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Subject: Greenville News: DEW mistake spurs debate about governor's cabinet operations

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By Tim Smith

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COLUMBIA — Barbara League, the chief executive officer of G.F. League Manufacturing in Greenville, says she isn't surprised to hear that a programming error at a state agency failed to pick up almost \$9 million in unemployment charges that must now be billed or used in calculating taxes for nearly 12,000 businesses in the state.

"We've been in business for 95 years and we are so used to those little surprises," she told GreenvilleOnline.com.

But others are not so open-minded about the mistake caught in an audit this year by the state Department of Employment and Workforce.

"How could you make such an asinine mistake?" asked Frank Knapp, president and chief executive officer of the South Carolina Small Business Chamber of Commerce.

The mistake is also raising questions about the operations of agencies in Gov. Nikki Haley's cabinet, coming soon after other high-profile lapses that are costing taxpayers money. A spokesman for the governor rejected criticism.

Sen. Kevin Bryant, an Anderson Republican who chairs a Senate subcommittee that deals with issues involving Employment and Workforce, said he was upset that so many businesses would be affected by the error.

"I'm just shocked that we still have this kind of irresponsibility over there that they can't read a calendar," he said, referring to the programming error.

However, Lewis Gossett, president of the South Carolina Manufacturers Alliance, praised the agency for finding the mistake and bringing it to the surface.

"This is exactly what this agency should be doing," he said. "I'm giving them credit for catching it."

The mistake is just the latest headache this year for agencies in the governor's cabinet.

In April, Department of Health and Human Services officials disclosed allegations that an employee had taken personal data belonging to more than 220,000 Medicaid recipients, while last month, Haley disclosed a foreign hacker had breached the Department of Revenue, potentially taking 3.8 million Social Security numbers, 3.3 million bank account numbers and information belonging to nearly 700,000 businesses.

"What is going on in this administration?" Knapp asked.

Sen. Thomas Alexander, a Walhalla Republican and the likely incoming chairman of the Senate Labor, Commerce and Industry Committee, said lawmakers should be looking at the events collectively, not just as isolated problems.

"To me, it's not acceptable that we are continuing to have these events occur," Alexander said. "We'll need to address it in some regard. I think it is a bigger picture that we are going to somehow take a look at."

Rep. Kenny Bingham, the House majority leader who pushed reform legislation when the agency was called the

Employment Security Commission, said the events are a reminder that agency directors have to focus on their organizations just as business leaders do.

“It certainly shows there has to be attention paid to the running of these agencies,” he said.

State Democratic Party Chairman Dick Harpootlian said the problems are not unfortunate events.

“They are a lack of diligence and scrutiny and work,” he said.

But Rob Godfrey, a spokesman for Haley, said despite some problems, the cabinet agencies are producing results for taxpayers.

“State agencies aren’t exempt from problems from time to time,” he said, “and that’s why we put strong, business-friendly leaders in place at state agencies who continue to show results for the people of our state – results like more than 29,000 jobs announced and record-breaking investment in South Carolina, more than 12,000 welfare-to-work success stories, transforming DJJ into an agency that trains young people for jobs and erasing deficits at Corrections, Social Services, and Health and Human Services.”

The employment agency error was caused by a programming change in the agency in 2008, officials said, when heavy unemployment claims prompted the agency to begin allowing claims to be filed on weekends. However, the programming for businesses’ statements did not match and in three quarters — when the quarter ended on weekends — the agency only counted claims filed Monday through Friday, leaving out about \$8.6 million in charges, said Adrienne Fairwell, the agency’s spokeswoman.

An audit during the third quarter of this year caught the error, which could have ramifications for businesses still reeling from the Great Recession.

League said she thinks the programming error is an example of the impact government can have on business.

Other business leaders believe the error will not have a large negative impact.

Ben Homeyer, state director for the National Federation of Independent Business, said he doesn't believe most small businesses in the state will see much change in their taxes next year as a result of it because they are typically in the lowest of the state's 20 unemployment tax tiers.

“We should probably not be affected,” he said. “It's going to be your Tier 20 guys who are truly going to be affected by this issue.”

The agency said about 12 percent of the state's 98,000 businesses, non-profits or government agencies liable for unemployment taxes will be sent revised statements because of the error. However, only 399 of those — non-profits or agencies — will be asked soon to pay additional charges, which total \$542,249.

Those organizations will have time to pay the additional bill, agency officials said.

The other types of businesses, known as “contributory” companies that make up the majority of companies in the state, could have their tax bills for next year affected, according to an agency fact sheet.

“While it is true that contributory businesses will not receive a bill for these undercharged benefits, each of these charges is counted in the calculation of that business’ upcoming tax rate,” the fact sheet states.

Businesses in the state pay unemployment taxes based on their experience with claims, among other factors, and those with more employees filing for unemployment are placed in a higher taxing tier.

Bingham, who said he knows no details of the error and has not been briefed, said it appears to be a basic mistake in accounting, not catching an imbalance between costs and revenue. He said he is bothered it took the agency so long

to catch the mistake.

“It's troubling when we have these issues come up time and time again, especially with an agency that we completely overhauled and the microscope is on it and it should be running like a Swiss clock,” he said.

Businesses in the state will get their bills for next year in January, Fairwell said, instead of December as they have in recent years because it is taking additional time to revise the bills because of the discovered claims.

The agency says it will improve its audit process to try to catch such errors more quickly.

That's fine for Gossett, who pushed for reforming the agency in 2008 and believes it will take some time for it to operate as effectively as it can.

“They are doing the kinds of things we in the business community expect them to do,” he said. “And right now, I don't feel the need to jump on them for that. This is exactly what we hoped they would do. Not this example, but go find this stuff and starting making that place an effective state agency as opposed to what it was.”

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