

**SOUTH CAROLINA EMPLOYMENT
SECURITY COMMISSION**

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

State of South Carolina



Office of the State Auditor

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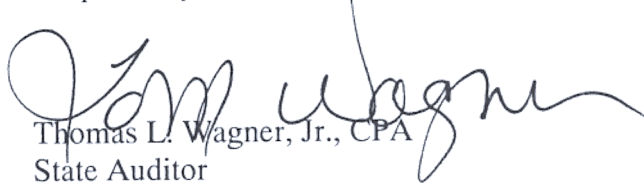
July 16, 2003

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

The report on the basic financial statements and the reports required by the *Government Auditing Standards*, the Single Audit Act Amendments of 1996 and OMB Circular A-133 of the South Carolina Employment Security Commission for the fiscal year ended June 30, 2002, were issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of State Auditor.

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

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
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YEAR ENDED JUNE 30, 2002**

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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 governmental fund and business-type activities and each major fund of the South Carolina Employment Security Commission (the "Commission") as of and for the year ended June 30, 2002, 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 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 to the financial statements, the financial statements of the Commission are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the Commission. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2002, and changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental fund and business-type activities, the major funds of the Commission as of June 30, 2002, 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 described in Note 1 to the basic financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis-For State and Local Governments and Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments: Omnibus as of July 1, 2001. This results in a change in the format and content of the financial statements as detailed in Note 1. The Commission changed its capitalization policy and an adjustment was made to remove those capital assets that were less than the new policy capitalization levels. The Commission also changed its period of availability for the fund statements from 30 days to one year and management discovered an error in the understatement of certain receivables as of June 30, 2001. All of the required adjustments were accounted for as prior period adjustments as detailed in Note 18.

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The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Commission taken as a whole. 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 June 6, 2003 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Rogers + Lalan, PA

June 6, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Employment Security Commission offers readers of this narrative overview and analysis of the financial activities for the year ended June 30, 2002. Please read this information in conjunction with the South Carolina Employment Security Commission's financial statements and accompanying notes.

Financial Highlights

- The Commission's assets exceeded its liabilities at fiscal year ending June 30, 2002 by \$696,116,770 (shown as "total net assets"). The total amount of these funds will be used to administer the South Carolina Employment Law and meet on-going obligations to the citizens of South Carolina for unemployment benefits.
- Total Unemployment Compensation Benefits paid during the year was \$526,885,659.
- Reed Act distribution from the Department of Labor for \$109,411,731 was made available to the Commission.

Overview/Discussion of the Annual Financial Report

The discussion and analysis provides an introduction to the Commission's basic financial statements, which include the following parts: (1) entity-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

Entity-wide Financial Statements

The entity-wide statements are new to Commission reporting as a result of the new financial reporting model. They present a longer-term view of the Commission's finances as a whole, using accrual-basis accounting; the same accounting methods that most businesses use. There are two entity-wide financial statements:

Statement of Net Assets: This statement presents information on all of the Commission's assets and liabilities, both short-term (current) and long-term (non-current). The statement also reports the differences between assets and liabilities as net assets. Over time, increases or decreases in net assets may indicate whether the Commission's financial health (financial position) is strengthening or weakening. But in order to assess the Commission's overall financial health, you would also need to consider factors such as the State's economy and the condition of the entity's capital assets, such as its buildings.

Statement of Activities: This statement presents information showing how the entities overall net assets changed during the year. The statement of activities can help to show how much it costs the Commission to provide various services. It also can help to show the extent to which each entity function covers its own costs through user fees, charges or grants. The net (expense) revenue column on the far right of this statement shows how much a particular function relies on operating and capital grants and contributions. The entity-wide statements report two different kinds of activities:

Governmental Activities:

Most of the Commission's basic services are included here, such as general administration and employment and training services. Federal grants finance most of these services.

Business-type Activities:

These activities usually recover all or a significant portion of the costs of their services or goods by charging fees to customers. The Unemployment Compensation Fund is included in these business-type activities. This fund collects money from several different sources but the largest source generally is employer contribution for unemployment insurance taxes.

Fund Financial Statements

The fund financial statements provide detailed information about the Commission's most significant funds, not the entity as a whole. Funds are accounting devices that the Commission uses to track specific funding sources and spending for particular purposes. The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds:

The Commission reports most of its basic services in governmental funds. Governmental funds account for activities that the entity reports as governmental activities in its entity-wide statements. These funds focus on short-term inflows and outflows of expendable resources. All of the Commission's governmental funds are accounted for in the General Fund.

The General Fund accounts for the various federal grants and other revenue which the Commission receives for administration purposes and special projects.

Proprietary Funds:

Proprietary funds charge customers for the services they provide to generate operating revenue. The principle operating revenue of the Commission's proprietary funds are from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Commission's proprietary fund is used to account for the Unemployment Compensation Fund.

A brief description of the fund financial statements is as follows:

The balance sheet is the statement of expendable assets which are assigned to the various governmental funds according to the purposes for which they may or may not be used; current liabilities are assigned to the fund for which they are to be paid; and the difference between assets and liabilities is the fund balance.

The statement of net assets provides information about the nature and amount of resources (assets) and obligations (liabilities) at year-end.

The statement of revenues, expense and changes in fund balances presents the results of the governmental and business-type activities over the course of the fiscal year and information as to how the net assets changed during the year.

The statement of cash flows presents changes in cash and cash equivalents resulting from operational, financing and investing activities for the proprietary fund. This statement presents cash receipts and cash disbursement information.

Capital Assets

Capital assets decreased as of the beginning of the year due to an increase in the State's capitalization limit.

Most of the capital asset additions were from construction in progress which included new software for WIA tracking and unemployment tax.

Debt Administration

Long-term debt fell into three areas as follows:

- Capital lease payable;
- Capital improvement bond payable; and
- Accrued compensated absences and related benefits.

Long-term debt is primarily comprised of accrued compensated absences.

Notes to the Financial Statements

The notes to the financial statement provide required disclosures and other information that is essential to a full understanding of material data provided in the statements. These notes present information about the accounting policies, significant account balances and activities.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
 ENTITY-WIDE FINANCIAL ANALYSIS
 (Condensed Financial Data)
 STATEMENT OF NET ASSETS
 As of June 30, 2002

	Governmental Activities	Business-type Activities	Total
Assets			
Current & Other Assets	\$ 30,000,940	\$685,685,838	\$715,686,778
Capital Assets	<u>20,772,645</u>	<u>-0-</u>	<u>20,772,645</u>
Total Assets	<u>\$ 50,773,585</u>	<u>\$685,685,838</u>	<u>\$736,459,423</u>
Liabilities			
Current	\$ 16,663,074	\$ 19,668,611	\$ 36,331,685
Non-current	<u>4,010,968</u>	<u>-0-</u>	<u>4,010,968</u>
Total Liabilities	<u>\$ 20,674,042</u>	<u>\$ 19,668,611</u>	<u>\$ 40,342,653</u>
Net Assets	<u>30,099,543</u>	<u>666,017,227</u>	<u>696,116,770</u>
Total Liabilities & Net Assets	<u>\$ 50,773,585</u>	<u>\$685,685,838</u>	<u>\$736,459,423</u>

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
 Fiscal Year Ending June 30, 2002

	Governmental Activities	Business-type Activities	Total
Revenues			
Program Revenues:			
Charges for Services	\$ 6,721,640	\$265,735,849	\$272,457,489
Operating Grants & Contributions	98,117,635	151,696,994	249,814,629
Capital Grants & Contributions	624,264	-0-	624,264
General Revenues:			
State Appropriations	212,374	-0-	212,374
Gain on Sale of Capital Assets	<u>238,983</u>	<u>-0-</u>	<u>238,983</u>
Total Revenues	<u>\$105,914,896</u>	<u>\$417,432,843</u>	<u>\$523,347,739</u>
Expenses:			
Employment & Training Service	\$106,479,100	-0-	\$106,479,100
Unemployment Compensation	<u>-0-</u>	<u>526,885,659</u>	<u>526,885,659</u>
Total Expenses	<u>\$106,479,100</u>	<u>\$526,885,659</u>	<u>\$633,364,759</u>
Increase/Decrease in Net Assets			
Before Transfers	(\$ 564,204)	(\$109,452,816)	(\$110,017,020)
Transfers:			
Transfers Between Funds	\$ 12,090,140	(\$ 12,090,140)	\$ -0-
Indirect Cost Remitted to General			
Fund of the State	(\$ 140,651)	\$ -0-	(\$ 140,651)
Transfers to General Fund of			
the State	<u>(\$ 1,269,246)</u>	<u>\$ -0-</u>	<u>(\$ 1,269,246)</u>
Changes to Net Assets	\$ 10,116,039	(\$121,542,956)	(\$111,426,917)
Net Assets – Beginning	<u>19,983,504</u>	<u>787,560,183</u>	<u>807,543,687</u>
Net Assets – Ending	<u>\$ 30,099,543</u>	<u>\$666,017,227</u>	<u>\$696,116,770</u>

In future years, comparative data will be presented.

Overall Analysis

Two significant events occurred during the fiscal year ending June 20, 2002:

- 1) The Temporary Emergency Unemployment Compensation (TEUC) Program was initiated in order to extend the claimants benefit period up to an additional thirteen (13) week of benefit payments.

Emergency Unemployment Compensation is enacted after a claimant has exhausted his or her twenty-six (26) weeks of regular Unemployment Compensation benefits and has not found suitable employment. Emergency Unemployment Compensation benefits for the fiscal year ending June 30, 2002 were \$58,988,192. The Commission is reimbursed for these benefits by the federal government. Revenues and expenses both increased as a result of this program.

- 2) A Reed Act distribution from the Department of Labor for \$109,411,731 was made available to the Commission; of this amount \$12,130,544 was transferred to the General Fund. Under the Social Security Act, Section 903, a legislative body of a state through the enactment of a Joint Resolution may use these funds to pay for expenses incurred for the administration of the Unemployment Compensation Law. Reed Act is a distribution of excess funds due to a surplus in the federal account.

Due to the increase in benefits paid, we had a decrease in net assets of approximately \$121,000,000.

Potentially Significant Matters

The Unemployment Compensation Trust Fund reserves do not meet the 2.0% requirement of law; therefore, the base rate for employee contributions starting January 2003 will be adjusted by adding .5%, as called for by law.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**STATEMENT OF NET ASSETS
JUNE 30, 2002**

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,938,466	\$639,303,053	\$ 646,241,519
Accrued interest receivable		10,209,930	10,209,930
Assessments receivable	1,646,004	38,176,446	39,822,450
Benefit overpayments receivable		2,226,060	2,226,060
Due from reimbursable employers		1,059,077	1,059,077
Internal balances	13,083,059	(13,083,059)	-
Intergovernmental receivables:			
State of South Carolina	533,258	1,020,839	1,554,097
Local governments		1,786,669	1,786,669
Other states		1,626,864	1,626,864
Federal	6,666,071	3,359,959	10,026,030
Subrecipient advances receivable	140,403		140,403
Other receivables	448,217		448,217
Inventories	197,834		197,834
Prepaid items	347,628		347,628
Total current assets	30,000,940	685,685,838	715,686,778
Capital assets, net of accumulated depreciation	20,772,645		20,772,645
Total assets	<u>\$50,773,585</u>	<u>\$685,685,838</u>	<u>\$ 736,459,423</u>
LIABILITIES:			
Current liabilities:			
Cash overdraft		\$ 392,708	\$ 392,708
Benefits payable		10,826,338	10,826,338
Accounts payable	7,128,251	1,032,292	8,160,543
Contributions payable		4,157,103	4,157,103
Accrued salaries and related benefits	4,153,267		4,153,267
Intergovernmental payable:			
Federal	251,874	68,701	320,575
Other states		3,191,469	3,191,469
Current portion of capital lease payable	35,993		35,993
Current portion of capital improvement bond notes payable	350,336		350,336
Current portion of accrued compensated absences and related benefits	3,200,000		3,200,000
Deferred revenue	1,543,353	-	1,543,353
Total current liabilities	16,663,074	19,668,611	36,331,685
Noncurrent liabilities:			
Accrued compensated absences and related benefits	1,809,175		1,809,175
Capital improvement bond notes payable	2,201,793		2,201,793
Total noncurrent liabilities	4,010,968		4,010,968
Total liabilities	20,674,042	19,668,611	40,342,653
NET ASSETS:			
Invested in capital assets, net of related debt	18,184,523		18,184,523
Restricted for unemployment benefits		666,017,227	666,017,227
Unrestricted	11,915,020		11,915,020
Total net assets	30,099,543	666,017,227	696,116,770
Total liabilities and net assets	<u>\$50,773,585</u>	<u>\$685,685,838</u>	<u>\$ 736,459,423</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2002**

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:						
Employment and training services	\$ 106,479,100	\$ 6,721,640	\$ 98,117,635	\$ 624,264	\$ (1,015,561)	\$ -
Business-type activities:						
Unemployment benefits	<u>526,885,659</u>	<u>265,735,849</u>	<u>151,696,994</u>			<u>(109,452,816)</u>
Totals	<u>\$ 633,364,759</u>	<u>\$ 272,457,489</u>	<u>\$ 249,814,629</u>	<u>\$ 624,264</u>	(1,015,561)	(109,452,816)
General revenues:						
State appropriations					212,374	
Gain on sale of capital assets					238,983	
Transfers						
Transfers between funds					12,090,140	(12,090,140)
Indirect costs remitted to General Fund of the State					(140,651)	
Transfers to General Fund of the State					<u>(1,269,246)</u>	
Total general revenues and transfers					<u>11,131,600</u>	<u>(12,090,140)</u>
Changes in net assets					10,116,039	(121,542,956)
Net assets - beginning					19,983,504	787,560,183
Net assets - ending					<u>\$ 30,099,543</u>	<u>\$ 666,017,227</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2002**

ASSETS	<u>General Fund</u>
Cash and cash equivalents	\$6,938,466
Assessments receivable	1,646,004
Intergovernmental receivables:	
State	533,258
Federal	6,666,071
Interfund receivable - unemployment compensation fund	13,083,059
Subrecipient advances receivable	140,403
Other receivables	448,217
Inventories	197,834
Prepaid items	<u>347,628</u>
 Total assets	 <u><u>\$ 30,000,940</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts payable	\$ 7,128,251
Accrued salaries and related benefits	4,153,267
Intergovernmental payables:	
Federal	251,874
Deferred revenue	<u>1,543,353</u>
 Total liabilities	 <u>13,076,745</u>
 Fund balances:	
Reserved:	
Reed Act expenditures	12,826,765
Inventories	197,834
Prepays	347,628
South Carolina Information Coordinating Committee	107,624
Unreserved fund balance:	
Designated for capital assets	927,490
Undesignated fund balance	<u>2,516,854</u>
 Total fund balances	 <u>16,924,195</u>
 Total liabilities and fund balances	 <u><u>\$ 30,000,940</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
BALANCE SHEETS - GOVERNMENTAL FUND (CONTINUED)
JUNE 30, 2002

RECONCILIATION TO THE STATEMENT OF NET ASSETS:

Fund balances- governmental funds			\$ 16,924,195
Amounts reported for governmental activities in the statement of net assets are different because:			
Liabilities are not due and payable in the current period, therefore, are not reported in the fund:			
Bonds payable	(2,552,129)		
Capital leases payable	(35,993)		
Accrued compensated absences	<u>(5,009,175)</u>	(7,597,297)	
Assets are capitalized and depreciated in statement of net assets and charged to expenditures in the governmental fund:			
Capital assets, net of accumulated depreciation			<u>20,772,645</u>
Net assets - governmental funds			<u><u>\$ 30,099,543</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2002

	General Fund
REVENUES:	
Employer tax contingency assessments	\$ 6,709,777
Employer tax penalties and interest	753,956
User fees	422,781
Intergovernmental:	
State of South Carolina	2,174,657
Federal	94,824,412
Miscellaneous	723,199
TOTAL REVENUES	<u>105,608,782</u>
EXPENDITURES:	
Current:	
Employment and training administration	45,824,225
Contingency assessments	7,477,338
Penalties and interest	1,152,837
Job Training Partnership Act	65,652
Welfare to Work	3,656,461
Workforce Investment Act	41,905,290
Other federal programs	3,467,153
Other non-federal programs	24,605
Parking	57,455
Occupational Information Coordinating Committee	567,481
Capital outlay	1,387,858
Debt service:	
Principal	386,624
Interest	192,753
TOTAL EXPENDITURES	<u>106,165,732</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(556,950)</u>
OTHER FINANCING SOURCES (USES):	
Operating transfers in	12,130,544
Operating transfers out	(40,404)
Proceeds from the sale of fixed assets	249,380
Indirect costs remitted to General Fund of the State	(140,651)
Remittance to General Fund of the State	(1,269,246)
TOTAL OTHER FINANCING SOURCES (USES)	<u>10,929,623</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	10,372,673
BEGINNING FUND BALANCES, as restated	<u>6,551,522</u>
ENDING FUND BALANCES	<u><u>\$ 16,924,195</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES- GOVERNMENTAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Revenues and other financing sources over (under) expenditures and other financing sources (uses) for the governmental fund	\$ 10,372,673
Amounts reported for governmental activities in the statement of activities are different because:	
Costs of capital assets are reported as expenditures in the governmental funds, but are recorded as capital asset additions in the statement of net assets	1,387,858
Depreciation of capital assets is reported as an expense in the statement of activities	(1,544,595)
Repayments of long-term debt are reported as expenditures in the governmental funds, but the repayments reduce liabilities in the statement of net assets	
Capital improvement bond notes payable	327,275
Capital leases	59,349
Increase in accrued compensated absences is reported as an expense in the statement of activities	(476,121)
Basis of capital assets sold is reported as a decrease in gains on sales of capital assets reported in the statement of activities	<u>(10,400)</u>
INCREASE IN NET ASSETS	<u><u>\$ 10,116,039</u></u>

See accompanying Notes to Financial Statements

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2002**

	Unemployment Compensation Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$639,303,053
Accrued interest receivable	10,209,930
Assessments receivable	38,176,446
Benefit overpayments receivable	2,226,060
Due from reimbursable employers	1,059,077
Intergovernmental receivables:	
State of South Carolina	1,020,839
Local governments	1,786,669
Other states	1,626,864
Federal	3,359,959
	<hr/>
Total assets	\$698,768,897
	<hr/> <hr/>
LIABILITIES:	
Current liabilities:	
Cash Overdraft	\$ 392,708
Benefits payable	10,826,338
Accounts payable	1,032,292
Contributions payable	4,157,103
Intergovernmental payables:	
Federal	68,701
Other states	3,191,469
Interfund payable - General Fund	13,083,059
	<hr/>
Total liabilities	32,751,670
	<hr/>
NET ASSETS:	
Restricted for unemployment benefits	666,017,227
	<hr/>
Total liabilities and net assets	\$698,768,897
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See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Unemployment Compensation Fund
REVENUES:	
Assessments	\$ 176,205,396
Reimbursement of unemployment compensation benefits from employers	2,561,373
Benefit overpayment recoveries	2,489,568
From federal agencies	177,551,125
From state agencies	4,644,673
From other states	6,056,089
From local agencies	5,639,356
Total Revenue	<u>375,147,580</u>
OPERATING EXPENSES:	
Unemployment compensation benefits	526,885,659
Total operating expenses	<u>526,885,659</u>
Operating income (loss)	<u>(151,738,079)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	42,285,263
Total nonoperating revenues	<u>42,285,263</u>
Income (loss) before transfers	(109,452,816)
Transfers from general fund	40,404
Transfers to general fund	<u>(12,130,544)</u>
Changes in net assets	(121,542,956)
TOTAL NET ASSETS - BEGINNING	<u>787,560,183</u>
TOTAL NET ASSETS - ENDING	<u><u>\$ 666,017,227</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2002**

	Unemployment Compensation Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from assessments	\$ 176,819,959
Cash received from employers	2,169,253
Cash received from benefit overpayment recoveries	2,121,641
Cash received from federal, state and local agencies	188,890,704
Benefits paid	(522,441,638)
Refund overpayment of assessments	(1,641,184)
Net cash provided (used) by operating activities	<u>(154,081,265)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Fund cash overdraft	392,708
Repayment of cash overdraft	(430)
Repay due to general fund	(63,572)
Transfers from General Fund	40,404
Transfers to General Fund	(309,611)
Net cash provided (used) by noncapital financing activities	<u>59,499</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	44,409,487
Net cash provided by investing activities	<u>44,409,487</u>
Net increase (decrease) in cash	(109,612,279)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>748,915,332</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 639,303,053</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (151,738,079)
Net changes in assets and liabilities:	
Assessments receivable	(1,026,621)
Benefit overpayments receivable	(367,928)
Due from reimbursable employers	(392,120)
Intergovernmental receivables:	
State	(270,552)
Local governments	(514,755)
Other states	(423,779)
Federal	(3,823,384)
Benefits payable	3,041,145
Accounts payable	570,053
Contributions payable	(21,090)
Intergovernmental payables:	
Federal	(2,386)
Other states	888,231
Net cash provided (used) by operating activities	<u><u>\$ (154,081,265)</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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,

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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 Workforce Investment 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 Commission. 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 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.

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. All of the Commission's governmental funds are accounted for in the general fund.

The general fund accounts for the various federal grants and other revenue which the Commission receives for administrative purposes and special projects. Federal grants received for unemployment compensation benefits are accounted for in the proprietary fund. The primary accounts included in the general fund are as follows:

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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.

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, 2002.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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.

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.

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. SCOICC also receives an appropriation from the State of South Carolina to support its operations.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Proprietary Funds

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principle ongoing operations. The principle operating revenue of the Commission's proprietary funds are from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Commission's proprietary fund is used to account for the Unemployment Compensation fund.

The Unemployment Compensation 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 Unemployment Compensation Fund includes the following accounts:

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

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

Extended Benefits (EB) – This 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.

Emergency Unemployment Compensation (EUC) – This provides unemployment benefits to individuals who had no rights to the regular, extended, or additional benefits under State law. It is funded 100% by the Federal Government.

Government-wide and Fund Financial Statements

The financial statements of the Commission are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis method of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis method of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within one year of the end of the current reporting period. Expenditures generally are recorded when liabilities are incurred, as under the accrual basis method of accounting.

The proprietary fund financial statements are reported using the accrual basis method of accounting. For the business-type activities, the Commission applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements and has elected to apply only those standards issued by the Financial Accounting Standards Board ("FASB") on or before November 30, 1989 unless those pronouncements conflict or contradict GASB pronouncements.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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.

A budget versus actual comparison is not presented as required supplementary information for the general fund since all of the revenues and expenditures are not legally budgeted.

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.

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

Receivables consist primarily of the following:

Assessments Receivable

Assessments receivable 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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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 tax receivables for failure to timely file quarterly wage reports and timely make the required payments

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

Due from Reimbursable Employers

The amounts due from reimbursable employers 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.

Intergovernmental Receivables

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 in the proprietary fund represent 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.

Benefit Overpayments Receivable

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 are recorded net of an allowance for uncollectibles.

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, 2002

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.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Commission follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Commission capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and improvements and land improvements and 3 to 25 years for machinery, equipment, furniture and vehicles.

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 statement of net assets.

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, 2001 through June 30, 2002, the Commission recovered approximately \$8,226,000 of indirect cost from the indirect cost agreement. Of this amount, approximately \$141,000 was remitted to the State and approximately \$8,085,000 was retained by the Commission. Indirect cost recoveries are reported as federal revenues.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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 expenses / 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 expenses / 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.

Intergovernmental Payables - States

The amounts reported as intergovernmental payables – states represents amounts due as reimbursements to other states for benefits paid by those states to South Carolina claimants.

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, 2002

Net Assets / Fund Balances

The Commission records reservations for portions of its fund equity which are legally segregated for specific future uses or which do not represent available expendable resources and therefore, are not available for expenditures in the governmental fund balance sheet. Unreserved fund balances indicate that portion of fund equity, which is available for appropriations in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Net assets are categorized as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

At June 30 2002, two of the Commission's reserved balances are as follows:

Reed Act – The Commission has funds totaling \$12,826,765 available under the Reed Act in the proprietary funds. These funds have not been appropriated by the General Assembly. The funds cannot be transferred to the general fund until they are appropriated. \$1,196,917 of Reed Act funds were appropriated by the General Assembly in the fiscal year 2000 to partially fund the purchase of new tax software. An additional \$12,130,544 was appropriated in the current year for software and information technology equipment, land acquisition and office expansion. The \$12,130,544 is reported as a transfer in the current year. Only \$500,696 of the funds appropriated has been expended as of June 30, 2002. The remaining appropriated funds totalling \$12,826,765 are shown as a reserved fund balance.

SCOICC – Pursuant to 2002 Appropriation Act Proviso 51.2, 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 2002 Appropriation Act Proviso 51.2, all user fees not expended in fiscal year 2002 may be carried forward to fiscal year 2003 for use in the SCOICC program. At June 30, 2002, \$107,624 was carried forward and is reported as a reserved fund balance.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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, 2002 are composed of the following:

Cash on Hand	\$ 800
Deposits held by State Treasurer	7,921,264
Deposits held by U.S. Treasury	634,384,602
Other Deposits	<u>3,934,853</u>
Totals	<u><u>\$ 646,241,519</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, 2002, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

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:

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

- 1) Insured or collateralized with securities held by the entity or by it's 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.

NOTE 3. RECEIVABLES:

The receivable balances at June 30, 2002 and the related amounts for the allowances for uncollectibles are as follows:

Type	Receivables	Allowances for Uncollectibles	Net Receivables
General fund			
Assessments receivable:			
Contingency	\$ 1,387,053	\$ 95,793	\$ 1,291,260
Penalty and interest	1,280,500	925,756	354,744
Totals	<u>\$ 2,667,553</u>	<u>\$ 1,021,549</u>	<u>\$ 1,646,004</u>
Intergovernmental receivables:			
State agencies	\$ 533,258		\$ 533,258
Federal	6,666,071		6,666,071
	<u>\$ 7,199,329</u>		<u>\$ 7,199,329</u>
Due from subreipients	<u>\$ 140,403</u>		<u>\$ 140,403</u>
Other receivables	<u>\$ 448,217</u>		<u>\$ 448,217</u>
Proprietary fund			
Assessments receivable	<u>\$ 43,212,868</u>	<u>\$ 5,036,422</u>	<u>\$ 38,176,446</u>
Due from reimburseable employers	<u>\$ 1,091,934</u>	<u>\$ 32,857</u>	<u>\$ 1,059,077</u>
Intergovernmental receivables			
State agencies	<u>\$ 1,020,839</u>		<u>\$ 1,020,839</u>
Local governments	<u>\$ 1,786,669</u>		<u>\$ 1,786,669</u>
Other states	<u>\$ 1,626,864</u>		<u>\$ 1,626,864</u>
Federal	<u>\$ 3,359,959</u>		<u>\$ 3,359,959</u>
Benefit overpayments receivable -			
Basic unemployment compensation	\$ 4,544,341	\$ 2,404,682	\$ 2,139,659
Federal employees	35,559	15,780	19,779
Ex-servicemen	54,079	30,085	23,994
Trade readjustment	12,977	7,018	5,959
Emergency unemployment compensation	169,139	132,470	-
Totals	<u>\$ 4,816,095</u>	<u>\$ 2,590,035</u>	<u>\$ 2,226,060</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

NOTE 4. INTERFUND RECEIVABLES/PAYABLES:

The amounts shown on the financial statements as being interfund receivables/payable represent amounts which were collected for penalties and interest and contingency assessments in tax remittances from employers. In addition, the Commission has not transferred all of the Reed Act Funds which were appropriated to the General Fund as of June 30, 2002. Amounts due to the General Fund as of June 30, 2002 are as follows:

Reed Act Funds	\$ 13,017,850
Contingency assessments	14,011
Penalty and interest	<u>51,198</u>
 Total	 <u><u>\$ 13,083,059</u></u>

NOTE 5. CAPITAL ASSETS:

A summary of capital assets activity for the year ended June 30, 2002 is as follows:

	Balances as Restated June 30, 2001	Increases	Decreases	Balances June 30, 2002
Capital assets not being depreciated:				
Land and land improvements	\$ 2,850,079		\$ (10,400)	\$ 2,839,679
Construction in progress	541,866	1,023,116	-	1,564,982
 Total capital assets not being depreciated	 3,391,945	 1,023,116	 (10,400)	 4,404,661
Other capital assets:				
Buildings and improvements	23,085,035	96,528	(51,859)	23,129,704
Equipment and furniture	9,162,464	158,309	(160,802)	9,159,971
Vehicles	258,406	109,905	(25,886)	342,425
 Total other capital assets	 32,505,905	 364,742	 (238,547)	 32,632,100
Less accumulated depreciation for				
Buildings and improvements	7,875,693	581,907	(51,859)	8,405,741
Equipment and furniture	6,896,565	925,646	(160,802)	7,661,409
Vehicles	185,810	37,042	(25,886)	196,966
 Total accumulated depreciation	 14,958,068	 1,544,595	 (238,547)	 16,264,116
 Other capital assets, net	 17,547,837	 (1,179,853)	 -	 16,367,984
 Total capital assets, net	 <u>\$ 20,939,782</u>	 <u>\$ (156,737)</u>	 <u>\$ (10,400)</u>	 <u>\$ 20,772,645</u>

Current year's additions to construction in progress consists of expenditures paid on a contract for new software for WIA client tracking, reporting and performance system and for an unemployment tax software system. The total cost of the two software systems is approximately \$4,502,000. Outstanding commitments were approximately \$2,937,000 as of June 30, 2002.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

NOTE 6. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2002 is as follows:

	Balance, July 1, 2001	Additions	Reductions	Balance, June 30, 2002	Due Within One Year
Capital lease payable	\$ 95,342	\$ -	\$ 59,349	\$ 35,993	\$ 35,993
Capital improvement bond notes payable	2,879,404		327,275	2,552,129	350,336
Accrued compensated absences and related benefits	4,533,054	3,637,483	3,161,362	5,009,175	3,200,000
	<u>\$ 7,507,800</u>	<u>\$ 3,637,483</u>	<u>\$ 3,547,986</u>	<u>\$ 7,597,297</u>	<u>\$ 3,586,329</u>

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, 2002 follows:

	Balance Authorized and Not Drawn June 30, 2002
Act	Total Authorized
538 of 1987	<u>\$ 5,607,000</u>
	<u>\$ 239,455</u>

The capital improvement bond notes are payable in quarterly installments plus interest. Amounts including interest required to complete payment of the bond obligations as of June 30, 2002, are as follows:

Year Ended June 30,	Principal	Interest	Totals
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	456,901	56,662	513,563
2008-2011	538,670	30,259	568,929
Totals	<u>\$ 2,552,129</u>	<u>\$ 597,055</u>	<u>\$ 3,149,184</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2002

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 \$327,275 and \$189,398 in principal and interest, respectively, on the capital improvement bond notes payable.

NOTE 8. LEASES:

The Commission is obligated under a capital lease for a printer requiring monthly payments of \$5,225 including interest at 4.9% maturing in January, 2003. The lease provides that title will pass after the final payment is made. The carrying amount of the printer totaled approximately \$85,000 as of June 30, 2002. The current year's amortization expense of approximately \$48,000 on this capitalized lease asset is included in depreciation expense. Total payments on the capital lease for the year ended June 30, 2002 \$62,700 consisting of principal of \$59,349 and interest of \$3,351.

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 2003 through 2007. 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 \$745,000 for the year ended June 30, 2002.

The following is a schedule by years of future minimum rental payments required under the capital lease and the noncancellable operating lease agreements with remaining terms at June 30, 2002 in excess of one year.

	Year Ended June 30,	Capital Leases	Operating Leases
	2003	\$ 36,575	\$ 209,180
	2004		175,591
	2005		103,755
	2006		52,548
	2007		2,929
Total minimum lease payments		36,575	\$ 544,003
Less: interest		(583)	
Present value of minimum lease payments		\$ 35,992	

NOTE 9. 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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, 2002).

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, 2002, 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, 2001, the employer contribution rate became 10.4 percent, which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2002, 2001 and 2000 were approximately \$2,887,000, \$2,688,000 and \$2,708,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$57,000 in the current fiscal year at the rate of .15 percent of compensation. .

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

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.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The Commission's actual contributions to the PORS for the years ended June 30, 2002, 2001, and 2000 were approximately \$11,600, \$9,800 and \$8,100, 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 \$225 and accidental death insurance contributions of approximately \$225 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 Commission'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 Commission's liability under the pension plans is limited to the amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Commission 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 10. 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 Commission are eligible to receive these benefits.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

The State provides post employment 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.

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, 24,000 State retirees met these eligibility requirements at June 30, 2002.

The Commission recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$3,727,000 for the year ended June 30, 2002. As discussed in Note 9, the Commission paid approximately \$1,090,000 applicable to the 2.85 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 11. 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.

NOTE 12. 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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

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JUNE 30, 2002

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).

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

NOTE 13. 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 Commission of Social Services to be used as the State match for the Welfare-To-Work Program in fiscal year 1998. \$8,495,364 was earned as of June 30, 2001 and \$1,962,283 was earned in the current year and the \$1,543,353 remainder is included in deferred revenue.

Pursuant to Proviso 72.111 of the 2001-2002 Appropriations Act, the Commission remitted \$1,269,246 to the General Fund of the State. The Commission was also required to remit \$140,651 of indirect cost recoveries to the General Fund of the State.

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 Commission 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, unemployment insurance, insurance coverage, office supplies, telephone and interagency mail. Payments were also made during the year to the State Accident Fund for worker's compensation insurance. The amounts of expenditures applicable to these related party transactions are not readily available.

The Commission received \$212,374 from State appropriations during the year for expenditures of the SCOICC.

NOTE 14. CONTINGENCIES:

Federal Grants - The various programs administered by the Commission for fiscal years June 30, 2002 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, 2002

NOTE 15. TRANSFERS:

The Commission makes transfers from the General Fund to Unemployment Compensation accounts in the proprietary funds. 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 until authorization is received to expend the funds. \$40,404 was transferred during the current fiscal year.

NOTE 16. REED ACT FUNDS:

The Commission has funds totaling \$98,898,436 available under the Reed Act. These funds are granted to the Fund from the federal government from federal unemployment tax collections to be used for unemployment benefits if they are needed. During the current year, the Federal government appropriated additional funds to the State due to a surplus in the account. The Fund had been receiving between \$1,000,000 and \$2,000,000 per year and received \$109,411,731 this year. Upon appropriation by the State legislature and approval of the Governor, these funds can be used for other purposes.

NOTE 17. COMMITMENTS:

In addition to the commitments disclosed in note 5, the Commission is obligated under additional contracts for approximately \$168,000 to be spent on facilitator training and various software contracts.

NOTE 18. ACCOUNTING CHANGES/PRIOR PERIOD ADJUSTMENTS:

All State agencies and institutions were required to adopt a capitalization limit of \$5,000 for movable personal property and \$100,000 for depreciable land improvements, buildings and improvements, and tangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, the Commission removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels. Also, all State agencies were required to change the definition of the period of availability for revenue recognition for its governmental funds to one year.

As a result of the adoption of GASB Statement No. 34 as discussed in Note 1, the Commission was required to make certain changes in accounting principles, specifically recording in the statement of net assets, capital assets, long-term liabilities and accrued interest payable.

In connection with the adoption of GASB Statement No. 34, the Commission reexamined its financial reporting practices and determined that the items that it previously had reported in a special revenue fund and capital projects fund could be reported in its general fund. Also, the various unemployment trust accounts were previously reported as an expendable trust fund. In accordance with the requirements of GASB Statement No. 34, they are now presented as a proprietary fund.

The Commission determined that it had incorrectly accounted for amounts advanced to the State Budget and Control Board in prior years. These advances were to fund certain repair and renovation projects to be supervised by the General Services division of the State Budget and Control Board. The Commission had previously recorded these advances as an expenditure instead of as a receivable until the work had been performed. The total advances being held by the State Budget and Control Board as of June 30, 2001 totaled \$507,253. Since \$125,005 of these advances had previously been reported as expenditures of federal funds, the federal receivable as of June 30, 2001 was overstated by \$125,005.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

The effect of accounting and reporting changes on beginning fund equity in the fund financial statements is as follows:

	Governmental Funds
Fund balance, June 30, 2001, as previously reported	\$ 5,822,423
Correction of errors:	
Record receivable from State Budget and Control Board	507,253
Reduce receivable from federal government	(125,005)
Changes in accounting principles:	
Change period of availability to one year	346,851
Fund balance, June 30, 2001, as restated	<u>\$ 6,551,522</u>

The effect of accounting and reporting changes on beginning net assets for the governmental activities in the entity-wide financial statements is as follows:

Net assets, July 1, 2001	\$ -
Record fund equity at June 30, 2001 of fund based activities previously reported in financial statements	51,485,198
Correction of errors:	
Record receivable from State Budget and Control Board	507,253
Reduce receivable from federal government	(125,005)
Adjustments resulting from increase in capitalization limits	(9,764,925)
Changes in accounting principles:	
Change period of availability to one year	346,851
GASB Statement No. 34 restatements	
Record the following assets and liabilities:	
Accumulated depreciation	(14,958,068)
Capital lease payable	(95,342)
Capital improvement bond notes payable	(2,879,404)
Accrued compensated absences and related benefits	(4,533,054)
Net assets, July 1, 2001, as restated	<u>\$ 19,983,504</u>

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
U.S. Department of Labor				
Direct Programs:				
Labor Force Statistics	17.002		\$ 1,121,942	\$ -
Labor Certification for Alien Workers	17.203		86,849	
Employment Service	17.207		11,140,141	248,524
Unemployment Insurance	17.225		96,545,301	
Trade Adjustment Assistance - Workers	17.245		6,194,694	
Employment and Training Assistance - Dislocated Workers	17.246		3,386	
Employment Service and Job Training - Pilot and Demonstration Programs	17.249		62,497	
Welfare to Work Grants to States and Localities	17.253		2,473,075	1,821,351
Workforce Investment Act - Adult	17.258		12,744,380	11,604,489
Workforce Investment Act - Youth	17.259		13,129,445	12,331,785
Workforce Investment Act - Dislocated Workers	17.260		10,062,771	7,791,558
Job Corps	N/A		652,646	
Employment and Training Administration - Pilot Demonstrations and Research Projects	17.261		125,387	
Disabled Veterans' Outreach Program	17.801		1,068,420	
Local Veterans Employment Representative	17.804		1,197,876	
Passed-through from:				
Pendleton District Workforce Development Board:				
Workforce Investment Act - Adult	17.258	0A195E1	650	
Workforce Investment Act - Adult	17.258	1A195E1	124,197	
Workforce Investment Act - Youth	17.259	0F895E1	9,431	
Workforce Investment Act - Youth	17.259	1Y195E1	16,054	
Workforce Investment Act - Dislocated Workers	17.260	0D195E1	955	
Workforce Investment Act - Dislocated Workers	17.260	1D195E1	74,709	
Upper State Workforce Development Board:				
Workforce Investment Act - Adult	17.258	11103A1	38,100	
Workforce Investment Act - Adult	17.258	1A103A1	24,671	
Workforce Investment Act - Adult	17.258	1A90301	21,409	
Workforce Investment Act - Adult	17.258	1A90355	46,493	
Workforce Investment Act - Adult	17.258	1A903A1	27,448	
Workforce Investment Act - Adult	17.258	1A903G5	16,266	
Workforce Investment Act - Adult	17.258	1A903US	16,837	
Workforce Investment Act - Youth	17.259	1Y103A1	25,840	
Workforce Investment Act - Youth	17.259	1Y903A1	25,172	
Workforce Investment Act - Youth	17.259	SAF	179,457	
Workforce Investment Act - Dislocated Workers	17.260	1D103A1	16,264	
Workforce Investment Act - Dislocated Workers	17.260	1D903A1	26,670	
Workforce Investment Act - Dislocated Workers	17.260	1D903G5	16,550	
Workforce Investment Act - Dislocated Workers	17.260	1D903S5	43,123	
Workforce Investment Act - Dislocated Workers	17.260	1D903U5	17,373	
Upper Savannah Council of Governments:				
Workforce Investment Act - Adult	17.258	0119601	1,619	
Workforce Investment Act - Adult	17.258	0199601	3,568	
Workforce Investment Act - Adult	17.258	1119601	75,721	
Workforce Investment Act - Adult	17.258	1199601	15,303	
Workforce Investment Act - Youth	17.259	0319601	3,257	
Workforce Investment Act - Youth	17.259	0399601	969	
Workforce Investment Act - Youth	17.259	1319601	108,555	
Workforce Investment Act - Youth	17.259	1399601	13,541	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Workforce Investment Act - Dislocated Workers	17.260	0219601	2,722	
Workforce Investment Act - Dislocated Workers	17.260	02S9600	3,378	
Workforce Investment Act - Dislocated Workers	17.260	1219601	62,839	
Workforce Investment Act - Dislocated Workers	17.260	12S9600	14,698	
Workforce Investment Act - Dislocated Workers	17.260	19H9601	31,694	
Midlands Workforce Development Board:				
Welfare to Work Grants to States and Localities	17.253	8W194A1	44,092	
Workforce Investment Act - Adult	17.258	1A194A1	79,899	
Workforce Investment Act - Adult	17.258	1A194A1	63,647	
Workforce Investment Act - Adult	17.258	1A194A6	31,111	
Workforce Investment Act - Adult	17.258	1A494A4	52,632	
Workforce Investment Act - Adult	17.258	1A494A6	123,572	
Workforce Investment Act - Adult	17.258	1A894A1	52,417	
Workforce Investment Act - Adult	17.258	1T194A1	37,093	
Workforce Investment Act - Youth	17.259	1Y194A1	46,239	
Workforce Investment Act - Youth	17.259	1Y194A1	39,758	
Workforce Investment Act - Youth	17.259	1Y894A2	50,326	
Workforce Investment Act - Dislocated Workers	17.260	0D194A6	8	
Workforce Investment Act - Dislocated Workers	17.260	1D194A1	54,027	
Workforce Investment Act - Dislocated Workers	17.260	1D194A1	63,777	
Workforce Investment Act - Dislocated Workers	17.260	1D194A6	39,028	
Workforce Investment Act - Dislocated Workers	17.260	1D494A5	52,431	
Workforce Investment Act - Dislocated Workers	17.260	1D494A7	85,908	
Workforce Investment Act - Dislocated Workers	17.260	1D894A3	25,721	
Trident Workforce Development Board:				
Workforce Investment Act - Adult	17.258	0110606	184,029	
Pee Dee Regional Council of Governments:				
Workforce Investment Act - Adult	17.258	0A207B1	4,349	
Workforce Investment Act - Adult	17.258	0A807B1	9,709	
Workforce Investment Act - Adult	17.258	1A207B1	810,389	
Workforce Investment Act - Adult	17.258	1A507B1	132,516	
Workforce Investment Act - Adult	17.258	1A807B1	127,609	
Workforce Investment Act - Youth	17.259	1Y807B1	4,293	
Workforce Investment Act - Youth	17.259	1Y807B1	113,405	
Workforce Investment Act - Dislocated Workers	17.260	0D207B1	2,150	
Workforce Investment Act - Dislocated Workers	17.260	0D80781	4,760	
Workforce Investment Act - Dislocated Workers	17.260	1D207B1	498,351	
Workforce Investment Act - Dislocated Workers	17.260	1D80781	70,296	
Workforce Investment Act - Dislocated Workers	17.260	DW INTENS	131,842	
Catawba Regional Planning Council of Governments:				
Workforce Investment Act - Adult	17.258	1119961	52,754	
Workforce Investment Act - Adult	17.258	1129961	21,736	
Workforce Investment Act - Adult	17.258	1149961	104,762	
Workforce Investment Act - Adult	17.258	1179961	34,004	
Workforce Investment Act - Youth	17.259	1319961	40,703	
Workforce Investment Act - Dislocated Workers	17.260	1219961	33,915	
Workforce Investment Act - Dislocated Workers	17.260	1229961	14,573	
Workforce Investment Act - Dislocated Workers	17.260	1249961	25,820	
Workforce Investment Act - Dislocated Workers	17.260	1279961	13,656	
Lower Savannah Council of Government:				
Workforce Investment Act - Adult	17.258	1159700	124,041	
Workforce Investment Act - Adult	17.258	11S9700	33,293	
Workforce Investment Act - Youth	17.259	1CAY697ES	144,646	
Workforce Investment Act - Youth	17.259	1CAY697ES	39,303	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

<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>
Workforce Investment Act - Dislocated Workers	17.260	02S9700	62,235	
Workforce Investment Act - Dislocated Workers	17.260	02S9700	17,192	
Santee Lynches Regional Planning Council of Governments:				
Workforce Investment Act - Adult	17.258	04710Z2	8,012	
Workforce Investment Act - Adult	17.258	14710Z2	385,765	
Workforce Investment Act - Adult	17.258	14710Z2	63,700	
Workforce Investment Act - Youth	17.259	14710Z2	15,521	
Workforce Investment Act - Dislocated Workers	17.260	04710Z2	8,030	
Workforce Investment Act - Dislocated Workers	17.260	0C310Z1	1,333	
Workforce Investment Act - Dislocated Workers	17.260	14710Z2	284,979	
Workforce Investment Act - Dislocated Workers	17.260	1C310Z1	9,084	
Workforce Investment Act - Dislocated Workers	17.260	2C310Z1	39,777	
Waccamaw Regional Planning Council of Governments:				
Employment and Training Assistance -				
Dislocated Workers	17.246	9B89B02	6	
Workforce Investment Act - Adult	17.258	1149B08	342,145	
Workforce Investment Act - Youth	17.259	1319B08	49,884	
Workforce Investment Act - Dislocated Workers	17.260	1249B08	159,308	
Workforce Investment Act - Dislocated Workers	17.260	0249B08	38,039	
Lowcountry Council of Governments:				
Workforce Investment Act - Adult	17.258	1119C01	8,081	
Workforce Investment Act - Youth	17.259	1319C01	7,372	
Workforce Investment Act - Dislocated Workers	17.260	1219C01	3,771	
State Wide:				
Workforce Investment Act - Dislocated Workers	17.260	DW INCUM	37,370	
TOTAL U.S. DEPARTMENT OF LABOR			162,974,536	33,797,707
U.S. Department of Education				
Occupational & Employment				
Information - State Grants	84.346		128,833	
U.S. Department of Health and Human Services				
Passed through from the South Carolina Department				
of Social Services				
Child Support Enforcement	93.563		12,144	
TOTAL FEDERAL ASSISTANCE			<u>\$ 163,115,513</u>	<u>\$ 33,797,707</u>

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, 2002, and have issued our report thereon dated June 6, 2003. 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 02-2.

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 F and finding 02-2 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 53 and 54.

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

June 6, 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, 2002. 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, 2002. 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 items 02-1 and 02-2.

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 judgment, 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 02-2.

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 + Lelan PA

June 6, 2003

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2002

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. A qualified opinion dated June 6, 2003 on the financial statements of the Commission for the year ended June 30, 2002 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 June 6, 2003 was issued.
6. Audit findings relative to the major federal award programs are 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>
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance – Workers
17.253	Welfare to Work Grants to States & Localities
17.258	Workforce Investment Act - Adult

8. The dollar threshold used to distinguish between Type A and Type B programs was \$3,000,000.
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.

3. 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.
4. 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 recording them as transfers in each fund.
5. The Commission is recording capital lease principal and interest payments as equipment expenditures instead of separate expenditure accounts for principal and interest.
6. The Commission is 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.
7. The Commission recorded a transfer in the proprietary fund that occurred in July 2002 from the general fund to the proprietary fund as of June 30, 2002 resulting in the transfers between funds and the cash being misstated.
8. The bank reconciliations for the cash on deposit with the State Treasurer and various other accounts on deposit with a local financial institution contain numerous reconciling items that are several years old.

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 disbursements should be reconciled to the Comptroller General monthly in a timely manner at the appropriate level of detail.

B. IMPROPER ACCOUNTING FOR FUNDS ADVANCED TO STATE BUDGET AND CONTROL BOARD

Condition: The Commission is required to advance funds to the General Services division of the State Budget and Control Board (the Board) for certain repair, renovation and building projects. These advances are sometimes refunded to the Commission or transferred to other projects. The Commission has been recording these advances as expenditures instead of as a receivable. The Commission was recording the refund of amounts transferred in prior years as a reduction in current year's expenditures. In addition, the Commission was not considering whether any of these projects should have been recorded as construction in progress.

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

Effect: of Condition: Expenditures as of the beginning of the fiscal year had been overstated by approximately \$507,000. During the current year, the Commission advanced an additional \$621,500 which was recorded as expenditures while only \$513,000 was actually expended by the Board. The Commission received approximately \$82,000 in refunds during the current year. The Board was holding funds totaling approximately \$533,000 for the Commission as of June 30, 2002.

Cause: The Commission was not receiving reports from the Board showing the actual expenditures.

Recommendation: The Commission should record all advances as receivables. Reports should be received from the Board so that the Commission can accurately record the expenditure and transfer of funds. The Commission should also determine whether any of the projects should be capitalized in accordance with its capitalization policies.

C. ERRORS IN CAPITAL ASSETS CLOSING PACKAGE

Condition: Our review of the Commission's capital assets closing package disclosed the following errors:

1. The Commission did not remove land improvements and buildings which did not meet the State's revised capitalization policy which resulted in an overstatement in the costs of capital assets of approximately \$790,000.
2. Accumulated depreciation as of June 30, 2002 did not agree to the supporting schedule resulting in an understatement of approximately \$1,300,000.
3. Current year equipment disposals was shown as approximately \$161,000 while the accumulated depreciation on these disposals was shown as approximately \$1,580,000. The accumulated depreciation included assets disposed of in prior years.

In addition, the Commission is not timely recording the retirement of equipment. Approximately \$1,300,000 of prior year retirements were recorded in the current fiscal year.

Criteria: Generally accepted accounting principles and the Comptroller General's manual contain the requirements for the proper reporting of capital assets.

Effect of Condition: Capital account balances were misstated and the Commission had to complete a revised closing package. The closing package is used by the State in preparing the State-wide financial statements.

Cause: Failure to carefully review required correspondence from the State Comptroller General and to agree reported numbers to supporting documentation.

Recommendation: The Commission should ensure that all transactions are recorded in a timely manner and that personnel preparing and reviewing the closing package are knowledgeable about all of the criteria needed to accurately complete the closing package. All amounts included in the closing package should be agreed to supporting documentation.

D. ERRORS IN COMPENSATED ABSENCES CLOSING PACKAGE

Condition: Our review of the Commission's compensated absences closing package disclosed that the Commission reported the amount of overtime compensatory time as \$144,379 instead of the correct balance of \$17,697. The \$144,379 was the amount of overtime compensatory time actually paid during the fiscal year.

Criteria: Generally accepted accounting principles and the Comptroller General's manual contain the requirements for the proper reporting of the leave liability.

Effect of Condition: The leave liability balance was overstated.

Cause: Failure to carefully prepare and review the information on the closing package.

Recommendation: The Commission should ensure that all amounts reported on the closing package agree to supporting documentation. The review process should include agreeing the reported amounts to the supporting documentation.

E. 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 \$88,000; an increase in accounts payable of approximately \$162,000 and an increase in expenditures of approximately \$74,000. 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.

F. 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. Entries were made to reduce receivable and related allowances by approximately \$19,625,000,

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 do 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

02-1. ALL PROGRAMS

Statement of Condition: OMB Circular A-133 Subpart C – Section 320 requires single audit reports to be submitted within 9 months after the end of the audit period for the fiscal year ended June 30, 2002. The Commission did not meet this requirement for the year ended June 30, 2002. The same finding was cited in the prior year's report.

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.

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

02-2. 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 under reported federal expenditures by approximately \$131,000 on the schedule of federal expenditures for the reasons explained in items E 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. The same finding was cited in the prior year's report.

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, 2002

A. VOUCHERS NOT CANCELLED AND NO EVIDENCE OF REVIEW

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. Our testing of vouchers disclosed that one individual was underpaid \$231 for a relocation allowance because of a mathematical error in the reimbursement request. 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.

B. FIXED ASSETS

Out of 15 pieces of movable equipment selected for observation, 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) Two items disposed of in prior years were still on the Commission's fixed asset at June 30, 2002.
- 3) One item was not in the location shown in the records since a transfer form had not been completed when the asset was moved.

The same finding was cited in the prior year's management letter comments.

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.

C. DEFICIENCIES IN JOURNAL VOUCHERS

Our testing of journal entries disclosed that the journal vouchers being prepared in the unemployment insurance area were not being completed according to the Commission's policies. The forms contained lines to be completed by the individual that audited the entry, keypunched the entry and verified the entry. This section was not completed on three of the vouchers. In addition, two of the vouchers did not contain the required explanation for the entry.

We recommend that all entries be completed in their entirety including explanations to document compliance with the Commission's policies.

D. REQUIRED JOURNAL ENTRY NOT POSTED

In reviewing the schedule reconciling prepaid expenses to the amount recorded in the general ledger, we noted a reconciling item which was a journal entry that needed to be recorded by the Commission. This journal entry was not made and there was no follow-up to see that it had been posted.

We recommend that a system be implemented to ensure that any adjustments noted in the reconciliation process be posted in a timely manner.

E. MISSING DOCUMENTS IN PERSONNEL FILES

Our testing of 25 payroll disbursements disclosed missing documentation in two personnel files. One employee was missing an I-9 form and another employee's I-9 form was not completed in its entirety. Federal laws require that all employees hired since 1986 complete an I-9 form.

We recommend that the Commission ensure that all required forms are completed and filed in the employee's personnel file.

F. 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, 2002

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: This condition still exists for the year ending June 30, 2002. 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, 2003.

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 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: This same finding is repeated in the current year's report. 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, 2003.

CORRECTIVE ACTION PLAN

APPENDIX A



www.sces.org

COMMISSIONERS
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McKinley Washington, Jr.
Carole C. Wells

EXECUTIVE DIRECTOR
Roosevelt T. Halley
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1550 Gadsden Street
Post Office Box 995
Columbia, South Carolina 29202

July 18, 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, 2002.

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 1, 2001 through June 30, 2002.

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.
- 2 Management also notes that work on the audit for the year ending June 2002 was actually taking place in 2003, which is also beyond the subsequent audit year ending June 30, 2002 and which is the subject of this "corrective action". It is also noted that audit work for the year ending June 2001 took place during 2002 and 2003; therefore, there are some findings in the 2002 audit that were repeated from the 2001 and 2000 audits 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. All 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, 2003.

IMPROPER ACCOUNTING FOR FUNDS ADVANCED TO STATE BUDGET AND CONTROL BOARD.

Condition: The Commission is required to advance funds to the General Services division of the State Budget and Control Board (the Board) for certain repair, renovation and building projects. These advances are sometimes refunded to the Commission or transferred to other projects. The Commission has been recording these advances as expenditures instead of as a receivable. The Commission was recording the refund of amounts transferred in prior years as a reduction in current year’s expenditures. In addition, the Commission was not considering whether any of these projects should have been recorded as construction in progress.

Recommendation: The Commission should record all advances as receivables. Reports should be received from the Board so that the Commission can accurately record the expenditure and transfer of funds. The Commission should also determine whether any of the projects should be capitalized in accordance with its capitalization policies.

Response: While the Commission understands that there are not 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. The Commission is working closely with the Board to ensure reports are received so expenditures of the projects can be recognized in the accounting year. All transfer balances after expenditures will be recorded as receivables for the Fiscal Year ending June 30, 2003.

ERRORS IN CAPITAL ASSETS CLOSING PACKAGE

Condition: Our review of the Commission's capital assets closing package disclosed the following errors:

- The Commission did not remove land improvements and buildings which did not meet the State's revised capitalization policy which resulted in an overstatement in the cost of capital assets of approximately \$790,000.
2. Accumulated depreciation as of June 30, 2002 did not agree to the supporting schedule resulting in an understatement of approximately \$1,300,000.
 3. Current year equipment disposal was shown as approximately \$161,000 while depreciation on these disposals was shown as approximately \$1,580,000. The accumulated depreciation included assets disposed of in prior years.

In addition, the Commission is not timely recording the retirement of equipment. Approximately \$1,300,000 of prior year retirements were recorded in the current fiscal year.

Recommendation: The Commission should ensure that all transactions are recorded in a timely manner and that personnel preparing and reviewing the closing package are knowledgeable about all of the criteria needed to accurately complete the closing package. All amounts included in the closing package should be agreed to supporting documentation.

Response: The Commission agrees with these findings and all items now meet the State's revised capitalization policy. The Commission is reviewing its procedures for preparation and review of the closing package and supporting documentation.

ERRORS IN COMPENSATED ABSENCES CLOSING PACKAGE

Condition: Our review of the Commission's compensated absences closing package disclosed that the Commission reported the amount of overtime as \$144,379 instead of the correct balance of \$17,697. The \$144,379 was the amount of overtime compensatory time actually paid during the fiscal year.

Recommendation: The Commission should ensure that all amounts reported on the closing package agree to supporting documentation. The review process should include agreeing the reported amounts to the supporting documentation.

Response: The 2002 audit revealed \$144,379 overtime was reported as a possible future liability. This was in error, due to the fact the total actually represents the overtime paid during fiscal year 2002. Both the preparer and the reviewer of the closing package have been made aware of the error and understand the total was incorrect. This error should not occur again.

SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED

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 \$88,000; an increase in accounts payable of approximately \$162,000; and a decrease in expenditures of approximately \$74,000. 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 \$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.

Recommendation: The Commission should review and modify its procedures for recording and reconciling advances to sub-recipients with 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, 2003.

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 were too low. Entries were made to reduce receivable and related allowances by approximately \$19,625,000.

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

Response: The Commission has implemented a new method of reporting receivables and related allowances for the fiscal year 2003 Financial Statements that will more accurately report current receivables. Our policy of canceling receivables for the Commission's books will not change from its current ten-year policy due to the State's Statute of Limitation.

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, 2002. The Commission did not meet this requirement for the year ended June 30, 2003. The same finding was cited in the prior year's report.

Recommendation: Implement procedures to have records and financial statements completed and timely audited so reports can be 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, 2003.

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 Commission under reported federal expenditures by approximately \$131,000 on the schedule of federal expenditures for the reasons explained in item E 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. The same finding was cited in the prior year's report.

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, 2003.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

OTHER MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2002

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. Our testing of vouchers disclosed that one individual was underpaid \$231 for a relocation allowance because of a mathematical error in the reimbursement request. 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 began initialing all invoices as verification of review during Fiscal Year 2003. This review does include calculating and reviewing all totals on the invoice.

FIXED ASSET

Condition: Out of 15 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; two items disposed of in prior years were still on the Commission's fixed asset at June 30, 2002; one item was not in the location shown in the records since a transfer form had not been completed when the asset was moved. The same finding was cited in the prior year's management letter comments.

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, 2004.

DEFICIENCIES IN JOURNAL VOUCHERS

Condition: Our testing of journal entries disclosed that the journal vouchers being prepared in the unemployment insurance area were not being completed according to the Commission's policies. The forms contained lines to be completed by the individual that audited the entry, keypunched the entry and verified the entry. This section was not completed on three of the vouchers. In addition, two of the vouchers did not contain the required explanation for the entry.

Recommendation: We recommend that all entries be completed in their entirety including explanations to document compliance with the Commission's policies.

Response: Procedures are being implemented to ensure forms are completed and all explanations are completed. This condition continues to exist but will be corrected for the fiscal year ending June 30, 2004

REQUIRED JOURNAL ENTRY NOT POSTED

Condition: In reviewing the schedule reconciling prepaid expenses to the amount recorded in the general ledger, we noted a reconciling item which was a journal entry that needed to be recorded by the Commission. This journal entry was not made and there was no follow-up to see that it had been posted.

Recommendation: We recommend that a system be implemented to ensure that any adjustments noted in the reconciliation process be posted in a timely manner.

Response: The Commission is reviewing its procedures to ensure all journal entries are posted in a timely manner.

MISSING DOCUMENTS IN PERSONNEL FILES

Condition: Our testing of 25 payroll disbursements disclosed missing documentation in two personnel files. One employee was missing an I-9 form and another employee's I-9 was not completed in its entirety. Federal laws require that all employees hired since 1986 complete an I-9 form.

Recommendation: We recommend that the Commission ensure that all required forms are completed and filed in the employee's personnel file.

Response: Regarding the missing I-9, this office was able to locate it within the audited employee's personnel file. The I-9 cited to be incomplete in its entirety was found by this office to be complete. However, it is noted that the I-9 on file was dated for 2002 instead of 1998, the employee's date of hire. The explanation for this discrepancy dates to last year's audit when no I-9 was in this employee's personnel file. At that time, this office contacted the employee and the above referenced I-9 was completed and filed.

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 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.

Response: An additional line of authority has been established between the Commissioners and the Director of 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, 2003.

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

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.