%
-35% but <-40%	5.09%	5.19%	5.29%	5.39%	5.49%	5.59%	5.69%	5.79%
-40% or More	5.40%	5.50%	5.60%	5.70%	5.80%	5.90%	6.00%	6.10%

Source: DEW.SC.GOV

Acronyms

A – B

ACL – Audit Command Language
ACUC – Advisory Council on Unemployment Compensation
AED – Assistant Executive Director
ALC – South Carolina Administrative Law Court
AHCM – Average High Cost Multiple
BAM – Benefit Accuracy Measurement
BARTS – Benefit Audit, Reporting, and Tracking System
BPC – Benefit Payment Control
BTQ – Benefit, Timeliness, and Quality

C – F

CAP – Corrective Action Plan
CBO – Congressional Budget Office
CES – Current Employment Statistics
CISO – Chief Information Security Officer
CPA – Certified Public Accountants
CPS – Current Population Survey
CY – Calendar Year
DEW – Department of Employment and Workforce (formerly ESC – Employment Security Commission)
DOA – South Carolina Department of Administration
DWU – Dislocated Worker Unit
EUC – Emergency Unemployment Compensation
FARS – Financial Accounting and Reporting System
FIRE – Fraud, Investigation, Recovery, and Enforcement
FUTA – Federal Unemployment Tax Act
FY – Fiscal Year

G – Q

GAGAS – Generally Accepted Government Auditing Standards
GAO – Government Accountability Office
IFA – Infrastructure Funding Agreement
JAG – Jobs for America's Graduates
LAC – Legislative Audit Council
MOU – Memorandum of Understanding
MW – Material Weakness
NOA – Notice of Assessment
OSA – South Carolina Office of the State Auditor
OID – Organizational Integrity Division
ORS – Office of Research and Statistics
PEBA – Public Employee Benefit Authority

R – T

REA – Reemployment and Eligibility Assessment
RESEA – Reemployment Services and Eligibility Assessment
RFQ – Request for Quotes
SCATS – South Carolina Automated Tax System
SCEIS – South Carolina Enterprise Information System
SCUBI – Southeast Consortium Unemployment Insurance Benefits Initiative
SCWOS – South Carolina Works Online Services
SD – Significant Deficiency
SNAP – Supplemental Nutrition Assistance Program
SOA – Statement of Account
SQSP – State Quality Service Plan
SUITS – State Unemployment Insurance Tax System
SUTA – State Unemployment Tax Act
TAA – Trade Adjustment Assistance
TEGL – Training and Employment Guidance Letter
TPS – Tax Performance System

U – Z

UCX – Unemployment Compensation for Ex-Service members
UI – Unemployment Insurance
USDOL – United States Department of Labor
WARN – Worker Adjustment and Retraining Notification
WIA – Workforce Investment Act
WIOA - Workforce Innovation and Opportunity Act

Planned Contingency Assessment Expenditures

This document was provided by DEW in its response to our draft report during our audit exiting process.

Projected Administrative Expenditures:			
Accounting Replacement System	$	1,100,000.00	
DSIT Mainframe Service	$	-	
MAINLINE INFORMATION SYSTEMS INC	$	151,179.20	
Various Purchase Orders	$	1,145,547.67	
Checkpoint Treat Manager	$	871,647.48	
Security Staff Coverage	$	88,490.00	
FORMS & SUPPLY INC	$	-	
IT-related costs/PC Refresh	$	-	
Total	$	3,356,864.35	
Projected Program Expenditures:			
TEGL	$	2,093,004.00	
Proviso	$	1,032,555.00	
Other	$	1,112,652.00	
JAG Program Coverage	$	750,000.00	
Work Ready/ACT Testing Program	$	-	
ES Program Coverage	$	1,271,571.00	
RSA Program Coverage	$	15,000.00	
Job Profiling Program Coverage	$	-	
Total	$	6,274,782.00	
Total Projected Expenditures:			$ 9,631,646.35

(Continued)

Capital Improvement & Maintenance Expenditures:

Life Safety and Emergency Lighting to the Generator power	$	93,000.00		
RED Cooling Tower Replacement	$	229,024.00		
VAV Box Replacement	$	1,019,112.00		
Air duct cleaning – RED	$	100,000.00		
Parking Lot lights – LED Upfit – Midlands Hub	$	6,775.00		
6th Floor David FCU Piping Retrofit	$	105,058.00		
Fire Suppression System Control Panel - 1st floor RED - fix/repair	$	170,912.00		
Carpet Replacement – Harper – 3rd floor	$	50,800.00		
Harper Sidewalk Lights Replacement	$	2,000.00		
Carpet Replacement – Harper – 2nd floor	$	50,800.00		
Toilet Partition Replacements – all restrooms – RED	$	32,400.00		
Harper Building Digital Controls	$	180,000.00		
Load Bank Breaker/Shut Trip to RED Emercency Generator	$	11,293.00		
RED Elevators to the Emergrency P:ower Generator	$	43,080.00		
Replace 3000A Main Switchboard for the RED Building	$	72,140.00		
David Building- Motor Control Center Replacment	$	75,000.00		
Harper HVAC Renovations – Auditorium unit	$	127,355.00		
RED Building replace motor control center	$	55,000.00		
Harper HVAC renovation – 2 Fresh Air Units	$	323,320.00		
ADA Walkway – Gadsden St./Join UI Hub Walk	$	60,000.00		
Parking Lot Repavement – UI Hub and Field Service – Midlands Bldg - Lot :	$	163,000.00		
Parking Lot Repavement – UI Hub and Field Service – Midlands Bldg - Lot :	$	335,000.00		
Harper window leaks	$	216,808.00		
Harper waterproofing - 1st Floor - parking lot side	$	126,000.00		
Enclose Stairwell – Harper building	$	120,000.00		
Hampton/Gadsden St Parking Lot – Central Office Lot 4	$	125,000.00		
Parking Lot Overlay – RED Lot 3	$	498,000.00		
Parking Lot Overlay – Harper Lot 5	$	53,000.00		
Parking Lot Rehab – Warehouse Lot 6	$	27,000.00		
Conway Works Center - Fascia Repair	$	47,230.00		
Finance Build out	$	70,000.00		
Total			$ 4,588,107.00	
Total Projected Outlays				$ 14,219,753.35

Agency Comments

P.O. Box 995
1550 Gadsden Street
Columbia, SC 29202
dew.sc.gov

South Carolina Department of Employment and Workforce

Henry McMaster
Governor

G. Daniel Ellzey
Executive Director

July 2, 2019

Mr. K. Earle Powell, Director
S.C. Legislative Audit Council
1331 Elmwood Avenue, Suite 315
Columbia, South Carolina 29201

Dear Director Powell:

It's a great in day in South Carolina and a great day to be part of the South Carolina Department of Employment and Workforce's (DEW) team. Thanks to the work of DEW and its partners in South Carolina's workforce system, the state is experiencing historically low unemployment numbers. The number of South Carolinians working reached a record high of over 2,286,000 in May 2019. And importantly, the Unemployment Insurance (UI) Trust Fund is once again solvent post the Great Recession.

Background: As you recall, in 2010, the General Assembly dissolved the Employment Security Commission (ESC) and created DEW, placing DEW in the Governor's cabinet under the leadership of an executive director. This was in response to problems the ESC encountered during the height of the Great Recession. At that time, the Legislature tasked the Legislative Audit Council (LAC) with performing three management reviews of DEW's finances and operations to monitor the improvement of the agency post-ESC. I am pleased to report that DEW has made tremendous improvements since the LAC's first audit in 2010. In January 2010, the unemployment rate in South Carolina was 11.7% and 251,269 workers were unemployed. In stark contrast, in January 2019, the unemployment rate was 3.2% and the number of unemployed workers dropped to 74,837. As the economy recovered, employees were put back to work and employers found employees through job matching, referrals to employers, training, workshops, community partnerships, and business engagement. DEW's diligent efforts, in collaboration with the General Assembly, have resulted in a solvent UI Trust Fund a year ahead of schedule. This has been accomplished while also cutting employer taxes for five consecutive years, allowing South Carolina employers to reinvest in South Carolina workers.

Since DEW was created in 2010, the agency has streamlined its staffing, from 1408 employees in 2010 to 630 employees in 2019, a 55% reduction. DEW has also aggressively pursued innovative technological and programmatic solutions to improve customer service and meet the needs of employers and job-seekers. In a period of only two years, 2017-2019, DEW implemented modernization initiatives to optimize the customer service experience and provide for a seamless technological approach to accomplish our mission. During that time, DEW implemented a new unemployment claims system (SCUBI) to facilitate the filing of unemployment claims and allow claimants to track their claims, and a new employer tax system (SUITS) to assist employers manage their UI Tax accounts. These systems provide users with enhanced self-service functionality and more information about their dealings with DEW. This promotes transparency and greater compliance with the law through timely and directed alerts and messages. Ultimately, the reduction in staff and the implementation of this modernization effort has resulted in DEW becoming a highly efficient operating agency.

At the same time the agency was expanding its technological approach, DEW recognized access issues (in terms of obtaining services) of many constituents, particularly those living in rural areas. In response, the agency expanded its statewide footprint in strategic locations to provide in-person assistance for workforce readiness and employment services. As a result of this expansion, access to SC Works Centers could be obtained in fourteen (14) comprehensive centers, thirty-five (35) satellite centers, and more than one hundred (100+) Connection Points.

Throughout this time, DEW has also continued to develop and enhance its workforce programs and put South Carolinians, particularly those with barriers to employment, back to work. DEW's Back to Work program, which began in 2015 as a pilot in Columbia to help homeless individuals enter the workforce through an intensive six-week employment boot-camp, has expanded to Greenville, Greenwood, Waccamaw, Lower Savannah, Upper Savannah, Trident, Worklink, Santee Lynches, and Catawba workforce areas. The success of this program is remarkable as nearly 70% of the graduates are employed or in training. DEW's Second Chance initiative (with the SC Department of Corrections) has been equally successful. This initiative has helped returning citizens learn a skill, understand how to successfully search for a job and prepare for employment after release. From June 2017 to July 2018, an average of 70% of those who completed the Second Chance program were employed.

The State Workforce Development Board (SWDB) has been a strong DEW partner in driving the growth and success of South Carolina's workforce system. From July 2017 to June 2018, the SWDB awarded over $2.4 million in grants, under the federal Workforce Innovation and Opportunity Act (WIOA), to twelve organizations and partnerships to fund initiatives. In the last three years, the SWDB and DEW have launched initiatives including, digital literacy grants to help bolster the digital skills gap, grants to assist out-of-school youth complete education and hone employability skills, and transportation demo grants to help provide access to public transportation for employment and training, among others.

Most recently, DEW has focused on 'Rural Area Initiatives' that will enable DEW to enhance the mobilization of its existing resources and leverage existing/future partnerships to provide services to constituents in critical-needs areas identified through labor market information. As part of this initiative, DEW has launched forty (40) outreach programs, where DEW staff travel to very rural areas on a set schedule to partner with community and faith-based organizations to personally deliver services to constituents who could not otherwise access DEW's programs and services. DEW has also expanded its outreach to South Carolinians by providing services to rural and outlying areas through its Career Coach, a mobile unit equipped with computers and staff trained to help job seekers and employers. DEW's refocus on personal assistance to constituents in rural areas has significantly increased opportunities for services and employment. In 2018, 317,000 individuals visited SC Works Centers alone to utilize DEW programs. In collaboration with its workforce partners in the Centers, DEW conducted more than 3,200 employment workshops on topics including interviewing and resume writing, disability benefits and employment, and financial coaching, among others.

DEW has been recognized nationally by the National Association of State Workforce Agencies (NASWA) and statewide by trade associations, partner agencies, and public officials for its tremendous improvements over the years to better serve South Carolinians through workforce development, employment services, and the administration of the UI program. DEW, however, is committed to continuous constructive analysis and improvement of its processes and practices, and for that reason, it was optimistic about receiving the LAC's report and associated recommendations. This audit began on January 31, 2018, and concluded on June 25, 2019, nearly one year after its statutory due date of July 1, 2018. In response to the LAC's first draft of the report, DEW presented a thorough (56 pages) document, with hundreds of pages of supporting information, outlining mistakes of fact, inaccuracies, failures to consider pertinent information, allegations that they had not received certain information when they had, improper and speculative conclusions, and areas where the LAC contradicted itself from its earlier report. Upon receiving the final LAC audit report, DEW was disappointed to see that the LAC ignored many critical corrections and essentially adopted those parts of the original report, but also added criticisms and information that DEW had never seen.

Ultimately, the audit still contains numerous instances where the LAC simply failed to understand fundamental aspects of DEW's programs, misstated facts, and failed to consider information provided by DEW. These failures call in to question a number of the LAC's findings and recommendations. The LAC made eighty-two recommendations and, out of those, fifty are under consideration for feasibility, are being implemented already, or can only be accomplished by the General Assembly. DEW is compelled to respond to others, some of which are inaccurate, misapprehend the nature of DEW's operations, duplicate federal requirements, dismiss federal performance measures in favor of the LAC's, and draw conclusions from documents that were not provided to DEW and which DEW had never seen. The latter recommendations are addressed below in the narrative and in the chart beginning on page 8. At this point, we will respond to statements and conclusions contained in the executive summary of the audit.

Solvency of the UI Trust Fund: The UI Trust Fund has been a focus area for the LAC in each of the three audits. In its current audit, the LAC criticizes DEW for its approach to the trust fund rebuild and speculates that employers may have been charged more taxes than necessary. Significantly, the entire structure and process relating to the Trust Fund rebuild is governed by South Carolina statute and regulation. In the aftermath of the Great Recession, DEW, in consultation with the General Assembly, developed a comprehensive plan that would position the Agency to repay its federal loans in response to the depletion of the UI Trust Fund. Pursuant to S.C. Code Ann. §§ 41-31-45(C) and 41-31-50(1)(b), "the Department must annually calculate the income necessary to pay benefits and reach the fund adequacy target for the unemployment trust fund." Further, in accordance with S.C. Ann. Regs. 47-501(2), DEW is required to return the Trust Fund to "fund adequacy target within five years." [1] DEW complied with the law established by the Legislature and to suggest that DEW did something wrong by following the law is puzzling.

For the 2017 tax rate, DEW received legislative leadership feedback that advocated for a faster rebuild process and agreed with DEW's benefit projection option (DEW provides several options for review) that added $20 million to the Trust Fund rebuild, and still maintained an average tax cut of 10.1%. In collaboration with the General Assembly, the Agency was able to successfully repay its federal loans ahead of its anticipated November 2015 deadline. This was accomplished while still providing tax breaks to SC employers for the last five years.

Especially troubling is that the LAC's 2014 audit report appeared to applaud the UI Trust Fund rebuild approach that it now criticizes four years later. In its 2014 executive summary, the LAC noted "in order to achieve solvency, the fund must collect enough revenue to pay current benefits, pay off the federal loans (including any interest), and accumulate a statutorily-mandated reserve which would provide sufficient funds to weather a "moderate" recession. DEW has developed a plan that would allow it to pay current benefits, pay off the federal loans, and attain a positive balance of $118 million by 2015. This will be the first positive reserve amount on the way to a reserve of $400 million by 2017." The LAC also noted that "[t]he General Assembly has enacted various changes in law, affecting both taxes and benefits, which enabled DEW to attain significant progress in regaining trust fund solvency."

In its 2018 report, the LAC completely changed direction and now suggests that DEW should have used a "smoothed solvency method." The LAC goes on to say, that by failing to do this, "DEW may have imposed unnecessarily high tax rates on employers." Even assuming a "smoothed" rebuild was possible, which it is not because we cannot predict the future of South Carolina's economy with perfect accuracy, it is based on the LAC's erroneous assumption that the $965 million adequate balance is a static number. Each year the appropriate adequate balance must be re-evaluated based on the size of the South Carolina economy. If DEW under-projected economic growth for the state, employers would have to pay additional taxes in the final years of the rebuild in order to meet the goal. With a moving target based on economic growth, one could never ensure a smooth rebuild. With the benefit of hindsight, the LAC can argue that a slower rebuild may have worked to achieve the target goal. Unfortunately, no one knew in 2014 how the economy would do in 2019 and to judge decisions based on what we know today is pure speculation. What we do know is that from 2014 to 2019, taxes for employers decreased 49.2% on average.

Although DEW cannot predict when the next recession will occur, or the severities of its impact, we do know that recessions are cyclical in nature and that we need to position the Agency to respond appropriately to the needs of our constituents through continuous evaluation of our business continuity plans, analysis of the economic environment, and identifying negative trends in the administration of the UI program and Employer Services. To this end, DEW has established an Economic Task Force, unique among state workforce agencies. This Task Force is charged with identifying lessons learned from the Great Recession and developing a comprehensive plan to ensure DEW can respond to the next economic downturn. DEW plans to collaborate with sister agencies and other state workforce agencies to develop best practices in this area.

Problems with FARS and SCEIS: The LAC report does not paint an accurate picture of DEW's use of the FARS system. DEW utilizes FARS system as the basis of its audited financial statements, to report information, and to seek reimbursement from federal agencies, primarily the DOL. FARS reports and information have been designed to include all relevant data points that DOL requires for reimbursement of eligible expenses and tracking of specific grant data across all open grant years. To date, that functionality has not been built into SCEIS specifically for DEW's use. For that reason, it is necessary to run both systems to continue timely reimbursement requests made to these federal agencies.

Revenues and expenses are recorded in different manners in the two systems. All cash disbursements and all cash receipts are recorded in SCEIS first. Subsequently, for cash disbursements (expenses), an interface between FARS and SCEIS records the cash disbursement transactions into the FARS system. Cash receipt (revenue) transactions are not as numerous, and when recorded in SCEIS, DEW employees identify those transactions and key them into FARS. At each month end, a cash reconciliation is performed to identify any cash transactions in SCEIS and/or FARS that are not

[1] The LAC audit states that the UI Trust Fund achieved 99% of its target solvency in three (3) years; however, the regulation governing the rebuild clearly shows that DEW is in the fourth year of the rebuild (2016, 2017, 2018, 2019).

matched, and thus would be differences between the two systems. Journal entries or transactions are recorded as applicable to resolve these issues.
The report also states that DEW is not compliant with S.C. Code Ann. §11-53-20 relating to SCEIS implementation. DEW, however, implemented SCEIS within the five year period required by the statute and it uses the system for many core financial functions including the payment of invoices, cash receipts, grant tracking, project management, asset management and inventory tracking. Although DEW plans to expand the number of financial functions it performs in SCEIS, the statute does not preclude DEW from utilizing the FARS system, which as noted above, is still a necessity. As a final note, DEW is not the only agency with dual financial systems. The SC Department of Transportation, like DEW, has a separate financial system, in addition to SCEIS, to facilitate their federal reimbursement process.

Contingency Assessment: The LAC's report contains a number of inaccuracies relating to the Contingency Fund. The report states that DEW's planned use of the contingency fund included upgrades to a building that is not used for UI activities. The Harper building on DEW's campus is where Lower Authority tribunal hearings and Higher Authority Panel hearings are held. The appellate function is a UI function as all of the cases heard at both appellate levels are appeals from UI benefit claims or UI tax disputes. The salaries for the hearing officers, Appeals management, Appellate Panel members, and support staff in the Harper building are funded by the UI grant. The LAC is also incorrect in stating that DEW does not have adequate metrics for measuring the effectiveness of its reemployment services, which are funded in part by the contingency fund. DEW is required to use the performance measures set out by DOL for reemployment services. According to DOL, DEW's reemployment programs are effective as DEW consistently meets and exceeds DOL's performance measures. With respect to contingency fund expenditures, the report states that the brief descriptions in DEW's general ledger did not provide detailed enough information for the LAC to determine the exact nature of the expenditures. Importantly, external financial statement auditors, who annually audit DEW on behalf of the State Auditor, have not found the general ledger entries to be deficient.

Taxes: In the employer tax section of the report, the LAC claims that DEW imposed unnecessarily high tax rates on classes 13-20. By design of the General Assembly, businesses in classes 13-20 typically pay more than those in rate classes 1-12 because they have had more benefit claims and have higher experience ratings. S.C. Code Ann. § 41-31-30 requires DEW to "annually classify employers in accordance with their actual experience of the total taxable wages reported and with respect to benefits charged against their accounts to set contribution rates that reflect the employer's experience." There are no facts that support the LAC's conclusion. DEW has complied with the statutory framework established by the General Assembly, which framework was designed to repay the federal loan and rebuild the trust fund.

With respect to the portion of the report entitled "Treatment and Policy of Uncollectible Tax," there has been and continues to be general confusion on the part of LAC regarding uncollectible taxes. The term "uncollectible" has applicability in three contexts relating to UI. First, from a UI program standpoint, debt is declared uncollectible when it meets certain milestones in the collection process. For debts that are eligible for a tax execution, the debt is declared uncollectible six months after the tax execution date. For debt that is not eligible for a tax execution, the debt is declared uncollectible six months after the Notice of Assessment (NOA) letter date. Uncollectible debt then has different write off periods based on the uncollectible date. Debts in tax execution are written off 10 years from the uncollectible date. Debts not in tax execution are written off 6 months from the uncollectible date. Debts in a Proof of Bankruptcy Claim are written off 6 years from the bankruptcy date. Records of this program-related activity are maintained in SUITS, the UI program's employer tax system. Importantly, notwithstanding being labeled as "uncollectible" in SUITS, DEW still pursues the debt in accordance with the timeframes above. In the context of finance and accounting, the UI program definition of uncollectible does not apply. Rather, the standards under the Generally Accepted Accounting Principles (GAAP) govern the treatment of uncollectible debt and write-offs and those standards are far different than those used in the UI program. Finally, DOL also has its own definition of uncollectible based on an item being more than fifteen months late for at least two quarters.

The LAC report appears to conflate the definitions above and present information in a single table entitled "Allowance for Doubtful Accounts and Amounts Written Off as Uncollectible" with numbers from finance and others from UI. In that table, the "Uncollectible Taxes Written Off" column uses the UI program definition and the "Allowance for Doubtful Accounts" column appears to use the financial definition. The table then attempts to correlate the amounts in those columns to unemployment rates. As noted above, however, because the "Uncollectible Taxes Written Off" column uses the UI definition of "uncollectible," the amounts shown in the table include amounts deemed uncollectible six months prior, six years prior, and ten years prior and cannot be correlated to the fiscal year or the unemployment rate with which the LAC associates them. With respect to the spike in uncollectible amounts in the 2015-2016 time period, a factor contributing to the increase is the fact that the time period represents approximately 6 years post the peak of the Great Recession (2008-2010 for SC). There were likely more bankruptcies than usual during that time period and logic dictates that DEW would see an increase in write offs 6 years later. The LAC also questions why South Carolina might have a larger percentage of uncollectible receivables than the national average; however, South Carolina made aggressive reforms to the tax system that essentially tripled tax costs to businesses between 2010 and 2011. As a result, there was a significant uptick in the number of delinquent businesses throughout the end of 2011 and into 2012. Those debts would have worked their way into the DOL definition of uncollectible around the 2015 time period.

Unemployment Overpayments and Fraud: The LAC questions DEW's integrity efforts related to the identification and collection of overpayments. In September of 2013, the Organizational Integrity Division (OID) was created with a single department focused on audit/detections, investigations and overpayment recovery efforts. In the spring of 2016, after strategic planning sessions, DEW determined that the emphasis on integrity would be more effective if it were absorbed back into the agency's operational departments where the concept of "integrity in everything we do" would be the responsibility of every department and every employee. Therefore, contrary to the LAC's claim, the integrity function was not eliminated. Furthering this effort, DEW has implemented a number of key strategies to enhance program integrity efforts statewide, including the development of roles-based employee development through its Career Pathways initiative and the institution of an annual UI Integrity Symposium. Career Pathways provides structured training and development that incorporates the prevention and detection of fraud for each UI staff role. The UI Integrity Symposium is an annual conference for all UI staff that focuses on the importance of integrity in daily UI activities.

The LAC also continues to criticize DEW for the reduction in its fraud prosecutions. This criticism is unfounded because it implies that prosecution is the only means of penalizing a claimant who engages in fraud. This ignores the civil monetary penalty that has been in effect since June 7, 2013, and now penalizes claimants by thirty-three percent of the overpayment balance. Pursuant to S.C. Code Ann. § 41-41-40(3), "...a final decision of the department or court establishing the character and amount of overpayment is final for all purposes and proceedings." As a result, DEW's final decision on fraud acts as a civil judgment against the claimant, and allows DEW to utilize liens and levies, as well as wage withholding and income tax garnishments without having to obtain a criminal judgment through prosecution. In short, the administrative fraud penalty now serves as a concrete and significant civil penalty imposed on claimants without the need to burden the already overburdened court system or the use of significant DEW resources.

The LAC's criticism also ignores the import of mandatory guidance issued by DOL regarding the level of investigation and proof required before determining a claimant has been overpaid or engaged in fraudulent activity. In accordance with DOL UIPL 01-16, fraud determinations could no longer be made by an automated system, but rather, required a complete investigation, including providing the claimant with notice and an opportunity to be heard. DOL's guidance came in large part due to a class action lawsuit in Michigan where the state agency, in "aggressively prosecuting individuals" as the LAC recommends, wrongfully charged thousands of claimants with UI fraud. Michigan has since admitted that at least 20,000, and as many as 40,000, claimants were falsely accused of fraud, and Michigan's Supreme Court ruled unanimously in April 2019 that claimants could move forward with the class action against the State. This guidance, and the adverse consequences facing agencies in other states, required DEW to reevaluate its fraud identification and collection practices to ensure South Carolinians continued to enjoy all the benefits of federal law.

The end of Emergency Unemployment Compensation (EUC) in 2014, coupled with reduction in the number of weeks a claimant could file for state UI benefits from twenty-six to twenty, greatly reduced the dollar amounts that claimants could potentially receive through fraud. Claimants can no longer collect unemployment benefits for 99 weeks and can no longer receive such high dollar amounts. Now, claims for benefits are capped at $326 per week for twenty weeks. Further, system modernization has enhanced DEWs ability to warn claimants of the danger or committing UI fraud and the requirements to report wages earned while filing for benefits. Contrary to the LAC's suggestion, claimants are periodically advised through their personal SCUBI portals of the dangers of engaging in UI fraud. The LAC fails to explain how a claimant potentially encountering a notice of prosecution on DEW's website would be more effective in preventing fraud than DEW's current practices where claimants receive direct notice from DEW of the dangers of committing fraud. These factors have contributed to preventing an individual from fraudulently receiving more than the $2,000 threshold established by DEW and the SC Attorney General's (SCAG) office.[2]

[2] By way of agreement, DEW and SCAG set $2,000 as the threshold for SCAG to consider prosecution of a fraudulent overpayment.

Finally, the LAC appears to entirely dismiss the value to the state in focusing on the successful recovery of overpayments to replenish the UI trust fund. DEW learned through experience that prosecution is not an effective collection tool. For instance, many claimants were placed on probation after entering plea deals. Once on probation, only the SC Department of Probation, Parole and Pardon Services (PPP) could collect the overpayments as part of an order of restitution. DEW could not use any other means of collection while someone was on probation. The probation of several claimants ended without them paying any of the money, or only a small portion, owed to DEW. Money that was collected by PPP was subject to a 20% fee on restitution, which reduced the amount of money DEW could return to the trust fund. Moreover, the eight-year statute of limitations on fraud collection continued to run during the probation, even when DEW could not collect. Meanwhile, other collection methods, including federal and state income tax refund intercepts (TOPs and SOD), wage withholding, and installment payment agreements, proved to be increasingly successful and effective.

Unemployment Insurance Program: In reviewing DEW's UI performance measures, the LAC cherry picked time frames to focus on quarters in 2018 when DEW did not meet federal measures. While acknowledging that DEW had met all federal measures in the years leading up to the implementation of SCUBI, the graphic depicted in the report only shows data from the quarters missed. The audit findings did not include the most recent performance of those same measures during the 1st Quarter of 2019 that show SCDEW has exceeded federal measures.

First UI Claims Payment Promptness
87.0% Federal Standard
87.2 DEW Performance
Time Lapse of Non-Monetary UI Determinations
80.0% Federal Standard
90.6 DEW Performance
Quality of Non-Monetary Separations
80.0% Federal Standard
83.7% DEW Performance
Average Age of Pending Lower Authority Appeals
30 days Federal Standard
13 days DEW Performance

The LAC finds fault with the disqualification parameters for discharge for cause other than misconduct that are established by the Legislature. The LAC's critique of how DEW handles discharge for cause other than misconduct cases is suspect since it is based on an extraordinarily small, and therefore unreliable, sample size. The LAC based its analysis on a cursory review of 50 ALC orders issued since January 2017. From January 2017 through March 2019, DEW's Appeal Tribunal issued 17,003 decisions in cases involving a claimant's discharge from employment. As a result, the LAC's analysis is based on a scant 0.29 percent of Appeal Tribunal decisions involving a discharge. Moreover, it stands to reason that cases that are appealed to our state courts are more complicated and challenging, raising the likelihood of an appellate court disagreeing. Finally, the LAC's recommendation that DEW implement "internal guidance" to dictate what behavior warrants a disqualification for cause other than misconduct may run afoul of our Supreme Court's ruling prohibiting the establishment of binding norms.

Scope Impairment: The LAC's report includes several pages outlining DEW's shortcomings in completing the 2018 audit. The report fails to mention, however, the LAC's contributions to the delay.[3] By statute, the 2018 audit was due on July 1. The LAC did not meet with DEW regarding the audit until January 31, 2018, which gave the LAC only six months to conduct the audit and submit its final report. Even with that short timeline, the LAC delayed signing a confidentiality agreement with DEW for nearly three months after the initial visit. The agreement was not only required by federal law, but it was the same confidentiality agreement that the LAC signed before the 2014 audit. Discussions regarding the 2014 confidentiality agreement required DEW to seek formal guidance from DOL's Administrator of Unemployment Insurance. In 2018, DEW had to request formal guidance from the DOL Administrator again. While awaiting that guidance, DEW allowed the LAC to begin conducting survey interviews. The LAC signed the confidentiality agreement in mid-May 2018.

The audit was further delayed by turnover at the LAC. New auditors asked DEW duplicate questions that had been answered months prior, requiring DEW staff to waste time looking for documents that had been produced months earlier so DEW could then refer the auditors to the date on which the documents had been provided. Throughout the audit, the LAC says the DEW delays in providing information made it impossible for the LAC to utilize the information before completing the audit. But, the fact is that delays in providing information to the LAC had little, if anything, to do with

[3] The LAC did not report that DEW provided approximately 25,000 documents during the course of the audit and made every employee requested to be interviewed available to them.

their ability to complete the audit in a timely fashion or within the time constraints of the statute. The real source of the LAC's inability to complete the audit as required was the nine month delay caused by the LAC's six month delay in starting the audit and the three months wasted during the time it refused to sign the required confidentiality agreement.

While the LAC states that DEW provided vague answers to questions, in many of those cases, its auditors simply did not understand the answers. This became clear with several financial and tax related questions. For example, DEW was asked the difference between a fiscal year and a calendar year. Internal subject matter experts were made available to provide LAC auditors with a detailed overview the agency's tax rate structure; analysis associated with the Trust Fund rebuild; and projected financial savings from early loan payments; however, LAC declined the invitation via email.

This lack of understanding was also evident in the LAC's draft report. There were several reports and documents that the LAC could not have understood sufficiently because training and certification are required to properly analyze them. DEW also needed to correct several of the draft report's references including a reference to South Carolina's current UI tax structure as a "reserve ratio" calculation,[4]confusion on the structure and responsibilities of the SWDB and the local workforce development boards, and a reference to claimants only being asked three questions to determine eligibility when DEW has required claimants to answer fifteen questions since SCUBI implementation in September 2017.

Federal Requirements and Monitoring: DEW is heavily regulated by the US Department of Labor (DOL) and the federal laws that govern the many grants and programs that DEW is responsible for administering. DEW is approximately 98% federally funded by DOL and it is required to comply with DOL legislation, regulations, Training & Employment Guidance Letters, Unemployment Insurance Program Letters, and other Employment & Training Advisories. In fact, under South Carolina law, "the department must cooperate with the United States Secretary of Labor to the fullest extent consistent with the provisions of these chapters, and act, through the promulgation of appropriate rules, regulations, administrative methods and standards." In addition, "the department must act as necessary to ensure that the provisions are interpreted and applied to meet the requirements of the federal act as interpreted by the United States Secretary of Labor." (*see* S.C. Code Ann. § 41-29-230).

DOL regularly monitors DEW's performance and DEW is required to report its performance to DOL on all of the grants and programs DEW administers: (1) The Workforce Innovation Opportunity Act (WIOA);[5] (2) Wagner-Peyser (WP); (3) Veterans services; (4) Trade Adjustment Assistance (TAA); (5) Unemployment Insurance (UI); (5) Work Opportunity Tax Credit; (5) Migrant and Seasonal Farm Workers; (6) Labor Exchange Agricultural Report system; and (7) Foreign Labor; and (8) Bureau of Labor Statistics Labor Market Information. DOL drafts the regulations governing these grants and programs and the DOL representatives that monitor DEW are experts in the substantive area of the law and the practices mandated for DEW. Over the years, DOL has regularly found that DEW operates within compliance of their requirements and, in fact, has often exceed the requirements. In areas where DEW has not met performance measures, DEW works closely with DOL's substantive experts to correct those areas.

The auditors from the LAC are not subject matter experts in the areas under which DEW operates. Instead, they are general auditors with responsibility to audit more than one hundred fifty different state agencies. Understandably, it would be impossible for anyone to be an expert in the many areas in which these agencies operate. The point is, the LAC auditors (non-subject matter experts) have found fault with practices that the DOL (subject matter experts) have not.

In several of its recommendations, the LAC alleged omissions in DEW's tracking and reporting of its performance when, in fact, the agency provides comprehensive information on all of its grants to DOL as required by federal law. With respect to its UI program, DEW is required by DOL to submit an annual Corrective Action Plan (CAP) for areas identified as deficient in accordance with the Unemployment Insurance State Quality Service Plan (SQSP) Planning and Reporting Guidelines. Federal guidance on this requirement is found in USDOL ET Handbook NO. 336 (SQSP Handbook), which was explained to the LAC. In coordination with DOL's Regional Office, DEW provides quarterly updates on its progress to bring impacted areas into federal compliance.

[4] 2010 legislation changed it to a benefit ratio.

[5] WIOA encompasses Adults, Dislocated Workers, Youth, and Rapid Response.

With its workforce programs, DEW is required to provide DOL with a dozen quarterly and annual financial and performance reports on Veteran Services, WP, WIOA, TAA, Work Opportunity Tax Credit (WOTC), Foreign Labor, Labor Exchange Agricultural Report System, and Migrant Seasonal Farm Workers. Despite the continuous performance reporting that DEW is required to provide to DOL, the LAC recommended that DEW should create an adjustment model and conduct a study to determine the performance and effectiveness of its programs. The LAC also recommended that DEW track "the employment retention rate of claimants who have exited its employment service programs," however, existing federal reports already require DEW to track employment outcomes at the second and fourth quarters after program exit, as well as median wages. Finally, the LAC appears to suggest that DEW has failed to comply with federal reporting guidelines with its Rapid Response services. That is inaccurate. DEW's Rapid Response provides on-site assistance to help laid-off workers get jobs, training and income support if eligible, and its goal is to help workers get new jobs as quickly as possible. The only reporting required by DOL with respect to Rapid Response is TAA, which, as noted above, DEW provides on a quarterly basis. DEW also reports Rapid Response activity to DOL in its Employer Services report, but DOL does not have federally required measures for this program. It is unclear why the LAC's recommendations did not acknowledge any of DEW's federal reporting requirements, most of which address the LAC's concerns, but it calls into question the value of the LAC's recommendations on these topics.

Repeat Operational Issues: These are addressed at length in the above sections.

Recommendations: As noted earlier, fifty of the LAC's eighty-two recommendations are under consideration for feasibility, are being implemented already, or can only be accomplished by the General Assembly. The remaining recommendations are discussed here.

#	LAC Recommendation/DEW Response
2	Should maintain an updated subsidiary accounting ledger to reflect accurate balances due from employer. **DEW**: A report reflecting accurate balances due to the agency from employers does exist and is available to management upon request. This report was previously shared with the LAC per their request.
4	Should ensure that it consistently uses its historical collection rates and write-off history to determine uncollectible debt. **DEW:** DEW has historical collection results that are used to update the allowance for doubtful accounts amounts. Specifically, the department uses a 5 year historical collection analysis for the allowance percentage. This information was previously provided to the LAC.
5	Should include revenue received from previously written-off debt as revenue in the year collected. **DEW:** The agency, in collaboration with the General Assembly, is responsible for establishing Annual Employer Tax Rates. In part based on the balance of the Trust Fund, any collection of written off debt is implicitly included as part of our tax rate setting process. In addition, when a previously written off amount is collected the entry is to reflect a debit to cash and a credit to revenue. This entry ensures the revenue is recognized within the year the cash was collected.
7	Should use an aged accounts receivables report and review the balances routinely. **DEW:** A report reflecting aged accounts receivables does exist and is available to management upon request. This report was previously shared with the LAC per their request.
8	Should include in its annual financial audit report the amount of uncollectible taxes written off during the year. **DEW:** The annual financial audit reports include the gross amount of all debt owed to the agency less its estimate of uncollectible balances. The annual allowance for uncollectible amount is disclosed in the annual financial audit report. Refer to Note 1 and Note 5 of the June 30, 2018 Annual Trust Fund Audit Report.
14	Should compute the costs to collect the contingency assessment tax for the years since FY14-15 and, if costs are excessive, should evaluate reasons for the increase. **DEW:** The contingency assessment is established by SC statute and the agency discharges its duties in compliance with that statute.
18	Should make the tax rates and tax structure more equitable for all rate classes, proportionate to the risk presented by employers, and should increase the number of rate classes to eliminate significant rate increases between classes. **DEW:** DOL produces a "State Unemployment Insurance Tax Measures Report" each year showing the distribution of wages, benefits, and contributions by effective tax rates. This report shows for 2018 that businesses with an effective tax rate <0.5% (approximately equivalent to rate classes 1-5) were responsible for 17% of all benefits charged while contributing approximately 33% of all revenue. Conversely, those with effective tax rates greater than 2.0% (approximately equivalent to rate classes 14-20) were responsible for 24% of all benefits charged while contributing approximately 11% of all revenue. Thus, overall, it does not appear that businesses in classes 14-20 are paying more than their "equitable" share of unemployment taxes.
19	Should collect data on revenue amounts collected and unemployment claims paid by rate class, each year. **DEW:** Revenue amounts

	collected by rate class are already contained in the October annual report provided to the General Assembly and provided to the LAC.
20	Should consider the implementation of a smoothed solvency method in the future. **DEW:** See page 3 above for details.
21	Should consider the impact on employers prior to implementing an accelerated Trust Fund rebuild in the future. **DEW:** The agency's trust fund rebuild was conducted in accordance with a plan adopted by the General Assembly in 2010.
24	Should continue to use the Trust Fund cash balance for its reporting of balance in its annual Trust Fund report, and also report the financial statement balance as a footnote to the reporting. **DEW:** The net position of the trust fund as reported in the audited financial statements is not equivalent to cash on hand used to pay unemployment benefits and includes accounts receivable that may not be collected. DEW agrees that the balance reported in the US Treasury Trust Fund for the state is the appropriate measure of the health of the Trust Fund.
26	Should consider obtaining outside unemployment Trust Fund projections from an independent third party. **DEW:** The agency will be happy to provide the General Assembly with any reports or information they may find helpful. DEW believes that our internal reporting structure outweighs the cost/benefits associated with an independent third party.
41	Should develop and implement an internal master plan to ensure that it fulfills federal data validation standards. The master plan should include, at a minimum: (1) Specific reasons for validation failures for each relevant population. (2) Specific process improvements to address validation failures for each relevant population. (3) Timelines for passing validation for each population. (4) Specific responsibilities for all relevant employees. **DEW:** DEW submits a corrective action plan to DOL with details on data validation problem areas and areas of improvement. DOL had an onsite visit with DEW on July 16 – July 20, 2018, reviewed DEW's data validation efforts, and found no issues with DEW's process for Benefit Data Validation. DEW passed 9 populations. See also pages 7-8 above.
42	Should monitor and research the effect that the number of job searches required for unemployment claimants has on claimants' length of time spent on unemployment, and thus the state's overall unemployment rate. **DEW:** Because many factors including overall economic conditions, geography, education, etc., impact the length of time an individual spends on unemployment, it is not clear that isolating the number of job searches that are required to be completed will show any impact on the unemployment rate.
43	Should thoroughly document rationale for cost savings when making budget requests to the General Assembly. **DEW:** DEW submitted its budget package through the legislative process, which included the reference to the $5.6mm savings. DEW was unaware of any additional requests following the submission of this related budget package. DEW agrees that all submissions to the legislature should have supporting documentation available upon request.
44	Should consider implementing an adjustment model to estimate its achievement of federal performance measures. **DEW:** See pages 7-8 above for details.
46	Should conduct a study that examines the duration of benefits of Reemployment Services and Eligibility Assessment program participants with that of a comparison group. **DEW:** Per UIPL No. 07-19, USDOL updated the program's Employment and Training Administration (ETA) reporting requirements in FY2016 to remove comparison group reporting requirements.
51	Should comply with federal law regarding the disqualification of individuals from receiving unemployment benefits who fail to report to Reemployment Services and Eligibility Assistance program appointments. **DEW:** In accordance with DEW Procedure Transmittal Letter 1328 (Disposition of Failure to Report Issues), claimants are held out from receiving UI benefits for the failure to report week.
52	Should have a written policy specifying the circumstances for individuals to remain eligible for unemployment insurance benefits despite missing their Reemployment Services and Eligibility Assessment appointments. **DEW:** In accordance with DEW Procedure Transmittal Letter 1328 (Disposition of Failure to Report Issues), claimants are held out from receiving UI benefits for the failure to report week.
53	Should verify that the reasons for individuals remaining eligible for unemployment insurance benefits despite missing Reemployment Services and Eligibility Assessment appointments are valid. **DEW:** In accordance with DEW Procedure Transmittal Letter 1328 (Disposition of Failure to Report Issues), claimants are held out from receiving UI benefits for the failure to report week. The Agency's weekly certification questions, in addition to the National Directory New Hires (NDNH) cross match, provides an additional layer of integrity to validate the continuation of the receipt of UI benefits.
54	Should track outcome and performance data, related to the Rapid Response services, as required by federal guidelines. **DEW:** See pages 7-8 above for details.
55	Should establish its own policy manual and method, stating how to implement Rapid Response services within an established timeframe, in order to help reemploy dislocated workers. **DEW:** A Rapid Response Manual was in development during the time of review. DEW developed the manual to establish a comprehensive resource for Rapid Response information and operational guidance, and communicate expectations for delivery of Rapid Response services statewide. The manual is maintained in the DEW Policy Center and in the staff resources section of South Carolina Online Services (SCWOS).

56	Should ensure that, when carrying out Rapid Response services, the protocols taken to provide these services are documented and delivered consistently. This includes for both official and unofficial protocols and policies, including but not limited to: (1) Management meetings with companies that receive Rapid Response services. (2) Group orientation sessions with affected employees prior to layoffs when possible. **DEW:** DEW has implemented a Rapid Response Manual that details protocols for layoffs and closures. DEW works with companies to set management meetings and group orientations. However, the decision on whether these meetings occur is completely up to the employer. DEW cannot require that these meetings are held, nor can DEW always offer group orientations before a layoff if the company does not allow.
59	Should ensure accuracy in its reporting function. **DEW:** DEW has updated how we document communications with employers during the Rapid Response process. DEW has also created a review process to validate consistency and accuracy in our reporting functions.
60	Should track intake data at the workforce centers for all services provided to customers. **DEW:** Intake data is collected from customers at Workforce Centers; copies of this were provided to the LAC. The types of services provided to each customer is also tracked in the SCWOS.
62	Should use the fraud finding computer programs that it purchased. **DEW:** The Agency, in coordination with the SC Department of Administration, will continue to adhere to established IT procurement procedures to evaluate the return on investment cost-based analysis. The Agency was not seeing a return on investment regarding the tool referenced, procured by former OID leadership. In addition, this tool has not been recognized as a UI-best practice for the identification of fraudulent activity.
64	Should increase its focus on discovering and collecting overpayments back to previous levels commensurate with the level of unemployment. **DEW:** DEW continues to be focused on discovery and collection of overpayments. DEW met the federal measure for detection of overpayments during the last performance quarter. The LAC opinion of detection and collection levels being commensurate with the level of unemployment is not in a DOL federal measure or guidance.
65	Should increase its prosecutions of individuals committing unemployment insurance fraud. **DEW:** See pages 5-6 above for details.
66	Should list individuals committing unemployment insurance on the agency's website. **DEW:** Because DEW must comply with strict Federal confidentiality requirements regarding unemployment compensation information (20 C.F.R. 603), which includes the identity of claimants and employers, DEW will confer with DOL to determine what may be legally permissible.
71	Should produce a balance for the contingency assessment, both monthly and annually, for the use of its management staff, outside auditors, and reporting to the Legislature. **DEW:** SC DEW has a reporting tool in place upon which the contingency balance is reported to internal and external parties.
72	Should comply with state law S.C. Code 11-53-20, which requires most agencies to use SCEIS, for all of its financial recordkeeping. **DEW:** DEW complies with state law regarding SCEIS. The department currently uses the SCEIS system for the payment of bills, cash receipts, grant tracking, project management, asset management and inventory tracking.
77	Should submit complete and accurate employment data to the S.C. Department of Administration. **DEW:** HR knows the accuracy and integrity of the data entered in SCEIS is of paramount importance. DEW requested to review the reports the LAC accessed that show inconsistent data. DEW has not heard back from the LAC on this request. SCEIS reporting always has to be reviewed at the agency level for inconsistencies. SCEIS has demonstrated issues with reporting and identifying when employees move to other SCEIS participating agencies.

Conclusion: DEW appreciates the opportunity to respond to the 2018 LAC report. While there are several differences of opinion with respect to the LAC's recommendations, the LAC has provided DEW with some valuable constructive feedback. Having only served as DEW's Executive Director for eight weeks, this will give me a good foundation on which to move the agency forward to greater success.

Sincerely,

G. Daniel Ellzey
Executive Director
S.C. Department of Employment and Workforce

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