



SUMMARY



A Management Review of the Department of Employment and Workforce

SOLVENCY AND NOTIFICATION PROCESS

INTRODUCTION

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 finance and operations. Our objectives were to:

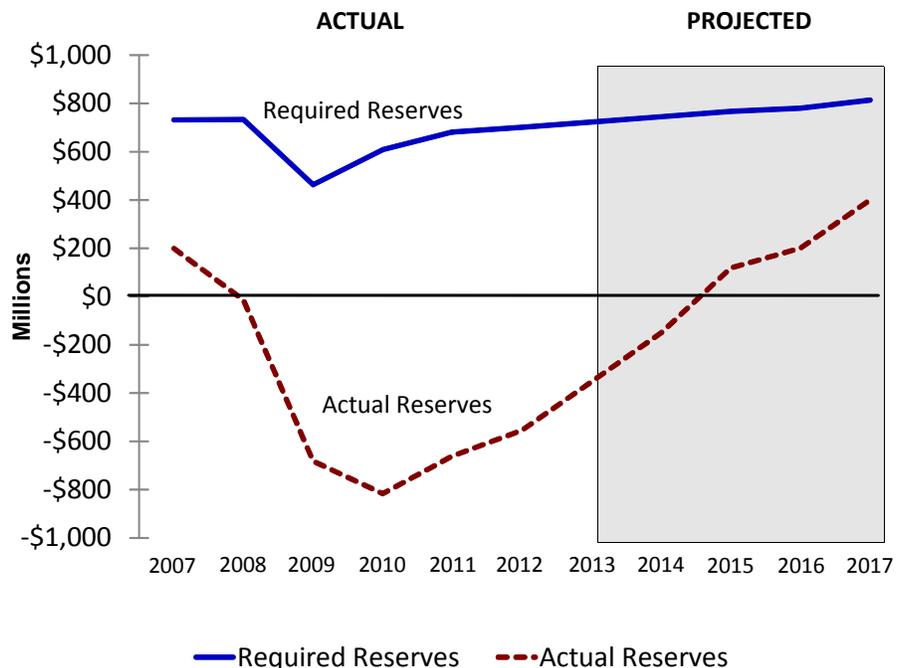
- Provide a detailed accounting of the revenues and expenditures from the Unemployment Insurance (UI) Trust Fund since 2000.
- Determine the adequacy of the process for notifying state officials of the financial status of the Unemployment Insurance Trust Fund.
- Assess alternatives for maintaining the solvency of the Unemployment Insurance Trust Fund.
- Examine the unemployment eligibility benefit process for efficiency and compliance with law and agency policy.
- Evaluate the effectiveness of the Department of Employment and Workforce's programs for assisting claimants in returning to work.

The Department of Employment and Workforce (formerly the Employment Security Commission) was established in 1936. DEW is responsible for paying unemployment insurance benefits, collecting unemployment taxes, assisting individuals in finding employment, finding employees for companies, and collecting and disseminating state and federal employment statistics.

Currently, the UI trust fund is insolvent, and, as of November 2013, the state of South Carolina owed the federal government \$457 million for loans used to pay unemployment benefits. This balance reflects a reduction of total loan debt from just over \$1 billion with total repayments of \$545 million.

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 chart below illustrates DEW's solvency projections.

SOLVENCY PROJECTIONS



MAY 2014

The 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. The most significant change in taxes was the General Assembly's enactment of legislation significantly altering the contributory unemployment insurance tax system. As of January 1, 2011, the tax system was changed and designed to have tax collections equal benefit payments.

ALTERNATIVES FOR ACHIEVING AND MAINTAINING SOLVENCY

There are two main components affecting solvency of the trust fund — taxes and benefits. Currently, the taxable wage base is \$12,000, up from \$7,000 in 2010. The wage base will increase to \$14,000 in 2015. For benefits, South Carolina has increased the penalties for terminations due to misconduct and reduced the maximum number of weeks individuals are eligible to collect from 26 to 20.

TAX DEBT

DEW reported total outstanding uncollected trust fund tax debt of \$61.6 million as of January 2013 with approximately half of it being deemed uncollectible. The agency could not provide a breakdown of how much debt was incurred and collected for each year or if any debt was written off, hindering analysis to determine how effective its collection effort has been. Without a proper accounts receivable aging report, the agency is handicapped in managing its debt collection.

BENEFITS

The General Assembly amended state law in 2013 to prevent certain seasonal businesses' workers from receiving unemployment benefits in the "off season." However, this law is not in compliance with federal law and has not been implemented. DEW provided a cost-benefit analysis showing a benefit savings from \$300,000 to \$3 million annually, at a cost of \$1.2 to \$1.4 million for IT and business process changes. However, it is unclear if the law can be amended to accomplish the intended outcome and meet USDOL compliance with federal law.

PROCESS FOR NOTIFYING STATE OFFICIALS

We found that DEW is making the required reports regarding trust fund solvency to the General Assembly and that these reports contain the information required by law. However, the General Assembly should amend state law to require only one trust fund report each year. This single annual report should include analysis and recommendations for improving the solvency of the trust fund.

CONTINGENCY ASSESSMENT

The contingency tax rate of 0.06% is applied to the same taxable wage base as the unemployment tax rates paid by employers. The increase in taxable wage base to \$12,000 resulted in increased administrative funding for DEW. DEW collected \$4.8 million more in additional contingency assessment funds in FY 10-11 and FY 11-12 than it collected in FY 09-10. The General Assembly may not have been aware of the effect that increasing the taxable wage base would have on the contingency assessment. Also, it is questionable whether there is a need for the assessment. We found that 22 states do not have a contingency assessment. Also, because the agency's financial system does not track the required expenses, we could not determine if DEW has complied with a proviso requiring 30% of the funds be spent on certain activities identified in the proviso. In addition, in 2010 DEW did not comply with federal requirements when it used approximately \$445,000 in federal funds to help collect the contingency assessment funds. DEW stated that beginning in 2011, staff began submitting quarterly reports of all amounts transferred from the contingency assessment fund to the UI program so that any anomalies can be questioned and researched. In addition, DEW states that an adjusting entry is under review to correct the 2010 error, this year.

UI ELIGIBILITY AND CLAIMS

ELIGIBILITY REVIEWS

In February 2013, DEW reported that it suspended regular eligibility reviews for claimants (except for Reemployment and Eligibility Assessment (REA) program participants) receiving their first 20 weeks of benefits, which conflicts with a proviso passed by the General Assembly. The proviso requires DEW to hold seated meetings and eligibility reviews with claimants. Previously, claimants were required to meet with a DEW employee at specified intervals during their benefit periods to ensure claimants met their responsibilities regarding their unemployment benefit. DEW plans on resuming eligibility reviews at a date that has not yet been determined. DEW has also submitted a supplemental budget request for additional federal funding for an automated eligibility review system to replace in-person reviews.

WEEKLY WORK SEARCH REQUIREMENTS

DEW does not currently verify that claimants are actively searching for work. DEW's job search requirement policy requires UI claimants to make four job searches per week. Also, in 2012, DEW created a requirement that claimants make at least one job search a week on the SC Works website, which provides job listings. According to DEW officials, the agency stopped verifying job searches conducted through SCWOS due to a February 2013 lawsuit and resumed them in October of 2013. Also DEW states that it is penalizing claimants who are not meeting this job search requirement. We found that DEW policies of requiring claimants to make four job search contacts a week and requiring claimants to conduct at least one job search a week on the SC Works website have general applicability to the public and should be in a regulation.

REVIEW OF CLAIMS FILES

In our review of 100 unemployment insurance claims files, we found that DEW needs to improve its processes in order to ensure that proper determinations are made in UI adjudications and that UI files include proper documentation.

We found that DEW made questionable determinations in nine files (9% of our sample). Of the determinations we concluded were questionable, eight of them were cases in which the claimant was determined to be ineligible by the claims adjudicator. We also found:

- Five files did not include the proper documentation to support the adjudication.
- Nine files lacked the documentation showing DEW attempted to contact employers regarding UI claims made against their accounts.

It is important that DEW correctly adjudicate UI claims pursuant to law and policy. Incorrect adjudications can have a negative effect on claimants who should receive benefits and could increase taxes on businesses that are improperly charged with a claim.

REEMPLOYMENT SERVICES

EFFECTIVENESS OF SERVICES

We reviewed the effectiveness of DEW's programs in assisting people in finding employment and in increasing their wages. We found that DEW could do more to assess the effectiveness of its reemployment services. We analyzed the impact of DEW's reemployment services on wages pre- and post-unemployment. We found a modest correlation between levels of staff-assisted service and increased earnings. However, services do not appear to result in significantly increased earnings beyond what participants earned prior to receiving services.

WIA PARTICIPANTS

We also reviewed the effect training had on the earnings of WIA participants. DEW analyzed earnings of individuals enrolled in WIA, before and after receiving services. Participants in the WIA program who received training had less of an increase in their earnings versus those who did not. For example, the earnings change for dislocated workers who entered training was 11% versus 18% for those who did not. According to DEW, the decreased earnings are offset because those who enter training are more likely to find employment and retain it.

UNEMPLOYMENT DURATION

We conducted an analysis of participants receiving unemployment benefits in order to determine the effect receiving various levels of services had on participants' duration of unemployment. We found that those receiving intensive services remained on unemployment longer than those receiving core services or no staff-assisted services. This is contrary to the expected result that providing reemployment services should shorten the duration of UI.

UNEMPLOYMENT CLAIMS DURATION BY SERVICE TYPE		
STAFF-ASSISTED SERVICES	NUMBER OF CLAIMANTS	AVERAGE UI DURATION
INTENSIVE	8,048	29.4
CORE	43,855	27.7
NONE	43,596	18.2

Source: DEW

DOCUMENTATION OF SERVICES

We reviewed the files of a sample of persons receiving Wagner-Peyser services in order to determine if the required documentation for staff-assisted services was found in those files. We found that case workers in the work centers were not adequately complying with DEW policy in documenting the services they administered. Overall, in approximately two-thirds of the cases reviewed, we either did not find the required documentation or found that the code for the service was incorrectly applied.

REA PROGRAM DATA QUALITY

During our review, we found DEW has not yet corrected its data problems associated with its REA program. According to reports DEW files with the United States Department of Labor (USDOL), most participants receiving REA services experienced longer periods of unemployment insurance (UI) duration than those in a comparison group who did not receive services. This conflicts with one of DEW's key strategic goals, which is to demonstrate shorter duration of UI benefits for claimants receiving REA services. We found that DEW has experienced data problems with its REA program. Consequently, the effectiveness of the REA program cannot be determined.

FOR MORE
INFORMATION

Our full report, including comments from relevant agencies, is published on the Internet. Copies can also be obtained by contacting our office.

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FRAUD AND OVERPAYMENTS

We found DEW can improve its fraud detection efforts by improving its wage audit notice (WAN) process, thereby improving employers' responses to requests for wage information. DEW uses the responses to determine if claimants are receiving both wages and unemployment benefits at the same time. Also, DEW's cross-match of the unemployment benefits file with social security and inmate files could be more productive.

For calendar year 2012, DEW reported that approximately 44% of the WANs that were generated using the quarterly wage cross-match were not returned. We estimate that approximately \$15 million in potential fraud or overpayments were not pursued as a result of the failure to receive the wage audit notice from the employer. DEW has not contacted employers with a high number of unreturned WANs to determine why the WANs are not being returned and also we found no evidence that DEW has penalized an employer for failure to respond to a WAN. These employers include the Defense Finance and Accounting Services (DFAS), state agencies, and private sector employers.

We found DEW could enhance its effort to prevent fraud and overpayments by implementing the State Information Data Exchange System that assists in the exchange of wage data between employers and the agency. We also found that DEW excluded DFAS from the WAN process without sufficient analysis. DEW's social security and inmate wage cross-matches help detect if deceased individuals or inmates are collecting UI. However, the inmate cross-match is not as productive as it could be due to data reliability issues.

FOLLOW-UP

The Legislative Audit Council released *A Management Review of the Department of Employment and Workforce* in March 2012. In that report, we made a total of 36 recommendations. Since the publication of the report, DEW implemented 14 of the 24 recommendations directed to the agency.