

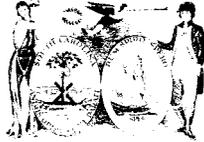
**SOUTH CAROLINA  
EMPLOYMENT SECURITY COMMISSION**

**COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

State of South Carolina



Office of the State Auditor

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

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June 11, 2004

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

This report on the audit of the financial statements of the South Carolina Employment Security Commission for the fiscal year ended June 30, 2003, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sag

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION  
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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 the 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, 2003, 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, 2003, 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 respective financial position of the governmental activities and business-type activities, and the major funds of the Commission as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 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.



• **SCACPA**

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The Commission discovered that certain receivables and accounts payable were misstated in the prior year and also discovered errors relating to the carrying value of certain capital assets. The required corrections and effects of these errors were accounted for as prior period adjustments and are detailed in Note 16.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2004 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*

March 31, 2004

## 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, 2003. 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, 2003 by \$554,447,008 (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 \$546,319,190.

### 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 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.

### **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.

### **Entity-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the SC Employment Security Commission, assets exceeded liabilities by \$554,447,008 at the year-ended June 30, 2003.

The largest portion of the Commission's net assets (95 percent) is reflected by its Unemployment Insurance Trust Fund. The Commission uses these assets to provide unemployment benefits to the citizens of South Carolina.

The remaining portion of the Commission's net assets (5 percent) represent capital assets and unrestricted net assets. Unrestricted net assets may be used to meet the Commission's on-going obligations to citizens and creditors.

At the end of the current fiscal year, the Commission is able to report positive balances in both the Governmental and Business-type activities and the Commission as a whole.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**  
**ENTITY-WIDE FINANCIAL ANALYSIS**  
(Condensed Financial Data)  
**Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Assets</b>						
Current & Other Assets	\$ 27,995,581	\$ 30,023,662	\$ 543,301,688	\$ 685,685,838	\$ 571,297,269	\$ 715,709,500
Capital Assets	21,089,079	20,917,375	-	-	21,089,079	20,917,375
Total Assets	<u>\$ 49,084,660</u>	<u>\$ 50,941,037</u>	<u>\$ 543,301,688</u>	<u>\$ 685,685,838</u>	<u>\$ 592,386,348</u>	<u>\$ 736,626,875</u>
<b>Liabilities</b>						
Current	\$ 15,797,228	\$ 16,632,475	\$ 19,153,852	\$ 19,668,611	\$ 34,951,080	\$ 36,301,086
Non-current	2,988,260	4,010,968	-	-	2,988,260	4,010,968
Total Liabilities	<u>\$ 18,785,488</u>	<u>\$ 20,643,443</u>	<u>\$ 19,153,852</u>	<u>\$ 19,668,611</u>	<u>\$ 37,939,340</u>	<u>\$ 40,312,054</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$ 19,171,085	\$ 18,329,253			\$ 19,171,085	\$ 18,329,253
Restricted for unemployment benefits	-	-	524,147,836	666,017,227	524,147,836	666,017,227
Unrestricted	11,128,087	11,968,341	-	-	11,128,087	11,968,341
Total net assets	<u>30,299,172</u>	<u>30,297,594</u>	<u>524,147,836</u>	<u>666,017,227</u>	<u>554,447,008</u>	<u>696,314,821</u>
Total Liabilities & Net Assets	<u>\$ 49,084,660</u>	<u>\$ 50,941,037</u>	<u>\$ 543,301,688</u>	<u>\$ 685,685,838</u>	<u>\$ 592,386,348</u>	<u>\$ 736,626,875</u>

**CHANGE IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 8,151,895	\$ 6,721,640	\$ 371,048,320	\$ 265,735,849	\$ 379,200,215	\$ 272,457,489
Operating Grants & Contributions	106,755,422	98,117,635	33,361,075	151,696,994	140,116,497	249,814,629
Capital Grants & Contributions	-	624,264	-	-	-	624,264
<b>General Revenues:</b>						
State Appropriations	193,663	212,374	-	-	193,663	212,374
Gain on Sale of Capital Assets	396,222	238,983	-	-	396,222	238,983
Total Revenues	<u>\$ 115,497,202</u>	<u>\$ 105,914,896</u>	<u>\$ 404,409,395</u>	<u>\$ 417,432,843</u>	<u>\$ 519,906,597</u>	<u>\$ 523,347,739</u>
<b>Expenses:</b>						
Employment & Training Services	\$ 115,239,022	\$ 106,479,100	\$ -	\$ -	\$ 115,239,022	\$ 106,479,100
Unemployment Compensation	-	-	546,319,190	526,885,659	546,319,190	526,885,659
Total Expenses	<u>\$ 115,239,022</u>	<u>\$ 106,479,100</u>	<u>\$ 546,319,190</u>	<u>\$ 526,885,659</u>	<u>\$ 661,558,212</u>	<u>\$ 633,364,759</u>
Increase/Decrease in Net Assets Before Transfers	<u>258,180</u>	<u>(564,204)</u>	<u>(141,909,795)</u>	<u>(109,452,816)</u>	<u>(141,651,615)</u>	<u>(110,017,020)</u>
<b>Transfers:</b>						
Transfers Between Funds	\$ (40,404)	\$ 12,090,140	\$ 40,404	\$ (12,090,140)	\$ -	\$ -
Indirect Cost Remitted to General Fund of the State	(216,198)	(140,651)	-	-	(216,198)	(140,651)
Transfers to General Fund of the State	-	(1,269,246)	-	-	-	(1,269,246)
Changes to Net Assets	1,578	10,116,039	(141,869,391)	(121,542,956)	(141,867,813)	(111,426,917)
Net Assets - Beginning	30,297,594	20,181,555	666,017,227	787,560,183	696,314,821	807,741,738
Net Assets - Ending	<u>\$ 30,299,172</u>	<u>\$ 30,297,594</u>	<u>\$ 524,147,836</u>	<u>\$ 666,017,227</u>	<u>\$ 554,447,008</u>	<u>\$ 696,314,821</u>

## **Governmental Activities**

In the prior year, the Commission received a \$12 million transfer from the Proprietary Fund to the Governmental Fund, which did not occur this year.

There was an increase in federal grant activity, both revenue and expense increased proportionately.

## **Business-Type Activities**

Net assets declined by \$142 million as a result of Unemployment Compensation Benefit payments which were due to high unemployment.

Assessments increased almost \$41 million over last year due to adding a .5% surcharge to base rates for employee contribution, which started January 2003.

In 2002, the Agency received federal revenue through a Reed Act Distribution of \$109 million; the Agency did not receive a Reed Act Distribution in 2003.

Federal revenue received in 2003 for Emergency Unemployment Compensation increased about \$55 million and Trade Readjustment increased \$5 million.

Interest income declined almost \$9 million due to a lower trust fund balance and lower interest rates being paid.

The cumulative effect resulted in a \$13 million reduction in total revenue for 2003.

Unemployment Compensation Benefit expenses increased over all by \$19 million.

## **Financial Analysis of the Governments Funds**

The Commission uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

## **Governmental Funds**

The focus of the Commission's government fund is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. The Unreserved Fund balances may serve as a useful measure of an entity's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Commission's governmental fund reported combined ending fund balances of \$16,158,660, a decrease of approximately of \$820,000 for the year. Approximately 25 percent of this total amount (\$3.9 million) constitutes unreserved fund balance, which is available for spending at the Commission's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because they are legally segregated for specific future uses.

### **Proprietary Fund**

The Commission's proprietary fund provides the same type of information found in the entity-wide financial statements, but in more detail. Restricted net assets of the Commission at the end of the year amounted to \$524 million which are used for payment of unemployment benefits. Other information concerning this fund has been addressed in the discussion of the Commission's business type activities.

### **Capital Assets and Debt Administration**

The Commission sold land and building for \$731,000; and used the proceeds to make additional principal payments on the capital bonds payable.

Long-term debt fell into three areas as follows:

- Capital leases payable;
- Capital improvement bonds payable; and
- Accrued compensated absences and related benefits.

During the current year the Commission entered into two new capital leases for equipment for \$353,000.

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

### **Economic Factors and Next Years Rate**

The Unemployment Compensation Trust Fund reserves do not meet the 2.0% requirement of law; therefore, the base rates for employer contributions starting January 2004 will be adjusted by adding .2%, as called for by law.

### **Request for Information**

This financial report is designed to provide a general overview of the South Carolina Employment Security Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 1515 Gadsden Street, Post Office Box 995, Columbia, South Carolina, 29202.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**STATEMENT OF NET ASSETS  
JUNE 30, 2003**

	Governmental Activities	Business-type Activities	Totals
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,191,318	\$489,167,756	\$ 495,359,074
Accrued interest receivable		7,298,365	7,298,365
Assessments receivable	1,518,253	44,857,608	46,375,861
Benefit overpayments receivable		3,723,647	3,723,647
Due from reimbursable employers		1,221,527	1,221,527
Internal balances	10,927,158	(10,927,158)	
Intergovernmental receivables:			
State agencies	1,289,509	1,186,109	2,475,618
Local governments		1,876,052	1,876,052
Other states		1,581,459	1,581,459
Federal	7,232,150	3,316,323	10,548,473
Subrecipient advances receivable	319,821		319,821
Other receivables	117,208		117,208
Inventories	219,823		219,823
Prepaid items	180,341		180,341
Total current assets	27,995,581	543,301,688	571,297,269
Capital assets, net of accumulated depreciation	21,089,079		21,089,079
Total assets	\$49,084,660	\$543,301,688	\$ 592,386,348
<b>LIABILITIES:</b>			
Current liabilities:			
Cash overdraft	\$	\$ 5,370,086	\$ 5,370,086
Benefits payable		5,258,869	5,258,869
Accounts payable	6,755,025	1,455,057	8,210,082
Contributions payable		3,984,971	3,984,971
Accrued salaries and related benefits	3,999,179		3,999,179
Intergovernmental payables:			
Federal		94,211	94,211
Other states		2,990,658	2,990,658
Current portion of capital leases payable	66,079		66,079
Current portion of capital improvement bond notes payable	294,228		294,228
Current portion of accrued compensated absences and related benefits	3,600,000		3,600,000
Deferred revenue	1,082,717		1,082,717
Total current liabilities	15,797,228	19,153,852	34,951,080
Noncurrent liabilities:			
Capital leases payable	251,702		251,702
Capital improvement bond notes payable	1,305,985		1,305,985
Accrued compensated absences and related benefits	1,430,573		1,430,573
Total noncurrent liabilities	2,988,260		2,988,260
Total liabilities	18,785,488	19,153,852	37,939,340
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	19,171,085		19,171,085
Restricted for unemployment benefits		524,147,836	524,147,836
Unrestricted	11,128,087		11,128,087
Total net assets	30,299,172	524,147,836	554,447,008
Total liabilities and net assets	\$49,084,660	\$543,301,688	\$ 592,386,348

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2003**

<b>Function/Program</b>	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:					
Employment and training services	\$ 115,239,022	\$ 8,151,895	\$ 106,755,422	\$ (331,705)	\$
Business-type activities:					
Unemployment benefits	546,319,190	371,048,320	33,361,075		(141,909,795)
Totals	\$ 661,558,212	\$ 379,200,215	\$ 140,116,497	(331,705)	(141,909,795)
		General revenues:			
			State appropriations	193,663	
			Gain on sales of capital assets	396,222	
		Transfers			
			Transfers between funds	(40,404)	40,404
			Indirect costs remitted to General Fund of the State	(216,198)	
			Total general revenues and transfers	333,283	40,404
			Changes in net assets	1,578	(141,869,391)
			Net assets - beginning as restated	30,297,594	666,017,227
			Net assets - ending	\$ 30,299,172	\$ 524,147,836

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2003**

<b>ASSETS</b>	<u>General Fund</u>
Cash and cash equivalents	\$6,191,318
Assessments receivable	1,518,253
Intergovernmental receivables:	
State agencies	1,289,509
Federal	7,232,150
Interfund receivable - unemployment compensation fund	10,927,158
Subrecipient advances receivable	319,821
Other receivables	117,208
Inventories	219,823
Prepaid items	<u>180,341</u>
 Total assets	 <u><u>\$ 27,995,581</u></u>

**LIABILITIES AND FUND BALANCES**

Liabilities:	
Accounts payable	\$ 6,755,025
Accrued salaries and related benefits	3,999,179
Deferred revenue	<u>1,082,717</u>
 Total liabilities	 <u>11,836,921</u>
 Fund balances:	
Reserved:	
Reed Act expenditures	11,635,951
Inventories	219,823
Prepaid items	180,341
South Carolina Information Coordinating Committee	188,972
Unreserved fund balances:	
Designated for capital assets	672,604
Undesignated fund balance	<u>3,260,969</u>
 Total fund balances	 <u>16,158,660</u>
 Total liabilities and fund balances	 <u><u>\$ 27,995,581</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**  
**BALANCE SHEETS - GOVERNMENTAL FUND (CONTINUED)**  
**JUNE 30, 2003**

**RECONCILIATION TO THE STATEMENT OF NET ASSETS:**

Fund balances- governmental funds		\$ 16,158,660
Amounts reported for governmental activities in the statement of net assets are different because:		
Liabilities that are not due and payable in the current period are not reported in the fund:		
Bonds payable	\$ (1,600,213)	
Capital leases payable	(317,781)	
Accrued compensated absences	<u>(5,030,573)</u>	(6,948,567)
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>21,089,079</u>
Net assets - governmental funds		<u><u>\$ 30,299,172</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, 2003**

	<u>General Fund</u>
<b>REVENUES:</b>	
Employer tax contingency assessments	\$ 6,814,074
Employer tax penalties and interest	859,729
User fees	372,571
Intergovernmental:	
State of South Carolina	193,663
State agencies	460,637
Federal	106,273,338
Other	<u>126,690</u>
<b>TOTAL REVENUES</b>	<u>115,100,702</u>
<b>EXPENDITURES:</b>	
Current:	
Employment and training administration	49,651,117
Contingency assessments	6,684,720
Penalties and interest	285,954
Welfare to Work	1,362,040
Workforce Investment Act	51,942,137
Other federal programs	2,821,100
Other non-federal programs	198,309
Parking	52,211
Occupational Information Coordinating Committee	484,100
Capital outlay	2,127,270
Debt service:	
Principal	1,022,776
Interest	<u>117,622</u>
<b>TOTAL EXPENDITURES</b>	<u>116,749,356</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,648,654)</u>
<b>OTHER FINANCING SOURCES (USES):</b>	
Operating transfers	(40,404)
Proceeds from the sales of capital assets	733,752
Proceeds from capital leases	352,648
Indirect costs remitted to General Fund of the State	<u>(216,198)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>829,798</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(818,856)
<b>BEGINNING FUND BALANCES, AS RESTATED</b>	<u>16,977,516</u>
<b>ENDING FUND BALANCES</b>	<u>\$ 16,158,660</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, 2003**

**RECONCILIATION TO THE STATEMENT OF ACTIVITIES:**

Revenues and other financing sources over (under) expenditures and other financing uses for the governmental fund	\$ (818,856)
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 and are reported as capital asset additions in the statement of net assets	2,127,270
Depreciation of capital assets is reported as an expense in the statement of activities	(1,618,036)
Repayments of long-term debt are reported as expenditures in the governmental funds and are reported as a reduction of liabilities in the statement of net assets	
Capital improvement bond notes payable	951,916
Capital leases	70,860
Proceeds from capital leases are reported as other financing sources in the governmental funds and is reported as as a liability in the statement of net assets	(352,648)
Increase in accrued compensated absences is reported as an expense in the statement of activities	(21,398)
The carrying values of capital assets sold are reported as a decrease in gains on sales of capital assets in the statement of activities	<u>(337,530)</u>
<b>INCREASE IN NET ASSETS</b>	<b><u><u>\$ 1,578</u></u></b>

**See accompanying Notes to Financial Statements**

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**STATEMENT OF NET ASSETS - PROPRIETARY FUND  
JUNE 30, 2003**

**ASSETS**

Current assets:

Cash and cash equivalents	\$489,167,756
Accrued interest receivable	7,298,365
Assessments receivable	44,857,608
Benefit overpayments receivable	3,723,647
Due from reimbursable employers	1,221,527
Intergovernmental receivables:	
State agencies	1,186,109
Local governments	1,876,052
Other states	1,581,459
Federal	<u>3,316,323</u>

Total assets \$554,228,846

**LIABILITIES:**

Current liabilities:

Cash Overdraft	\$ 5,370,086
Benefits payable	5,258,869
Accounts payable	1,455,057
Contributions payable	3,984,971
Intergovernmental payables:	
Federal	94,211
Other states	2,990,658
Interfund payable - general fund	<u>10,927,158</u>

Total liabilities 30,081,010

**NET ASSETS:**

Restricted for unemployment benefits	<u>524,147,836</u>
Total liabilities and net assets	<u><u>\$554,228,846</u></u>

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

**OPERATING REVENUES:**

Assessments	\$ 216,882,123
Reimbursement of unemployment compensation benefits from employers	3,161,728
Benefit overpayment recoveries	4,273,976
Intergovernmental:	
Federal	128,726,791
State agencies	4,530,161
Other states	6,053,682
Local governments	7,419,859
Total revenues	<u>371,048,320</u>

**OPERATING EXPENSES:**

Unemployment compensation benefits	<u>546,319,190</u>
Total operating expenses	<u>546,319,190</u>
 Operating income (loss)	 <u>(175,270,870)</u>

**NONOPERATING REVENUES:**

Interest income	<u>33,361,075</u>
Total nonoperating revenues	<u>33,361,075</u>
 Income (loss) before transfer	 (141,909,795)
 Transfers from general fund	 <u>40,404</u>
 Changes in net assets	 (141,869,391)

**TOTAL NET ASSETS - BEGINNING** 666,017,227

**TOTAL NET ASSETS - ENDING** \$ 524,147,836

**See accompanying Notes to Financial Statements.**

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Unemployment Compensation Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from assessments	\$ 212,364,535
Cash received from employers	2,984,203
Cash received from benefit overpayment recoveries	2,776,393
Cash received from federal, State and local agencies	146,575,863
Benefits paid	(551,807,238)
Refund overpayments of assessments	(2,163,575)
Net cash provided (used) by operating activities	<u>(189,269,819)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Fund cash overdraft	5,370,086
Repayment of cash overdraft	(392,708)
Transfers from General Fund	40,404
Repay interfund payable	(2,155,901)
Net cash provided (used) by noncapital financing activities	<u>2,861,881</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received	36,272,641
Net cash provided by investing activities	<u>36,272,641</u>
Net increase (decrease) in cash	(150,135,297)
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>639,303,053</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 489,167,756</u></u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (175,270,869)
Net changes in assets and liabilities:	
Assessments receivable	(6,681,162)
Benefit overpayments receivable	(1,497,587)
Due from reimbursable employers	(162,450)
Intergovernmental receivables:	
State agencies	(165,270)
Local governments	(89,383)
Other states	45,405
Federal	43,636
Benefits payable	(5,567,469)
Accounts payable	422,763
Contributions payable	(172,132)
Intergovernmental payables:	
Federal	25,510
Other states	(200,811)
Net cash provided (used) by operating activities	<u><u>\$ (189,269,819)</u></u>

See accompanying Notes to Financial Statements.

## SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

#### 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, 2003**

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, 2003**

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 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 Proprietary 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.

Welfare-to-Work Program (WTW) – The Commission serves as the administrative entity for the WTW Program in South Carolina. This includes planning coordinated services with the twelve Service Delivery Areas (SDA's) and managing the state level grants for special projects. In addition, the Commission provides technical assistance to grantees and conducts programmatic and financial monitoring of the grants. The allocation is two-thirds federal funds with a one-third state match. Eighty-five percent of the funds are allocated to the local SDA's and fifteen percent is reserved for state level grants. The 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 assess 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

## **SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

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.

#### **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.

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, 2003**

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, 2003

#### **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 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.

## **SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

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 and governmental 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 in those states and localities for which benefits are being paid by the Commission.

#### 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.

#### **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.

## **SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

#### **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 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 software, 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 up to 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, 2002 through June 30, 2003, the Commission recovered approximately \$8,500,000 of indirect cost from the indirect cost agreement. Of this amount, approximately \$216,000 was remitted to the State and approximately \$8,284,000 was retained by the Commission. Indirect cost recoveries are reported as federal revenues.

#### **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.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**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 – Other States**

The amounts reported as intergovernmental payables – other 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.

**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.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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 2003, two of the Commission's reserved balances are as follows:

Reed Act – The Commission has funds totaling \$98,928,738 available under the Reed Act in the proprietary funds. 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. Upon appropriation by the State legislature and after approval of the Governor, these funds can be used for other purposes. \$13,327,461 of these funds were appropriated by the General Assembly in prior fiscal years to partially fund the purchase of new software and information technology equipment, land acquisition, and office expansion. The \$13,327,461 was shown as a transfer from the Unemployment Compensation Fund to the General Fund upon Legislative appropriation. Only \$1,691,510 of the funds appropriated has been expended as of June 30, 2003. The remaining appropriated funds totaling \$11,635,951 are shown as a reserved fund balance.

SCOICC – Pursuant to 2003 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 2003 Appropriation Act Proviso 51.2, all user fees not expended in fiscal year 2003 may be carried forward to fiscal year 2004 for use in the SCOICC program. At June 30, 2003, \$188,972 was carried forward and is reported as a reserved fund balance.

**Use of Estimates**

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

**NOTE 2. DEPOSITS:**

The amount shown as cash and cash equivalents in the statement of net assets at June 30, 2003 is composed of the following:

Cash on hand	\$ 500
Deposits held by State Treasurer	8,693,141
Deposits held by U.S. Treasury	486,406,751
Other deposits	<u>258,682</u>
Totals	<u>\$ 495,359,074</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, 2003, 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,

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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.

**Other Deposits**

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

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

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

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**NOTE 3. RECEIVABLES:**

The receivable balances at June 30, 2003 and the related amounts for allowances for uncollectibles are as follows:

<u>Type</u>	<u>Receivables</u>	<u>Allowances for Uncollectibles</u>	<u>Net Receivables</u>
General fund:			
Assessments receivable:			
Contingency	\$ 1,366,720	\$ 87,426	\$ 1,279,294
Penalty and interest	1,219,117	980,158	238,959
Totals	<u>\$ 2,585,837</u>	<u>\$ 1,067,584</u>	<u>\$ 1,518,253</u>
Intergovernmental receivables:			
State agencies	\$ 1,289,509		\$ 1,289,509
Federal	7,232,150		7,232,150
	<u>\$ 8,521,659</u>		<u>\$ 8,521,659</u>
Due from subreceptants	<u>\$ 319,821</u>		<u>\$ 319,821</u>
Other receivables	<u>\$ 117,208</u>		<u>\$ 117,208</u>
Proprietary fund:			
Assessment receivable	<u>\$ 49,899,983</u>	<u>\$ 5,042,375</u>	<u>\$ 44,857,608</u>
Due from reimbursable employers	<u>\$ 1,221,527</u>		<u>\$ 1,221,527</u>
Intergovernmental receivables			
State agencies	<u>\$ 1,186,109</u>		<u>\$ 1,186,109</u>
Local governments	<u>\$ 1,876,052</u>		<u>\$ 1,876,052</u>
Other states	<u>\$ 1,581,459</u>		<u>\$ 1,581,459</u>
Federal	<u>\$ 3,316,323</u>		<u>\$ 3,316,323</u>
Benefit overpayments receivable:			
Basic unemployment compensation	\$ 4,447,468	\$ 1,163,522	\$ 3,283,946
Federal employees	35,262	7,953	27,309
Ex-servicemen	34,453	8,384	26,069
Trade readjustment	13,014		13,014
Emergency unemployment compensation	<u>1,257,053</u>	<u>883,744</u>	<u>373,309</u>
Totals	<u>\$ 5,787,250</u>	<u>\$ 2,063,603</u>	<u>\$ 3,723,647</u>

**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.

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In addition, the Commission has not transferred all of the Reed Act funds which were appropriated to the General Fund as of June 30, 2003 . Amounts due to the General Fund as of June 30, 2003 are as follows:

Reed Act Funds	\$ 10,848,420
Contingency assessments	29,518
Penalty and interest	<u>49,220</u>
Total	<u><u>\$ 10,927,158</u></u>

**NOTE 5. CAPITAL ASSETS:**

A summary of capital assets activity for the year ended June 30, 2003 is as follows:

	Balances as Restated June 30, 2002	Increases	Decreases	Balances June 30, 2003
Capital assets not being depreciated:				
Land and land improvements	\$ 2,839,679		\$ (40,000)	\$ 2,799,679
Construction in progress	1,501,987	1,102,823		2,604,810
Total capital assets not being depreciated	<u>4,341,666</u>	<u>1,102,823</u>	<u>(40,000)</u>	<u>5,404,489</u>
Other capital assets:				
Buildings and improvements	23,129,704		(398,126)	22,731,578
Equipment and furniture	8,614,944	1,024,447	(668,403)	8,970,988
Vehicles	335,196		(21,659)	313,537
Total other capital assets	<u>32,079,844</u>	<u>1,024,447</u>	<u>(1,088,188)</u>	<u>32,016,103</u>
Less accumulated depreciation for				
Buildings and improvements	8,417,901	566,750	(151,786)	8,832,865
Equipment and furniture	6,896,497	1,002,107	(617,213)	7,281,391
Vehicles	189,737	49,179	(21,659)	217,257
Total accumulated depreciation	<u>15,504,135</u>	<u>1,618,036</u>	<u>(790,658)</u>	<u>16,331,513</u>
Other capital assets, net	<u>16,575,709</u>	<u>(593,589)</u>	<u>(297,530)</u>	<u>15,684,590</u>
Total capital assets, net	<u><u>\$ 20,917,375</u></u>	<u><u>\$ 509,234</u></u>	<u><u>\$ (337,530)</u></u>	<u><u>\$ 21,089,079</u></u>

See Note 16 for details of the restated balances as of June 30, 2002.

Current year's additions to construction in progress consists of \$958,000 paid on the unemployment tax software system, and \$145,000 for buildings. Total estimated cost for projects which will be capitalized as of June 30, 2003 were approximately \$10,970,000, with approximately \$10,825,000 estimated cost to complete. Total estimated cost for other projects which will not be capitalized as of June 30, 2003 were approximately \$635,000, with approximately \$577,000 estimated cost to complete. Total outstanding commitments on projects, which will be capitalized, were approximately \$1,771,000 and approximately \$618,000 on projects which will not be capitalized.

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**NOTE 6. LONG-TERM LIABILITIES:**

A summary of changes in long-term liabilities for the year ended June 30, 2003 is as follows:

	Balance, July 1, 2002	Additions	Reductions	Balance, June 30, 2003	Due Within One Year
Capital lease payable	\$ 35,993	\$ 352,648	\$ 70,860	\$ 317,781	\$ 66,079
Capital improvement bond notes payable	2,552,129		951,916	1,600,213	294,228
Accrued compensated absences and related benefits	5,009,175	3,591,660	3,570,262	5,030,573	3,600,000
	<u>\$ 7,597,297</u>	<u>\$ 3,944,308</u>	<u>\$ 4,593,038</u>	<u>\$ 6,948,567</u>	<u>\$ 3,960,307</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, 2003 follows:

Act	Total Authorized	Balance Authorized and Not Drawn June 30, 2003
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 obligations as of June 30, 2003, are as follows:

Year Ended June 30,	Principal	Interest	Totals
2004	\$ 294,228	\$ 65,991	\$ 360,219
2005	307,489	52,730	360,219
2006	321,349	38,870	360,219
2007	332,702	24,406	357,108
2008	344,445	9,552	353,997
Totals	<u>\$ 1,600,213</u>	<u>\$ 191,549</u>	<u>\$ 1,791,762</u>

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Maturity dates of the notes are in fiscal years 2008 with interest rates ranging from 4.413 to 5.53 percent annually. All revenues derived by the Commission from federal funds under agreement with appropriate federal authorities and other available funds are irrevocably pledged for the payment of principal and interest.

During the fiscal year, the Commission paid \$951,916 and \$109,132 in principal and interest, respectively, on the capital improvement bond notes payable. One note was paid off early and one note was reduced using the proceeds from the sale of capital assets.

**NOTE 8. LEASES:**

The Commission was obligated under a capital lease for a printer requiring monthly payments of \$5,225 including interest of 4.9% maturing in January, 2003. During the current year, the Commission made three payments on the lease, which left a principal balance due of \$15,555. In connection with upgrading the printer, the Commission was not required to make the final three lease payments.

The Commission entered into two capital leases during the current year for printers requiring monthly payments of \$6,552 including interest at 4.367% maturing in fiscal year 2008. The carrying amount of the printers totaled approximately \$308,000 as of June 30, 2003. The current year's amortization expense of approximately \$44,500 on the capitalized lease assets is included in depreciation expense. Total payments on the capital leases for the year ended June 30, 2003 were \$63,794 consisting of principal of \$55,304 and interest of \$8,490.

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 2004 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 \$864,000 for the year ended June 30, 2003.

The following is a schedule by years of future minimum rental payments required under the capital lease and the noncancelable operating lease agreements with remaining terms at June 30, 2003 in excess of one year.

	<u>Year Ended June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
	2004	\$ 78,624	\$ 222,393
	2005	78,624	159,221
	2006	78,624	77,896
	2007	78,624	8,566
	2008	<u>35,730</u>	
Total minimum lease payments		350,226	<u>\$ 468,076</u>
Less: interest		<u>(32,445)</u>	
Present value of minimum lease payments		<u>\$ 317,781</u>	

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**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.

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

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 10.7 percent, which included a 3.15 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2003, 2002 and 2001 were \$2,971,000, \$2,887,000 and \$2,688,000 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 \$59,000 in the current fiscal year at the rate of .15 percent of compensation. Also, the Commission expended approximately \$32,000 during the year to purchase additional years of service for certain employees.

## **SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

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

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

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2002, the employer contribution rate became 13.45 percent which, as for the SCRS, included the 3.15 percent surcharge. The Commission's actual contributions to the PORS for the years ended June 30, 2003, 2002, and 2001 were approximately \$13,600 \$11,600, and \$9,800, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$200 and accidental death insurance contributions of approximately \$200 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.

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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

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, 25,000 State retirees met these eligibility requirements at June 30, 2003.

The Commission recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$4,012,000 for the year ended June 30, 2003. As discussed in Note 9, the Commission paid approximately \$1,252,000 applicable to the 3.15 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.

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**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 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.

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

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

**NOTE 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 Department of Social Services to be used as the State match for the Welfare-To-Work Program in fiscal year 1998. \$10,457,647 was earned as of June 30, 2002, \$460,637 was earned in the current year, and the \$1,082,717 remainder is included in deferred revenue.

The Commission was required to remit \$216,198 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 \$193,663 from State appropriations during the year for expenditures of the SCOICC.

The Commission recorded revenues of approximately \$4,530,000 for reimbursements of benefits paid to State employees and was due approximately \$1,186,000 for these benefits at year-end.

**NOTE 14. CONTINGENCIES:**

**Federal Grants** - The various programs administered by the Commission for fiscal years June 30, 2003 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.

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**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.

**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 using Reed Act funds over a period of twenty years. These costs are not transferred until authorization is received to expend the funds. \$40,404 was transferred during the current fiscal year.

**NOTE 16. PRIOR PERIOD ADJUSTMENTS:**

The Commission noted an error that required a prior period adjustment to receivables relating to maintenance receivables that was not reported in the prior year. Also, a receivable and a payable on a federal grant were overstated in the prior year.

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

<u>Account</u>	<u>Balances, as previously reported</u>	<u>Prior Period Adjustment</u>	<u>Balances, as restated</u>
Intergovernmental receivables:			
State agencies	\$ 448,217	\$ 53,321	\$ 501,538
Federal	<u>6,666,071</u>	<u>(30,599)</u>	<u>6,635,472</u>
Total Intergovernmental receivables	<u>\$ 7,114,288</u>	<u>\$ 22,722</u>	<u>\$ 7,137,010</u>
Accounts payable	<u>\$ 251,874</u>	<u>\$ (30,599)</u>	<u>\$ 221,275</u>
Fund Balance	<u>\$ 16,924,195</u>	<u>\$ 53,321</u>	<u>\$ 16,977,516</u>

In addition to the error noted above, the Commission noted errors relating to capital assets balances as of June 30, 2002 that resulted in prior period adjustments. The Commission noted prior period disposals of assets that were not recorded and a license fee that was capitalized in the prior year that should not have been. Also, the Commission noted errors in the accumulated depreciation on certain capital assets.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

Account	Balances, as previously reported	Prior Period Adjustments	Balances, as restated
Intergovernmental receivables:			
State agencies	\$ 448,217	\$ 53,321	\$ 501,538
Federal	6,666,071	(30,599)	6,635,472
Total Intergovernmental receivables	<u>\$ 7,114,288</u>	<u>\$ 22,722</u>	<u>\$ 7,137,010</u>
Capital assets not being depreciated:			
Land and land improvements	\$ 2,839,679	\$	\$ 2,839,679
Construction in progress	1,564,982	(62,995)	1,501,987
Total capital assets not being depreciated	<u>\$ 4,404,661</u>	<u>\$ (62,995)</u>	<u>\$ 4,341,666</u>
Other capital assets:			
Buildings and improvements	\$ 23,129,704	\$	\$ 23,129,704
Equipment and furniture	9,159,971	(545,027)	8,614,944
Vehicles	342,425	(7,229)	335,196
Total other capital assets	<u>\$ 32,632,100</u>	<u>\$ (552,256)</u>	<u>\$ 32,079,844</u>
Less accumulated depreciation:			
Buildings and improvements	\$ 8,405,741	\$ 12,160	\$ 8,417,901
Equipment and furniture	7,661,409	(764,912)	6,896,497
Vehicles	196,966	(7,229)	189,737
Total accumulated depreciation	<u>\$ 16,264,116</u>	<u>\$ (759,981)</u>	<u>\$ 15,504,135</u>
Other capital assets, net	<u>\$ 16,367,984</u>	<u>\$ 207,725</u>	<u>\$ 16,575,709</u>
Total capital assets, net	<u>\$ 20,772,645</u>	<u>\$ 144,730</u>	<u>\$ 20,917,375</u>
Accounts payable	<u>\$ 251,874</u>	<u>\$ (30,599)</u>	<u>\$ 221,275</u>
Net assets	<u>\$ 30,099,543</u>	<u>\$ 114,131</u>	<u>\$ 30,213,674</u>

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
<b>U.S. Department of Labor</b>				
<b>Direct Programs:</b>				
Labor Force Statistics	17.002		\$ 1,208,666	\$ -
Labor Certification for Alien Workers	17.203		88,771	
Employment Service	17.207		13,898,298	201,919
Unemployment Insurance	17.225		151,681,608	
Trade Adjustment Assistance - Workers	17.245		13,344,728	
Welfare to Work Grants to States and Localities	17.253		818,408	808,331
Workforce Investment Act - Adult Program	17.258		15,157,457	15,024,623
Workforce Investment Act - Youth Activities	17.259		15,056,066	15,044,922
Workforce Investment Act - Dislocated Workers	17.260		10,436,544	10,435,222
Job Corps	17.299		637,487	
Employment and Training Administration - Pilots, Demonstrations and Research Projects	17.261		20,007	
Disabled Veterans' Outreach Program	17.801		1,001,834	
Local Veterans Employment Representative Program	17.804		1,357,942	
<b>Passed-through from:</b>				
Pendleton District Workforce Development Board:				
Workforce Investment Act - Adult Program	17.258	2A195E1	172,343	
Workforce Investment Act - Youth Activities	17.259	2Y195E1	77,927	
Workforce Investment Act - Dislocated Workers	17.260	2D195E1	64,444	
Workforce Investment Act - Dislocated Workers	17.260	2D195E1	72,108	
Upper State Workforce Development Board:				
Welfare to Work Grants to States and Localities	17.253	8W193A2	991	
Welfare to Work Grants to States and Localities	17.253	9W193A2	2,918	
Workforce Investment Act - Adult Program	17.258	2A903G5	7,660	
Workforce Investment Act - Adult Program	17.258	2A903S5	12,180	
Workforce Investment Act - Adult Program	17.258	2A903U5	8,347	
Workforce Investment Act - Adult Program	17.258	2D903G5	6,543	
Workforce Investment Act - Adult Program	17.258	2A90003	38,313	
Workforce Investment Act - Adult Program	17.258	2A903G5	17,916	
Workforce Investment Act - Adult Program	17.258	2A903A1	38,145	
Workforce Investment Act - Adult Program	17.258	1A90003	32,158	
Workforce Investment Act - Adult Program	17.258	2A103A1	31,153	
Workforce Investment Act - Adult Program	17.258	2A90355	61,230	
Workforce Investment Act - Adult Program	17.258	2A903U5	20,415	
Workforce Investment Act - Adult Program	17.258	2A103A	375	
Workforce Investment Act - Adult Program	17.258	2/103A1	113,406	
Workforce Investment Act - Youth Activities	17.259	2Y103A1	42,644	
Workforce Investment Act - Youth Activities	17.259	2Y903A1	16,575	
Workforce Investment Act - Youth Activities	17.259	2Y103A1	5,238	
Workforce Investment Act - Youth Activities	17.259	SAF	4,937	
Workforce Investment Act - Dislocated Workers	17.260	01WT003	108,681	
Workforce Investment Act - Dislocated Workers	17.260	2D903S5	11,177	
Workforce Investment Act - Dislocated Workers	17.260	2D103A1	24,035	
Workforce Investment Act - Dislocated Workers	17.260	3M903M5	16,532	
Workforce Investment Act - Dislocated Workers	17.260	2D903A1	9,327	
Workforce Investment Act - Dislocated Workers	17.260	2M903M5	57,125	
Workforce Investment Act - Dislocated Workers	17.260	2M903M5	20,277	
Workforce Investment Act - Dislocated Workers	17.260	2D903US	7,216	
Workforce Investment Act - Dislocated Workers	17.260	2D103A1	375	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
Upper Savannah Council of Governments:				
Workforce Investment Act - Adult Program	17.258	2119601	64,837	
Workforce Investment Act - Adult Program	17.258	2199601	15,476	
Workforce Investment Act - Youth Activities	17.259	2319601	55,079	
Workforce Investment Act - Youth Activities	17.259	2399601	15,658	
Workforce Investment Act - Dislocated Workers	17.260	2299601	15,740	
Workforce Investment Act - Dislocated Workers	17.260	2219601	95,021	
Midlands Workforce Development Board:				
Welfare to Work Grants to States and Localities	17.253	9W194A1	5,998	
Welfare to Work Grants to States and Localities	17.253	8W194A1	12,822	
Workforce Investment Act - Adult Program	17.258	01WT005	251,696	
Workforce Investment Act - Adult Program	17.258	2A894A1	47,075	
Workforce Investment Act - Adult Program	17.258	2A494A4	13,197	
Workforce Investment Act - Adult Program	17.258	1A194A1	922	
Workforce Investment Act - Adult Program	17.258	2A194A1	78,904	
Workforce Investment Act - Adult Program	17.258	2A494A6	147,892	
Workforce Investment Act - Adult Program	17.258	2A194A6	25,571	
Workforce Investment Act - Adult Program	17.258	1A194A1	102	
Workforce Investment Act - Adult Program	17.258	2A194A1	38,270	
Workforce Investment Act - Adult Program	17.258	1T194A1	183	
Workforce Investment Act - Youth Activities	17.259	2Y194A1	36,088	
Workforce Investment Act - Youth Activities	17.259	2Y194A1	42,224	
Workforce Investment Act - Youth Activities	17.259	2Y90005	78,000	
Workforce Investment Act - Youth Activities	17.259	1Y194A1	895	
Workforce Investment Act - Youth Activities	17.259	2Y894A2	40,530	
Workforce Investment Act - Dislocated Workers	17.260	2D194A6	25,226	
Workforce Investment Act - Dislocated Workers	17.260	1D194A1	297	
Workforce Investment Act - Dislocated Workers	17.260	2D194A1	48,356	
Workforce Investment Act - Dislocated Workers	17.260	2D194A7	61,913	
Workforce Investment Act - Dislocated Workers	17.260	2D494A5	4,336	
Workforce Investment Act - Dislocated Workers	17.260	11194A1	118,417	
Workforce Investment Act - Dislocated Workers	17.260	2D194A1	60,432	
Workforce Investment Act - Dislocated Workers	17.260	2D894A3	23,373	
Workforce Investment Act - Dislocated Workers	17.260	1D194A1	895	
Workforce Investment Act - Dislocated Workers	17.260	2D494A7	58,085	
Trident Workforce Development Board:				
Workforce Investment Act - Adult Program	17.258	0110606	8,602	
Workforce Investment Act - Adult Program	17.258	2110606	39,587	
Workforce Investment Act - Adult Program	17.258	2110606-2	20,343	
Workforce Investment Act - Youth Activities	17.259	2110606	39,587	
Workforce Investment Act - Youth Activities	17.259	2110606	20,343	
Workforce Investment Act - Dislocated Workers	17.260	2110606	39,587	
Workforce Investment Act - Dislocated Workers	17.260	240606	20,343	
Pee Dee Regional Council of Governments:				
Workforce Investment Act - Adult Program	17.258	2A507B1	129,921	
Workforce Investment Act - Adult Program	17.258	2A207B1	904,780	
Workforce Investment Act - Adult Program	17.258	2A807B1	136,070	
Workforce Investment Act - Youth Activities	17.259	2Y807B1	114,547	
Workforce Investment Act - Dislocated Workers	17.260	2D807B1	75,471	
Workforce Investment Act - Dislocated Workers	17.260	2D507B1	131,909	
Workforce Investment Act - Dislocated Workers	17.260	2D207B1	572,679	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Catawba Regional Planning Council of Governments:				
Workforce Investment Act - Adult Program	17.258	2129961	82,762	
Workforce Investment Act - Adult Program	17.258	2119961	57,002	
Workforce Investment Act - Adult Program	17.258	1149961	753	
Workforce Investment Act - Adult Program	17.258	2149961	98,645	
Workforce Investment Act - Adult Program	17.258	2179961	57,812	
Workforce Investment Act - Youth Activities	17.259	2319961	46,331	
Workforce Investment Act - Dislocated Workers	17.260	2219961	38,480	
Workforce Investment Act - Dislocated Workers	17.260	2229961	65,057	
Workforce Investment Act - Dislocated Workers	17.260	2249961	48,148	
Workforce Investment Act - Dislocated Workers	17.260	2279961	66,412	
Lower Savannah Council of Government:				
Workforce Investment Act - Adult Program	17.258	2159700	124,398	
Workforce Investment Act - Adult Program	17.258	21S9700	30,442	
Workforce Investment Act - Youth Activities	17.259	2CAY697ES	155,398	
Workforce Investment Act - Youth Activities	17.259	2CAY697ES	38,398	
Workforce Investment Act - Dislocated Workers	17.260	22S9700	74,010	
Workforce Investment Act - Dislocated Workers	17.260	22S9700	18,040	
Santee Lynches Regional Planning Council of Governments:				
Workforce Investment Act - Adult Program	17.258	14710Z2	5,000	
Workforce Investment Act - Adult Program	17.258	24710Z2	606,180	
Workforce Investment Act - Adult Program	17.258	24710Z2	73,941	
Workforce Investment Act - Youth Activities	17.259	24710Z2	25,266	
Workforce Investment Act - Dislocated Workers	17.260	4710Z2	403,628	
Workforce Investment Act - Dislocated Workers	17.260	2C310Z1	777	
Workforce Investment Act - Dislocated Workers	17.260	24710Z2	58,058	
Waccamaw Regional Planning Council of Governments:				
Workforce Investment Act - Adult Program	17.258	2149B08	372,463	
Workforce Investment Act - Adult Program	17.258	2149B08	28,472	
Workforce Investment Act - Youth Activities	17.259	2319B08	52,568	
Workforce Investment Act - Dislocated Workers	17.260	2249B08	448,403	
Workforce Investment Act - Dislocated Workers	17.260	2249B08	54,844	
Greenwood Workforce Development Board:				
Welfare to Work Grants to States and Localities	17.253		2,932	
Lowcountry Council of Governments:				
Workforce Investment Act - Adult Program	17.258	2119C01	6,763	
Workforce Investment Act - Youth Activities	17.259	2319C01	5,668	
Workforce Investment Act - Dislocated Workers	17.260	2219C01	3,154	
State Wide:				
Welfare to Work Grants to States and Localities	17.253	9W100A2	17,480	
Welfare to Work Grants to States and Localities	17.253	8W100A1	1,616	
Welfare to Work Grants to States and Localities	17.253	9W100A1	38,756	
Workforce Investment Act - Adult Program	17.258	2T10021	30,638	
Workforce Investment Act - Adult Program	17.258	1A10021	421	
Workforce Investment Act - Adult Program	17.258	2A10021	698,786	
Workforce Investment Act - Adult Program	17.258	STATE	14,141	
Workforce Investment Act - Youth Activities	17.259	1Y10022	398	
Workforce Investment Act - Youth Activities	17.259	2Y10022	671,512	
Workforce Investment Act - Youth Activities	17.259	2B10021	14,141	
Workforce Investment Act - Dislocated Workers	17.260	1D100A1	464	
Workforce Investment Act - Dislocated Workers	17.260	1R100A1	1,843	
Workforce Investment Act - Dislocated Workers	17.260	2R100A1	206,259	
Workforce Investment Act - Dislocated Workers	17.260	2R900U1	1,046,754	

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

<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	2D100A1	613,483	
Workforce Investment Act - Dislocated Workers	17.260	2B10021	14,141	
Workforce Investment Act - Dislocated Workers	17.260	2C99DP1	79,887	
Employment and Training Assistance - Dislocated Worker	17.246	4BX0041	102	
Employment and Training Assistance - Dislocated Worker	17.246	N75129008760	3	
Workforce Investment Act - Youth Activities	17.259		<u>2,675</u>	
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			236,151,509	41,515,017
<b>U.S. Department of Education</b>				
Vocational Education - Occupational & Employment Information - State Grants	84.346		162,543	
<b>U.S. Department of Health and Human Services</b>				
Passed through from the South Carolina Department of Social Services				
Child Support Enforcement	93.563		<u>7,603</u>	
<b>TOTAL FEDERAL ASSISTANCE</b>			<u>\$ 236,321,655</u>	<u>\$ 41,515,017</u>

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



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, 2003, and have issued our report thereon dated March 31, 2004. 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

**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

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through F and findings 03-1 through 03-4 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 54 and 55.

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*

March 31, 2004



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, 2003. 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, 2003. 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 03-1 through 03-4.

**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 certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 03-1 through 03-4.

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 conditions described above are material weaknesses.

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.

*Roger A. Laban PA*

March 31, 2004

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**SUMMARY OF AUDITOR'S RESULTS**

Financial Statements:

1. An unqualified opinion dated March 31, 2004 on the financial statements of the Commission for the year ended June 30, 2003 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. There were no instances of noncompliance that would be material to the financial statements 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 March 31, 2004 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>
17.207	Employment Services
17.225	Unemployment Insurance
17.253	Welfare to Work Grants to State & Localities
17.259	Workforce Investment Act - Youth
17.260	Workforce Investment Act - Dislocated Workers

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 adjusted journal entries proposed by the auditors and the fund balances per the general ledger do not agree with the audited financial statements.
2. Adjusting journal entries to correct certain prior year-end balances made by the Commission were recorded in the 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 prepares the entry.

3. The Commission's general ledger contains some funds with balances that should be closed out to zero. There is an allowance for doubtful account recorded in a fund with no receivable balance.
4. The Commission is recording operating transfers between funds as an expenditure in one fund and recording the credit to 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 reconciling operating expenditures to the Comptroller General's records in total and not by Program which may result in not detecting differences in classifications in the records of the State and the Commission.
7. The management of and record keeping for the Unemployment Insurance Trust Funds were separate and apart from the management of and record keeping of the other funds that the Commission handles. There were numerous transactions between the funds and there was no reconciliation of these transactions between the insurance trust funds and the other funds.

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

**Criteria:** Generally accepted accounting principles and good internal controls require records that support financial statements and the proper segregation of duties.

**Effect:** The Commission is not producing accurate financial information.

**Cause:** The Commission is operating with separate management teams and there is a lack of good internal control. Also, the Commission is not maintaining its records in a manner which allows the preparation of accurate financial statements.

**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 account reconciliations 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 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. The records of the Commission should be maintained in a manner that allows the preparation of accurate financial statements.

## **B. DEFICIENCIES IN RECONCILIATIONS OF BANK ACCOUNTS**

**Condition:** The Commission is required to timely reconcile their bank accounts. During our cash testing we noted numerous reconciling items, some dating back to 1998, that were still outstanding items on the monthly bank reconciliations. A reconciling item on one of the unemployment insurance bank accounts of approximately \$135,000 was for analysis charges that the Commission states were charged in error, and would be credited back to the bank account. The analysis charge dated back to July 2002. Upon further investigation, the Commission had apparently verbally discussed the issue with the bank, and the bank had agreed to make the necessary adjustment, however there was no written documentation of their investigation of the charges. During our testing of federal income tax withholdings we noted an item that should have been shown as a reconciling item on one of the bank accounts. After determining that the amount was not shown as a reconciling item, we discussed the issue with the client. Upon further investigation, the Commission informed us that the bank

reconciliation for that month had been forced, and as a result, the reconciling item did not appear on the monthly reconciliation.

**Criteria:** Generally accepted accounting principles require bank accounts to be reconciled in a timely manner with support for each reconciling item.

**Effect:** There is a misstatement of cash and other balances and improper reconciliations of bank accounts.

**Cause:** The Commission is not following up on reconciling items in a timely manner, and there is a lack of proper review of the bank reconciliation process.

**Recommendation:** All bank accounts of the Commission should be reconciled monthly in a timely manner and supporting details should be attached for all reconciling items. Reconciliation should be initialed and dated by the preparer and an independent supervisory employee assigned to approve and review the reconciliations. Errors detected in the reconciliation should be promptly corrected in the State's accounting records and/or the Commission's internal records as appropriate.

### **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 timely remove capital assets disposed of in prior fiscal years, which resulted in an overstatement in the costs of capital assets in the amount of \$552,027 and an overstatement in accumulated depreciation in the amount of \$518,990. The net effect of \$33,037 was recorded as a prior period adjustment.
2. Accumulated depreciation for buildings as of June 30, 2002 did not agree to the supporting schedule resulting in an overstatement of approximately \$241,000. A prior period adjustment was made to correct the error.
3. The Commission reported all amounts that were advanced to the Budget and Control Board as additions to construction in progress, however, only \$145,000 had been expended, resulting in an overstatement of construction in progress of approximately \$935,000.

Items # 1 and # 2 were also cited in the prior year's management letter.

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

**Effect:** 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 agree reported numbers to supporting documentation and the use of two property management systems.

**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. The Commission should also consider consolidating the two property management systems into one system.

#### **D. ACCOUNTS PAYABLE MISSTATED**

**Condition:** During our testing of accounts payable, we noted a voucher payment that should not have been recorded as a liability. Per further review, it appears that the voucher had been cancelled due to it being a duplicate payment. As such, accounts payable was overstated by approximately \$200,400. In addition, during our subsequent payment testing, we noted an additional \$46,000 that should have been included in accounts payable at year-end that was not.

**Criteria:** Generally accepted accounting principles require the proper recording of accounts payable.

**Effect:** There was a misstatement of accounts payable and expenditures and an inaccurate closing package was submitted to Comptroller General.

**Cause:** The Commission did not perform a careful review of vouchers processed subsequent to fiscal year-end to ensure that all liabilities attributable to the fiscal year were recorded. Also, failure to properly review supporting documentation for voucher payments to ensure duplicated payments was not performed.

**Recommendation:** The procedures being used to identify an invoice as a payable need to adhere more closely with GAAP. The Commission should carefully review all vouchers processed subsequent to fiscal year-end to ensure that all liabilities attributable to the fiscal year are recorded. The Commission should ensure that all closing packages are accurate.

#### **E. 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. Entries were made to reduce receivable and related allowances by approximately \$20,200,000.

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

**Criteria:** Generally accepted accounting principles require that receivables be removed from the books when they are determined to be uncollectible.

**Effect:** The Commission has been overstating the amount of gross receivables and the allowance for uncollectibles.

**Cause:** The Commission is not adjusting its general ledger for uncollectible receivables.

**Recommendation:** The Commission should adjust its general ledger for receivables that will not be collected.

#### **F. SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED**

**Condition:** Our audit of subrecipient advances receivable disclosed that the Commission had not prepared the adjustments for the advances account in a timely manner. Some of the 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 a decrease in subrecipient advances receivable of approximately \$178,000; an increase in accounts payable of approximately \$50,000 and an increase in expenditures of approximately \$228,000. The closing packages supporting the grants receivable and unearned revenue were not correct since inaccurate information was used to complete the closing packages. In addition, the Schedule of Federal Expenditures was misstated as a result of the necessary adjustment.

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:** Failure to accurately and timely record the subrecipients' actual expenditures and payables for this program resulted in an misstatement 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 in a timely manner.

**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.

### **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**03-1. U.S. DEPARTMENT OF LABOR – LABOR FORCE STATISTICS – CFDA # 17.002; LABOR CERTIFICATION FOR ALIEN WORKERS – CFDA # 17.203; EMPLOYMENT SERVICE – CFDA # 17.207; UNEMPLOYMENT INSURANCE –CFDA # 17.225; TRADE ADJUSTMENT ASSISTANCE – WORKERS – CFDA # 17.245; WELFARE TO WORK GRANTS TO STATES AND LOCALITIES – CFDA # 17.253; WORKFORCE INVESTMENT ACT – ADULT PROGRAM – CFDA# 17.258; WORKFORCE INVESTMENT ACT – YOUTH ACTIVITIES – CFDA# 17.259; WORKFORCE INVESTMENT ACT – DISLOCATED WORKERS – CFDA# 17.260; EMPLOYMENT AND TRAINING ADMINISTRATION – PILOT DEMONSTRATIONS AND RESEARCH PROJECTS – CFDA # 17.261; JOB CORP – CFDA 17.299; DISABLED VETERANS' OUTREACH PROGRAM - CFDA # 17.801; LOCAL VETERANS EMPLOYMENT REPRESENTATIVE PROGRAM – CFDA # 17.804- U.S DEPARTMENT OF EDUCATION – OCCUPATIONAL & EMPLOYMENT INFORMATION STATE GRANTS – CFDA # 84.346; U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES – CHILD SUPPORT ENFORCEMENT – CFDA # 93.563**

**Condition:** The Commission over reported federal expenditures by approximately \$2,414,000 on the schedule of federal expenditures for the reasons explained in items D and F of findings related to the financial statements in addition to taking into account the prior year's entries which were not posted which was 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 and the Single Audit Act and OMB Circular A – 133 require the preparation of accurate financial information.

**Effect:** There was a misstatement of expenditures on the schedule of expenditures of federal awards.

**Cause:** The Commission did not adjust its general ledger records.

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

### **03-2. WORKFORCE INVESTMENT ACT – YOUTH ACTIVITIES – CFDA# 17.259**

**Condition:** The Commission incorrectly classified one federal expenditure as an administrative expenditure, when it was a pass-through expenditure. As such, the schedule of expenditures of federal awards overstated administrative expenditures and understated pass-through expenditures by approximately \$306,000.

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

**Effect:** There was a misstatement of expenditures between categories on the schedule of expenditures of federal awards.

**Cause:** The Commission did not prepare an accurate schedule.

**Recommendation:** The expenditures reported on the schedule of expenditures of federal awards must equal the actual amount of current year federal expenditures for each category of expenditures.

### **03-3. UNEMPLOYMENT INSURANCE – CFDA # 17.225; TRADE ADJUSTMENT ASSISTANCE – WORKERS – CFDA # 17.245**

**Condition:** The Commission understated federal expenditures on the schedule of federal awards by approximately \$190,000 as a result of the lack of coordination between the management of the Unemployment Insurance Fund and the management of the other funds. The schedule was adjusted for this understatement.

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

**Effect:** There was a misstatement of expenditures on the schedule of expenditures of federal awards.

**Cause:** The Commission did not reconcile expenditures between accounting records of the Unemployment Insurance Fund and accounting records of the other funds.

**Recommendation:** We recommend that management of the Unemployment Insurance Fund and the management of other funds coordinate between the two departments to ensure there is communication regarding transactions that effect the two departments, to ensure that proper amounts are used to prepare the schedule of expenditures of federal awards.

### **03-4. EMPLOYMENT SERVICE – CFDA # 17.207; UNEMPLOYMENT INSURANCE- CFDA # 17.225**

**Condition:** The expenditures on the schedule of expenditures of federal awards were understated by approximately \$655,309 because the Commission reduced expenditures by the proceeds from the sales of capital assets. The schedule was adjusted for this understatement.

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

**Effect:** There was a misstatement of expenditures on the schedule of expenditures of federal awards.

**Cause:** The Commission did not correctly classify proceeds from the sales of capital assets as revenue in the Commission's general ledger.

**Recommendation:** We recommend that all amounts be properly posted in the general ledger to facilitate the preparation of accurate schedules.

## **SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION**

### **OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 2003**

#### **A. CAPITAL ASSETS**

Out of 15 pieces of movable equipment selected for observation, we noted the following:

- 1) The tag numbers for one capital asset did not agree with the tag numbers on the accounting department's property listing.
- 2) The Commission could not locate one item (a laptop computer) that was selected for testing.

We also noted that four buildings were underinsured, and one building was overinsured based on values set by the Office of Insurance Services.

Item # 1 was also 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 inventory verification should also be performed of all capital 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.

#### **B. 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, which detail the explanation of the journal entries. This section was not completed on four 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.

#### **C. DISCREPANCIES BETWEEN LEAVE REPORTS AND SUPPORTING DOCUMENTATION**

During our testing of accrued annual leave we noted discrepancies between an employee's leave slips and the amount of leave that was recorded on their timesheet. As the timesheets are used to input the necessary adjustments to accrued leave, there was also discrepancy between the accrued annual leave report and the leave slips. Upon further investigation, we noted that the employee had submitted a corrected timesheet, however the adjustment made to the accrued leave was not processed in the Commission's system. We also noted during our payroll testing, that 2 out of 25 employees had discrepancies between the monthly time report and the supplemental time sheets. The monthly time reports are used to post expenses to the different general ledger accounts while the employee's actual pay is based on the supplemental time sheets.

We recommend that the agency establish procedures to ensure that all changes deemed necessary as a result of corrective timesheets being submitted are processed in the agency's system within a timely manner. We also recommend that the agency develop and implement a system that identifies

discrepancies between the monthly time report and the supplemental time sheets to ensure proper documentation and payment to employees.

**D. DEFICIENCIES IN INVENTORY PRICING SYSTEM**

During our inventory price testing, we discovered that the unit costs for two items were misstated. The errors appear to be a result of the wrong unit of inventory being keyed into the system, (i.e., a unit issued of 100 rather than 125 being used to determine the quantity to input).

We recommend that the Commission implement procedures to ensure that the inventory unit is properly keyed into the system. Management should also perform a periodic review to ensure that the inventory prices appear reasonable.

**E. INTERNAL AUDIT DEPARTMENT NEEDED**

The Commission should consider setting 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, 2003**

02-1. This finding was corrected this fiscal year.

02-2. This was not corrected. The condition will be corrected during the next fiscal year.

# **CORRECTIVE ACTION PLAN**

## **APPENDIX A**



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**COMMISSIONERS**

J. William McLeod  
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

March 31, 2004

**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, 2003.

Name and address of the independent public accounting firm Rogers & Laban, P.A., 1919 Bull Street, Columbia, South Carolina 29201.

Audit Period: July 1, 2002 through June 30, 2003

**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 2003 was actually taking place in 2004, which is also beyond the subsequent audit year ending June 30, 2003 and which is the subject of this "corrective action". It is also noted that audit work for the year ending June 2002 took place during 2003; therefore, there are some findings in the 2003 audit that were repeated from the prior audits before the Agency had time to take any necessary corrective action. This problem should begin to work itself out, as the audit schedules now are 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 30<sup>th</sup> 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**

### **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 adjusted journal entries proposed by the auditors and the fund balances per the general ledger do not agree with the audited financial statements.
2. Adjusting journal entries to correct certain prior year-end balances made by the Commission were recorded in the 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 prepares the entry.
3. The Commission’s general ledger contains some funds with balances that should be closed out to zero. There is an allowance for doubtful account recorded in a fund with no receivable balance.
4. The Commission is recording operating transfers between funds as an expenditure in one fund and recording the credit to 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 reconciling operating expenditures to the Comptroller General’s records in total and not by program which may result in not detecting differences in classifications in the records of the State and the Commission.
7. The management of and recordkeeping for the Unemployment Insurance Trust Funds were separate and apart from the management of and recordkeeping of the other funds that the Commission handles. There were numerous transactions between the funds and there was no reconciliation of these transactions between the insurance trust funds and the other funds.

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

**Recommendation:** The Commission should merge the management of and 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 account reconciliations 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 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. The records of the Commission should be maintained in a manner that allows the preparation of accurate financial statements.

**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, 2004.

## **B. DEFICIENCIES IN RECONCILIATIONS OF BANK ACCOUNTS**

**Condition:** The Commission is required to timely reconcile their bank accounts. During our cash testing we noted numerous reconciling items, some dating back to 1998, that were still outstanding items on the monthly bank reconciliation. A reconciling item on one of the unemployment insurance bank accounts of approximately \$135,000 was for analysis charges that the Commission states were charged in error, and would be credited back to the bank account. The analysis charge dated back to July 2002. Upon further investigation, the Commission had apparently verbally discussed the issue with the bank, and the bank had agreed to make the necessary adjustment, however there was no written documentation of their investigation of the charges. During our testing of federal income tax withholdings we noted an item that should have been shown as a reconciling item, we discussed the issue with the client. Upon further investigation, the Commission informed us that the bank reconciliation for that month had been forced, and as a result, the reconciling item did not appear on the monthly reconciliation.

**Recommendation:** All bank accounts of the Commission should be reconciled monthly in a timely manner and supporting details should be attached for all reconciling items. Reconciliation should be initialed and dated by the preparer and an independent supervisory employee assigned to approve and review the reconciliations. Errors detected in the reconciliation should be promptly corrected in the State's accounting records and/or the Commission's internal records, as appropriate.

**Response:** We have established new procedures for the reconciliation of Bank of America Accounts which require that these accounts be reconciled within two months of the month ending date and reviewed and approved by an independent supervisory employee. The old reconciling items on this audit were the result of Bank of America not processing our daily adjustments. This issue has been addressed with Bank of America and they are researching their records. New procedures require all adjustments carried as reconciling items on the monthly reconciliations must be resolved within one year of discovery. Journal entries are being prepared to write-off old outstanding reconciling items.

### **C. ERRORS IN CAPITAL ASSETS CLOSING PACKAGES**

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

1. The Commission did not timely remove capital assets disposed of in prior fiscal years, which resulted in an overstatement in the costs of capital assets in the amount of \$552,027 and an overstatement in accumulated depreciation in the amount of \$518,990. The net effect of \$33,037 was recorded as a prior period adjustment.
2. Accumulated depreciation for buildings as of June 30, 2002 did not agree to the supporting schedule resulting in an overstatement of approximately \$241,000. A prior period adjustment was made to correct the error.
3. The Commission reported all amounts that were advanced to the Budget and Control Board as additions to construction in progress, however, only \$145,000 had been expended, resulting in an overstatement of construction in progress of approximately \$935,000.

Items #1 and #2 were also cited in the prior year's management letter.

**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. The Commission should also consider consolidating the two property management systems into one system.

**Response:** We agree with this finding and the Agency is now using only one property system. Current problems have been caused by two systems and all changes to the one system will be implemented by June 30, 2004. The current property system agrees with the general ledger and reconciliations are prepared timely each month. The Department of Finance procedures for preparing the capital assets closing package will include a detail review and certification by the Accounting Supervisor and Accounting Manager for compliance with all State closing package procedures.

#### **D. ACCOUNTS PAYABLE MISSTATED**

**Condition:** During our testing of accounts payable, we noted a voucher payment that should not have been recorded as a liability. Per further review, it appears that the voucher had been cancelled due to it being a duplicate payment. As such, accounts payable was overstated by approximately \$200,400. In addition, during our subsequent payment testing, we noted an additional \$46,000 that should have been included in accounts payable at year-end that was not.

**Recommendation:** The procedures being used to identify an invoice as a payable needs to adhere more closely with GAAP. The Commission should carefully review all vouchers processed subsequent to fiscal year-end to ensure that all liabilities attributable to the fiscal year are recorded. The Commission should ensure that all closing packages are accurate.

**Response:** We will comply with GAAP in reviewing vouchers for accounts payable in our year-end procedures. Vouchers processed after June 30 will be included in the year-end liabilities if attributable to the prior fiscal year. The Department of Finance procedures for preparing the accounts payable closing package will be for the Accounting Supervisor and Accounting Manager in STARS and FARS to review and certify that all accounts payable vouchers have been included.

#### **E. 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. Entries were made to reduce receivable and related allowances by approximately \$20,200,000.

**Recommendation:** The Commission should adjust its general ledger for receivables that will not be collected.

**Response:** The Commission uses a method of reporting receivables for audit purposes, which the auditors have approved. Our policy of writing off receivables for the Commission's books will not change from its current ten-year policy due to the statute of limitations.

**F. SUB-RECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED**

**Condition:** Our audit of sub-recipient advances receivable disclosed that the Commission had not prepared the adjustments for the advances account in a timely manner. Some of the 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 a decrease in sub-recipient advances receivable of approximately \$178,000; and increase in accounts payable of approximately \$50,000; and an increase in expenditures of approximately \$228,000. The closing packages supporting the grants receivable and unearned revenue were not correct since inaccurate information was used to complete the closing packages. In addition, the Schedule of Federal Expenditures was misstated as a result of the necessary adjustment.

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 and expenditures incurred by the sub-recipients to ensure that all expenditures and applicable revenues are recorded in a timely manner and that closing packages contain accurate information.

**Response:** The Commission has implemented new procedures to report all sub-recipient expenditures as soon as received. The financial staff will continue to work closely with the sub-recipient accounting staff to insure that all receivables and payables are reported prior to closing books for June 30, 2004. These new procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal Year ending June 30, 2004.

## **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**03-1. U.S. DEPARTMENT OF LABOR – LABOR FORCE STATISTICS – CFDA # 17.002; LABOR CERTIFICATION FOR ALIEN WORKERS – CFDA # 17.203; EMPLOYMENT SERVICE – CFDA # 17.207; UNEMPLOYMENT INSURANCE – CFDA # 17.225; TRADE ADJUSTMENT ASSISTANCE – WORKERS – CFDA # 17.245; WELFARE TO WORK GRANTS TO STATES AND LOCALITIES – CFDA # 17.253; WORKFORCE INVESTMENT ACT – ADULT PROGRAM – CFDA # 17.258; WORKFORCE INVESTMENT ACT – YOUTH ACTIVITIES – CFDA # 17.259; WORKFORCE INVESTMENT ACT – DISLOCATED WORKERS – CFDA # 17.260; EMPLOYMENT AND TRAINING ADMINISTRATION- PILOT DEMONSTRATIONS AND RESEARCH PROJECTS – CFDA # 17.261; JOB CORP – CFDA # 17.299; DISABLED VETERANS’ OUTREACH PROGRAM – CFDA # 17.801; LOCAL VETERANS EMPLOYMENT REPRESENTATIVE PROGRAM – CFDA # 17.804; U.S. DEPARTMENT OF EDUCATION – OCCUPATIONAL & EMPLOYMENT INFORMATION STATE GRANTS – CFDA # 84.346; U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES – CHILD SUPPORT ENFORCEMENT – CFDA # 93.563**

**Condition:** The Commission over reported federal expenditures by approximately \$2,414,000 on the schedule of federal expenditures for the reasons explained in items D and F of findings related to the financial statements in addition to taking into account the prior year’s entries which were not posted which was 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 must equal the actual current year federal expenditures.

**Response:** The financial staff, working closely with the sub-recipient accounting staff, is implementing procedures for 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, 2004.

### **03-2. WORKFORCE INVESTMENT ACT–YOUTH ACTIVITIES–CFDA#17.259**

**Condition:** The Commission incorrectly classified one federal expenditure as an administrative expenditure, when it was a pass-through expenditure. As such, the schedule of expenditures of federal awards overstated administrative expenditures and understated pass-through expenditures by approximately \$306,000.

**Recommendation:** The expenditures reported on the schedule of expenditures of federal awards must equal the actual amount of current year federal expenditures for each category of expenditures.

**Response:** After the schedule of expenditures of federal awards is prepared by the FARS Accounting Manager, it will be reviewed by the Budget staff and the WIA Financial Reporting staff to insure that all grants are reported to the correct category of expenditures. This new procedure should correct this finding in the audit year ending June 30, 2004.

**UNEMPLOYMENT INSURANCE – CFDA # 17.225; TRADE  
ADJUSTMENT ASSISTANCE WORKERS – CFDA # 17.245**

**Condition:** The Commission understated federal expenditures on the schedule of federal awards by approximately \$190,000 as a result of the lack of coordination between the management of the Unemployment Insurance fund and the management of the other funds. The schedule was adjusted for this understatement.

**Recommendation:** We recommend that management of the Unemployment Insurance Fund and the management of other funds coordinate between the two departments to ensure there is communication regarding transactions that effect the two departments, to ensure that proper amounts are used to prepare the schedule of expenditures of federal awards.

**Response:** The management of Unemployment Insurance and the management of other funds will coordinate the transactions that effect both departments. We will insure that the proper amounts are included on the schedule of expenditures of federal awards.

**EMPLOYMENT SERVICE CFDA # 17.207; UNEMPLOYMENT  
INSURANCE – CFDA # 17.225**

**Condition:** The expenditures on the schedule of expenditures of federal awards were understated by approximately \$655,309 because the Commission reduced expenditures by the proceeds from the sales of capital assets. The schedule was adjusted for this understatement.

**Recommendation:** We recommend that all amounts be properly posted in the general ledger to facilitate the preparation of accurate schedules.

**Response:** The Commission is following the disposition guidelines received from the Department of Labor that allow the proceeds from the disposition of property as an offset to the cost of the replacement property. These guidelines are in accordance with 29 CFR 97.31(c)(1) with equities transferred to the replacement property. This process has been approved by the federal government as a method for using these proceeds.

**OTHER MANAGEMENT LETTER COMMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**A. CAPITAL ASSETS**

**Condition:** Out of 15 pieces of movable equipment selected for observation, we noted the following

1. The tag numbers for one capital asset did not agree with the tag numbers on the accounting department's property listing.
2. The Commission could not locate one item (a laptop computer) that was selected for testing.

We also noted that four buildings were under insured, and one building was underinsured based on values set by the Office of Insurance Services.

Item #1 was also 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 inventory verification should also be performed of all capital 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 will be corrected for the fiscal year ending June 30, 2004. The Agency is now using one property management system and all cost center managers have accounted for items listed on the Department of Finance's property reports. These property reports agree with the financial data in the general ledger. Independent verification of inventory will be performed during July – December 2004..

**B. 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, which detail the explanation of the journal entries. This section was not completed on four 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:** We will ensure that journal entries are prepared in their entirety and that they are reviewed for completeness and accuracy.

**C. DISCREPANCIES BETWEEN LEAVE REPORTS AND SUPPORTING DOCUMENTATION**

**Condition:** During our testing of accrued annual leave we noted discrepancies between an employee's leave slips and the amount of leave that was recorded on their timesheet. As the timesheets are used to input the necessary adjustments to accrued leave, there was also a discrepancy between the accrued annual leave report and the leave slips. Upon further investigation, we noted that the employee had submitted a corrected timesheet, however the adjustment made to the accrued leave was not processed in the Commission's system. We also noted during our payroll testing, that 2 out of 25 employees had discrepancies between the monthly time report and the supplemental time sheets. The monthly time reports are used to post expenses to the different general ledger accounts while the employee's actual pay is based on the supplemental time sheets.

**Recommendation:** We recommend that the Agency establish procedures to ensure that all changes deemed necessary as a result of corrective timesheets being submitted are processed in the agency's system within a timely manner. We also recommend that the Agency develop and implement a system that identifies discrepancies between the monthly time report and the supplemental time sheets to ensure proper documentation and payment to employees.

**Response:** The Department of Finance and the Human Resource Management Department will implement procedures in the preparation of the Compensated Absences Closeout Package to insure that all leave balances are accurate and that the leave liability is calculated correctly. The supporting documentation will be reviewed to insure that all documentation is correct. New procedures will be implemented to identify discrepancies between monthly time reports and the supplemental timesheets to ensure proper documentation and payment to employees.

**D. DEFICIENCIES IN INVENTORY PRICING SYSTEM**

**Condition:** During our inventory price testing, we discovered that the unit costs for two items were misstated. The errors appear to be a result of the wrong unit of inventory being keyed into the system (i.e., a unit issued of 100 rather than 125 being used to determine the quantity to input).

**Recommendation:** We recommend that the Commission implement procedures to ensure that the inventory unit is properly keyed into the system. Management should also perform a periodic review to ensure that the inventory prices appear reasonable.

**Response:** We agree with this finding and have implemented new procedures for periodic reviews by the Procurement and Inventory Control Department to insure that the quantity ordered/issued is correct and that the unit price that is calculated in the inventory system is reasonable.

**INTERNAL AUDIT DEPARTMENT NEEDED**

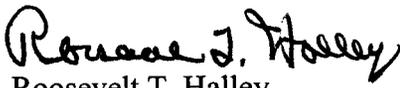
**Condition:** The Commission should consider setting up an internal audit department that reports directly to the Board of Commissioners. An Agency of this size should have independent reviews of the various areas of accountability throughout the year. The scope of internal audit would include performing 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 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 the Internal Audit and Review Department. The Commission will direct certain independent and targeted inquiries by the Department. The Executive Director will continue to oversee other regular functions of the Department, such as WIA monitoring and audits, EEO responsibilities, etc. Further expansion of the Department's responsibilities and staffing is not planned at this time, however, management will continue to monitor the need for such as the Agency continues to catch up in the audit process, namely through the fiscal year ending June 30, 2004.

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

Sincerely,

  
Roosevelt T. Halley  
Executive Director

**RTH:sc**