

**SOUTH CAROLINA
EMPLOYMENT SECURITY COMMISSION**

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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

August 1, 2005

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, 2004, 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/trb

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2004**

	Page
INDEPENDENT AUDITOR'S REPORT	1 and 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 8
FINANCIAL STATEMENTS:	
Entity-wide financial statements:	
Statement of net assets	9
Statement of activities	10
Fund financial statements:	
Balance sheet - governmental fund	11 and 12
Statement of revenues, expenditures and changes in fund balances - governmental fund	13 and 14
Statement of net assets - proprietary fund	15
Statement of revenues, expenditures and changes in fund net assets - proprietary fund	16
Statement of cash flows - proprietary fund	17
Notes to financial statements	18 - 38
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	39 - 41
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	42 and 43
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	44 and 45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	46 - 50
OTHER MANAGEMENT LETTER COMMENTS	51 and 52
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	53
CORRECTIVE ACTION PLAN	APPENDIX A

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, 2004, 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, 2004, 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, 2004, 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.



The Commission discovered that certain capital assets were misstated in the prior year and also discovered an error in the classification of accrued interest receivable as detailed in Note 14 to the Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2005 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

July 8, 2005

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, 2004. 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, 2004 by \$452,169,146 (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 \$493,549,031.

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 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 \$452,169,146 at the year-ended June 30, 2004 compared to \$554,433,733 for the prior year-end.

The largest portion of the Commission's net assets (93 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 (7 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.

Governmental Activities

Current year assets, liabilities and fund balances were approximately the same as compared to prior year.

There was a decrease in federal grant activity, reducing both revenue and expense by approximately \$1.9 million.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003 Restated	2004	2003	2004	2003 Restated
Assets						
Current & Other Assets	\$ 27,694,203	\$ 27,995,581	\$ 434,182,341	\$ 543,301,688	\$ 461,876,544	\$ 571,297,269
Capital Assets	22,134,037	21,075,804	-	-	22,134,037	21,075,804
Total Assets	<u>\$ 49,828,240</u>	<u>\$ 49,071,385</u>	<u>\$ 434,182,341</u>	<u>\$ 543,301,688</u>	<u>\$ 484,010,581</u>	<u>\$ 592,373,073</u>
Liabilities						
Current	\$ 15,554,546	\$ 15,797,228	\$ 13,501,712	\$ 19,153,852	\$ 29,056,258	\$ 34,951,080
Non-current	2,785,177	2,988,260	-	-	2,785,177	2,988,260
Total Liabilities	<u>\$ 18,339,723</u>	<u>\$ 18,785,488</u>	<u>\$ 13,501,712</u>	<u>\$ 19,153,852</u>	<u>\$ 31,841,435</u>	<u>\$ 37,939,340</u>
Net Assets						
Invested in capital assets, net of related debt	\$ 20,581,987	\$ 19,157,810			\$ 20,581,987	\$ 19,157,810
Restricted for unemployment benefits	-	-	420,680,629	524,147,836	420,680,629	524,147,836
Unrestricted	10,906,530	11,128,087	-	-	10,906,530	11,128,087
Total net assets	<u>31,488,517</u>	<u>30,285,897</u>	<u>420,680,629</u>	<u>524,147,836</u>	<u>452,169,146</u>	<u>554,433,733</u>
Total Liabilities & Net Assets	<u>\$ 49,828,240</u>	<u>\$ 49,071,385</u>	<u>\$ 434,182,341</u>	<u>\$ 543,301,688</u>	<u>\$ 484,010,581</u>	<u>\$ 592,373,073</u>

CHANGE IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2004	2003 Restated	2004	2003	2004	2003 Restated
Revenues						
Program Revenues:						
Charges for Services	\$ 8,319,097	\$ 8,151,895	\$ 366,629,987	\$ 371,048,320	\$ 374,949,084	\$ 379,200,215
Operating Grants & Contributions	104,636,303	106,755,422	23,411,433	33,361,075	128,047,736	140,116,497
Capital Grants & Contributions	-	-	-	-	-	-
General Revenues:						
State Appropriations	176,049	193,663	-	-	176,049	193,663
Gain on Sale of Capital Assets		396,222	-	-	-	396,222
Total Revenues	<u>\$ 113,131,449</u>	<u>\$ 115,497,202</u>	<u>\$ 390,141,142</u>	<u>\$ 404,409,395</u>	<u>\$ 503,172,591</u>	<u>\$ 519,906,597</u>
Expenses:						
Employment & Training Services	\$ 111,635,024	\$ 115,239,022	\$ -	\$ -	\$ 111,635,024	\$ 115,239,022
Unemployment Compensation	-	-	493,549,031	546,319,190	493,549,031	546,319,190
Total Expenses	<u>\$ 111,635,024</u>	<u>\$ 115,239,022</u>	<u>\$ 493,549,031</u>	<u>\$ 546,319,190</u>	<u>\$ 605,184,055</u>	<u>\$ 661,558,212</u>
Increase/Decrease in Net Assets Before Transfers	<u>1,496,425</u>	<u>258,180</u>	<u>(103,407,889)</u>	<u>(141,909,795)</u>	<u>(102,011,464)</u>	<u>(141,651,615)</u>
Transfers:						
Transfers Between Funds	\$ (40,404)	\$ 40,404	\$ 40,404	\$ 40,404	\$ -	\$ -
Indirect Cost Remitted to General Fund of the State	253,401	216,198	-	-	(253,401)	216,198
Changes to Net Assets	1,202,620	1,578	(103,467,207)	(141,869,391)	(102,264,587)	(141,867,813)
Net Assets - Beginning	30,285,897	30,284,319	524,147,836	666,017,227	554,433,733	696,301,546
Net Assets - Ending	<u>\$ 31,488,517</u>	<u>\$ 30,285,897</u>	<u>\$ 420,680,629</u>	<u>\$ 524,147,836</u>	<u>\$ 452,169,146</u>	<u>\$ 554,433,733</u>

Business-Type Activities

Total assets declined by \$112 million due primarily to the decline in the cash balance, as a result of the high unemployment rate.

Net assets declined by \$103 million due to the loss for the year.

Assessments increased \$35 million over last year due to adding a .7% surcharge to base rates for employer contributions.

Federal revenues decreased approximately \$41 million primarily to the ending of the Emergency Unemployment Compensation Program.

Operating loss for 2004 was \$127 million as compared to \$175 million loss for the prior year.

Interest income went down almost \$10 million due to a lower Trust Fund balance and lower interest rates being paid.

Ending Net Assets for 2004 decreased by \$103 million as compared to \$142 million decrease for the prior year.

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 \$15,810,527, a decrease of approximately \$348,000 for the year. Approximately 37 percent of this total amount (\$5.9 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 \$421 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

Primary changes in capital amounts during the year were related to construction in progress for buildings and software.

Long-term debt fell into three areas as follows:

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

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

The Commission did not enter into any new capital leases or capital improvement bonds payable during the year.

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 will continue to include a .7% surcharge, 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 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 Director of Fiscal Affairs, 1550 Gadsden Street, Post Office Box 995, Columbia, South Carolina 29202.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,770,056	\$380,306,305	\$ 387,076,361
Assessments receivable	1,601,203	51,941,055	53,542,258
Benefit overpayments receivable		4,388,058	4,388,058
Due from reimbursable employers		1,089,705	1,089,705
Internal balances	8,202,844	(8,202,844)	
Intergovernmental receivables:			
State agencies	1,597,021	1,107,575	2,704,596
Local governments		1,883,753	1,883,753
Other states		1,337,182	1,337,182
Federal	8,992,492	331,552	9,324,044
Subrecipient advances receivable	111,805		111,805
Other receivables	71,737		71,737
Inventories	133,749		133,749
Prepaid items	213,296		213,296
Total current assets	27,694,203	434,182,341	461,876,544
Capital assets, net of accumulated depreciation	22,134,037		22,134,037
Total assets	<u>\$49,828,240</u>	<u>\$434,182,341</u>	<u>\$ 484,010,581</u>
LIABILITIES:			
Current liabilities:			
Cash overdraft	\$ -	\$ 49,449	\$ 49,449
Benefits payable		5,082,487	5,082,487
Accounts payable	6,984,884	771,177	7,756,061
Contributions payable		3,609,692	3,609,692
Accrued salaries and related benefits	3,985,711		3,985,711
Intergovernmental payables:			
Federal		723,236	723,236
Other states	9,617	3,265,671	3,275,288
Current portion of capital leases payable	63,381		63,381
Current portion of capital improvement bond notes payable	307,489		307,489
Current portion of accrued compensated absences and related benefits	3,300,000		3,300,000
Deferred revenue	903,464		903,464
Total current liabilities	15,554,546	13,501,712	29,056,258
Noncurrent liabilities:			
Capital leases payable	182,684		182,684
Capital improvement bond notes payable	998,496		998,496
Accrued compensated absences and related benefits	1,603,997		1,603,997
Total noncurrent liabilities	2,785,177		2,785,177
Total liabilities	<u>18,339,723</u>	<u>13,501,712</u>	<u>31,841,435</u>
NET ASSETS:			
Invested in capital assets, net of related debt	20,581,987		20,581,987
Restricted for unemployment benefits		420,680,629	420,680,629
Unrestricted	10,906,530		10,906,530
Total net assets	31,488,517	420,680,629	452,169,146
Total liabilities and net assets	<u>\$49,828,240</u>	<u>\$434,182,341</u>	<u>\$ 484,010,581</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Function/Program	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities: Employment and training services	\$ 111,635,024	\$ 8,319,097	\$ 104,636,303	\$ 1,320,376	\$
Business-type activities: Unemployment benefits	493,549,031	366,629,987	23,411,433		(103,507,611)
Totals	<u>\$ 605,184,055</u>	<u>\$ 374,949,084</u>	<u>\$ 128,047,736</u>	<u>1,320,376</u>	<u>(103,507,611)</u>
General revenues:					
		State appropriations		176,049	
Transfers					
		Transfers between funds		(40,404)	40,404
		Indirect costs remitted to General Fund of the State		(253,401)	
		Total general revenues and transfers		<u>(117,756)</u>	<u>40,404</u>
		Changes in net assets		1,202,620	(103,467,207)
		Net assets - beginning as restated		<u>30,285,897</u>	<u>524,147,836</u>
		Net assets - ending		<u>\$ 31,488,517</u>	<u>\$ 420,680,629</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2004

ASSETS	General Fund
Cash and cash equivalents	\$6,770,056
Assessments receivable	1,601,203
Intergovernmental receivables:	
State agencies	1,597,021
Federal	8,992,492
Interfund receivable - unemployment compensation fund	8,202,844
Subrecipient advances receivable	111,805
Other receivables	71,737
Inventories	133,749
Prepaid items	213,296
	<hr/>
Total assets	\$ 27,694,203
	<hr/>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 6,984,884
Accrued salaries and related benefits	3,985,711
Intergovernmental payable - federal	9,617
Deferred revenue	903,464
	<hr/>
Total liabilities	11,883,676
	<hr/>
Fund balances:	
Reserved:	
Reed Act expenditures	9,349,381
Inventories	133,749
Prepaid items	213,296
South Carolina Information Coordinating Committee	215,210
Unreserved fund balances:	
Designated for capital assets	442,814
Undesignated fund balance	5,456,077
	<hr/>
Total fund balances	15,810,527
	<hr/>
Total liabilities and fund balances	\$ 27,694,203
	<hr/>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

BALANCE SHEET - GOVERNMENTAL FUND (CONTINUED)

JUNE 30, 2004

RECONCILIATION TO THE STATEMENT OF NET ASSETS:

Fund balances- governmental funds \$ 15,810,527

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	\$ (1,305,985)	
Capital leases payable	(246,065)	
Accrued compensated absences	<u>(4,903,997)</u>	(6,456,047)

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>22,134,037</u>
---	-------------------

Net assets - governmental funds \$ 31,488,517

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND YEAR ENDED JUNE 30, 2004

	General Fund
REVENUES:	
Employer tax contingency assessments	\$ 6,831,802
Employer tax penalties and interest	1,072,216
User fees	334,306
Intergovernmental:	
State of South Carolina	176,049
State agencies	179,252
Federal	104,420,581
Other	117,244
TOTAL REVENUES	<u>113,131,450</u>
EXPENDITURES:	
Current:	
Employment and training administration	43,568,187
Contingency assessments	5,551,552
Penalties and interest	190,220
Welfare to Work	706,358
Workforce Investment Act	55,821,241
Other federal programs	3,794,348
Other non-federal programs	220,798
Parking	59,065
Occupational Information Coordinating Committee	483,315
Capital outlay	2,345,299
Debt service:	
Principal	365,944
Interest	79,451
TOTAL EXPENDITURES	<u>113,185,778</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(54,328)</u>
OTHER FINANCING SOURCES (USES):	
Operating transfers	(40,404)
Indirect costs remitted to General Fund of the State	(253,401)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(293,805)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(348,133)
BEGINNING FUND BALANCES	<u>16,158,660</u>
ENDING FUND BALANCES	<u>\$ 15,810,527</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES- GOVERNMENTAL FUND (CONTINUED)
YEAR ENDED JUNE 30, 2004

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Revenues and other financing sources over (under) expenditures and other financing uses for the governmental fund	\$ (348,133)
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	2,345,299
Depreciation of capital assets is reported as an expense in the statement of activities	(1,284,332)
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	294,228
Capital leases	71,716
Decrease in accrued compensated absences is reported as a reduction of expenses in the statement of activities	126,576
The carrying values of capital assets disposed of are reported as expenses in the statement of activities	(2,734)
INCREASE IN NET ASSETS	<u><u>\$ 1,202,620</u></u>

See accompanying Notes to Financial Statements

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**STATEMENT OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2004**

ASSETS

Current assets:

Cash and cash equivalents	\$ 380,306,305
Assessments receivable	51,941,055
Benefit overpayments receivable	4,388,058
Due from reimbursable employers	1,089,705
Intergovernmental receivables:	
Local governments	1,883,753
Other states	1,337,182
State agencies	1,107,575
Federal	<u>331,552</u>

Total assets	<u><u>\$ 442,385,185</u></u>
--------------	------------------------------

LIABILITIES:

Current liabilities:

Cash Overdraft	\$ 49,449
Benefits payable	5,082,487
Accounts payable	771,177
Contributions payable	3,609,692
Intergovernmental payables:	
Federal	723,236
Other states	3,265,671
Interfund payable - general fund	<u>8,202,844</u>

Total liabilities	21,704,556
-------------------	------------

NET ASSETS:

Restricted for unemployment benefits	<u>420,680,629</u>
Total liabilities and net assets	<u><u>\$ 442,385,185</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
YEAR ENDED JUNE 30, 2004**

OPERATING REVENUES:

Assessments	\$ 251,560,700
Reimbursement of unemployment compensation benefits from employers	3,523,410
Benefit overpayment recoveries	4,178,524
Intergovernmental:	
Federal	87,329,386
State agencies	5,702,490
Other states	6,175,098
Local governments	8,160,379
Total revenues	<u>366,629,987</u>

OPERATING EXPENSES:

Unemployment compensation benefits	493,549,031
Total operating expenses	<u>493,549,031</u>
 Operating income (loss)	 <u>(126,919,044)</u>

NONOPERATING REVENUES:

Interest income	23,411,433
Total nonoperating revenues	<u>23,411,433</u>
 Income (loss) before transfer	 (103,507,611)
 Transfers from general fund	 <u>40,404</u>
 Changes in net assets	 (103,467,207)

TOTAL NET ASSETS - BEGINNING	<u>524,147,836</u>
-------------------------------------	--------------------

TOTAL NET ASSETS - ENDING	<u><u>\$ 420,680,629</u></u>
----------------------------------	------------------------------

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

STATEMENT OF CASH FLOWS - PROPRIETARY FUND YEAR ENDED JUNE 30, 2004

	Unemployment Compensation Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from assessments	\$ 246,017,264
Cash received from employers	3,670,308
Cash received from benefit overpayment recoveries	3,514,112
Cash received from federal, State and local agencies	111,335,986
Benefits paid	(494,564,362)
Refund overpayments of assessments	(1,540,011)
Net cash provided (used) by operating activities	<u>(131,566,703)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Fund cash overdraft	49,449
Repayment of cash overdraft	(5,370,086)
Repay due to general fund	22,429
Transfers from General Fund	40,404
Repay interfund payable	(2,746,743)
Net cash provided (used) by noncapital financing activities	<u>(8,004,547)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	23,411,434
Net cash provided by investing activities	<u>23,411,434</u>
Net increase (decrease) in cash	(116,159,816)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>496,466,121</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 380,306,305</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (126,919,044)
Net changes in assets and liabilities:	
Assessments receivable	(7,083,446)
Benefit overpayments receivable	(664,411)
Due from reimbursable employers	146,898
Intergovernmental receivables:	
State agencies	78,535
Local governments	6,829
Other states	244,277
Federal	3,014,771
Benefits payable	(176,383)
Accounts payable	(743,487)
Contributions payable	(375,280)
Intergovernmental payables:	
Federal	629,025
Other states	275,013
Net cash provided (used) by operating activities	<u><u>\$ (131,566,703)</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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, 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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:

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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. The program ended in April 2004.

Workforce Investment Act Program (WIA) – The Commission serves as the Administrative Agency for the Governor's Workforce Investment Act in South Carolina. This includes providing staff to the State's Workforce Investment Board for Policy, Planning and Oversight; and planning for coordinated services with twelve Workforce Investment Areas of the State. In addition, the Agency provides WIA services such as intake; employability; assessment; eligibility determination; on-the-job training; job search assistance; employability development; and job placement services as well as development and maintenance of the statewide eligible providers' lists. The WIA is a federal program which implements major reforms of the nation's job training system and provides guidance for statewide and local workforce investment systems that increase the employment, retention and earning of participants, and increase occupational skill attainment by participants, and as a result, improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of the nation. Key components of this reform include streamlining services through a One-Stop service delivery system; empowering individuals through information and access to training resources through Individual Training Accounts; providing universal access to core services; increasing accountability for results; ensuring a strong role for local boards and the private sector in the workforce investment system; facilitating State and local flexibility; and improving youth programs.

South Carolina Occupational Information Coordinating Committee (SCOICC). SCOICC is a consortium of agencies mandated by the Carl D. Perkins Vocational Education Act. The Commission is one of eight South Carolina participating agencies. The SCOICC is chaired by the Executive Director of the Commission, and the Commission acts as fiscal agent. The primary function of the SCOICC is to improve coordination, communication, and cooperation in the development and use of occupational information to meet the common occupational information and data needs of the vocational education programs and the employment and training programs at national, state and local levels. In addition, the SCOICC is charged with giving special attention to the career and educational needs of individuals involved in career decision making. The SCOICC user fees are collected from each site that participates in the statewide telephone dial-up network. The network delivers up-to-date occupational, educational, employment and career guidance information to career decision makers and job seekers. These user fees are used to pay for program expenses such as personal services, telephone connect charges, supplies, etc. SCOICC also receives an appropriation from the State of South Carolina to support its operations.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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.

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.

Benefits Payable

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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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.

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, 2003 through June 30, 2004, the Commission recovered approximately \$8,234,000 of indirect cost from the indirect cost agreement. Of this amount, approximately \$253,000 was remitted to the State and approximately \$7,981,000 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.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

These services include maintenance contracts on data processing and office equipment, equipment rentals, 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.

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 2004, two of the Commission's reserved balances are as follows:

Reed Act – The Commission has funds totaling \$98,888,334 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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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 \$3,978,080 of the funds appropriated has been expended as of June 30, 2004. The remaining appropriated funds totaling \$9,349,381 are shown as a reserved fund balance.

SCOICC – Pursuant to 2004 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 2004 Appropriation Act Proviso 51.2, all user fees not expended in fiscal year 2004 may be carried forward to fiscal year 2005 for use in the SCOICC program. As of June 30, 2004, \$215,210 was carried forward and is reported as a reserved fund balance.

Use of Estimates

The preparation of financial statements in conformance 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, 2004 is composed of the following:

Cash on hand	\$ 500
Deposits held by State Treasurer	10,192,619
Deposits held by U.S. Treasury	370,328,744
Other deposits	<u>6,554,498</u>
Totals	<u>\$ 387,076,361</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. As of June 30, 2004, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

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

Deposits held by U.S. Treasury

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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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.

In addition to the other deposits of \$6,554,498 for which the bank balance was \$13,519,413, the Commission had one bank account with an overdraft balance of \$49,449 and a bank balance of \$262,122 as of June 30, 2004. The combined bank balances of \$13,781,535 at year-end were categorized by risk category as follows:

Insured (FDIC)	\$ 100,000
Uninsured:	
Collateral held by the Funds agent in the Funds name	10,142,112
Uncollateralized	<u>3,539,423</u>
Total bank balance	<u>\$ 13,781,535</u>

NOTE 3. INTERFUND RECEIVABLES/PAYABLES:

The amounts shown on the financial statements as being interfund receivables/payable represent amounts, which were collected for penalties and interest and contingency assessments in tax remittances from employers.

In addition, the Commission has not transferred all of the Reed Act funds which were appropriated to the General Fund as of June 30, 2004. Amounts due to the General Fund as of June 30, 2004 are as follows:

Reed Act Funds	\$ 8,101,675
Contingency assessments	28,573
Penalty and interest	<u>72,596</u>
Total	<u>\$ 8,202,844</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 4. RECEIVABLES:

The receivable balances at June 30, 2004 and the related amounts for allowances for uncollectibles are as follows:

Type	Receivables	Allowances for Uncollectibles	Net Receivables
General fund:			
Assessments receivable:			
Contingency	\$ 1,407,480	\$ 91,575	\$ 1,315,905
Penalty and interest	1,390,535	1,105,237	285,298
Totals	<u>\$ 2,798,015</u>	<u>\$ 1,196,812</u>	<u>\$ 1,601,203</u>
Intergovernmental receivables:			
State agencies	\$ 1,597,021		\$ 1,597,021
Federal	8,992,492		8,992,492
	<u>\$ 10,589,513</u>		<u>\$ 10,589,513</u>
Due from subrecipients	<u>\$ 111,805</u>		<u>\$ 111,805</u>
Other receivables	<u>\$ 71,737</u>		<u>\$ 71,737</u>
Proprietary fund:			
Assessment receivable	<u>\$ 57,199,857</u>	<u>\$ 5,258,802</u>	<u>\$ 51,941,055</u>
Due from reimbursable employers	<u>\$ 1,089,705</u>		<u>\$ 1,089,705</u>
Intergovernmental receivables			
State agencies	<u>\$ 1,107,575</u>		<u>\$ 1,107,575</u>
Local governments	<u>\$ 1,883,753</u>		<u>\$ 1,883,753</u>
Other states	<u>\$ 1,337,182</u>		<u>\$ 1,337,182</u>
Federal	<u>\$ 331,552</u>		<u>\$ 331,552</u>
Benefit overpayments receivable:			
Basic unemployment compensation	\$ 4,985,844	\$ 1,229,012	\$ 3,756,832
Federal employees	18,586	3,503	15,083
Ex-servicemen	29,220	8,356	20,864
Trade readjustment	33,008	11,704	21,304
Emergency unemployment compensation	<u>891,570</u>	<u>317,595</u>	<u>573,975</u>
Totals	<u>\$ 5,958,228</u>	<u>\$ 1,570,170</u>	<u>\$ 4,388,058</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 5. CAPITAL ASSETS:

A summary of capital assets activity for the year ended June 30, 2004 is as follows:

	Balances as Restated June 30, 2003	Increases	Decreases	Balances June 30, 2004
Capital assets not being depreciated:				
Land and land improvements	\$ 2,791,266	\$ 347,711		\$ 3,138,977
Construction in progress	2,604,810	1,789,316		4,394,126
Total capital assets not being depreciated	5,396,076	2,137,027	-	7,533,103
Other capital assets:				
Buildings and improvements	22,756,594			22,756,594
Equipment and furniture	6,692,773	208,272	(156,229)	6,744,816
Vehicles	313,537			313,537
Total other capital assets	29,762,904	208,272	(156,229)	29,814,947
Less accumulated depreciation for				
Buildings and improvements	8,838,098	564,871		9,402,969
Equipment and furniture	5,027,821	672,726	(153,495)	5,547,052
Vehicles	217,257	46,735		263,992
Total accumulated depreciation	14,083,176	1,284,332	(153,495)	15,214,013
Other capital assets, net	15,679,728	(1,076,060)	(2,734)	14,600,934
Total capital assets, net	\$ 21,075,804	\$ 1,060,967	\$ (2,734)	\$ 22,134,037

See Note 14 for details of the restated balances as of June 30, 2003

Current year's additions to construction in progress consist of \$523,000 paid on the unemployment tax software system, and \$1,266,000 for buildings. Total estimated cost for projects which will be capitalized as of June 30, 2004 were approximately \$10,350,000, with approximately \$9,084,000 estimated cost to complete. Total estimated cost for other projects which will not be capitalized as of June 30, 2004 were approximately \$530,000, with approximately \$190,000 estimated cost to complete. Total outstanding commitments on projects, which will be capitalized, were approximately \$3,056,000 and approximately \$203,000 on projects which will not be capitalized.

NOTE 6. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance, July 1, 2003	Additions	Reductions	Balance, June 30, 2004	Due Within One Year
Capital lease payable	\$ 317,781		\$ 71,716	\$ 246,065	\$ 63,381
Capital improvement bond notes payable	1,600,213		294,228	1,305,985	307,489
Accrued compensated absences and related benefits	5,030,573	3,324,137	3,450,713	4,903,997	3,300,000
	<u>\$ 6,948,567</u>	<u>\$ 3,324,137</u>	<u>\$ 3,816,657</u>	<u>\$ 6,456,047</u>	<u>\$ 3,670,870</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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, 2004 follows:

Act	Total Authorized	Balance Authorized and Not Drawn June 30, 2004
538 of 1987	\$ 9,607,000	\$ 239,455

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, 2004, are as follows:

Year Ended June 30,	Principal	Interest	Totals
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	\$ 1,305,985	\$ 125,558	\$ 1,431,543

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 \$294,228 and \$65,991 in principal and interest, respectively, on the capital improvement bond notes payable.

NOTE 8. LEASES:

The Commission has two capital leases 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 \$238,000 as of June 30, 2004. The current year's amortization expense of approximately \$70,000 on the capitalized lease assets is included in depreciation expense. Total payments on the capital leases for the year ended June 30, 2004 were \$85,176 consisting of principal of \$71,716 and interest of \$13,460.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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 \$826,000 for the year ended June 30, 2004.

The following is a schedule by years of future minimum rental payments required under the capital lease and the noncancellable operating lease agreements with remaining terms at June 30, 2004 in excess of one year.

	Year Ended June 30,	Capital Leases	Operating Leases
	2005	72,072	237,104
	2006	78,624	188,304
	2007	78,624	107,539
	2008	35,730	96,240
	2009	98,484	98,484
Total minimum lease payments		265,050	\$ 727,671
Less: interest		(18,985)	
Present value of minimum lease payments		\$ 246,065	

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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, 2003, the employer contribution rate became 10.85 percent, which included a 3.30 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2004, 2003 and 2002 were approximately \$2,849,000, \$2,971,000 and \$2,887,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$57,000 in the current fiscal year at the rate of .15 percent of compensation.

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

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, 2003, the employer contribution rate became 13.60 percent which, as for the SCRS, included the 3.30 percent surcharge. The Commission's actual contributions to the PORS for the years ended June 30, 2004, 2003, and 2002 were approximately \$11,900, \$13,600, and \$11,600, 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 \$230 and accidental death insurance contributions of approximately \$230 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

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

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

NOTE 10. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

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

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, 26,200 State retirees met these eligibility requirements at June 30, 2004.

The Commission recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$3,683,000 for the year ended June 30, 2004. As discussed in Note 9, the Commission paid approximately \$1,249,000 applicable to the 3.30 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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 these plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

NOTE 12. RISK MANAGEMENT:

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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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

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

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

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

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

NOTE 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. \$11,098,536 was earned as of June 30, 2004, \$178,252 was earned in the current year, and the \$903,464 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 \$176,049 from State appropriations during the year for expenditures of the SCOICC. The Commission recorded revenues of approximately \$5,702,000 for reimbursements of benefits paid to State employees and was due approximately \$1,597,000 for these benefits at year-end.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 14. PRIOR PERIOD ADJUSTMENTS / ERROR IN CLASSIFICATION:

The prior year's statement of net assets for the proprietary fund reflected \$7,298,365 as accrued interest receivable which should have been reported as cash and cash equivalents for deposits held by the U.S. Treasury. The beginning cash and cash equivalents on the statement of cash flows has been changed to reflect this error.

Additionally, the Commission noted errors relating to capital assets balances as of June 30, 2003 that resulted in prior period adjustments. The Commission noted prior period disposals of equipment and furniture that were not recorded. Also, the Commission noted errors in the accumulated depreciation on certain capital assets and adjustments to the carrying costs of land and land improvements and buildings.

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
Capital assets not being depreciated:			
Land and land improvements	\$ 2,799,679	\$ (8,413)	\$ 2,791,266
Total capital assets not being depreciated	<u>\$ 2,799,679</u>	<u>\$ (8,413)</u>	<u>\$ 2,791,266</u>
Other capital assets:			
Buildings and improvements	\$ 22,731,578	\$ 25,016	\$ 22,756,594
Equipment and furniture	8,970,988	(2,278,215)	6,692,773
Total other capital assets	<u>\$ 31,702,566</u>	<u>\$ (2,253,199)</u>	<u>\$ 29,449,367</u>
Less accumulated depreciation:			
Buildings and improvements	\$ 8,832,865	\$ 5,233	\$ 8,838,098
Equipment and furniture	7,281,391	(2,253,570)	5,027,821
Vehicles	217,257		217,257
Total accumulated depreciation	<u>\$ 16,331,513</u>	<u>\$ (2,248,337)</u>	<u>\$ 14,083,176</u>
Other capital assets, net	<u>\$ 15,371,053</u>	<u>\$ (4,862)</u>	<u>\$ 15,366,191</u>
Total capital assets, net	<u>\$ 18,170,732</u>	<u>\$ (13,275)</u>	<u>\$ 18,157,457</u>
Net assets	<u>\$ 30,299,172</u>	<u>\$ (13,275)</u>	<u>\$ 30,285,897</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 15. CONTINGENCIES:

Federal Grants - The various programs administered by the Commission for fiscal years June 30, 2004 and prior are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Commission believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Commission. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end.

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

NOTE 16. 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 17. SUBSEQUENT EVENTS:

Effective July 1, 2005, the administration of the Workforce Investment Act Program (WIA) was transferred to the South Carolina Department of Commerce pursuant to an executive order signed by the Governor.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
U.S. Department of Labor				
Direct Programs:				
Labor Force Statistics	17.002		\$ 1,246,477	\$ -
Labor Certification for Alien Workers	17.203		136,348	-
Employment Service	17.207		11,107,835	-
Unemployment Insurance	17.225		109,411,473	-
Trade Adjustment Assistance - Workers	17.245		11,326,928	-
Job Training Partnership Act	17.250		2,722	2,722
Welfare to Work Grants to States and Localities	17.253		498,907	498,907
Workforce Investment Act - Adult Program	17.258		14,304,353	14,304,353
Workforce Investment Act - Youth Activities	17.259		14,585,567	14,590,370
Workforce Investment Act - Dislocated Workers	17.260		12,989,429	13,147,777
Workforce Incentives Grant	17.266		254,057	-
Workforce Investment Act - Incentive Grants Section 503	17.267		12,070	12,070
Job Corps	17.299		142,008	-
Employment and Training Administration -				
Disabled Veterans' Outreach Program	17.801		1,016,665	-
Local Veterans Employment Representative Program	17.804		1,236,747	-
Homeless Veterans Reintegration Program	17.805		200,000	-
Passed-through from:				
Pendleton District Workforce Development Board:				
Workforce Investment Act - Adult Program	17.258	3A195E1	61,239	
Workforce Investment Act - Adult Program	17.258	3A395E1	94,663	
Workforce Investment Act - Adult Program	17.258	3A995E1	67,016	
Workforce Investment Act - Youth Activities	17.259	3Y195E1	72,239	
Workforce Investment Act - Dislocated Workers	17.260	3D195E1	53,797	
Workforce Investment Act - Dislocated Workers	17.260	3A195D1	101,078	
Workforce Investment Act - Dislocated Workers	17.260	3D395E1	82,637	
Upper State Workforce Development Board:				
Workforce Investment Act - Adult Program	17.258	3A90355	13,429	
Workforce Investment Act - Adult Program	17.258	3M903M5	12,198	
Workforce Investment Act - Adult Program	17.258	2M903M5	290	
Workforce Investment Act - Adult Program	17.258	3M903M5	13,735	
Workforce Investment Act - Dislocated Workers	17.260	3M903M5	28,022	
Workforce Investment Act - Dislocated Workers	17.260	30903M5	12,794	
Upper Savannah Council of Governments:				
Workforce Investment Act - Adult Program	17.258	3119601	64,400	
Workforce Investment Act - Adult Program	17.258	3199601	21,180	
Workforce Investment Act - Youth Activities	17.259	3319601	56,040	
Workforce Investment Act - Youth Activities	17.259	3399601	20,068	
Workforce Investment Act - Dislocated Workers	17.260	3219601	89,621	
Workforce Investment Act - Dislocated Workers	17.260	3299601	21,770	
Workforce Investment Act - Dislocated Workers	17.260	32N9601	52,019	
Job Training Partnership Act (JTPA)	17.250	SDA 2 IIC	41	
Midlands Workforce Development Board:				
Welfare to Work Grants to States and Localities	17.253	9W194A1	29,972	
Workforce Investment Act - Adult Program	17.258	21WT005	218,362	
Workforce Investment Act - Adult Program	17.258	3A894A1	42,380	
Workforce Investment Act - Adult Program	17.258	3A194A1	104,365	
Workforce Investment Act - Adult Program	17.258	3A494A6	96,233	
Workforce Investment Act - Adult Program	17.258	3AEN005	78,000	
Workforce Investment Act - Youth Activities	17.259	3Y194A1	55,504	
Workforce Investment Act - Youth Activities	17.259	3Y894A2	42,431	
Workforce Investment Act - Dislocated Workers	17.260	3D194A1	158,045	

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Workforce Investment Act - Dislocated Workers	17.260	3D894A3	44,318	
Workforce Investment Act - Dislocated Workers	17.260	3D494A7	149,208	
Workforce Investment Act - Dislocated Workers	17.260	3T194A1	14,700	
Workforce Investment Act - Dislocated Workers	17.260	128839400	5,011	
Trident Workforce Development Board:				
Workforce Investment Act - Adult Program	17.258	3110606	38,732	
Workforce Investment Act - Adult Program	17.258	3110606-2	39,474	
Workforce Investment Act - Youth Activities	17.259	3110606	38,732	
Workforce Investment Act - Youth Activities	17.259	3110606-2	39,474	
Workforce Investment Act - Dislocated Workers	17.260	3110606	38,732	
Workforce Investment Act - Dislocated Workers	17.260	3110606-2	39,474	
Pee Dee Regional Council of Governments:				
Workforce Investment Act - Adult Program	17.258	3A507B1	142,787	
Workforce Investment Act - Adult Program	17.258	3A207B1	1,012,775	
Workforce Investment Act - Adult Program	17.258	3A807B5	13,533	
Workforce Investment Act - Adult Program	17.258	3A807B1	116,964	
Workforce Investment Act - Adult Program	17.258	3A807B4	19,705	
Workforce Investment Act - Adult Program	17.258	3A807B6	20,734	
Workforce Investment Act - Youth Activities	17.259	3A807B5	6,766	
Workforce Investment Act - Youth Activities	17.259	3Y807B1	111,693	
Workforce Investment Act - Dislocated Workers	17.260	3D807B1	77,733	
Workforce Investment Act - Dislocated Workers	17.260	3A807B5	13,533	
Workforce Investment Act - Dislocated Workers	17.260	3D504B1	140,501	
Workforce Investment Act - Dislocated Workers	17.260	3D207B1	474,624	
Workforce Investment Act - Dislocated Workers	17.260	3E207B1	101,798	
Job Training Partnership Act (JTPA)	17.250	91898B1	67	
Catawba Regional Planning Council of Governments:				
Workforce Investment Act - Adult Program	17.258	3129961	92,593	
Workforce Investment Act - Adult Program	17.258	3119961	63,415	
Workforce Investment Act - Adult Program	17.258	3149961	84,837	
Workforce Investment Act - Adult Program	17.258	3179961	78,543	
Workforce Investment Act - Youth Activities	17.259	3319961	44,574	
Workforce Investment Act - Dislocated Workers	17.260	3229961	61,491	
Workforce Investment Act - Dislocated Workers	17.260	3219961	43,742	
Workforce Investment Act - Dislocated Workers	17.260	3249961	58,746	
Workforce Investment Act - Dislocated Workers	17.260	3279961	91,222	
Job Training Partnership Act (JTPA)	17.250	9189961	49	
Job Training Partnership Act (JTPA)	17.250	9Y89961	12	
Lower Savannah Council of Government:				
Workforce Investment Act - Adult Program	17.258	31S9700	351,420	
Workforce Investment Act - Adult Program	17.258	31S9700	34,080	
Workforce Investment Act - Youth Activities	17.259	32S9700	416,664	
Workforce Investment Act - Dislocated Workers	17.260	33S9700	239,310	
Santee Lynches Regional Planning Council of Governments:				
Workforce Investment Act - Adult Program	17.258	34710Z1	681,311	
Workforce Investment Act - Youth Activities	17.259	44710Z1	25,366	
Workforce Investment Act - Dislocated Workers	17.260	34710Z2	470,515	
Job Training Partnership Act (JTPA)	17.250	91010Z2	45	
Waccamaw Regional Planning Council of Governments:				
Workforce Investment Act - Adult Program	17.258	3149B08	541,711	
Workforce Investment Act - Dislocated Workers	17.260	3249B08	1,261,269	
Workforce Investment Act - Dislocated Workers	17.260	DW NEG#2	24,853	
Workforce Investment Act - Dislocated Workers	17.260	DW NEG02	392,943	
Job Training Partnership Act (JTPA)	17.250	8189B02	61	
Job Training Partnership Act (JTPA)	17.250	8489B02	10	

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
Job Training Partnership Act (JTPA)	17.250	9149B02	91	
Job Training Partnership Act (JTPA)	17.250	9189B02	101	
Job Training Partnership Act (JTPA)	17.250	9489B02	28	
Lowcountry Council of Governments:				
Workforce Investment Act - Adult Program	17.258	3119C01	8,005	
Workforce Investment Act - Youth Activities	17.259	3319C01	7,616	
Workforce Investment Act - Dislocated Workers	17.260	3219C01	3,913	
State Wide:				
Welfare to Work Grants to States and Localities	17.253	9W100A2	8,026	
Welfare to Work Grants to States and Localities	17.253	9W100A1	3,977	
Workforce Investment Act - Adult Program	17.258	2T10021	1,151	
Workforce Investment Act - Adult Program	17.258	3T10021	54,004	
Workforce Investment Act - Adult Program	17.258	2A10021	697,402	
Workforce Investment Act - Adult Program	17.258	3B10021	3,649	
Workforce Investment Act - Youth Activities	17.259	3Y10021	665,739	
Workforce Investment Act - Youth Activities	17.259	3B10021	15,343	
Workforce Investment Act - Dislocated Workers	17.260	3R100SL	7,686	
Workforce Investment Act - Dislocated Workers	17.260	3R100A1	199,240	
Workforce Investment Act - Dislocated Workers	17.260	3D100A1	656,991	
Workforce Investment Act - Dislocated Workers	17.260	3B10021	15,343	
Workforce Investment Act - Dislocated Workers	17.260	2C99DP1	2,766	
Workforce Investment Act - Dislocated Workers	17.260	3C99DP1	102,897	
Workforce Investment Act - Dislocated Workers	17.260	128830360	1,336,245	
Workforce Investment Act - Dislocated Workers	17.260	MI NEG	144,377	
Workforce Investment Act - Dislocated Workers	17.260	NEG HI	200,000	
Workforce Investment Act - Dislocated Workers	17.260	LWIA IFT	158,588	
Workforce Investment Act - Incentive Grants Section 503	17.267	3I10021	21,090	
TOTAL U.S. DEPARTMENT OF LABOR			192,309,272	42,556,199
U.S. Department of Education				
Vocational Education - Occupational & Employment Information - State Grants	84.346		142,000	
U.S. Department of Health and Human Services				
Passed through from the South Carolina Department of Social Services				
Child Support Enforcement	93.563		7,653	
TOTAL FEDERAL ASSISTANCE			<u>\$ 192,458,925</u>	<u>\$ 42,556,199</u>

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated July 8, 2005. 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.

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 certain 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 as items 04-1 to 04-5.

A material weakness is a reportable 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 caused by error or fraud 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 described on the accompanying Schedule of Findings and Questioned Costs as items 04-1 through 04-5 are material weaknesses.

We also noted other matters involving the internal control over financial reporting which are described as Other Management Letter Comments as detailed on page 51.

Compliance and Other Matters

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 of laws, regulations, contracts, and grant agreements, 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.



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

Rogers + Lalan, PA

July 8, 2005



**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 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 its major federal program for the year ended June 30, 2004. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 its major federal programs for the year ended June 30, 2004. However, the reports 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 04-6 to 04-8.

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.



1919 BULL STREET • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • Email: cpa@rogerslaban.com

*Investment Advisory Services Offered
Through 1st Global Advisors, Inc.*

*Securities Offered Through 1st Global
Capital Corp Member NASD, SIPC*

*Insurance Services Offered Through
1st Global Insurance Services, Inc.*

We noted certain matters involving the internal control over compliance and its operation that we consider to be a 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 04-6 through 04-8.

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

Roger A. Lalan, PA

July 8, 2005

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. An unqualified opinion dated July 8, 2005 on the financial statements of the Commission for the year ended June 30, 2004 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 July 8, 2005 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 Commission are as follows:

<u>CFDA #</u>	<u>PROGRAM</u>
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance - Workers
17.253	Welfare to Work Grants to State & Localities
17.258	Workforce Incentive Act - Adult
17.259	Workforce Incentive Act - Youth

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

04-1. 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 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.

The same 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 prepared in accordance with generally accepted accounting principles. The STARS Manual requires agencies to reconcile expenditures at the appropriate level of detail.

Effect: The Commission is not producing accurate financial information.

Cause: The Commission is not maintaining its records in a manner which allows the preparation of accurate financial statements.

Recommendation: We recommend that the Commission post all audit adjustments to their general ledger and correctly record transactions between funds. The Commission should adjust off old balances for which there is no support and should ensure that the expenditures are reconciled to the records of the Comptroller General as required.

04-2. DEFICIENCIES IN RECONCILIATIONS OF BANK ACCOUNTS

Condition: Our review of the bank reconciliations for the various accounts disclosed the following deficiencies:

1. The reconciliation prepared for the general fund disclosed unposted reconciling items from fiscal year 1998 that had not been posted to the general ledger.
2. We noted that there was no evidence of review or approval for one of the bank reconciliations for January and that another reconciliation did not contain the signatures of the preparer or reviewer for the month of January.
3. We noted that the reconciliations of the outstanding check listing was prepared subsequent to the bank reconciliation instead of prior to or at the same time as the reconciliation.
4. The individual preparing the bank reconciliation for two of the accounts on deposit with the State Treasurer are not reconciling the amount to the general ledger used in the preparation of the financial statements. As of June 30, 2004 there was over a \$200,000 difference between the reconciled balance per the bank reconciliation and the general ledger.

Similar findings were cited in last year's management letter.

Criteria: Generally accepted accounting principles require bank accounts to be reconciled to the general ledger and that any required adjustments be posted in a timely manner. Good internal controls required the reconciliation to denote the signature of the preparer and of a review by a designated individual.

Effect: There is no evidence of the review process and the bank reconciliation process is unduly complicated because the old reconciling items have not been timely posted to the general ledger. Two of the accounts are not being reconciled to the general ledger being used in the preparation of the financial statements.

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 Commissions internal records as appropriate.

04-3. CAPITAL ASSETS DISPOSALS NOT RECORDED TIMELY

Condition: 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 approximately \$2,278,000 and an overstatement in accumulated depreciation in the amount of approximately \$2,254,000. The net effect was recorded as a prior period adjustment. This same finding was cited in prior years' management letters.

Criteria: Generally accepted accounting principles require that disposals be recorded in a timely manner.

Effect: Prior year capital assets were overstated.

Cause: Failure to ensure that all disposals were recorded in a timely manner.

Recommendation: The Commission should ensure that all transactions are recorded in a timely manner.

04-4. 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 less expenditures than they had been advanced resulting in decrease in the net receivable of approximately \$50,000. 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 a 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.

04-5. EXPENDITURES NOT RECONCILED TO BUDGET AND CONTROL BOARD

Condition: The State Budget and Control Board (the Board) provides oversight on construction project for the Commission. The Commission is required to advance funds to the Board before expenditures are incurred on its behalf. The expenditures and the receivable recorded by the Commission related to these projects do not agree with the amount reported by the Board by approximately \$14,600. In addition, the Commission is not booking an asset for unspent funds held by the Board on its behalf for various maintenance contracts. The total amount held by the Board at June 30 under these maintenance contracts totaled approximately \$46,000.

Criteria: Expenditures should only be recorded as incurred. A refundable advance should be recorded as an asset.

Effect: Understatement of receivables and overstatement of expenses.

Cause: Failure to reconcile all advances to records provided by the Board.

Recommendation: The Commission should reconcile its expenses to the report supplied by the Budget and Control Board.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

04-6. 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; WORK INCENTIVES GRANTS – CFDA# 17.266; 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 \$864,000 on the schedule of federal expenditures because they did not adjust the expenditures for the additional payables found after the books were closed and the errors detailed above on the sub-recipient receivables and did not take into account prior year journal entries made after the books were closed. 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 or its schedule of federal expenditures.

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

04-7. UNEMPLOYMENT INSURANCE – CFDA # 17.225

Condition: The Commission understated federal expenditures on the schedule of federal awards by approximately \$53,000 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. The same finding was cited in the prior year's management letter.

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.

04-8. UNEMPLOYMENT INSURANCE – CFDA # 17.225

Condition: The Commission submitted the SF-269 for the period ended June 30, 2004 which was due on July 30, 2004 on August 5, 2004. In addition, the ETA 227 for the same period which was due on August 1, 2004 was submitted on August 3, 2004.

Criteria: Federal grant requirement for the filing of various reports.

Effect: Reports were not filed by the required deadline.

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 Commission ensure that all reports are filed in a timely manner.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 2004

A. DEFICIENCIES IN JOURNAL ENTRIES

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 three of the vouchers. In addition, one of the vouchers was not prepared for the correct amounts based on the supporting documentation attached. The same finding was cited in last year's management letter.

We recommend that all entries be completed in their entirety including explanations to document compliance with the Commission's policies. Care should be taken to ensure that all journal entries are prepared correctly.

B. 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.

C. INVENTORY AMOUNT INCORRECT ON CLOSING PACKAGE

The Commission is required to submit a report to the State Comptroller General each year showing the amount of inventory on hand as of June 30. The amount reported was \$7,579 less than the actual amount reflected on the general ledger.

We recommend that additional care be exercised to ensure that all amounts are properly reflected in the reports filed with the Comptroller General.

D. HOURLY RATE PAID EXCEEDED CONTRACT AMOUNT

The Commission entered into a five year contract in 2002 for assistance in data processing. Based on the bid, the contractor was to be paid \$12.75 an hour. Our audit disclosed that the contractor was paid \$13.00 for part of the contract. When the matter was brought to the Commission's attention, they determined that they had overpaid the contractor approximately \$10,400. The Commission is recovering the overpayment by reducing future payments due to the contractor.

We recommend that the Commission ensure that all payment made under long-term contracts are based upon the agreed upon amounts.

E. UNINSURED / UNCOLLATERALIZED CASH BALANCE

The Commission had approximately \$3,540,000 of cash as of June 30, 2004 above the amount insured or collateralized at a local financial institution. State law requires that all accounts be fully insured or collateralized.

We recommend that the Commission implement procedures to ensure that all cash balances are fully insured or collateralized.

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

- 03-1. This finding was not corrected for the audit period ending June 30, 2004. This finding will be corrected as of July 1, 2005.
- 03-2. This finding was corrected in the year ending June 30, 2004.
- 03-3. This finding is created due to GAAP Reporting verses Grant Reporting requirement and cannot be corrected.
- 03-4. This finding was corrected in the year ending June 30, 2004.

CORRECTIVE ACTION PLAN

APPENDIX A

COMMISSIONERS
J. William McLeod
Becky D. Richardson
McKinley Washington, Jr.

EXECUTIVE DIRECTOR
Roosevelt T. Halley
803.737.2617



Your
onestop
for Workforce Solutions!
www.sces.org

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

August 18, 2005

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, 2004.

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

Audit Period: July 1, 2003 through June 30, 2004.

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 2004 was actually taking place in June 2005; therefore any proposed audit entries are after the fact and cannot be reflected in the agency fund balances as of June 30, 2004.
3. Lastly, management would like it noted that the findings issued are one percent or less of the total expenditures. Materiality should be established by the audit firm and complied with throughout all findings.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

04.1.1 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:

Corrective Action Plan

Page 2

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 accounts 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 the fund balance instead of recording them as transfers in each fund.
5. 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 classification in the records of the State and the Commission.

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

Recommendation: We recommend that the Commission post all audit adjustments to their general ledger and correctly record transactions between funds. The Commission should adjust old balances for which there is no support and should ensure that the expenditures are reconciled to the records of the Comptroller General, as required.

Response: The Commission does not record all adjusted journal entries proposed by the auditors and fund balances do not agree to the audited financial statements due to the audit period ended June 30 of the year and entries were received 9 to 13 months later; therefore, the next year's beginning balance (the previous year's ending balance) cannot be adjusted. Also, all proposed journal entries are at the summary level and not at the detail level; therefore, entries cannot be posted appropriately.

South Carolina State Budget Proviso 57.3 allows the Commission to pay prior year expenditures out of current year funds due to federal grants being two or three year agreements. By admission of the auditor, if the expenditure overstates the current period, it was understated in the prior period.

Corrective Action Plan

Page 3

The Commission does reconcile operating expenditures to the Comptroller General's records in total as the State of South Carolina does not have an allocation process by which expenditures are allocated to all programs within a specific operations area by functional activity. At the time the State of South Carolina implements the South Carolina Enterprise Information System, this finding will no longer be valid.

The Commission will be adjusting funds and accounts with balances to zero.

04.2 DEFICIENCIES IN RECONCILIATIONS OF BANK ACCOUNTS

Condition: Our review of the bank reconciliations for the various accounts disclosed the following deficiencies:

1. The reconciliation prepared for the general fund disclosed unposted reconciling items from fiscal year 1998 that had not been posted to the general ledger.
2. We noted that there was no evidence of review or approval for one of the bank reconciliations for January and that another reconciliation did not contain the signatures of the preparer or reviewer for the month of January.
3. We noted that the reconciliations of the outstanding check listing was prepared subsequent to the bank reconciliation instead of prior to or at the same time as the reconciliation.
4. The individual preparing the bank reconciliation for two of the accounts on deposit with the State Treasurer are not reconciling the amount to the general ledger used in the preparation of the financial statements. As of June 30, 2004, there was over a \$200,000 difference between the reconciled balance, per the bank reconciliation and the general ledger.

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 Commissions internal records, as appropriate.

Response: The Commission agrees the January 2004 bank reconciliations were not reviewed or approved and that another did not contain the signatures of the preparer or the reviewer. The Commission finds it immaterial whether the outstanding check reconciliation is prepared before or after the bank reconciliation as they are both completed each month. The outstanding listing of checks is generated from our benefit system and not the bank. The Commission notes that all unposted reconciling items from 1998 have been posted to the general ledger. Also, the individual preparing the bank reconciliation for two of the accounts on deposit with the State

Corrective Action Plan

Page 4

Treasurer reconciles the balances at the State Treasurer with the general ledger each month.

04.3 CAPITAL ASSETS DISPOSALS NOT RECORDED TIMELY

Condition: 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 approximately \$2,278,000 and an overstatement in accumulated depreciation in the amount of approximately \$2,254,000. The net effect was recorded as a prior period adjustment. This same finding was cited in prior years' management letters.

Recommendation: The Commission should ensure that all transactions are recorded in a timely manner.

Response: While the Commission records all disposals as they are received, the Commission conducted a one hundred percent audit of all offices and all inventories have been adjusted to actual.

04.4 SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED

Condition: Our audit of subrecipient advances receivable disclosed that the Commission had not prepared the adjustment for the advances account in a timely manner. Some of the recipients had actually incurred less expenditures than they had been advanced resulting in a decrease in the net receivable of approximately \$50,000. 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.

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.

Response: The Commission has reviewed this finding and does not agree with it. The receivable account recognizes cash advanced to the subrecipients and is adjusted to actual, based on monthly reports of expenditures. If the subrecipient has less expenditures than they have been advanced, the balance would be reflected in the receivable account. This finding pertains to the administering of the Commission's Workforce Investment Act Program, which has been transferred from the Commission to another agency; therefore this finding is no longer valid.

04.5 EXPENDITURES NOT RECONCILED TO BUDGET AND CONTROL BOARD

Condition: The State Budget and Control Board (the Board) provides oversight on construction projects for the Commission. The Commission is required to advance funds to the Board before expenditures are incurred on its behalf. The expenditures and receivables recorded by the Commission, related to these projects, do not agree with the amount reported by the Board by approximately \$14,600. In addition, the Commission is not booking an asset for unspent funds held by the Board on its behalf for various maintenance contracts. The total amount held by the Board at June 30 under these maintenance contracts totaled approximately \$46,000.

Recommendation: The Commission should reconcile its expenses to the report supplied by the Budget and Control Board.

Response: The Commission receives from the Budget and Control Board (the Board) a monthly itemized listing of vendor payments made, by construction project, to which it reconciles expenditures and receivables. The \$14,600 cited in this finding is for accounts payable for one project, which is not considered in the vendor payment listing. The report referred to by the auditor was completed February 22, 2005 by the Board. The maintenance contracts are not considered a capital project and are expensed at the time payment is made to the Board.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD

04.6 U.S. DEPARTMENT OF LABOR – LABOR FORCE STATISTICS – CFDA # 17.002; LABOR CERTIFICATION FOR ALIEN WORKERS – CDFA #17.203; EMPLOYMENT SERVICE – CDFA # 17.207; UNEMPLOYMENT INSURANCE – CDFA # 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; WORKFORCE INCENTIVE GRANTS – CFDA # 17.266; 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

Corrective Action Plan

Page 6

Condition: The Commission over reported federal expenditures by approximately \$864,000 on the Schedule of Federal Expenditures because they did not adjust the expenditures for the additional payables found after the books were closed and errors detailed above on the sub-recipient receivables and did not take into account prior year journal entries made after the books were closed. 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 Commission does not agree with this finding. Additional benefit payables found after the books closed totaled approximately \$600,000, which was not established until the middle of August 2004; this also includes subrecipient expenses that were not reported until August 2004. The Schedule of Federal Expenditures is at a specific point in time and cannot be left open indefinitely to allow all expenditures from a prior year to filter through. These grants are expended across more than one accounting cycle and expenditures not reported in one will be reported in the next. Also, included in this amount is approximately \$53,000 that should not have been adjusted by the auditor. The aforementioned amount is cited in finding 04-7.

04.7 Unemployment Insurance – CFDA # 17.225

Condition: The Commission understated federal expenditures on the schedule of federal awards by approximately \$53,000 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. The same finding was cited in the prior year's management letter.

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 Commission once again does not agree with this finding or with the opinion of the audit firm. Coordination between the two managements exist and is not a financial condition but an opinion of the auditor. Coordination between the audit firm and the management of the Unemployment Insurance Fund would have determined the amount stated in the schedule of federal awards to be correct.

04.8 Unemployment Insurance – CDFA # 17.225

Condition: The Commission submitted the SF-269 for the period ended June 30, 2004 which was due on July 30, 2004 on August 5, 2004. In addition, the ETA 227 for the same period which was due on August 1, 2004 was submitted on August 3, 2004.

Recommendation: We recommend that management of the Commission ensures that all reports are filed in a timely manner.

Response: The Commission understands the timely submittal of all federal reports. The Commission has been in contact with the Regional Office and agrees that while the due date was missed, if it was a constant problem, it would have been addressed directly by the Department of Labor to the Commission. The Commission is currently in violation of OMB Circular A-133, Section .320, whereas the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of reports or nine months after the end of the audit period.

OTHER MANAGEMENT LETTER COMMENTS

A. DEFICIENCIES IN JOURNAL ENTRIES

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 three of the vouchers. In addition, one of the vouchers was not prepared for the correct amounts based on the supporting documentation attached. The same finding was cited in last year's management letter.

Recommendation: We recommend that all entries be completed in their entirety, including explanations to document compliance with the Commission's policies. Care should be taken to ensure that all journal entries are prepared correctly.

Response: The Commission agrees with the finding and will ensure all input sheets are prepared correctly.

B. 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 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, Migrant and Seasonal Farm Workers monitoring, etc. Further expansion of the department's responsibilities and staffing is not planned at this time; however, management will continue to monitor the need.

C. INVENTORY AMOUNT INCORRECT ON CLOSING PACKAGE

Condition: The Commission is required to submit a report to the State Comptroller General each year showing the amount of inventory on hand as of June 30. The amount reported was \$7,579 less than the actual amount reflected on the general ledger.

Recommendation: We recommend that additional care be exercised to ensure that all amounts are properly reflected in the reports filed with the Comptroller General.

Response: The Commission will exercise care to ensure that all amounts filed in the reports with the Comptroller General are properly reflected.

D. HOURLY RATE PAID EXCEEDED CONTRACT AMOUNT

Condition: The Commission entered into a five-year contract in 2002 for assistance in data processing. Based on the bid, the contractor was to be paid \$12.75 an hour. Our audit disclosed that the contractor was paid \$13.00 for part of the contract. When the matter was brought to the Commission's attention, they determined that they had overpaid the contractor approximately \$10,400. The Commission is recovering the overpayment by reducing future payments due to the contractor.

Recommendation: We recommend that the Commission ensure that all payments made under long-term contracts are based upon the agreed upon amounts.

Response: As stated in the condition, the Commission is reducing future payments by the prorated overpayment amount.

E. UNINSURED / UNCOLLATERALIZED CASH BALANCE

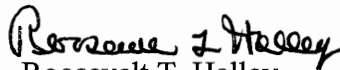
Condition: The Commission had approximately \$3,540,000 of cash as of June 30, 2004 above the amount insured or collateralized at a local financial institution. State law requires that all accounts be fully insured or collateralized.

Recommendation: We recommend that the Commission implement procedures to ensure that all cash balances are fully insured or collateralized.

Response: The Bank of America established new procedures for collateralizing bank accounts in November 2004 whereby the bank pulls balances from the previous day and adjusts the collateral up or down to agree with balances. With balances fluctuating daily, this projection can vary.

If there are any questions, or if additional information is needed, please contact Dianne Richardson, Accounting Manager, at (803) 737-2560.

Sincerely,


Roosevelt T. Halley
Executive Director

RTH:sc

REF: AS-4