

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
COLUMBIA, SOUTH CAROLINA**

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 2001

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

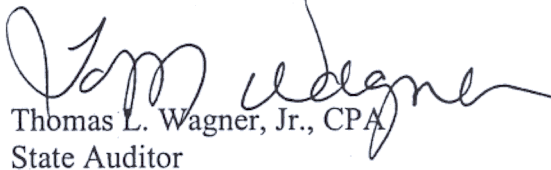
March 6, 2003

The Honorable Mark Sanford, Governor
and
Members of the Commission
South Carolina Employment Security Commission
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Employment Security Commission for the fiscal year ended June 30, 2001, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Employment Security Commission (the Commission) as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of the Commission are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Commission.

A statement of revenues, expenditures, and changes in fund balances – budget and actual for the year ended June 30, 2001 has not been presented. Presentation of such a statement for those governmental funds for which budgets have been legally adopted is required by accounting principles generally accepted in the United States of America.

In our opinion, except that the omission of the statement of revenues, expenditures and changes in fund balances – budget and actual results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Commission as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Commission changed its method of accounting for and reporting nonexchange transactions to comply with Governmental Accounting Standards Board (GASB) Statement No. 33, Accounting and Financial Reporting for Nonexchange transactions effective for periods beginning after June 15, 2000. Under this Standard, the Commission changed its method of reporting State capital improvement bond revenues. Adjustments resulting from changes to comply with this Statement are required to be treated as adjustments of prior periods. Also, as discussed in Note 5 to the financial statements, management discovered that errors were made in the classification of certain general fixed assets and the carrying values for certain general fixed assets were overstated and understated.



Our audit was made for the purpose of forming an opinion on the financial statements of the South Carolina Employment Security Commission taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2003 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Rogers + Lalan PA

February 4, 2003

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	Governmental Fund Types		Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Expendable Trust	General Fixed Assets	General Long-Term Debt
ASSETS AND OTHER DEBITS					
Cash and cash equivalents	\$9,745,781	\$ 220,185	\$ 748,914,902	\$	\$
Accrued interest receivable			12,334,154		
Taxes receivable - net	1,923,462		37,149,825		
Benefit overpayments receivable - net			1,858,133		
Due from reimbursable employers - net			666,957		
Intergovernmental receivables - net:					
State of South Carolina			750,287		
Local governments			1,271,914		
Other states			1,203,084		
Federal	4,641,302	1,164	430		
Interfund receivable	1,325,697				
Subrecipient advances receivable	750,007				
Inventories	238,367				
Prepaid items	409,572				
Property and equipment:					
Land and improvements				3,097,987	
Buildings and improvements				23,774,897	
Furniture and equipment				18,248,025	
Construction in progress				541,866	
Amount to be provided for retirement of general long-term debt					7,507,800
TOTAL ASSETS AND OTHER DEBITS	\$ 19,034,188	\$ 221,349	\$ 804,149,686	\$ 45,662,775	\$ 7,507,800

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001

	Governmental Fund Types		Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Expendable Trust	General Fixed Assets	General Long-Term Debt
LIABILITIES, FUND EQUITY AND OTHER CREDITS					
LIABILITIES:					
Benefits payable	\$	\$	\$ 7,785,192	\$	\$
Accounts payable	6,021,418	148,200	462,239		
Accrued salaries and related benefits	3,388,260	20,243			
Intergovernmental payables:					
Federal			481,962		
States			2,303,237		
Contributions payable			4,178,194		
Interfund payable			1,325,697		
Deferred revenue	3,852,487		4,486,146		
Capital lease payable					95,342
Capital improvement bond notes payable					2,879,404
Accrued compensated absences and related benefits					4,533,054
TOTAL LIABILITIES	13,262,165	168,443	21,022,667	-	7,507,800
FUND EQUITY AND OTHER CREDITS:					
Investment in general fixed assets				46,662,775	
Fund balances:					
Reserved for Reed Act expenditures	1,196,917		1,566,744		
Reserved for inventories	238,367				
Reserved for prepaid items	409,572				
Reserved for benefits payable			781,560,275		
Reserved for SCOICC		50,400			
Unreserved fund balance:					
Undesignated fund balance	3,927,167				
TOTAL FUND EQUITY AND OTHER CREDITS	5,772,023	50,400	783,127,019	46,662,775	-
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$ 19,034,188	\$ 218,843	\$ 804,149,686	\$ 46,662,775	\$ 7,507,800

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
REVENUES:				
Employer tax contributions	\$ -	\$	\$	\$ 168,548,989
Employer tax contingency assessments	7,234,967			
Employer tax - penalties and interest	959,581			
Reimbursement of unemployment compensation benefits from employers				2,087,106
Benefit overpayment recoveries				2,059,766
User fees		397,756		
Intergovernmental:				
Local				4,702,357
State of South Carolina	3,184,689	250,554		3,338,996
Other states				3,453,456
Federal	78,902,454	89,750		8,125,868
Interest/investment income				50,904,912
Miscellaneous revenues	<u>858,507</u>			
TOTAL REVENUES	<u>91,140,198</u>	<u>738,060</u>	<u>-</u>	<u>243,221,450</u>
EXPENDITURES:				
Current:				
Employment and training administration	40,443,167			
Contingency assessments	7,535,519			
Penalties and interest	1,505,192			
Job Training Partnership Act	1,396,580			
Welfare to Work	8,283,144			
Welfare Investment Act	25,624,678			
Other federal programs	4,266,000			
Other non-federal programs	260,735			
Parking	53,757			
Occupational Information Coordinating Committee		919,231		
Unemployment compensation benefits - State				285,049,729
Unemployment compensation benefits - Federal				7,042,620
Capital outlay	1,910,286	22,312	1,201,440	
Debt service:				
Principal	692,463			
Interest	<u>225,658</u>			
TOTAL EXPENDITURES	<u>92,197,179</u>	<u>941,543</u>	<u>1,201,440</u>	<u>292,092,349</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,056,981)</u>	<u>(203,483)</u>	<u>(1,201,440)</u>	<u>(48,870,899)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in			1,201,440	40,404
Operating transfers out	(1,241,844)			
Proceeds from the sale of fixed assets	4,725			
Lapse to the General Fund of the State		<u>(2,506)</u>		
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,237,119)</u>	<u>(2,506)</u>	<u>1,201,440</u>	<u>40,404</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(2,294,100)</u>	<u>(205,989)</u>	<u>-</u>	<u>(48,830,495)</u>
BEGINNING FUND BALANCES, as restated	<u>8,066,123</u>	<u>256,389</u>	<u>-</u>	<u>831,957,514</u>
ENDING FUND BALANCES	<u><u>\$ 5,772,023</u></u>	<u><u>\$ 50,400</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 783,127,019</u></u>
See accompanying Notes to Financial Statements.				

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Carolina Employment Security Commission (the Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting principles are described below.

Reporting Entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Commission has determined it has no component units. The primary government is the State of South Carolina. The State has determined that the Commission is a part of the primary government.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; and,
- (3) Issues bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary entity that holds one or more of these powers.

Enactment of the first South Carolina Unemployment Compensation Law followed action by Congress in passing the Social Security Act on August 14, 1935. The original South Carolina law, which established a free public employment service and a system of unemployment insurance, became effective June 6, 1936. In 1966, the name of the Law was changed to the South Carolina Employment Security Law.

The Commission was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law which provides for the payment of unemployment insurance benefits, the collection of the unemployment tax from subject employers,

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and the operation of a statewide employment service. The administrative costs of the Commission are paid from grants primarily from the U.S. Department of Labor. The Unemployment Insurance Program collects taxes from employers covered by the law, and pays out unemployment benefits to unemployed workers under both state and federal law.

The Employment Service Program operates as a free labor exchange where workers and jobs are brought together from local offices located throughout the State. Workers of all skills, professions and types, including veterans, migrant and seasonal farm workers, youth, older workers and the disabled are placed in suitable jobs by the local State Employment Service/Job Service. Special emphasis is given to the job placement of Unemployment Insurance claimants. The Employment Service Program is affiliated with the U.S. Employment Service.

In addition, the Commission maintains a comprehensive Labor Market Information Program. Also, the agency serves as the administering unit for the Job Training Partnership Act as designated by the Governor.

The Commission is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation, as enacted, becomes the legal operating budget for the Department. The Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditures of total funds.

The Commission, a primary entity, is an Agency and is part of the primary government of the State of South Carolina. The funds and account groups of the Commission are included in the Comprehensive Annual Financial Report of the State of South Carolina. The three-member commission is elected by the South Carolina General Assembly for four-year terms.

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of this entity. The reporting entity operates somewhat autonomously, but lacks full corporate powers. The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina, the primary government, that are attributable to the Commission reporting entity defined above.

Fund Accounting

The Commission uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group is a financial reporting device designed to provide financial accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types". The Commission does not have any proprietary funds.

Governmental Fund Types

Governmental Funds – Governmental funds are used to account for the government's general government activities. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between the assets and liabilities is the fund balance.

General Fund – The general fund accounts for the various federal grants and other revenue sources (other than those legally or contractually restricted and those for major capital projects) which the Commission receives for administrative purposes and special projects and for all other resources except those required to be accounted for in another fund. Federal grants received for unemployment compensation benefits are accounted for in the Expendable Trust Fund. Federal grants received for Employment and Training Administration, Job Training Partnership Act, and other Federal financial assistance not accounted for in the Expendable Trust Fund and other governmental funds are accounted for in the general fund. The general fund includes the following accounts:

Employment and Training Administration (ETA Administrative) – The division of the U.S. Department of Labor which administers Employment Services, and Unemployment Insurance includes administrative funds in the Unemployment Insurance, Employment Service (ES), and ES Reimbursable Programs.

Employment Security Administrative Contingency Assessment (UI Contingency Assessment) – The assessment was established by the Legislature in 1986 in response to Federal budget cuts which would have forced office closing and reductions in staff. The assessment was created by reducing the existing unemployment tax rates at the time by the percentage needed to generate the amount of funds required to cover the Federal budget cuts. Employers overall taxes were not increased. The contingency assessment portion of the tax is accounted for in the General Fund which is used primarily to fund administrative costs and employment services, whereas the unemployment tax is used to fund unemployment compensation benefits in the Expendable Trust Fund.

Special Administrative Account (UI Penalties and Interest) – Employers who do not submit any reports required by the date such reports are due are subject to a penalty and must pay interest on unpaid contributions. The monies are transferred to the Administrative Account each month.

Job Training Partnership Act (JTPA) – The Commission contracts with each of the State's twelve (12) Service Delivery Areas (SDAs) to provide services and/or training for JTPA training programs, except Job Corps. The Job Corps activities are funded directly by the Job Corps Regional Office of the U.S. Department of Labor.

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The Commission contracts with the SDAs to provide eligibility determination and certification for JTPA and eligibility determination for need-based payments for most activity grantees throughout the State. The Commission also contracts with the SDAs to disburse needs-based payments and participant support payments to participants. In six (6) SDAs, the Commission operates On-The-Job Training Programs.

The funding methods specified in the Commission's contracts with its subrecipients include advance payments and cost reimbursement payments.

JTPA is a federal program which provides funds for job training, usually earmarked for the economically disadvantaged or for dislocated workers from plant closures and layoffs. The Commission was named by the Governor to be South Carolina's Grantee and administer the program. The Governor's Job Training Council sets policy and provides oversight. Private Industry Councils make decisions concerning training for the twelve (12) SDAs in the state and contract with local technical colleges, universities, community based organizations, and other training vendors. Certification of Eligibility is provided in local Job Service offices for most of the programs. This program ended in the fiscal year ending June 30, 2001.

Welfare-to-Work Program (WTW) – The Commission serves as the administrative entity for the WTW Program in South Carolina. This includes planning coordinated services with the twelve Service Delivery Areas (SDA's) and managing the state level grants for special projects. In addition, the Commission provides technical assistance to grantees and conducts programmatic and financial monitoring of the grants.

The allocation is two-thirds federal funds with a one-third state match. Eighty-five percent of the funds are allocated to the local SDA's and fifteen percent is reserved for state level grants.

The funding methods specified in the Commission's contracts with its subrecipients include advance payments and cost reimbursement.

The WTW Program is a federal program designed to serve recipients of Temporary Assistance for Needy Families (TANF) by providing activities/services to help move the participants from dependency toward self-sufficiency utilizing a "work-first" philosophy. Allowable program activities include community service, work experience, job creation through wage subsidies, on the job training, job readiness, post-employment services, job retention and support services, individual development accounts, intake, eligibility determination, assessment, and case management.

Workforce Investment Act Program (WIA) – The Commission serves as the Administrative Agency for the Governor's Workforce Investment Act in South Carolina. This includes providing staff to the State's Workforce Investment Board for Policy, Planning and Oversight; and planning for coordinated services with twelve Workforce Investment Areas of the State. In addition, the Agency provides WIA services such as intake; employability; assessment; eligibility determination; on-the-job training; job search assistance; employability development; and job placement services as well as development and maintenance of the statewide eligible providers' lists.

The WIA is a federal program which implements major reforms of the nation's job training system and provides guidance for statewide and local workforce investment systems that increase the employment, retention and earning of participants, and increase occupational skill attainment by participants, and as a result, improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of the nation.

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Key components of this reform include streamlining services through a One-Stop service delivery system; empowering individuals through information and access to training resources through Individual Training Accounts; providing universal access to core services; increasing accountability for results; ensuring a strong role for local boards and the private sector in the workforce investment system; facilitating State and local flexibility; and improving youth programs.

Other Accounts – Other accounts include those received from the United States Department of Labor – Bureau of Labor Statistics, United States Department of Labor – Veterans Employment and Training, United States Department of Health and Human Services – Office of Refugee Resettlement and Office of Child Support Enforcement; and United States Department of Agriculture – Food Stamp Job Search. These accounts are primarily used for administration and employment services expenditures.

The Commission publishes Labor Market Information for the State of South Carolina, from information gathered under a federal grant from the Department of Labor – Bureau of Labor Statistics. This information is published and available to the public. A user fee is collected for each publication sold to the public. These user fees are used to pay for program expenses such as personal services, supplies, etc.

Parking – Parking accounts for collections of payroll deductions for reserved parking for the Commission's employees. The payroll deductions are accounted for in the General Fund as other revenue and fees are used to offset the cost of additional security related expenses, as an administrative expense.

Special Revenue Fund – The special revenue fund generally records expenditures of revenues that are legally or contractually restricted to specific programs or projects other than those projects reported in the Capital Projects Fund or Expendable Trust Fund. The Special Revenue Fund accounts for financial transactions relating to the South Carolina Occupational Information Coordinating Committee (SCOICC). SCOICC is a consortium of agencies mandated by the Carl D. Perkins Vocational Education Act. The Commission is one of eight South Carolina participating agencies. The SCOICC is chaired by the Executive Director of the Commission, and the Commission acts as fiscal agent.

The primary function of the SCOICC is to improve coordination, communication, and cooperation in the development and use of occupational information to meet the common occupational information and data needs of the vocational education programs and the employment and training programs at national, state and local levels. In addition, the SCOICC is charged with giving special attention to the career and educational needs of individuals involved in career decision making.

The SCOICC user fees are collected from each site that participates in the statewide telephone dial-up network. The network delivers up-to-date occupational, educational, employment and career guidance information to career decision makers and job seekers. These user fees are used to pay for program expenses such as personal services, telephone connect charges, supplies, etc.

This fund is dependent on federal and state subsidies to supplement and support these programs.

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Capital Projects Fund – The capital projects fund accounts for the acquisition or construction of major capital facilities. Such resources are derived primarily from federal aid, proceeds from general obligation bonds of the State and the Contingency Assessment Fund included in the General Fund

Fiduciary Fund Types

Expendable Trust Fund - The Expendable Trust Fund accounts for all financial transactions related to employer tax contributions, employer reimbursements in lieu of tax contributions, and federal and other funds used for the payment of unemployment compensation benefits. Interest income earned on excess funds on deposit with the U.S. Treasury is retained in the fund for the payment of unemployment compensation benefits. The Expendable Trust Fund includes the following funds:

Basic Unemployment Compensation (UI) – This fund accounts for regular unemployment benefits paid to individuals. It is funded by quarterly tax remittances from employers within the state, as well as reimbursement from other states, recoupment on overpayments, and interest received on the trust fund.

Unemployment Compensation for Federal Employees (UCFE) – This fund accounts for unemployment paid to ex-federal employees. It is funded by the Federal Government.

Unemployment Compensation for Ex-Servicemen (UCX) – This fund accounts for unemployment paid to ex-servicemen. It is funded by the Federal Government.

Extended Benefits (EB) – This fund accounts for unemployment paid to individuals who have exhausted their regular UI benefits during periods of high unemployment. Fifty percent of regular EB and TEB (individuals who worked for nonprofit organizations) is funded by the Federal Government. The State pays the remainder.

Trade Readjustment Allowance (TRA) – This fund accounts for unemployment paid to individuals who have lost their jobs due to foreign trade. These payments are made after regular UI benefits and EB have been exhausted. It is funded by the Federal Government.

Disaster Unemployment Assistance (DU) – This fund accounts for unemployment paid to individuals who have lost their job due to a disaster (hurricane, flood, etc.). It is funded by the Federal government.

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Accounts Groups

The Commission uses account groups to establish control over and accountability for its general fixed assets and the unmatured principal of its general long-term debt. The accounts groups included the following:

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the Commission including construction in progress.

General Long-Term Debt Account Group - This account group records the outstanding balance of any unmatured general long-term obligation which is to be liquidated from governmental fund resources. Such liabilities include the compensated absence and related benefits liability, capital leases payable and notes payable.

Basis of Accounting

All governmental and fiduciary funds of the Commission are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is utilized for governmental fund types and the fiduciary fund types (expendable trust funds). Revenues are recognized in the accounting period in which they become "susceptible to accrual", i.e., become both available and measurable. All revenues have been treated as "susceptible to accrual" except for: (1) those revenues which become available only as expenditures are incurred, e.g., revenues in the Special Revenue Fund, (2) that portion of employer tax contributions and related receivables due prior to year-end but not collected within sixty days subsequent to year-end. Expenditures are recognized when the related fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Operating transfers in and out are recognized in the accounting period in which the interfund payable and receivable arise. Operating transfers do not represent loans, reimbursements or quasi-external transactions.

Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the Commission either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The Commission mainly engages in voluntary nonexchange transactions. This type of transaction includes most federal grants and State Capital Improvement bond proceeds. Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a) The recipient has the characteristics specified by the provider
- b) The recipient has met the time requirements specified by the provider
- c) The provider offers resources on a reimbursement basis and the recipient has incurred the allowable costs under the applicable program.
- d) The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

Budget Policy

The Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The Commission has not presented a statement of revenues, expenditures and changes in fund balances – budget and actual as required by generally accepted accounting principles.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and cash on deposit with the U.S. Treasury and in various banks.

Most State agencies, including the Commission, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. The pool operates as a demand deposit. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 2.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Commission records and reports its deposits in the general deposit account at cost.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

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Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

Receivables/Deferred Revenue

Receivables and related deferred revenue consist of the following:

Taxes Receivable – Net

Taxes receivable - net includes employer tax contributions, contingency assessments and related penalties, interest and collection charges, net of the allowance for uncollectibles.

Unemployment tax contributions are assessed each quarter based on covered wages during the quarter. Also, effective January 1, 1986, most covered employers are assessed a special contingency assessment at the rate of six one-hundredths of one percent upon all covered wages. This contingency assessment is due in the same time and manner as the unemployment tax contribution.

Taxes and contingency assessments for a quarter are due on or before the end of the month following the close of the quarter. Amounts not paid by such date are considered delinquent and the Commission is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Commission is directed to issue a warrant of execution upon real and personal property of the employer.

Various penalties and interest are levied on delinquent employer receivables for failure to timely file quarterly wage reports and timely make the required payments

Receivables in excess of twelve months are written off unless it goes into tax execution. Uncollectible receivables in tax execution are written off after ten years. The provision for uncollectibles for receivables in excess of six months is established based on a three-year historical collection experience for those receivables.

Receivables are written off by reducing the allowance account and the corresponding receivable.

Deferred revenue related to taxes receivable is that portion of the net receivable that is not collected within sixty days.

Due from Reimbursable Employers – Net

The amounts due from reimbursable employers – net includes those amounts attributable to the actual benefits paid on behalf of certain non-profit employers to former employees net of the allowance for uncollectibles.

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The provision for uncollectibles for receivables in excess of six months is established based on a three-year historical collection experience for these receivables. The Commission's policy is to write off collectibles that are twelve months old unless the receivable goes into tax execution. Uncollectible receivables in tax execution in excess of ten years are written off. Receivables are written off by reducing the allowance account and the corresponding receivable.

Deferred revenues related to the amounts due from reimbursable employers is that portion of the net receivable that is not collected within sixty days.

Intergovernmental Receivables – Net

The federal receivable amount represents reimbursements due under various federal grant programs in which the Commission participates. Revenues and related receivables are recognized at the time and to the extent that allowable expenditures are incurred under such programs.

The amounts due from the State represents unemployment benefit reimbursements due from other South Carolina state agencies. The benefit reimbursement receivable from other states and local governments is based on the prorata share of wages earned by the employees to which benefits are being paid by South Carolina in those states and localities.

Deferred revenues related to the intergovernmental receivables due from local governments and other states is that portion of the receivable that is not collected within sixty days.

Benefit Overpayments Receivable – Net

Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or by claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments or withheld from subsequent benefits due the claimants. During 1986, the State enacted a law which provides for recovery of overpayments by the South Carolina Department of Revenue from State income tax refunds. Benefit overpayments attributable to reimbursable employers or federal programs are due to such employers or the Federal Government. The Commission generally uses collection on overpayments to fund current benefit obligations. Refunds are made only when there are no current benefit obligations. Benefit overpayment receivables recorded net of an allowance for uncollectibles.

Benefit overpayment receivables in excess of three years are written off if not collected. The allowance for uncollectibles for receivables is applied to the entire balance and is established based on a three-year historical collection experience. Receivables are written off by reducing the allowance account and the corresponding receivables.

Deferred revenue related to benefit overpayment receivables – net is that portion of the net receivables that is not collected within sixty days.

Benefits Payable

Benefits payable represent amounts paid after year-end for unemployment compensation benefits for weeks ending prior to June 30.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

Deferred Revenue Related To Federal and State Grants

Deferred revenue related to federal and state grants is that portion of revenue that was received but not earned as of June 30.

Fixed Assets

General fixed assets acquired or constructed are recorded as expenditures from the applicable governmental fund and are capitalized at cost in the general fixed asset account group. Major capital additions which are being constructed over several years are recorded as expenditures in the applicable governmental fund and simultaneously capitalized as construction in progress in the General Fixed Assets Account Group. When construction projects are completed, they are reclassified from construction in progress to the appropriate general fixed asset category. Improvements include additions, alterations, remodeling and other improvements of any kind to an existing structure, building or real property. Equipment additions which are obtained through capital lease contracts are capitalized in the General Fixed Assets Account Group in the year of acquisition at their total costs, excluding interest charges. Payments of principal and interest on such contracts are recorded as equipment expenditures except for those for telephone equipment from the State Budget and Control Board – Division of Information Resources Management which are recorded as debt services expenditures of the general fund and special revenue fund when the capital lease payments are made. Donated assets are valued at their fair market value when received. Fixed assets are not depreciated in accordance with generally accepted accounting principles for governmental entities. Furniture and equipment costing more than \$1,000 and having a useful life of more than one year are capitalized. Assets transferred to the Commission from another State agency are recorded at that agency's acquisition cost.

Interest is capitalized on general fixed assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest incurred from the date of the borrowings until completion of the project less interest earned on invested funds for the same period.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Commission calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

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Indirect Cost

The Commission recovers indirect cost from federal funding sources based on a negotiated indirect cost agreement approved by the U.S. Department of Labor, Office of Cost Determination. The indirect cost recovered from this agreement is used to offset the administrative costs of the Commission and services provided by other State agencies. During the period July 1, 2000 through June 30, 2001, the Commission recovered approximately \$7,904,000 of indirect cost from the indirect cost agreement from the various federal agencies. Of this amount, approximately \$229,000 was remitted to the State and approximately \$7,675,000 was retained by the Commission. Indirect cost recoveries are reported as federal revenues. The \$229,000 that was remitted to the State is reported as expenditures of the various programs.

Interfund Transactions

Expenditures are initially recorded in the fund making the disbursement. However, if they are properly applicable to another fund, a reimbursement must be recorded. Reimbursements from one fund to another are treated as expenditures of the reimbursing fund and a reduction of the expenditures or expenses of the reimbursed fund. The primary transaction that falls into this category is indirect costs, which are allocated to the various funds through the Commission's cost allocation system.

Transfers from funds receiving revenues to funds through which the resources are to be expended are classified as operating transfers. The primary transaction which falls into this category is that portion of unemployment insurance taxes, penalties and interest and the contingency assessment which is initially received in the General Fund and subsequently transferred to the Capital Projects Fund for construction. There has been no elimination of interfund transactions in the financial statements.

Inventories

Inventories consisting primarily of supplies and printed materials benefiting more than one accounting period are accounted for under the consumption method and recognized as expenditures when used. Inventories are stated at a moving weighted average cost.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items. Prepaid items benefiting more than one accounting period are accounted for under the consumption method, and recognized as expenditures when used. These services include maintenance contracts on data processing and office equipment, equipment rentals and professional services, software cost paid in advance and insurance coverages.

Intergovernmental Payables - Federal

Amounts reflected as intergovernmental payables – federal in the General Fund represent unexpended funds received for special projects in which the Commission participates.

Contributions Payable

Contributions payable includes amounts received from employers in excess of current unemployment tax liabilities. The Commission retains the payments on account to cover future tax liabilities.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

Fund Equity

Reserves represent those portions of Governmental and Expendable Trust Fund balances not appropriable for expenditures or legally segregated for specific future uses. Designated fund balances represent tentative managerial plans for future uses of unreserved financial resources. At June 30 2001, two of the Commission's reserves were as follows:

Reed Act – The Commission has funds totaling \$1,566,744 available under the Reed Act in the Expendable Trust Funds. These funds have not been appropriated by the General Assembly. A reserve has been established to account for the funds until they are legally appropriated. \$1,196,917 of these funds were appropriated by the General Assembly in the fiscal year 2000 to partially fund the purchase of new tax software which has not yet been expended. The \$1,196,917 was reported as a transfer in fiscal year 2000 and is shown as a reserved fund balance in the General Fund.

SCOICC – Pursuant to 2001 Appropriation Act Proviso 51.3, all user fees collected by the South Carolina Occupational Information Coordinating Committee through the Commission may be retained to use for operating the South Carolina Occupational Information System. All user fees not expended in the prior fiscal year were brought forward for use in the current fiscal year. As provided by 2001 Appropriation Act Proviso 51.3, all user fees not expended in fiscal year 2001 may be carried forward to fiscal year 2001 for use in the SCOICC program. At June 30, 2001, \$50,400 was carried forward and is reported as a reserved fund balance.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. DEPOSITS:

The amounts shown as cash and cash equivalents on the balance sheet at June 30, 2001 are composed of the following:

Cash on Hand	\$ 800
Deposits held by State Treasurer	10,417,124
Deposits held by U.S. Treasury	747,081,201
Other Deposits	<u>1,381,743</u>
Totals	<u><u>\$ 758,880,868</u></u>

Deposits held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2001, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the state's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Deposits held by U.S. Treasury

Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the Treasury is authorized to credit to the account of each state agency, on a quarterly basis, a proportionate part of the earnings of the Unemployment Trust Fund (Expendable Trust Fund).

Other Deposits

The Commission's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- 1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- 2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- 3) Uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

The Commission's other deposits at year-end were entirely covered by federal depository insurance or collateral held by custodial banks in the Commission's name.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 3. RECEIVABLES AND DEFERRED REVENUE:

The receivable balances at June 30, 2001 and the related amounts for the allowances for uncollectibles and deferred revenue are as follows:

Type	Receivables at June 30, 2001	Allowance for Uncollectibles	Net Receivables	Deferred Revenue
<u>Taxes Receivable - Net</u>				
General Fund				
Penalties and interest	\$ 2,222,172	\$ 1,719,433	\$ 502,739	\$ 306,934
Contingency assessments	1,538,833	118,110	1,420,723	39,917
Totals	<u>\$ 3,761,005</u>	<u>\$ 1,837,543</u>	<u>\$ 1,923,462</u>	<u>\$ 346,851</u>
Expendable Trust Fund (ETF)				
Employer tax contributions (UI)	<u>\$ 43,474,124</u>	<u>\$ 6,324,299</u>	<u>\$ 37,149,825</u>	<u>\$ 2,213,487</u>
<u>Due From Reimbursable</u>				
<u>Employers - Net (ETF)</u>				
Non-profit employers (UI)	<u>\$ 711,389</u>	<u>\$ 44,432</u>	<u>\$ 666,957</u>	<u>\$ 195,290</u>
<u>Intergovernmental Receivables - Net</u>				
State agencies (ETF - UI)	<u>\$ 750,287</u>	<u>\$ -</u>	<u>\$ 750,287</u>	<u>\$ -</u>
Local governments (ETF - UI)	<u>\$ 1,271,913</u>	<u>\$ -</u>	<u>\$ 1,271,913</u>	<u>\$ 252,958</u>
Other states (ETF - UI)	<u>\$ 1,203,084</u>	<u>\$ -</u>	<u>\$ 1,203,084</u>	<u>\$ 313,193</u>
Federal grants				
General fund	<u>\$ 4,630,952</u>	<u>\$ -</u>	<u>\$ 4,630,852</u>	<u>\$ -</u>
Expendable Trust Fund:				
Extended Benefits (EB)	<u>\$ 430</u>	<u>\$ -</u>	<u>\$ 430</u>	<u>\$ -</u>
State grants				
General fund				<u>\$ 3,505,636</u>
<u>Benefit Overpayments Receivable - Net (ETF)</u>				
Basic Unemployment Compensation (UI)	\$ 3,826,724	\$ 2,026,101	\$ 1,800,623	\$ 1,458,236
Federal Employees (UCFE)	37,689	17,137	20,552	18,552
Ex-Servicemen (UCX)	65,531	36,533	28,998	26,896
Trade Readjustment (TRA)	<u>17,338</u>	<u>9,379</u>	<u>7,959</u>	<u>7,534</u>
Totals	<u>\$ 3,947,282</u>	<u>\$ 2,089,150</u>	<u>\$ 1,858,132</u>	<u>\$ 1,511,218</u>
Total deferred revenue				<u>\$ 8,338,633</u>
Allocated to:				
General Fund				<u>\$ 3,852,487</u>
Expendable Trust Fund				<u>\$ 4,486,146</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

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NOTE 4. INTERFUND/INTRAFUND RECEIVABLES/PAYABLES:

The amount shown on the financial statements as being interfund receivables represents amounts which were collected for penalties and interest and contingency assessments in tax remittances from employers. That portion of the monies collected which are to be transferred to the General Fund were held in the Expendable Trust Clearing Account at June 30, 2001. Amounts due from the Expendable Trust Fund – Basic Unemployment Compensation to the General Fund as of June 30, 2001 are as follows:

Reed Act	\$1,196,917
Contingency assessments	36,849
Principal and interest	91,931
	<u>\$1,325,697</u>

Other receivables/payables can occur which represent short-term borrowing from the General Fund. These amounts are made available to fund expenditures in other funds which are awaiting reimbursement from grantor agencies.

Additionally, intrafund transactions occur whereby accounts within the General Fund and the individual Expendable Trust Funds borrow resources on a short-term basis from other accounts/funds within that fund type. There were no intrafund receivables/payables at June 30, 2001.

NOTE 5. GENERAL FIXED ASSETS:

A summary of changes in general fixed assets for the fiscal year ended June 30, 2001 follows:

	Land and Improvements	Buildings and Improvements	Furniture and Equipment	Construction in Progress
Beginning balances, as previously reported	\$ 3,027,199	\$ 21,919,231	\$ 19,336,426	\$ 743,080
Prior Period Adjustments (A)		(20,516)	(998,006)	2,450
Reclassification (B)	(264,207)	264,207		
Beginning balances, as restated	2,762,992	22,162,922	18,338,420	745,530
Additions			1,410,881 (C)	1,743,306
Deletions			(1,501,276)	
Completed project costs reclassified	334,995	1,611,975		(1,946,970)
Ending balances	<u>\$ 3,097,987</u>	<u>\$ 23,774,897</u>	<u>\$ 18,248,025</u>	<u>\$ 541,866</u>

(A) To adjust beginning balance for building set up in error in the prior year, furniture and equipment disposed of in prior years, and initial cost on construction projects not recorded.

(B) To properly classify between land and land improvements and buildings.

(C) Includes \$20,149 donated equipment.

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Current year's additions of construction in progress includes \$541,866 of expenditures paid on a contract for new software for WIA client tracking, reporting and performance system. The total cost of the software is approximately \$1,900,000. Outstanding commitments under this contract were approximately \$1,360,000 as of June 30, 2001.

NOTE 6. CHANGES IN GENERAL LONG-TERM DEBT:

A summary of changes in long-term debt for the year ended June 30, 2001 was:

	Balances, July 1, 2000	Additions	Retirements	Balances, June 30, 2001
Capital leases payable	\$ 485,073	\$	\$ 389,731	\$ 95,342
Capital improvement bond notes payable	3,185,137		305,733	2,879,404
Accrued compensated absences and related benefits	5,107,814		574,760	4,533,054
Totals	<u>\$ 8,778,024</u>	<u>\$ -</u>	<u>\$ 1,270,224</u>	<u>\$ 7,507,800</u>

The change in accrued compensated absences and related benefits is reported at net since the gross additions/retirements amounts are not available.

NOTE 7. CAPITAL PROJECTS/CAPITAL IMPROVEMENT BOND NOTES PAYABLE:

In prior years, the State authorized funds for improvements and expansion of facilities using the proceeds from State capital improvement bond notes. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. Revenues from State capital improvement bonds are recorded when the expenditures are incurred. These authorized funds are requested as needed once State authorities have given approval to begin specific projects. The Commission is not obligated to repay these funds to the State until they have been drawn down. A summary of the balance of the bonds receivable from this authorization as of June 30, 2001 follows:

Act	Total Authorized	Balance Authorized and Not Drawn June 30, 2001
538 of 1987	<u>\$ 5,607,000</u>	<u>\$ 239,455</u>

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The bonds are payable in quarterly installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations for which notes had been executed as of June 30, 2001, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2002	\$ 327,275	\$ 189,398	\$ 516,673
2003	350,336	166,337	516,673
2004	375,024	141,649	516,673
2005	401,453	115,220	516,673
2006	429,745	86,928	516,673
2007 through 2011	<u>995,571</u>	<u>86,921</u>	<u>1,082,492</u>
Totals	<u>\$2,879,404</u>	<u>\$ 786,453</u>	<u>\$3,665,857</u>

Maturity dates range from 2008 through 2011 with interest rates ranging from 5.53 to 6.90 percent annually. All revenues derived by the Commission from federal funds under agreement with appropriate federal authorities or other available funds are irrevocably pledged for the payment of principal and interest.

During the fiscal year, the Commission paid \$305,733 and \$210,941 in principal and interest, respectively, on the capital improvement bond notes payable.

NOTE 8. OPERATING LEASES:

The Commission has entered into operating leases for office space and office equipment. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on a monthly basis. Ending payment dates range from fiscal years from 2002 through 2006. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Commission is responsible for maintenance on most leased property.

Rental expenditures for office space and equipment were approximately \$687,000 for the year ended June 30, 2001. The following is a schedule by years of future minimum rental payments required under the noncancellable operating lease agreements with remaining terms at June 30, 2001 in excess of one year.

<u>Year ending June 30</u>	<u>Amount</u>
2002	\$ 250,834
2003	230,593
2004	130,687
2005	51,551
2006	<u>26,359</u>
Total	<u>\$ 712,527</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 9. CAPITAL LEASE:

The capital lease consists of the following:

Lease for computer printer payable in monthly
installments of \$5,225 including interest at 4.9% with a
maturity in January, 2003 \$95,342

The lease provides that title passes after the final payment is made.

The cost of equipment under the capital lease totaled \$313,500 as of June 30, 2001.

Total payments on capital leases for the year ended June 30, 2001 was \$401,447 and consisted of \$389,731 of principal and \$11,717 of interest. One lease was paid in full during the current year.

The following is a schedule of future minimum lease payments under the capital lease as of June 30, 2001:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2002	\$ 59,350	\$ 3,350	\$ 62,700
2003	<u>35,992</u>	<u>583</u>	<u>36,575</u>
Totals	<u>\$ 95,342</u>	<u>\$ 3,933</u>	<u>\$ 99,275</u>

NOTE 10. PENSION PLANS:

The majority of employees of the Commission are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001).

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Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period.

Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent, which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2001, 2000 and 1999 were approximately \$2,688,000, \$2,708,000 and \$2,564,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$53,500 in the current fiscal year at the rate of .15 percent of compensation. In addition, the Commission expended \$68,000 to purchase additional years of service for some of its employees.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82 percent which, as for the SCRS, included the 2.52 percent surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2001, 2000, and 1999 were approximately \$9,800, \$8,100 and \$5,500, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$200 and accidental death insurance contributions of approximately \$190 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the Commission for pension, group-life benefits and accidental death benefits are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plans is limited to the amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Department recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTE 11. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits.

The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

These benefits are provided through annual appropriations by the General Assembly to the Commission for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Commission for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately, 22,000 State retirees met these eligibility requirements at June 30, 2001.

The Commission recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$3,173,000 for the year ended June 30, 2001. As discussed in Note 10, the Commission paid approximately \$900,000 applicable to the 2.52 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to Commission retirees is not available. By State law, the Commission has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE 12. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Commission have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State authorized deferred compensation matching contributions for fiscal year 2000-2001. The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the contributions paid from State General Funds to 401(k) accounts of eligible state employees. In addition, the 2000 Appropriations Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its applicable revenue sources. The 401(k) match is limited to \$300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actually contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full time employees making less than \$20,000 as of July 1, 2000 are not required to contribute in order to receive the match. The Commission contributed \$25 per participant per pay period beginning January 1, 2001. \$184,625 was included in the applicable expenditure categories for the current fiscal year.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

NOTE 13: RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allow active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The Commission recorded expenditures of approximately \$862,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in the applicable expenditure categories in which the payroll costs for the respective employees are recorded. Approximately \$229,000 of the \$862,000 is included in accrued payroll as of June 30, 2001. The compensated absences liability as of June 30, 2001 includes approximately \$169,000 for eligible employees who have not elected to participate in the program as of June 30, 2001.

NOTE 14. RISK MANAGEMENT:

The Commission is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for automobile collision and losses on building contents. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage that was in force in the prior year. Settled claims have not exceeded any of its coverage's in any of the prior three years. The Commission pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and,
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

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JUNE 30, 2001

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Commission and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property;
3. Motor vehicles liability; and,
4. Torts.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. The ISF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The Commission obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation, up to a maximum of \$100,000 per employee. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

The Commission has recorded insurance premium expenditures in the applicable program expenditure categories of the general fund.

In management's opinion, claims losses in excess of insurance coverage for insured risks are unlikely, and if incurred, would be insignificant to the Commission's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end for such risks. Therefore, no loss accrual has been recorded.

NOTE 15. TRANSACTIONS WITH STATE AGENCIES:

The Commission has significant transactions with the State of South Carolina and various State agencies.

The Commission received \$12,000,000 under a memorandum of understanding from the South Carolina Department of Social Services to be used as the State match for the Welfare-To-Work Program in fiscal year 1998. \$5,309,675 was earned as of June 30, 2000 and \$3,184,689 was earned in the current year and the \$3,505,636 remainder is included in deferred revenue.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2001

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, grant services, personnel management, assistance in the preparation of the State Budget and approval of certain budget amendments and other centralized functions.

The Commission had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for worker's compensation and unemployment insurance, respectively. The amounts of expenditures applicable to these related party transactions are not readily available.

NOTE 16. STATE APPROPRIATION:

The Commission received \$250,544 from State appropriations during the year for expenditures of the SCOICC. \$2,506 was not expended and lapsed to the General Fund of the State. This amount is shown as Due to General Fund of the State as of June 30, 2001.

NOTE 17. CONTINGENCIES:

Federal Grants - The various programs administered by the Commission for fiscal years June 30, 2001 and prior are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Commission believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Commission. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end.

Litigation - The Commission is a party to various legal proceedings arising principally in the normal course of operations. The outcome of any litigation has an element of uncertainty. Because, in the opinions of management and legal counsels, the risk of loss in excess of insurance coverage for any litigation is remote, the outcome of any litigation and claims is not expected to have a material adverse effect on the financial position of the Commission. Therefore, an estimated liability has not been recorded.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 18. TRANSFERS:

The Commission has a series of accounts required by the State of South Carolina which are used to pay for the normal expenditures in the purchase and construction of Commission construction projects. There are three types of funds, Federal (General Fund), Contingency Assessment (General Fund) and Capital Improvement Bonds (Capital Projects Fund), which are used for payments of the construction projects. The authorization and appropriation for each project is set up through an approved Statewide Permanent Improvement Program form. As invoices are received for payment against the project, cash transfers are made from the Federal and Contingency Assessment accounts into the project accounts. Only enough cash is transferred to the project accounts to cover the current invoices for payment. Once the invoices are paid, the account balance will be zero. This procedure takes place every time a project invoice is paid. \$1,201,440 was transferred during the current fiscal year for capital projects.

The Commission also makes transfers from the General Fund to the Expendable Trust Fund – Basic Unemployment Compensation. The Commission is allowed to recover the cost of certain projects purchased using Reed Act Funds over a period of twenty years. These costs are transferred to the Expendable Trust Fund until authorization is received to expend the funds. \$40,404 was transferred during the current fiscal year.

NOTE 19. PRIOR PERIOD ADJUSTMENTS:

Effective July 1, 2000 the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, which became effective for periods after June 15, 2000. This Statement establishes accounting and financial reporting guidance about when to report the results of nonexchange transactions involving cash and other financial and capital resources. This results in a change to the Commission's method of accounting for certain bond proceeds. This is a voluntary nonexchange transaction, which is recognized when all applicable eligibility requirements have been met and the resources are available. In previous years, revenue was recognized when the bonds were authorized. The Commission has restated its beginning fund balance in the capital project fund by \$239,455 as of July 1, 2000, for changes resulting from adoption of Statement No. 33.

Also, see Note 5.

NOTE 20. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS:

The Governmental Accounting Standards Board has issued Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. This new accounting and reporting standard will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS

JUNE 30, 2001

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex- Servicemen (UCX)	Extended Benefits (EB)	Trade Readjustment (TRA)	Disaster Unemployment (DU)	Totals
ASSETS							
Cash and cash equivalents	\$ 748,287,675	\$ 320,272	\$ 131,606	\$ (430)	\$ 173,393	\$ 2,386	\$ 748,914,902
Accrued interest receivable	12,334,154						12,334,154
Taxes receivable - net	37,149,825						37,149,825
Benefit overpayments receivable - net	1,800,623	20,553	28,998		7,959		1,858,133
Due from reimbursable employers - net	666,957						666,957
Intergovernmental receivable - net:							
State	750,287						750,287
Local governments	1,271,914						1,271,914
Other states	1,203,084						1,203,084
Federal				430	-		430
TOTAL ASSETS	\$ 803,464,519	\$ 340,825	\$ 160,604	\$ -	\$ 181,352	\$ 2,386	\$ 804,149,686
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Benefits payable	\$ 7,636,271	\$ 34,318	\$ 61,069	\$ -	\$ 53,534	\$ -	\$ 7,785,192
Accounts payable	460,937				1,302		462,239
Intergovernmental payables:							
Federal		287,955	72,639		118,982	2,386	481,962
State	2,303,237						2,303,237
Contributions payable	4,178,194						4,178,194
Interfund payable - general fund	1,325,697						1,325,697
Deferred revenue	4,433,164	18,552	26,896		7,534		4,486,146
TOTAL LIABILITIES	20,337,500	340,825	160,604	\$ -	181,352	2,386	21,022,667
FUND EQUITY							
Fund balances:							
Reserved for Reed Act expenditures	1,566,744						1,566,744
Reserved for unemployment benefits	781,560,275						781,560,275
TOTAL FUND EQUITY	783,127,019	-	-	-	-	-	783,127,019
TOTAL LIABILITIES AND FUND EQUITY	\$ 803,464,519	\$ 340,825	\$ 160,604	\$ -	\$ 181,352	\$ 2,386	\$ 804,149,686

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001**

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex- Servicemen (UCX)	Trade Readjustment (TRA)	Totals
REVENUES:					
Employer tax contributions	\$ 168,548,989	\$	\$	\$	\$ 168,548,989
Reimbursement of unemployment compensa- tion benefits from employers	2,087,106	-			2,087,106
Benefit overpayment recoveries	1,970,219	21,896	56,250	11,401	2,059,766
Intergovernmental:					
Local	4,702,357				4,702,357
State of South Carolina	3,338,996				3,338,996
Other states	3,453,456				3,453,456
Federal	1,172,795	1,835,824	2,918,677	2,198,572	8,125,868
Interest/investment income	50,904,912				50,904,912
TOTAL REVENUES	236,178,830	1,857,720	2,974,927	2,209,973	243,221,450
EXPENDITURES:					
Unemployment compensation benefits:					
State	285,049,729				285,049,729
Federal		1,857,720	2,974,927	2,209,973	7,042,620
TOTAL EXPENDITURES	285,049,729	1,857,720	2,974,927	2,209,973	292,092,349
EXCESS OF REVENUES OVER EXPENDITURES	(48,870,899)	-	-	-	(48,870,899)
OTHER FINANCING SOURCES:					
Operating transfers in - general fund	40,404				40,404
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(48,830,495)	-	-	-	(48,830,495)
BEGINNING FUND BALANCES	831,957,514				831,957,514
FUND BALANCES, END OF YEAR	\$ 783,127,019	\$ -0-	\$ -0-	\$ -0-	\$ 783,127,019

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
U.S. Department of Labor				
Direct Programs:				
Labor Force Statistics	17.002		\$ 1,032,865	\$ -
Labor Certification for Alien Workers	17.203		111,845	
Employment Service	17.207		12,390,160	277,407
Unemployment Insurance	17.225		32,590,869	
Trade Adjustment Assistance - Workers	17.245		3,346,569	
Employment and Training Assistance - Dislocated Workers	17.246		688,110	297,948
Employment Service and Job Training - Pilot and Demonstration Programs	17.249		139,772	
Job Training Partnership Act	17.250		538,433	543,044
Welfare to Work Grants to States and Localities	17.253		5,038,755	3,461,373
Workforce Investment Act - Adult	17.258		8,216,918	7,214,966
Workforce Investment Act - Youth	17.259		8,103,081	7,666,885
Workforce Investment Act - Dislocated Workers	17.260		6,076,753	4,721,819
Job Corps	17.999		618,294	
Women's Special Employment Assistance - Basic Assistance Grant	17.700		21	
Disabled Veterans' Outreach Program	17.801		1,693,623	
Local Veterans Employment Representative	17.804		1,619,123	
Passed-through from:				
Pendleton Service Delivery Area:				
Employment and Training Assistance - Dislocated Workers	17.246	9C195A1	3,245	
Employment and Training Assistance - Dislocated Workers	17.246	9D195A1	4,921	
Employment and Training Assistance - Dislocated Workers	17.246	9C195A2	214	
Job Training Partnership Act	17.250	91195A2	214	
Job Training Partnership Act	17.250	91C95A1	3,007	
Job Training Partnership Act	17.250	9T195A1	2,446	
Pendleton District Workforce Development Board:				
Workforce Investment Act - Adult	17.258	0A195E1	72,532	
Workforce Investment Act - Youth	17.259	0F895E1	7,377	
Workforce Investment Act - Youth	17.259	0Y195E1	13,525	
Workforce Investment Act - Dislocated Workers	17.260	0D195E1	46,579	
Upper Savannah Service Delivery Area:				
Job Training Partnership Act	17.250	76996L1	310	
Job Training Partnership Act	17.250	86996L2	1,217	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
Upper Savannah Council of Governments:				
Workforce Investment Act - Adult	17.258	0119601	60,174	
Workforce Investment Act - Adult	17.258	0199601	16,081	
Workforce Investment Act - Youth	17.259	0319601	96,387	
Workforce Investment Act - Youth	17.259	0399601	4,342	
Workforce Investment Act - Dislocated Workers	17.260	0219601	56,116	
Workforce Investment Act - Dislocated Workers	17.260	0299601	13,521	
CSU Service Delivery Area:				
Job Training Partnership Act	17.250	91193A3	662	
Job Training Partnership Act	17.250	91C93A1	12	
Employment and Training Assistance - Dislocated Workers	17.246	9C193A3	409	
Welfare to Work Grants to States and Localities	17.253	8W193A1	347	
Welfare to Work Grants to States and Localities	17.253	8W193A2	3,799	
Greenville Service Delivery Area:				
Job Training Partnership Act	17.250	5149151	6,392	
Midlands Service Delivery Area:				
Job Training Partnership Act	17.250	91194A2	195	
Job Training Partnership Act	17.250	91194A3	165	
Employment and Training Assistance - Dislocated Workers	17.246	9C194A2	526	
Welfare to Work Grants to States and Localities	17.253	8W194A1	62,628	
Midlands Workforce Development Board:				
Workforce Investment Act - Adult	17.258	01194A1	9,050	
Workforce Investment Act - Adult	17.258	0A194A1	19,253	
Workforce Investment Act - Adult	17.258	0A194A1	116,570	
Workforce Investment Act - Adult	17.258	0A194A6	3,735	
Workforce Investment Act - Adult	17.258	0A494A4	17,197	
Workforce Investment Act - Adult	17.258	0A894A1	28,924	
Workforce Investment Act - Adult	17.258	0T194A1	4,285	
Workforce Investment Act - Youth	17.259	0Y194A1	21,273	
Workforce Investment Act - Youth	17.259	0Y194A1	143,252	
Workforce Investment Act - Youth	17.259	0Y194A2	10,604	
Workforce Investment Act - Youth	17.259	0Y894A2	29,284	
Workforce Investment Act - Dislocated Workers	17.260	0C194A1	2,540	
Workforce Investment Act - Dislocated Workers	17.260	0D194A1	10,704	
Workforce Investment Act - Dislocated Workers	17.260	0D194A1	74,527	
Workforce Investment Act - Dislocated Workers	17.260	0D194A6	3,262	
Workforce Investment Act - Dislocated Workers	17.260	0D494A5	11,994	
Workforce Investment Act - Dislocated Workers	17.260	0D894A3	14,373	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
Lower Savannah Service Delivery Area:				
Employment and Training Assistance -				
Dislocated Workers	17.246		1,007	
Lower Savannah Council of Government:				
Workforce Investment Act - Adult	17.258	01S9700	127,898	
Workforce Investment Act - Adult	17.258	01S9700	25,056	
Workforce Investment Act - Youth	17.259	0CAY697ES	129,323	
Workforce Investment Act - Youth	17.259	0CAY697ES	27,107	
Workforce Investment Act - Dislocated Workers	17.260	02S9700	68,774	
Workforce Investment Act - Dislocated Workers	17.260	02S9700	11,540	
Santee Lynches Service Delivery Area:				
Job Training Partnership Act	17.250	56010Z1	425	
Job Training Partnership Act	17.250	8Y010Z2	69	
Santee Lynches Regional Council of Governments:				
Workforce Investment Act - Adult	17.258	04710Z2	91,931	
Workforce Investment Act - Youth	17.259	04710Z1	751	
Workforce Investment Act - Dislocated Workers	17.260	04710Z1	55,498	
Workforce Investment Act - Dislocated Workers	17.260	0C310Z2	3,104	
Waccamaw Service Delivery Area:				
Job Training Partnership Act	17.250	4449B07	14	
Job Training Partnership Act	17.250	5489B06	147	
Waccamaw Regional Council of Governments:				
Workforce Investment Act - Adult	17.258	0119B08	36,040	
Workforce Investment Act - Adult	17.258	0149B08	43,861	
Workforce Investment Act - Youth	17.259	0319B08	48,536	
Workforce Investment Act - Dislocated Workers	17.260	0119B08	36,638	
Workforce Investment Act - Dislocated Workers	17.260	0249B08	28,805	
Balance of State Service Delivery Area:				
Job Training Partnership Act	17.250	9215791	156	
Employment and Training Assistance -				
Dislocated Workers	17.246		97	
Workforce Investment Act - Adult	17.258	0110021	11,897	
Workforce Investment Act - Adult	17.258	0T10024	93	
Workforce Investment Act - Youth	17.259	0Y40021	1,364	
Workforce Investment Act - Dislocated Workers	17.260	0F10021	377	
Lowcountry Council of Governments:				
Workforce Investment Act - Adult	17.258	0119C01	7,397	
Workforce Investment Act - Youth	17.259	0319C01	8,192	
Workforce Investment Act - Dislocated Workers	17.260	0219C01	3,946	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
Statewide:				
Job Training Partnership Act	17.250	4310021	101	
Job Training Partnership Act	17.250	9590022	331	
Job Training Partnership Act	17.250		12,254	
Job Training Partnership Act	17.250		622	
Job Training Partnership Act	17.250	M0A6130	12	
Workforce Investment Act - Adult	17.258	0A90301	9,894	
Workforce Investment Act - Dislocated Workers	17.260	0C99DP1	13,576	
TOTAL U.S. DEPARTMENT OF LABOR			\$ 85,934,422	\$ 24,183,442
U.S. Department of Education				
Occupational & Employment Information - State Grants	84.346		89,729	
U.S. Department of Health and Human Services				
Passed through from the South Carolina Department of Social Services Child Support Enforcement	93.563		12,567	
TOTAL FEDERAL ASSISTANCE			\$ 86,036,718	\$ 24,183,442

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Employment Security Commission (the Commission) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 4, 2003 which was qualified because the Commission did not present a statement of revenues, expenditures and changes in fund balances – budget and actual for the year. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions, laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and are described in the accompanying schedule of findings and questioned costs as item 00-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe



the reportable conditions A through D and finding 01-2 described on the accompanying schedule of findings and questioned costs are material weaknesses.

We also noted other matters involving the internal control over financial reporting as described on pages 43 and 44.

This report is intended for the information of the Commissioners and management of the Commission and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Lalan, PA

February 4, 2003



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of the South Carolina Employment Security Commission (the Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 01-1 and 01-2.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matter coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 01-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

This report is intended for the information and use of the Commissioners and management of the Commission and federal awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Lalan PA

February 4, 2003

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. A qualified opinion dated February 4, 2003 on the financial statements of the Commission for the year ended June 30, 2001 was issued.
2. Reportable conditions that were determined to be material weaknesses in internal control over financial reporting were noted as described below. All reportable conditions are considered to be material weaknesses.
3. An instance of noncompliance that was material to the financial statements was noted.

Federal Awards:

4. A reportable condition relating to internal control over compliance resulting from the audit of the major federal award programs is reported.
5. An unqualified opinion on compliance for major programs dated February 4, 2003 was issued.
6. Audit findings relative to the major federal award programs is reported on this schedule as required by Section 510(a) of Circular A-133.
7. The major programs of the Department are as follows:

<u>CFDA #</u>	<u>Program</u>
17.002	Labor Force Statistics
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance - Workers
17.258	Workforce Investment Act - Adult
17.259	Workforce Investment Act - Youth
17.260	Workforce Investment Act – Dislocated Workers
17.801	Disabled Veterans Outreach Program

8. The dollar threshold used to distinguish between Type A and Type B programs was \$2,581,102.
9. The Commission was determined not to be a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

A. WEAKNESSES IN FINANCIAL MANAGEMENT, RECORD KEEPING AND REPORTING

Condition: Our audit disclosed various weaknesses in the area of financial management, record keeping and reporting. These weaknesses include the following:

1. The Commission is not recording all journal entries made by the auditors and the fund balances per the general ledger do not agree with the audited financial statements.

2. Journal entries to correct certain prior year-end balances made by the Commission were recorded in current year's revenue and expenditure accounts causing the current year's revenues and expenditures to be misstated. Journal entries are not being properly reviewed and approved and are being posted in some cases by the same individual that prepare the entry. Journal entries moving expenditures between subfunds are sometimes posted for different amounts in the affected subfunds. We noted the same correcting entry posted twice. Some journal entries had no or inadequate explanations.
3. Monthly bank reconciliations have not been prepared for a number of years for the cash funds on deposit with the State Treasurer's Office by the Finance Department to reconcile the cash on deposit with the State Treasurer with the balances in the Commission's general ledger. The annual reconciliation for the year ended June 30, 2001 was not completed timely. The bank reconciliations for the cash on deposit with the State Treasurer and the Unemployment Insurance Trust Funds contain numerous reconciling items which are several years old.
4. The Commission's general ledger contains some funds with balances that should be zero including cash and due to grantor for programs closed in prior years. We also noted an allowance for doubtful accounts recorded in a fund with no receivables, credit balances in travel advances receivable as well as various other balance sheet accounts with balances that appeared to be incorrect.
5. The Commission is recording operating transfers between funds as an expenditure in one fund and recording the credit in the other fund directly to fund balance instead of reporting them as transfers in each fund.
6. The Commission is recording capital lease principal and interest payments as equipment expenditures instead of separate expenditure accounts for principal and interest.
7. The Commission is reconciling revenues and operating expenditures to the Comptroller General's records in total and not by Program which may result in not detecting differences in the State's classifications and the Commission's.

Similar findings were cited in schedule of findings and questioned costs in prior years.

Criteria: Generally accepted accounting principles and good internal controls that provide for accurate financial statements and proper segregation of duties.

Effect of Condition: The Commission is not producing accurate financial information.

Recommendation: The Commission should merge the management of the accounting and record keeping functions of the various areas under one common management team that will be charged with the overall responsibility of ensuring that all of the records of the Commission are properly maintained. All bank accounts of the Commission should be reconciled monthly in a timely manner and supporting detail should be attached for all reconciling items. All account reconciliation's should be initialed and dated by the preparer and an independent supervisory employee assigned to approve and review the reconciliations. All reconciling items should be cleared in a timely manner. All other balance sheet accounts should be agreed to supporting schedules monthly. Errors detected in the reconciliation should be promptly corrected in STARS and/or the Commissions internal records as appropriate. All receipts and disbursements should be reconciled to the Comptroller General monthly in a timely manner at the appropriate level of detail.

B. ACCOUNTS PAYABLE AND EXPENDITURES OVERSTATED

Condition: The Commission overstated accounts payable and expenditures by \$371,500. These amounts represented funds due to the State Budget and Control Board before the Board incurred construction costs on behalf of the Commission.

Criteria: Generally accepted accounting principles require the goods or services to be received before a liability or expenditure is recorded.

Effect: of Condition: Overstatement of accounts payable and expenditures.

Cause: Unknown.

Recommendation: Implement procedures to ensure that liabilities and expenditures are only recorded after the goods or services are received.

C. SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED

Condition: Our audit of subrecipient advances receivable disclosed that the Commission had not adjusted its advances account to reflect actual expenditures reported by subrecipient. Some of the subrecipients had actually incurred more expenditures than they had been advanced resulting in unrecorded payables and some had incurred less expenditures. Our adjustments resulted in an increase in subrecipient advances receivable of approximately \$151,000; an increase in accounts payable of approximately \$74,000 and a decrease in expenditures of approximately \$77,000. The closing packages supporting the grants receivable and unearned revenue were not correct since inaccurate information was used to complete the closing packages.

The advances to subrecipients schedule also detailed a receivable from a subrecipient under the JTPA program of approximately \$8,600 for a grant which closed out in the prior year. The same finding was also cited in the prior year's management letter.

Criteria: Generally accepted accounting principles require that accruals be based on actual amounts to be paid and the State's GAAP Manual requires all agencies to submit accurate closing packages. Also, all balance sheet accounts should be reconciled to support monthly.

Effect of Condition: Failure to accurately and timely record the subrecipients' actual expenditures and payables for this program resulted in an understatement of federal revenues and expenditures and incorrect closing packages. Adjustments were made to correct the errors.

Cause: Failure to reconcile subrecipient expenditures to reports filed by subrecipient.

Recommendation: The Commission should review and modify its procedures for recording and reconciling advances to subrecipients with expenditures incurred by the subrecipients to ensure that all expenditures and applicable revenues are recorded in a timely manner and that closing packages contain accurate information.

D. RECEIVABLE AND RELATED ALLOWANCES OVERSTATED

Condition: Our audit of the various taxes receivables and related allowances disclosed that the Commission does not have a system in place to completely charge off the receivables when they determine them to be uncollectible. Various receivables are kept on the books for up to ten years because of liens filed even if the entity is out of business. In addition, we determined that the estimates that the Commission was using to determine the allowance were too low and that the deferred revenues had been overstated in prior years. Entries were made to reduce receivable by approximately \$25,495,000, allowances by approximately \$14,435,000 and deferred revenue by approximately \$11,060,000.

Criteria: Generally accepted accounting principles require that receivables be removed from the books when it is determined that they are uncollectible and that estimates of the allowance be based on prior experience.

Effect: The Commission has been overstating the amount of gross receivables, the allowance for uncollectibles and deferred revenue. Because the Commission accounts for its revenues using the modified accrual basis of accounting, the revenues previously reported were not misstated.

Cause: Individuals preparing calculations to not appear to be aware of generally accepted accounting principle requirements.

Recommendation: The Commission should review its methods of writing off and estimating uncollectible receivables.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

01-1. ALL PROGRAMS

Statement of Condition: OMB Circular A-133 Subpart C – Section 320 required Single Audit reports to be submitted no later than 9 months after the end of the audit period for the fiscal year ended June 30, 2001. The Commission did not meet this requirement for the year ended June 30, 2001. The same deficiency was noted in prior years.

Criteria: OMB Circular A-133 Subpart C – Section .320.

Effect of Condition: Failure to comply with federal regulations.

Cause of Condition: Failure to have prior year audits completed timely and failure to have current year's records ready in time to complete audit within specified timeframe.

Recommendation: Implement procedures to have records and financial statements timely completed and audited and reports submitted within the required deadlines.

01-2. U.S. DEPARTMENT OF LABOR – EMPLOYMENT SERVICE – CFDA # 17.207; JOB TRAINING PARTNERSHIP ACT – CFDA # 17.250; WELFARE TO WORK GRANTS TO STATES AND LOCALITIES – CFDA # 17.253; WORKFORCE INVESTMENT ACT – ADULT – CFDA# 17.258; WORKFORCE INVESTMENT ACT – YOUTH – CFDA# 17.259; WORKFORCE INVESTMENT ACT – DISLOCATED WORKERS – CFDA# 17.260

Statement of Condition: The Department over reported federal expenditures by approximately \$47,000 on the schedule of federal expenditures for the reasons explained in items B and C of findings related to the financial statements in addition to taking into account the prior year's entries which were not posted as explained in A. The schedule was adjusted for these adjustments.

Criteria: Generally accepted accounting principles, the Single Audit Act and OMB Circular A – 133 require the preparation of accurate financial information.

Effect of Condition: Misstatement of expenditures on schedule of expenditures of federal awards.

Cause of Condition: Failure to adjust general ledger.

Recommendation: The expenditures reported on the schedule of expenditures of federal awards should equal the actual current year federal expenditures.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 2001

A. ERRORS IN FUTURE OPERATING LEASE LIABILITY SCHEDULES

The State Comptroller General uses information on agency prepared closing packages in preparing the State's GAAP – basis financial statements. The Commission is required to prepare an operating lease closing package for the Comptroller General showing future minimum lease payments on noncancelable leases with a remaining term exceeding one year and to reconcile rental expenditures per the Commission's books to the Comptroller General's records. Our audit disclosed that 3 leases were omitted from the closing package schedule. Also, the schedule did not show the revised lease terms for a lease that was renewed and extended. A similar finding was cited in the prior year's management letter comments.

The errors appeared to occur because of a lack of coordination between various areas of the Commission. GAAP Manual Sections 1.8 and 1.9 require the preparation, independent review, and retention of working papers to support information entered on each closing package and Section 3.19 provides guidance and instruction on the completion of the operating leases closing package.

Good accounting practices require that all schedules be prepared correctly and reconciled to the Commission's accounting records and other supporting documentation.

We recommend that additional care be taken in the preparation of the lease schedule. The person preparing the schedule should review the actual leases to ensure that all data included on the schedule is correct and a lease register should be prepared on each lease. The Commission should reconcile expenditures in its accounting records to those on the STARS reports and an independent reviewer should reconcile information on the lease closing package forms to the Commission's accounting records and other supporting documentation.

We recommend that additional care be taken to ensure transactions and balances are properly recorded in the agency's fixed assets system; reconciliations of information in its fixed assets records to that in the agency's accounting system are performed; the required independent reviews of the fixed assets closing packages are performed; and all amounts reported on the fixed assets closing package forms are properly reported.

B. VOUCHERS NOT CANCELLED AND NO EVIDENCE OF REVIEW

The Commission is not cancelling all vouchers or marking them paid to prevent duplicate payments. In addition, there is no evidence of a review of some of the invoices to document that it has been reviewed for clerical and mathematical accuracy before it is paid. The same finding was reported in the prior year's management letter comments.

Good internal controls require that vouchers be cancelled to prevent duplicate payments, all invoices be adequately reviewed including recomputing amounts before they are paid, and evidence of such reviews be documented.

We recommend that all invoices be cancelled to prevent duplicate payments, a stamp be used denoting that an invoice has been reviewed before being paid and all vouchers and supporting documentation be reviewed prior to approval for payment.

C. FIXED ASSETS

Out of 25 pieces of movable equipment selected for testing, we noted the following:

- 1) The tag numbers for some fixed assets do not agree with the tag numbers on the accounting department's property listing.

- 2) Three items disposed of in prior years were still on the Commission's fixed asset at June 30, 2001.
- 3) Two items could not be located
- 4) One piece of equipment did not contain a tag.

We also noted old computers in offices and storage areas that were not being used that were still on the fixed asset listings.

The problems appear to exist because the Commission is utilizing two property management systems. The system used by the Finance Department is utilized to prepare the financial statements while the Property Management Department is also maintaining a system. The Finance Department is not always being made aware of disposals. In addition, the Property Management Department is tagging and inventorying numerous items that do not meet the Commission's capitalization policy.

We recommend that the Commission implement procedures to ensure that all items that are disposed of, junked, etc. be promptly removed from the fixed asset system. A periodic fixed asset inventory verification should also be performed of all fixed assets. Consideration should also be given to maintaining only one system which is agreed to the general ledger. Management should do a costs/benefit analysis to determine whether they should keep the items that do not meet the capitalization criteria on the listing.

D. INTERNAL AUDIT DEPARTMENT NEEDED

The Commission should set up an internal audit department that reports directly to the Board of Commissioners. An agency of this size should have independent reviews of the various areas of accountability throughout the year. The scope of internal audit would include performing reviews of the field offices as well as the offices in Columbia. Areas to be reviewed would include payroll payoffs, new hires and terminations, fixed assets and supply inventory verifications, timesheets, reconciliations of various general ledger accounts including cash as well as internal controls over the various areas. The same finding was cited in prior years' management letter comments.

We again recommend that the Commission put in place a functioning internal audit staff, which we think would eliminate some of the problems encountered during our audit.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2001

00-1. ALL PROGRAMS

Statement of Condition: OMB Circular A-133 Subpart C – Section 320, required Single Audit reports to be submitted no later than nine (9) months after the end of the audit period for the fiscal year ended June 2001. The same deficiency was noted in the prior years.

Recommendation: Implement procedures to have records and financial statements timely completed and audited and reports submitted within the required deadlines.

Response: The Agency is striving to issue its financial statements as required by OMB Circular A-133. By working closely with the State Auditor's Office and our independent audit firm. This finding should be corrected with the financial statements for the Fiscal Year ending June 30, 2002.

00-2. U.S. DEPARTMENT OF LABOR – EMPLOYMENT SERVICE – CFDA # 17.207; UNEMPLOYMENT INSURANCE – CFDA # 17.225; JOB TRAINING PARTNERSHIP ACT – CFDA # 17.250; WELFARE-TO-WORK GRANTS TO STATES AND LOCALITIES – CFDA # 17.253

Statement of Condition: The Department under-reported federal expenditures by approximately \$1,381,000 on the Schedule of Federal Expenditures which it prepared in addition to the \$8,800 described in item C of findings related to the financial statements. The schedule also over-reported expenditures by approximately \$4,540,000 as explained in item C. The schedule was adjusted for these understatements.

Recommendation: The expenditures reported on the schedule of expenditures of federal awards should equal the actual current year federal expenditures.

Response: The financial staff, working closely with the sub-recipient accounting staff, is implementing procedures for a more timely submittal of financial data for inclusion in the Agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal Year ending June 30, 2002.

CORRECTIVE ACTION PLAN

APPENDIX A



www.sces.org

COMMISSIONERS
J. William McLeod
McKinley Washington, Jr.
Carole C. Wells

1550 Gadsden Street
Post Office Box 995
Columbia, South Carolina 29202

March 7, 2003

**South Carolina Employment Security Commission
Corrective Action Plan**

The South Carolina Employment Security Commission respectfully submits the following comments and Corrective Action Plan for the audit of the year ended June 30, 2001.

Name and address of the independent public accounting firm: Rogers & Laban, P.A., 1529 Hampton Street, Suite 200, Columbia, South Carolina 29202.

Audit Period: July , 2000 through June 30, 2001

Comments: The following management comments are offered regarding the audit and its findings:

- 1 Management is pleased to note that there were no questioned costs as a result of this audit and that, except for a "statement of revenues, expenditures and changes in fund balances", the "financial position of the Commission as of June 30, 2001 and the results of its operations for the year ended, is in conformance with the Generally Accepted Accounting Principles (GAAP) of the United States of America".
2. Management also notes that work on the audit for the year ending June 2001 was actually taking place in 2002, which is also beyond the subsequent audit year ending June 30, 2001 and which is the subject of this "corrective action". It is also noted that audit work for the year ending June 2000 took place during in 2001 and 2002, therefore, there are some findings in the 2001 audit that were repeated from the 2000 and 1999 audit prior to the agency having time to take any necessary corrective action. This problem should begin to work itself out as the audit schedule becomes more up-to-date.
- 3 Management further notes that the nature of grant and accounting requirements associated with the federal funds received by the Agency, which are the predominance of all funds managed by the Agency, will likely continue to result in certain on-going differences between the financial reporting processes of our Agency and those of other agencies that are largely state funded. In particular, most federal grant funds are expended across several fiscal years and therefore, the June 30th financial accounting picture of our Agency will not necessarily provide the same picture as would be true for the reporting of state appropriations by other state agencies. Federal grant closeouts, whenever they occur, are of greater significance in our Agency and various adjustments will be on-going until the closeout, regardless of the annual fiscal year financial reporting picture. Any such on-going differences that are not being addressed in the corrective action plan are judged to be of minimal material relevance.

4. Lastly, management has considered the various "organizational" recommendations that are offered in the audit report(s) and has determined that some recommendations, while understandable from a more purely accounting perspective, are either not feasible within current resource limitations or that they do not take into account other considerations that must be a part of the management decisions regarding the overall administration of the Agency's programs and services.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

WEAKNESSES IN FINANCIAL MANAGEMENT AND REPORTING

Condition: Our audit disclosed various weaknesses in the area of financial management, recordkeeping and reporting.

Recommendation: The Commission should merge the management of and the accounting and recordkeeping functions of the various areas under one common management team that will be charged with the overall responsibility of ensuring that all of the records of the Commission are properly maintained. All bank accounts of the Commission should be reconciled monthly in a timely manner and supporting detail should be attached for all reconciling items. All account reconciliations should be initialed and dated by the preparer and an independent supervisory employee assigned to approve and review the reconciliations. All other balance sheet accounts should be agreed to supporting schedules monthly. Errors detected in the reconciliation should be promptly corrected in STARS and/or the Commission's internal records, as appropriate. Procedures should be put in place to ensure for proper cut-off procedures at year-end. Proper segregation of duties should be established and maintained so that the same individual cannot prepare and post journal entries to the accounting system. All receipts and disbursements should be reconciled to the Comptroller General monthly in a timely manner at the appropriate level of detail.

Response: The Commission does maintain two separate accounting sections, one for Unemployment Insurance (UI) and one for the other agency funds. This observation was made in a previous audit (year ended 09/30/84). After thorough consultation with our cognizant federal agency, the United States Department of Labor/Employment and Training Administration, it was decided that the Commission's organizational structure was functional and contributed to the overall mission of the Agency. We feel that this decision is still pertinent and correct. However, a formal reconciliation process between the two units has been implemented and that should eliminate inconsistencies in the future. The Agency concurs on all other aspects of the recommendation and the Commission is reviewing and revising procedures to concur with audit recommendations. These conditions should be corrected by Fiscal Year ending June 30, 2002.

ACCOUNTS PAYABLE AND EXPENDITURES OVERSTATED

Condition: The Commission overstated accounts payable and expenditures by \$371,500. These amounts represented funds due to the State Budget and Control Board before the Board incurred construction costs on behalf of the Commission.

Recommendation: Implement procedures to ensure that liabilities and expenditures are only recorded after the goods or services are received.

Response: The Commission understands that there are no cost incurred at the time of transfer, the Commission must recognize funds transferred to the State Budget and Control Board. The State Budget and Control Board mandates that funds be available at the inception of the project which would be prior to the construction costs being incurred.

SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS

Condition: Our audit of sub-recipient advances receivable disclosed that the Commission had not adjusted its advances account to reflect actual expenditures reported by sub-recipient. Some of the sub-recipients had actually incurred more expenditures than they had been advanced, resulting in unrecorded payables, and some had incurred less expenditures. Our adjustments resulted in an increase in sub-recipient advances receivable of approximately \$151,000; an increase in accounts payable of approximately \$74,000; and a decrease in expenditures of approximately \$77,000. The closing packages supporting the grants receivable and unearned revenue were not correct since inaccurate information was used to complete the closing packages. The advances to sub-recipients schedule also detailed a receivable from a sub-recipient under the JTPA Program of \$14,840 for a grant which closed out in the prior year.

Recommendation: The Commission should review and modify its procedures for recording and reconciling advances to sub-recipients and expenditures incurred by the sub-recipients to ensure that all expenditures and applicable revenues are recorded in a timely manner and that closing packages contain accurate information.

Response: The financial staff, working closely with the sub-recipient accounting staff, is implementing procedures for a more timely submittal of financial data for inclusion in the Agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal Year ending June 30, 2002.

RECEIVABLE AND RELATED ALLOWANCES OVERSTATED

Condition: Our audit of the various taxes receivables and related allowances disclosed that the Commission does not have a system in place to completely charge off the receivables when they determine them to be uncollectable. Various receivables are kept on the books for up to ten years because of liens filed even if the entity is out of business. In addition, we determined that the estimates that the Commission was to determine the allowances was too low and that the deferred revenues had been overstated in prior year. Entries were made to reduce receivable by approximately \$25,495,000, allowances by approximately \$14,435,000 and deferred revenue by approximately \$11,060,000.

Recommendation: The Commission should review its methods of writing off and estimating uncollectible receivables.

Response: The Commission has determined a new method of reporting receivables for the Fiscal Year 2002 Financial Statements that will more accurately report current receivables. Our policy of writing off receivables for the Commission's books will not change from its current ten-year policy.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

ALL PROGRAMS

Condition: OMB Circular A-133, Subpart C – Section 320, required Single Audit reports to be submitted no later than nine months after the end of the audit period for the Fiscal Year ended June 30, 2001. The same deficiency was noted for the prior years.

Recommendation: Implement procedures to have records and financial statements timely completed and audited and reports submitted within the required deadlines.

Response: The Agency is striving to issue its financial statements as required by OMB Circular A-133. By working closely with the State Auditor's Office and our independent audit firm. This finding should be corrected with the financial statements for the Fiscal Year ending June 30, 2002.

US DEPARTMENT OF LABOR – EMPLOYMENT SERVICES – CFDA #17.207; JOB TRAINING PARTNERSHIP ACT – CFDA #17.250; WELFARE-TO-WORK GRANTS TO STATES AND LOCALITIES – CFDA #17.253; WORKFORCE INVESTMENT ACT – ADULT – CFDA #17.258; WORKFORCE INVESTMENT ACT – YOUTH – CFDA #17.259; WORKFORCE INVESTMENT ACT – DISLOCATED WORKERS – CFDA #17.260

Condition: The Department over-reported federal expenditures by approximately \$47,000 on the schedule of federal expenditures for the reasons explained in items B and C of findings related to the financial statements in addition to taking into account the prior year's entries which were not posted as explained in A. The schedule was adjusted for these adjustments.

Recommendation: The expenditures reported on the schedule of expenditures of federal awards should equal the actual current year federal expenditures.

Response: The financial staff, working closely with the sub-recipient accounting staff, is implementing procedures for a more timely submittal of financial data for inclusion in the Agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal Year ending June 30, 2002.

OTHER MANAGEMENT LETTER COMMENTS **FOR THE YEAR ENDED JUNE 30, 2001**

ERRORS IN FUTURE OPERATING LEASE LIABILITY SCHEDULES

Condition: The State Comptroller General uses information on agency prepared closing packages in preparing the State's GAAP – basis financial statements. The Commission is required to prepare an operating lease closing package for the Comptroller General showing future minimum lease payments on non-cancelable leases with a remaining term exceeding one year and to reconcile rental expenditures per the Commission's books to the Comptroller General's records. Our audit disclosed that 3 leases were omitted from the closing package schedule. Also, the schedule did not show the revised lease terms for a lease that was renewed and extended. A similar finding was cited in the prior year's management letter comments.

Recommendation: We recommend that additional care be taken in the preparation of the lease schedule. The person preparing the schedule should review the actual leases to ensure that all data included on the schedule is correct and a lease register should be prepared on each lease. The Commission should reconcile expenditures in its accounting records to those on the STARS reports and an independent reviewer should reconcile information on the lease closing package forms to the Commission's accounting records and other supporting documentation.

Response: The Department of Finance is reviewing each operating lease carefully in order to ensure accuracy in beginning and ending dates. The future lease payments are verified to ensure that all amounts are correct and reflect any applicable increases. The Department of Finance is compiling lease registers on all operating leases. These registers will be for the use of the Department of Finance and will be updated as changes warrant. Every month the Commission reconciles its expenses to the Comptroller General. The Department of Finance will produce a report at the end of the fiscal year that reflects all adjustments made in the reconciliation process. These corrective procedures will be implemented, effective with the 2002 audit.

VOUCHERS NOT CANCELLED AND NO EVIDENCE OF REVIEW

Condition: The Commission is not canceling all vouchers or marking them paid to prevent duplicate payments. In addition, there is no evidence of a review of some of the invoices to document that it has been reviewed for clerical and mathematical accuracy before it is paid. The same finding was reported in the prior year's management letter comments.

Recommendation: We recommend that all invoices be cancelled to prevent duplicate payments, a stamp be used denoting that an invoice has been reviewed before being paid and all vouchers and supporting documentation be reviewed prior to approval for payment.

Response: All vouchers are stamped "Paid" and the date of cancellation is written on the voucher when the check is mailed to the vendor, as of Fiscal Year ending June 30, 2001. The STARS staff is reviewing current procedures concerning verifying invoice accuracy and corrections should be made by the Fiscal Year ending June 30, 2002 audit.

FIXED ASSET

Condition: Out of 25 pieces of movable equipment selected for testing, we noted the following: the tag numbers for some fixed assets do not agree with the tag numbers on the accounting department's property listing; three items disposed of in prior years were still on the Commission's fixed asset at June 30, 2001; two items could not be located; and one piece of equipment did not contain a tag. We also noted old computers in offices and storage areas that were not being used that were still on the fixed asset listings.

The problems appear to exist because the Commission is utilizing two property management systems. The system used by the Finance Department is utilized to prepare the financial statements while the Property Management Department is also maintaining a system. The Finance Department is not always being made aware of disposals. In addition, the Property Management Department is tagging and inventorying numerous items that do not meet the Commission's capitalization policy.

Recommendation: We recommend that the Commission implement procedures to ensure that all items that are disposed of, junked, etc. be promptly removed from the fixed asset system. A periodic fixed asset inventory verification should also be performed of all fixed assets. Consideration should also be given to maintaining only one system which is agreed to the general ledger. Management should do a costs/benefit analysis to determine whether they should keep the items that do not meet the capitalization criteria on the listing.

Response: This condition continues to exist but will be corrected for the Fiscal Year ending June 30, 2003.

INTERNAL AUDIT STAFF NEEDED

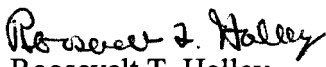
Condition: The Commission should set up an internal audit department that reports directly to the Board of Commissioners. An Agency of this size should have independent reviews of the various areas of accountability throughout the year. The scope of internal audit would include performing reviews of the field offices as well as the offices in Columbia. Areas to be reviewed would include payroll payoffs, new hires and terminations, fixed assets and supply inventory verifications, timesheets, reconciliations of various general ledger accounts including cash as well as internal controls over various areas. The same finding was cited in the prior year's management letter comments.

Recommendation: We recommend that the Commission put in place a functioning internal audit staff which we think would eliminate some of the problems encountered during our audit.

Response: An additional line of authority has been established between the Commissioners and the Director of the Internal Audit and Review Department. The Commission will direct certain independent and targeted inquiries by the Department. The Executive Director will continue to oversee other regular functions of the Department, such as WIA monitoring and audits, EEO responsibilities, etc. Further expansion of the Department's responsibilities and staffing is not planned at this time, however, management will continue to monitor the need for such as the Agency continues to catch up in the audit process, namely the Fiscal Year ending June 30, 2002.

If there are any questions regarding this plan, please contact Billy R. Martin, CGFO, Assistant Finance Director, at (803) 737-2560.

Sincerely,


Roosevelt T. Halley
Executive Director

RTH:sc

The mission of the Department of Finance is to have professional accountants providing professional accounting through the sound fiscal management of the Agency's resources.