



State of South Carolina

Office of the Governor

MARK SANFORD
GOVERNOR

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September 30, 2008

Mr. Roosevelt T. Halley
Executive Director
South Carolina Employment Security Commission
1550 Gadsden Street
Post Office Box 995
Columbia, South Carolina 29202

Dear Ted,

I have received your letter requesting that I submit a loan request to the U.S. Department of Labor for \$15 million for the fourth quarter of this year to cover unemployment benefits. From the standpoint of doing business in a professional fashion, the idea of waiting until what amounts to the last few days to notify this administration of an extreme financial need is both unprofessional and reckless. Unfortunately, in this instance, it well may be an indicator in how the commission is actually run. Nonetheless, given the last minute nature of this notification, I am compelled to make the request for the fourth quarter, but I want to be clear that going forward this Administration will not support future requests for loans without reforms.

Let me be clear in my concerns.

We believe timing of your request represents reckless fiscal management. Five days before the deadline you ask us to request an emergency loan from the U.S. Department of Labor. From 2002 to 2006, annual revenue to the trust fund increased by 32 percent. Yet, over the same period of time the size of the trust fund was reduced by half – despite declining unemployment claims. It is irresponsible to both taxpayers and to the unemployed who are ultimately served by the commission that this decline continued for more than five years before the Employment Security Commission (ESC) publicly voiced concern to the administration.

Second, we believe the agency's spending priorities have been misguided. Despite this shrinking pool of funds, federal funds have been allocated away from client benefits to instead build buildings and it is the checks themselves rather than new buildings where the unemployed might collect a check that ultimately matters to the unemployed. Since the ESC received \$110 million in 2002, you have committed 11 percent of those funds to capital projects. In two cases over the past year, legislation has been sent to my desk authorizing expenditures of federal funds and both times I vetoed those bills. Not surprisingly, the legislation was overridden and work proceeded. I have taken the liberty of attaching those veto messages for you.

Third, poor agency management has real life consequences. Recent reports indicate that the ESC has fallen behind on issuing checks to applicants and in some cases those checks take up to eight weeks to get out. These delays again hurt the very people who the ESC has been set up to help.

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Fourth, the agency seems unable to manage its own resources. Recent audits question the agency's ability to accurately and reliably manage the funds allocated to it. In October 2007 and again in February 2008, auditors cited concerns that management was not engaged enough in financial statement preparation to detect errors. The auditors also cite a lack of proper staff training to handle both cash-basis and accrual accounting – leading to a discrepancy of \$475,000 in one case. The auditors also noted that the ESC failed to prepare and deliver timely reporting information.


Finally, the agency fails to be transparent and as a consequence there's a real lack of accountability. Last December, our Secretary of Commerce sent a letter requesting county-specific data on jobless claims to better allocate workforce training and Commerce's economic development objectives with individual communities. This past August, economic development, higher education and business leaders echoed that request, and in fact seven different organizations signed onto a letter requesting this sort of transparency from the agency. To date, neither of those requests has received a response. Meanwhile, states like Virginia can provide real-time, county specific unemployment information. If we are going to stay competitive in the global economy, we have to be on the edge of data, not years behind. I am submitting those requests again and asking you to provide this information within the next three weeks.

These concerns have led several in the legislative branch to raise with the administration the possibility of their calling for a legislative audit. While as a matter of procedure we cannot request one, we certainly support and would encourage these legislators to act on the concerns that they've raised indeed with a legislative audit. I want to reiterate, we will not request any further support for the agency without reform. Further, we believe the ESC needs to provide the taxpayers and the General Assembly with much better accounting of its funds and provide a concrete plan to improve management.

I am requesting that you begin working immediately with our Department of Commerce, business and economic development leaders and this office to address these serious deficiencies. I think that legislative change will ultimately be required to bring about more significant change within the commission and am committed to working with you and legislative leaders on this front as well.

Thank you for your consideration to these matters.

Sincerely,



Mark Sanford

MS/se.ll

Attachments

cc: The Honorable W. Greg Ryberg
The Honorable Harry F. Cato
The Honorable Joe E. Taylor, Jr.
The Honorable J. William McLeod
The Honorable Rebecca Richardson
The Honorable McKinley Washington, Jr.