SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
COLUMBIA, SOUTH CAROLINA

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 1999

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

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YEAR ENDED JUNE 30, 1999

State of South Carolina

Office of the State Auditor

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STATE AUDITOR

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August 30, 2001

The Honorable Jim Hodges, Governor
and
Commissioners
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, 1999, 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,

Richard H. Gilbert, Jr.

for Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the South Carolina Employment Security Commission (the Commission) as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The Commission declined to present a statement of revenues, expenditures, and changes in fund balances – budget and actual for the year ended June 30, 1999. Presentation of such a statement for those governmental funds for which budgets have been legally adopted is required by accounting principles generally accepted in the United States of America.

In our opinion, except that the omission of the statement of revenues, expenditures and changes in fund balances – budget and actual results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Commission as of June 30, 1999, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 18 and 19, management discovered that certain errors were made in the application of accounting principles resulting in the over and under reporting of various assets and liabilities and that certain assets and revenues were misclassified in the prior year.

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

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In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2001 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Rogers + Lalan, PA

August 10, 2001

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
ASSETS AND OTHER DEBITS	General	Special Revenue	Capital Projects	Expendable Trust	General Fixed Assets	General Long-Term Debt
Cash and cash equivalents	$ 16,574,302	$136,777	$	$ 752,230,645	$	$
Accrued interest receivable				12,402,184		
Taxes receivable - net	2,884,015			45,559,946		
Benefit overpayments receivable - net				5,776,647		
Due from reimbursable employers - net				345,756		
Capital improvement bond proceeds receivable			239,455			
Intergovernmental receivables - net:						
State				538,256		
Local governments				672,575		
Other states				651,727		
Federal	5,490,283			370		
Interfund receivables	1,330,713					
Subrecipient advances - receivable	901,454					
Inventories	237,616					
Prepaid items	577,363					
Other assets	409					
Property and equipment:						
Land and land improvements					3,010,600	
Buildings					21,919,231	
Furniture and equipment					17,493,804	
Construction in progress					301,913	
Amount to be provided for retirement of general long-term debt						9,858,767
TOTAL ASSETS AND OTHER DEBITS	$ 27,996,155	$ 136,777	$ 239,455	$ 818,178,106	$ 42,725,548	$ 9,858,767

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 1999

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Capital Projects	Expendable Trust	General Fixed Assets	General Long-Term Debt
LIABILITIES, FUND EQUITY AND OTHER CREDITS						
LIABILITIES:						
Accounts payable	$ 6,690,571	$ 8,947	$ -	$ 59,501	$ -	$ -
Accrued salaries and related benefits	3,412,588	24,806				
Intergovernmental payables:						
Federal		21		300,484		
Contributions payable				3,039,243		
Interfund payables				1,330,713		
Deferred revenue	10,131,297			14,516,550		
Capital lease payable						921,279
Liability for capital improvement bond notes payable						3,470,746
Accrued compensated absences and related benefits						5,466,742
TOTAL LIABILITIES	20,234,456	33,774	-	19,246,491		9,858,767
FUND EQUITY AND OTHER CREDITS:						
Investment in general fixed assets					42,725,548	
Fund balances:						
Reserved for Reed Act expenditures				313,141		
Reserved for unemployment benefits				798,618,474		
Reserved for capital projects expenditures			239,455			
Reserved for SCOICC		103,003				
Unreserved fund balance:						
Undesignated fund balance	7,761,699					
TOTAL FUND EQUITY AND OTHER CREDITS	7,761,699	103,003	239,455	798,931,615	42,725,548	
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	$ 27,996,155	$ 136,777	$ 239,455	$ 818,178,106	$ 42,725,548	$ 9,858,767

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS FOR THE YEAR ENDED JUNE 30, 1999

	General	Special Revenue	Capital Projects	Expendable Trust
REVENUES:				
Employer tax contributions	$ -	$	$	$ 161,044,837
Employer tax contingency assessment	7,016,616			
Employer tax - penalties and interest	885,912			
Reimbursement of unemployment compensation benefits from employers				960,295
Benefit overpayment recoveries				2,618,565
User fees		349,413		
Intergovernmental:				
Local				2,874,615
State (South Carolina)	2,783,886	250,554		2,411,706
Other states				2,824,265
Federal	90,709,428	117,974		6,634,317
Interest/investment income				49,056,548
Miscellaneous revenues	304,837			
TOTAL REVENUES	101,700,679	717,941		228,425,148
EXPENDITURES:				
Current:				
Employment and training administration	38,508,894			
Contingency assessment	5,809,447			
Penalties and interest	470,916			
Job Training Partnership Act	39,632,395			
Welfare to Work	8,913,978			
Other federal programs	4,031,737			
Other non-federal programs	158,318			
Parking	56,775			
Occupational Information Coordinating Committee		901,003		
Unemployment compensation benefits - State				191,112,801
Unemployment compensation benefits - Federal				6,528,724
Capital outlay	1,741,605	84,645	576,563	
Debt service:				
Principal	867,278	641		
Interest	295,388	67		
TOTAL EXPENDITURES	100,486,731	986,356	576,563	197,641,525
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,213,948	(268,415)	(576,563)	30,783,623
OTHER FINANCING SOURCES (USES):				
Operating transfers in			576,563	40,404
Operating transfers out	(616,967)			
Proceeds from the sale of fixed assets	3,842			
TOTAL OTHER FINANCING SOURCES (USES)	(613,125)		576,563	40,404
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	600,823	(268,415)		30,824,027
BEGINNING FUND BALANCES, as previously reported	7,442,454	371,418	239,455	768,107,588
PRIOR PERIOD ADJUSTMENTS	(281,578)			
BEGINNING FUND BALANCES, as restated	7,160,876	371,418	239,455	768,107,588
ENDING FUND BALANCES	$ 7,761,699	$ 103,003	$ 239,455	$ 798,931,615

See accompanying Notes to Financial Statements.

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; or,
(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,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity (Continued)

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

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

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

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

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

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

Fund Accounting

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

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Accounting (Continued)

in the combined statements have been reported by fund type. An account group is a financial reporting device designed to provide financial accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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

Governmental Fund Types

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Fund Types (Continued)

General Fund (Continued)

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

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

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

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

Welfare-to-Work Program (WtW) – The Commission serves as the administrative entity for the Welfare-to-Work Program in South Carolina. This includes planning coordinated services with the twelve (12) Service Delivery Areas (SDA's) and managing the state level grants for special projects. In addition, the Commission provides technical assistance to grantees and conducts programmatic and financial monitoring of the grants.

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

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

The Welfare-to-Work 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Fund Types (Continued)

General Fund (Continued)

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Fund Types (Continued)

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

Fiduciary Fund Types

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

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

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

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

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

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

Emergency Unemployment Compensation (EUC) – This fund 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. This program ended April 30, 1994. The remaining activity consists of benefit overpayment recoveries which are refunded to the Federal Government.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Accounts Groups

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

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

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

Basis of Accounting

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

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

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budget Policy (Continued)

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

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

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

Cash and Cash Equivalents

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

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

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Receivables/Deferred Revenue

Receivables and related deferred revenue consist of the following:

Taxes Receivable – Net

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

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

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

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

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

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

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

Due from Reimbursable Employers – Net

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Receivables/Deferred Revenue (Continued)

Due from Reimbursable Employers – Net (Continued)

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

Intergovernmental Receivables - Net

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

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

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

Benefit Overpayments Receivable – Net

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

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

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

Deferred Revenue on 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fixed Assets

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

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

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 1999. The Commission calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts

Indirect Cost Recoveries

The Commission recovers indirect cost from federal funding sources based on negotiated indirect cost agreement approved by the U.S. Department of Labor, Office of Cost Determination. The indirect cost recovered via this agreement is used to offset the administrative costs of the Commission and services provided by other state agencies. During the period July 1, 1998 through June 30, 1999, the Commission recovered $6,588,507 of indirect cost from the above

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Indirect Cost Recoveries (Continued)

agreement, from the various federal agencies. Of this amount, $327,221 was remitted to the State and $6,261,286 was retained by the Commission to offset administrative costs. Indirect cost recoveries are reported as federal revenues. The $327,221 that was remitted to the State is reported as expenditures of the various programs.

Interfund Transactions

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

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

Inventories

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

Prepaid Items

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

Intergovernmental Payables

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Contributions Payable

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

Fund Equity

Reserves represent those portions of governmental and Expendable Trust Fund balances not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative managerial plans for future use of unreserved financial resources. At June 30 1999, two of the Commission's reserves were as follows:

Reed Act Funds – The Commission has funds totaling $313,141 available under the Reed Act. These funds have not been appropriated by the General Assembly. A reserve has been established to account for the funds until they are legally appropriated.

SCOICC – Pursuant to 1999 Appropriation Act Proviso 51.3, all user fees collected by the South Carolina Occupational Information Coordinating Committee through the Commission may be retained to use for operating the South Carolina Occupational Information System. All user fees not expended in the prior fiscal year were brought forward for use in the current fiscal year. As provided by 2000 Appropriation Act Proviso 51.3, all user fees not expended in fiscal year 1999 may be carried forward to fiscal year 2000 for use in the SCOICC program. At June 30, 1999, $103,003 was carried forward and is reported as a reserved fund balance.

Use of Estimates

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

NOTE 2. DEPOSITS:

The amounts shown as cash and cash equivalents on the balance sheet at June 30, 1999 are composed of the following:

Cash on hand	$ 800
Deposits held by State Treasurer	16,928,818
Deposits held by U.S. Treasury	750,891,546
Other deposits	1,120,560
Totals	$ 768,941,724

Deposits held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1999, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

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

Deposits held by U.S. Treasury

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

Other Deposits

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

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

NOTE 3. RECEIVABLES AND DEFERRED REVENUE:

The receivable balances at June 30, 1999 and the related amounts for the allowances for uncollectibles and deferred revenue are as follows:

Type	Receivables at June 30, 1999	Allowance for Uncollectibles	Net Receivables	Deferred Revenue
Taxes Receivable - Net				
General Fund				
Penalties and interest	$7,384,018	$6,189,218	$1,194,800	$998,231
Contingency assessment	1,941,082	251,867	1,689,215	175,321
Totals	$9,325,100	$6,441,085	$2,884,015	$1,173,552
Expendable Trust Fund (ETF)				
Employer tax contributions (UI)	$64,200,697	$18,640,751	$45,559,946	$9,000,959
Due From Reimbursable Employers - Net (ETF)				
Non-profit employers (UI)	$383,448	$37,692	$345,756	$145,433
Intergovernmental Receivables - Net				
State agencies (ETF - UI)	$538,256	$0	$538,256	$0
Local governments (ETF - UI)	$672,575	$0	$672,575	$48,998
Other states (ETF - UI)	$651,727	$0	$651,727	$10,817
Federal grants				
General fund	$5,490,283	$0	$5,490,283	$0
Expendable Trust Fund (EB)	$370	$0	$370	$0
State grants				
General fund				$8,957,745
Benefit Overpayment Receivable - Net (ETF)				
Basic Unemployment Compensation (UI)	$7,579,544	$2,061,636	$5,517,908	$5,066,262
Federal Employees (UCFE)	81,353	22,128	59,225	54,902
Ex-Servicemen (UCX)	183,872	50,013	133,859	125,859
Trade Readjustment (TRA)	88,857	24,169	64,688	62,403
Emergency Unemployment Compensation (EUC)	1,328	361	967	917
Totals	$7,934,954	$2,158,307	$5,776,647	$5,310,343
Total deferred revenue				$24,647,847
Allocated to:				
General Fund				$10,131,297
Expendable Trust Fund				$14,516,550

NOTE 4. INTERFUND/INTRAFUND RECEIVABLES/PAYABLES:

Interfund Receivables/Payables

The amount shown on the financial statements as being interfund receivables represents amounts which were collected for penalties and interest and contingency assessments in tax remittances from employers. That portion of the monies collected which are to be transferred to the General Fund were held in the Expendable Trust Clearing Account at June 30, 1999. Amounts due from the Expendable Trust Fund – Basic Unemployment Compensation to the General Fund as of June 30, 1999 are as follows:

Contingency assessment	$1,198,651
Principal and interest	132,062
	$1,330,713

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

Intrafund Receivables/Payables

Additionally, intrafund transactions occur whereby accounts within the General Fund and the individual Expendable Trust Funds borrow resources on a short-term basis from other accounts/funds within that fund type. There were no intrafund receivables/payables at June 30, 1999.

NOTE 5. PROPERTY AND EQUIPMENT:

A summary of changes in general fixed assets for the fiscal year ended June 30, 1999 follows:

	Land and Land Improvements	Buildings	Furniture and Equipment	Construction in Progress	Totals
Beginning balances	$ 2,503,741	$ 21,886,331	$ 15,848,540	$ 265,109	$ 40,503,721
Additions			1,828,600	576,563	2,405,163
Deletions			(183,336)		(183,336)
Completed project costs reclassified to fixed asset category	506,859	32,900		(539,759)	
Ending balances	$ 3,010,600	$ 21,919,231	$ 17,493,804	$ 301,913	$ 42,725,548

The cost of equipment under capital lease at June 30, 1999 was $832,565.

NOTE 6. CHANGES IN GENERAL LONG-TERM DEBT:

A summary of changes in long-term debt for the year ended June 30, 1999 was:

	Balance, July 1, 1998	Additions	Retirements	Balance, June 30, 1999
Capital leases payable	$ 1,318,307	$	$ 397,028	$ 921,279
Capital improvement bond notes payable	3,941,637		470,891	3,470,746
Accrued compensated absences	5,211,998	254,744		5,466,742
Total	$10,471,942	$254,744	$ 867,919	$ 9,858,767

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

NOTE 7. CAPITAL PROJECTS:

In prior years, the State authorized funds for improvements and expansion of facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the Commission records the proceeds as revenue and the bond issue costs as expenditures in the capital projects fund. These authorized funds can be 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. The total balance for the undrawn portions of the authorizations is reported in the combined balance sheet as “capital improvement bond proceeds receivable.”

During 1987, the Commission embarked on an extensive building program to replace leased office space with permanent office buildings. This program is being funded primarily by federal grant funds and general obligation bonds. Repayment of the general obligation bonds is the responsibility of the Commission. The issuance of the bonds authorized for the office buildings program is conditioned on an agreement with the appropriate federal authorities under which federal funds will be available to cover the retirement of the bonds. A summary of the balance receivable from this authorization as of June 30, 1999 follows:

Act	Total Authorized	Amount Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 1999	Balance Authorized June 30, 1999
538 of 1987	$5,607,000	$5,367,545	$ -0- -	$239,455

The bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations for which notes had been executed as of June 30,1999, are as follows:

Year Ending June 30,	Principal	Interest	Total
2000	$ 285,609	$ 231,065	$ 516,674
2001	305,732	210,941	516,673
2002	327,275	189,398	516,673
2003	350,336	166,337	516,673
2004	375,024	141,649	516,673
2005 through 2011	1,826,770	289,069	2,115,839
Total Obligations	$3,470,746	$1,228,459	$4,699,205

NOTE 7. CAPITAL PROJECTS: (CONTINUED)

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

In prior years, the Commission had drawn $246,045 in CIB funds for which a note had not been established.

During the fiscal year, the Commission paid $470,891 and $248,716 in principal and interest, respectively, on Capital Improvement Bond Notes Payable including $206,045 additional principal on CIB funds for which a note payable has not been established. A note was executed during the year for the remaining $40,000 at an interest rate of 5.3% per annum maturing in 2006.

The Commission has capital projects in progress at June 30, 1999 which are expected to be completed over the next two years at an estimated total cost of approximately $2,490,000. At June 30, 1999 $301,913 was expended for the capital projects in progress. The estimated cost to complete the capital projects in progress is approximately $2,188,000. The Commission did not have any outstanding commitments attributable to the capital projects in progress at June 30, 1999.

NOTE 8. OPERATING LEASES:

The Commission has entered into operating leases for office space and office equipment. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on a monthly basis. Ending payment dates range from fiscal years from 1999 through 2003. 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 was approximately $251,600 and $445,200, respectively, for the year ended June 30, 1999. The following is a schedule by years of future minimum rental payments at June 30, 1999 required under the noncancellable operating lease agreements with remaining terms at June 30, 1999 in excess of one year.

Year ending June 30	Amount
2000	$152,671
2001	122,183
2002	78,320
2003	56,626
2004	45,264
2005 and thereafter	73,219
Total	$528,283

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 9. CAPITAL LEASES:

Capital leases consist of the following:

Lease on computer equipment (CPU, software, maintenance, technical support), payable in monthly installments of $33,875 including interest at 4.3% with maturity in June, 2001	$ 715,600
Lease on computer equipment (printer) payable in monthly installments of $5,225 including interest at 4.9% with maturity in January, 2003	205,679
	$ 921,279

One capital leases was paid in full during the fiscal year.

All of the leases provide that title passes after the final payment is made.

The cost of equipment under capital leases totalled approximately $811,000 as of June 30, 1999.

Total payments on capital leases for the year ended June 30, 1999 was $443,766 and consisted of $397,028 of principal and $46,738 of interest.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 1999:

Year Ending June 30,	Principal	Interest	Total
2000	$ 404,630	$ 30,693	$ 435,323
2001	421,308	14,014	435,322
2002	59,349	3,351	62,700
2003	35,992	583	36,575
Totals	$ 921,279	$ 48,641	$ 969,920

NOTE 10. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Department have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 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. Employees may withdraw the current value of their contributions when they terminate State employment. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred condensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. Employees may also withdraw contributions prior to termination if they meet the requirements that are specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 11. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Commission are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these 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 State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the Commission for it's 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 20,100 retirees met these eligibility requirements as of June 30, 1999.

The Commission recorded employer contributions expenditures within the applicable program for these insurance benefits for active employees in the amount of approximately $2,550,000 for the year ended June 30, 1999. As discussed in Note 12, the Commission paid approximately $690,000 applicable to the 2.03 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.

NOTE 11. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

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

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

NOTE 12. PENSION PLANS:

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.

Some of the 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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 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 deferred annuity after five years service and qualify for a survivor’s benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. 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.

Since July 1, 1988, employees participating in the SCRS have been required to contribute six percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Commission’s actual contributions to the SCRS for the three most recent years ended June 30, 1999, 1998 and 1997 were approximately $2,564,000, $2,448,000 and $2,484,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid in the current fiscal year employer group-life insurance contributions of approximately $50,500 at the rate of .15 percent of compensation.

NOTE 12. PENSION PLANS (CONTINUED):

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, 1998, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The Department's actual contributions to the PORS for the three most recent years ended June 30, 1999, 1998 and 1997 were approximately \$5,500, \$6,900 and \$8,700, 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 \$100 and accidental death insurance contributions of approximately \$100 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 insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable program expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits and employee/employer contributions for each retirement plan. 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 liabilities 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

NOTE 12. PENSION PLANS (CONTINUED):

pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor 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 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 13. 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 coverages 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.

NOTE 13. RISK MANAGEMENT: (CONTINUED)

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 14. 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. $258,369 was earned as of June 30, 1998 and $2,783,886 was earned in the current year and the $8,957,745 remainder is included in deferred revenue.

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

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

NOTE 15. STATE APPROPRIATION:

The Commission received $250,544 from State appropriations during the year to use for operating expenses of the SCOICC.

NOTE 16. CONTINGENCIES:

Federal Grants - The various programs administered by the Commission for fiscal years June 30, 1999 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 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 17. TRANSFERS

The Commission has a set of accounts required by the State of South Carolina which is used to pay for the normal expenditures in the purchase and construction of agency buildings. There are three types of funds, Federal (General Fund), Contingency Assessment (General Fund) and Capital Improvement Bonds (Capital Projects Fund), which are used in these payments of these buildings. The authorization and appropriation for each building project is set up through an approved Statewide Permanent Improvement Program form. As invoices are received for payment against the building program, cash transfers are made from the federal and Contingency Assessment accounts into the building accounts. Only enough cash is transferred to the building accounts to cover the current invoices for payment. Once the invoices are paid, the account balance will be zero. This procedure takes place every time a building program invoice is paid. $576,563 was transferred during the current fiscal year for capital projects.

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

NOTE 18. PRIOR PERIOD ADJUSTMENTS:

The following adjustments were required to be made to various balance sheet accounts to correct errors involving the application of accounting principles for the proper recording of certain assets and liabilities and applicable fund balances as of June 30, 1998:

	General Fund
To decrease accounts payable for overstatement in prior years – all adjustments attributable to years prior to June 30, 1997	$ 448,155
To increase cash to reconciled balance	76,778
To decrease intergovernmental receivable – federal because of overstatement of accounts payable	(448,155)
To decrease deferred revenue for non-federal funds for revenue which should have been recognized in prior years	147,734
To decrease intergovernmental receivable – federal for error in accruing federal revenue	(506,090)
Total	$ (281,578)

NOTE 19. MISCLASSIFICATIONS

Revenues of approximately $125,000 in the General Fund were misclassified as user fees in the prior year. These fees were from various sources and should have been included in miscellaneous revenues.

The prior year report contained a category of fixed assets titled buildings and improvements. There were no improvements and the name was changed this year to buildings.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS
JUNE 30, 1999

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex-Servicemen (UCX)	Extended Benefits (EB)	Trade Readjustment (TRA)	Emergency Unemployment Compensation (EUC)	Totals
ASSETS							
Cash and cash equivalents	$ 751,942,897	$ 115,594	$ 142,803	$ (370)	$ 27,317	$ 2,404	$ 752,230,645
Accrued interest receivable	12,402,184						12,402,184
Taxes receivable - net	45,559,946						45,559,946
Benefit overpayments receivable - net	5,517,908	59,225	133,859		64,688	967	5,776,647
Due from reimbursable employers - net	345,756						345,756
Intergovernmental receivable - net:							
State	538,256						538,256
Local governments	672,575						672,575
Other states	651,727						651,727
Federal				370			370
TOTAL ASSETS	$ 817,631,249	$ 174,819	$ 276,662	$0	$ 92,005	$ 3,371	$ 818,178,106
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts payable	$ 57,209	$	$	$	$ 2,292	$	$ 59,501
Intergovernmental payable:							
Federal		119,917	150,803		27,310	2,454	300,484
Contributions payable	3,039,243						3,039,243
Interfund payable - general fund	1,330,713						1,330,713
Deferred revenue	14,272,469	54,902	125,859		62,403	917	14,516,550
TOTAL LIABILITIES	18,699,634	174,819	276,662	0	92,005	3,371	19,246,491
FUND EQUITY							
Fund balances:							
Reserved for Reed Act expenditures	313,141						313,141
Reserved for unemployment benefits	798,618,474						798,618,474
TOTAL FUND EQUITY	798,931,615	-	-	-	-	-	798,931,615
TOTAL LIABILITIES AND FUND EQUITY	$ 817,631,249	$ 174,819	$ 276,662	$0	$ 92,005	$ 3,371	$ 818,178,106

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1999

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex-Servicemen (UCX)	Extended Benefits (EB)	Trade Readjustment (TRA)	Totals
REVENUES:						
Employer tax contributions	$ 161,044,837	$	$	$	$	$ 161,044,837
Reimbursement of unemployment compensation benefits from employers	960,295					960,295
Benefit overpayment recoveries	2,506,234	21,129	55,268		35,934	2,618,565
Intergovernmental:						-
Local	2,874,615					2,874,615
State	2,410,414			1,292		2,411,706
Other states	2,824,265					2,824,265
Federal	219,216	1,220,561	2,970,986	1,292	2,222,262	6,634,317
Interest	49,056,548					49,056,548
TOTAL REVENUES	221,896,424	1,241,690	3,026,254	2,584	2,258,196	228,425,148
EXPENDITURES:						
Unemployment compensation benefits						
State	191,112,801					191,112,801
Federal		1,241,690	3,026,254	2,584	2,258,196	6,528,724
TOTAL EXPENDITURES	191,112,801	1,241,690	3,026,254	2,584	2,258,196	197,641,525
EXCESS OF REVENUES OVER EXPENDITURES	30,783,623					30,783,623
OTHER FINANCING (USES):						
Operating transfers in - general fund	40,404					40,404
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	30,824,027					30,824,027
BEGINNING FUND BALANCES	768,107,588	-	-	-	-	768,107,588
FUND BALANCE, END OF YEAR	$ 798,931,615	$ -	$ -	$ -	$ -	$ 798,931,615

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999

Federal Grantor/Program Title	Federal CFDA Number	Total Expenditures	Pass-Through Expenditures to Subrecipients
U.S. Department of Labor			
Labor Force Statistics	17.002	$ 944,477	$
Labor Certification for Alien Workers	17.203	121,067	
Employment Service	17.207	13,140,740	634,079
Unemployment Insurance	17.225	30,006,911	
Trade Adjustment Assistance - Workers	17.245	3,090,617	
Employment and Training Assistance - Dislocated Workers	17.246	13,084,331	8,638,223
Employment Service and Job Training - Pilot and Demonstration Programs	17.249	94,216	
Job Training Partnership Act (JTPA)	17.250	26,822,627	18,752,509
Welfare to Work Grants to States and Localities	17.253	6,135,805	5,441,878
Job Corps	N/A	563,562	
Women's Special Employment Assistance – Basic Assistance Grant	17.700	117,640	
Disabled Veterans' Outreach Program (DVOP)	17.801	1,562,495	
Local Veterans Employment Representative (LVER)	17.804	1,658,595	
TOTAL U.S. DEPARTMENT OF LABOR		$ 97,343,083	$ 33, 466,689
U.S. Department of Health and Human Services			
Passed through South Carolina Department of Social Services:			
Child Support Enforcement	93.563	14,175	
Refugee and Entrant Assistance – State Administered Programs	93.566	507	
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES		14,682	-
TOTAL FEDERAL ASSISTANCE		$ 97,357,765	$ 33,466,689

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

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

We have audited the financial statements of the South Carolina Employment Security Commission (the Commission) as of and for the year ended June 30, 1999, and have issued our report thereon dated August 10, 2001 which was qualified because the Commission did not present a statement of revenues, expenditures and changes in fund balances – budget and actual for the year. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions, laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and are described in the accompanying schedule of findings and questioned costs as item 99-2.

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions A through C and finding 99-2 described on the accompanying schedule of findings and questioned costs are material weaknesses.

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

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

Rogers + Laban, PA

August 10, 2001

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

Compliance

We have audited the compliance of the South Carolina Employment Security Commission (the Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1999. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

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

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 99-1 and 99-2.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commissions 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.

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We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matter coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 99-2.

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

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

Rogers + Laban, PA

August 10, 2001

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. A qualified opinion dated August 10, 2001 on the financial statements of the Commission for the year ended June 30, 1999 was issued.

2. Reportable conditions that were determined to be material weaknesses in internal control over financial reporting were noted as described below. All reportable conditions are considered to be material weaknesses.

3. An instance of noncompliance that was material to the financial statements was noted.

Federal Awards:

4. A reportable condition relating to internal control over compliance resulting from the audit of the major federal award programs is reported.

5. An unqualified opinion on compliance for major programs dated August 10, 2001 was issued.

6. Audit findings relative to the major federal award programs is reported on this schedule as required by Section 510(a) of Circular A-133.

7. The major programs of the Department are as follows:

CFDA #	Program
17.207	Employment Services
17.225	Unemployment Insurance
17.246	Employment and Training Assistance – Dislocated Workers
17.250	Job Training Partnership Act
17.253	Welfare to Work Grants to States and Localities

8. The dollar threshold used to distinguish between Type A and Type B programs was $2,920,733.

9. The Commission was determined not to be a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

A. WEAKNESSES IN FINANCIAL MANAGEMENT, RECORD KEEPING AND REPORTING

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

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

2. Journal entries to correct certain prior year 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 prepare the entry. Journal entries moving expenditures between

subfunds are sometimes posted for different amounts in the affected subfunds. We noted the same correcting entry posted twice. Some journal entries had no or inadequate explanations.

3. The management of and record keeping for the Unemployment Insurance Trust Funds were separate and apart from the management of and record keeping for the other funds that the Commission handles. There were numerous transactions between the funds and there was no reconciliation of the transactions between the insurance trust funds and the other funds. We noted a transfer to the Unemployment Insurance Trust Fund account of approximately $93,000 which was posted to one set of books in fiscal year 1999 and never posted to the other set of books. Another transfer was recorded in one set of books in April 1999 and in the other records in August 1999. Audit adjustments were recorded to correct these errors.

4. Monthly bank reconciliations have not been prepared for a number of years for the cash funds on deposit with the State Treasurer’s Office by the Finance Department to reconcile the cash on deposit with the State Treasurer with the balances in the Commission’s general ledger. The annual reconciliation for the year ended June 30, 1999 was not complete until July 2001. A prior period adjustment of approximately $77,000 was required to adjust the cash balance as of June 30, 1998.

5. The trial balances prepared by the Department to use in preparing the financial statements did not contain all of the Commission's funds.

6. The Commission's general ledger contains some funds with balances that should be zero including cash and due to grantor for programs closed in prior years. We also noted an allowance for doubtful accounts recorded in a fund with no receivables, credit balances in travel advances receivable as well as various other balance sheet accounts with balances that appeared to be incorrect.

7. The Commission is recording operating transfers between funds as an expenditure in one fund and recording the credit in the other fund directly to fund balance instead of reporting them as transfers in each fund.

8. The Commission is recording capital lease principal and interest payments as equipment expenditures instead of separate expenditure accounts for principal and interest.

9. The Commission recorded financial activities related to one subfund in both the General Fund and Expendable Trust Fund. This results in an overstatement of assets, liabilities, revenues and expenditures. An adjustment was made for this misstatement.

10. The Commission is reconciling revenues and operating expenditures to the Comptroller General's records in total and not by Program which may result in not detecting differences in the State's classifications and the Commission's.

11. The Commission records payroll and employer contribution expenditures based on time distribution reports. The expenditures do not reconcile to the actual amounts paid per the Comptroller General because the Commission's systems cannot handle a pay rate change in the middle of the month and differences in the calculation of employer contributions versus the amount actually paid. All of the expenditures in the Commission's general ledger are recorded with an offsetting entry to a payroll clearing liability account. Each June, the Commission adjusts their payroll clearing account to zero instead of reconciling their expenditures to those recorded by the Comptroller General. The payroll clearing account should actually have a balance to reflect the fact that the payroll posted in June is not actually paid until July.

12. A detailed review of the accounts payable subsidiary ledger by the Commission disclosed that accounts payable totaling approximately $450,000 from 1994 through 1998 were not valid payables. The main reason is that items had been expensed twice. The detailed review of accounts payable by the Commission caused considerable delay in completing the audit.

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

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

Effect: The Commission is not producing accurate financial information.

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

B. BENEFIT OVERPAYMENTS RECEIVABLE MISCLASSIFIED BY FUND

Condition: The Commission recorded all of the benefit overpayments receivable and related deferred revenues in the Expendable Trust Fund – Basic Unemployment Compensation Fund instead of breaking them out between the various other expendable trust funds. This resulted in an overstatement of assets of approximately $259,000 and an overstatement of liabilities of approximately $244,000 in the Basic Unemployment Compensation Fund and an understatement of these amounts in the various other expendable trust funds.

Criteria: Generally accepted accounting principles require that assets and liabilities be recorded in the correct fund.

Effect: Assets and liabilities were misstated by fund.

Recommendation: That the Commission should record all of its activity in the correct fund.

C. SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED

Conditions: Our audit of subrecipient advances receivable disclosed that the Commission had not adjusted its advances account to reflect actual expenditures reported by subrecipient. Some of the subrecipients had actually incurred more expenditures than they had been advanced resulting in unrecorded payables. We had the Commission prepare a schedule to support the required adjustments which took the Commission a substantial period of time to complete. The schedule received was incomplete and was not mathematically correct. Our adjustments resulted in a decrease in subrecipient advances receivable of approximately $4,020,000, an increase in accounts payable of approximately $690,000 and an increase in expenditures of approximately $4,710,000. In addition, the receivable from grantors and federal revenue and the expenditures reported on the schedule of expenditures of federal awards were understated by approximately $4,540,000 for the federal portion of these expenditures and state intergovernmental revenues were understated and deferred revenues were overstated by approximately $170,000 for the state funded portion. The closing packages supporting the grants receivable and unearned revenue were not correct since inaccurate information was used to complete the closing packages.

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

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

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

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

99-1. ALL PROGRAMS

Statement of Condition: OMB Circular A-133 Subpart C – Section 320 required Single Audit reports to be submitted no later than 9 months after the end of the audit period for the fiscal year ended June 30, 1999. The Commission did not meet this requirement for the year ended June 30, 1999. The same deficiency was noted for the prior year single audit.

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

Effect of Condition: Failure to comply with federal regulations.

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

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

99-2. U.S. DEPARTMENT OF LABOR – EMPLOYMENT SERVICES – CFDA # 17.207; TRADE ADJUSTMENT ASSISTANCE – WORKERS CFDA # 17.245; JOB TRAINING PARTNERSHIP ACT – CFDA # 17.250; WELFARE TO WORK GRANTS TO STATES AND LOCALITIES – CFDA # 17.253

Statement of Condition: The Department underreported federal expenditures by approximately $890,000 on the schedule of federal expenditures which it prepared in addition to the $4,540,000 described in item C of findings related to the financial statements. The schedule was adjusted for these understatements.

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

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

Cause of Condition: The expenditures on the schedule were not reconciled back to the Commission's trial balance and the Commission classified some federal expenditures as state match expenditures.

Recommendation: The expenditures reported on the schedule of expenditures of federal awards should be reconciled to the Commission's trial balance and the Commission should ensure that all expenditures are classified correctly by funding source.

OTHER MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 1999

A. ERRORS IN FUTURE OPERATING LEASE LIABILITY SCHEDULES

The State Comptroller General uses information on agency prepared closing packages in preparing the State's GAAP – basis financial statements. The Commission is required to prepare an operating lease closing package for the Comptroller General showing future minimum lease payments on noncancelable leases with a remaining term exceeding one year and to reconcile rental expenditures per the Commission's books to the Comptroller General's records. Of the 59 leases reported in the closing package, 8 had errors in their beginning or ending dates and 8 had errors in calculations of future minimum lease payments due. Also, no schedule was prepared as required to reconcile the Commission's rental expense per the Commission's books to those in the State's accounting records. A similar finding was cited in the prior year's management letter comments.

The errors appeared to occur because the Commission is not preparing a lease register form for each lease as required by the State Comptroller General's GAAP Closing Procedures Manual and the Commission failed to perform an adequate review of the schedule of leases. GAAP Manual Sections 1.8 and 1.9 require the preparation, independent review, and retention of working papers to support information entered on each closing package and Section 3.19 provides guidance and instruction on the completion of the operating leases closing package.

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

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

B. ERRORS IN FIXED ASSET CLOSING PACKAGE

Our audit disclosed the following errors in the preparation ot the fixed asset closing package which is required by the State Comptroller General.

1. Payments of approximately $57,000 on a capital lease were recorded as current year equipment additions even though the equipment was recorded and reported in a prior year when the capital lease obligation was incurred.

2. An item was shown as both a fixed asset addition and retirement during the year because it was deleted from the fixed asset system in error and then had to be added back. The amounts should have been noted.

3. The Commission is reporting construction in progress as additions to buildings on the closing package instead of as an addition to construction in progress until the building is completed.

Because of the above deficiencies, the Commission is overstating the amounts of equipment additions and deletions, buildings and equipment and underreporting construction in progress on the closing package.

The Office of Comptroller General's GAAP Closing Procedures Manual Sections 3.8 through 3.11 contains instructions on the proper preparation of the closing package.

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

C. DOCUMENTATION FOR ACCOUNTS PAYABLE CLOSING PACKAGE NOT LOCATED.

The Commission could not locate the detail listing of vouchers supporting the amount reported on the accounts payable closing package. A reconstructed listing did not agree with the amount reported by approximately $23,000.

Good internal controls require that proper documentation be retained for all reported amounts. In addition, GAAP Manual Sections 1.8 and 1.9 require that documentation supporting all closing package amounts and other information be prepared and retained.

We recommend that documentation be retained supporting all amounts reported in closing packages.

D. VOUCHERS NOT CANCELLED AND NO EVIDENCE OF REVIEW

The Commission is not cancelling vouchers or marking them paid to prevent duplicate payments. In addition, there is no evidence of a review of the invoices to document that it has been reviewed for clerical and mathematical accuracy before it is paid.

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

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

E. INTERNAL AUDIT STAFF NEEDED

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

F. INVENTORY DEFICIENCIES

Our audit of the Commission’s supply inventory disclosed that obsolete inventory totaling approximately $10,000 was being included in the Commission’s inventory total. The same finding was cited in the prior year's management letter comments. Also, the inventory listing combined 38 items with a unit cost less than $5. The Commission's policy is to include items with a unit cost less than $5 in inventory.

We recommend that the Commission not include obsolete inventory or items with a unit cost of less than $5 in their inventory listing.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

WEAKNESSES IN FINANCIAL MANAGEMENT AND REPORTING

Due to the timing of the audit field work for the year ending June 30, 1998, the findings relative to financial statements continue to exist for the year ending June 30, 1999.

Progress in all areas continues on a daily basis and all findings should be resolved with the conclusion of the audit for year ending June 30, 2001.

TAXES RECEIVABLE MISSTATED

Condition: The Commission did not properly record its unemployment taxes receivable on the modified accrual basis of accounting. The primary cause of the misstatement is the failure to accrue the taxes receivable for the second quarter which ending on June 30.

Recommendation: That the Commission should record its taxes receivable and the related revenue in accordance with the modified accrual basis method of accounting and the Commission's revenue recognition policy.

Response: This finding was corrected for the audit of June 30, 1999.

ACCOUNTS PAYABLE FOR JTPA PROGRAM MISSTATED

Condition: Our audit disclosed that the Commission was substantially overstating accounts payable for the JTPA Program on the general ledger and understating accounts payable on the Accounts Payable Closing Package, which it prepares for the State Comptroller. Accounts payable were overstated by approximately $425,000 in 1997 and $615,000 in 1998 on the general ledger. A completely separate listing was prepared to support the closing package which was understated by approximately $900,000 as of June 30, 1998.

Recommendation: That the Commission should review and revise its procedures for estimating and recording accounts payable. Also, the same listing should be used for support to post the journal entry to the general ledger and to prepare the closing package.

Response: This finding was corrected for the audit of June 30, 1999.

JUNKED EQUIPMENT NOT REMOVED FROM THE GENERAL LEDGER

Condition: The Finance Department did not adjust its general ledger for equipment that was junked during the current year.

This apparently occurred because personnel in the property management control section did not notify the Finance Department of these disposals. The Finance Department reconciles the general ledger control account for these assets to the detail equipment listing maintained by the Finance Department instead of the listing maintained by the property management control section.

Recommendation: Procedures should be implemented to ensure that all disposals are timely recorded in the general ledger. The Commission should consider eliminating the detailed listing maintained by the Finance Department and should reconcile the general ledger to the detail maintained in the Property Control Management Section. We understand that the program used by the Property Management Control Section may need to be modified so that depreciation can be calculated for use in the various programs.

Response: This finding regarding the junked equipment was corrected.

PAYROLL ACCRUAL OVERSTATED

Condition: The Commission's system automatically accrues and allocates the payroll for each month that is paid in the subsequent month. Included in this accrual is approximately $200,000 for health and dental insurance which should not be accrued because these benefits are paid at the beginning of each month for that month and not in arrears. Also, the amount does not agree with the Comptroller's actual amount paid primarily because the Commission's system cannot handle a pay rate change in the middle of the month.

Recommendation: A programming change should be implemented to correct the calculation of this accrual.

Response: The finding concerning accrual of health and dental insurance was corrected.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

ALL PROGRAMS

Condition: OMB Circular A-133 Subpart C - Section 320 required Single Audit reports to be submitted no later than 13 months after the end of the audit period for the fiscal year ended June 30, 1998 the first year of the requirement (and within 9 months in subsequent years). The Commission did not meet this requirement for the year ended June 30, 1998.

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

Response: This finding continues to exist for the audit of June 30, 1999.

OTHER MANAGEMENT LETTER COMMENTS

LEASE PAYMENTS PAID TWICE

Condition: Our audit disclosed that a lease payment of $33,875 a month due under a capital lease for January and February 1998 were paid in March 1998 and again in May 1998 supported by a faxed copy of an invoice from the leasing company. The Finance Department had not detected this duplicate payment and as of May 1999 the Commission was still 2 payments ahead of the required amount due. In addition, we noted that the Finance Department does not cancel vouchers and supporting documentation to ensure that the same invoice is not paid twice and the Finance Department does not document on the invoice that it is clerically correct.

Recommendation: That the Commission implement a system to ensure that all invoices are correct and due before they are approved for payment. All invoices and other documentation supporting expenditures should be cancelled to prevent duplicate payments and procedures should be implemented to ensure that any questionable invoices are investigated before they are paid. The Commission should also either recover the duplicate payments or adjust the subsequent amounts due under the lease to recover the overpayment.

Response: This condition was corrected for the audit ending June 30, 1999.

FIXED ASSET DEFICIENCIES

Condition: The following deficiencies were noted during our audit of fixed assets:

- The tag numbers for some fixed assets did not agree with the tag numbers per the detail listing.
- A piece of equipment that had been surplused in February 1998 was still on the Finance Department's detail listing as of June 30, 1998.
- One piece of equipment could not be located.

Proper controls require that adequate records be maintained supporting fixed assets and that a periodic inventory verification be performed to ensure that all fixed assets are still on hand and agree to the detail listing. State law (SC Code of Laws Section 10-1-140) requires a physical inventory of capital assets be performed annually, at a minimum.

Recommendation: That the Commission implement procedures to ensure that all fixed asset tag numbers agree to the detail fixed asset listing and that all items that are disposed of, junked, etc. be promptly removed from the fixed asset system. A periodic fixed asset inventory verification should also be performed of all fixed assets.

Response: This condition was corrected.

INVENTORY DEFICIENCIES

Condition: Our audit of the Commission's supply inventory disclosed the following deficiencies:
- Obsolete inventory totaling approximately $12,000 was being included in the Commission's inventory total.
- One inventory item that was carried at no cost in the prior year had a cost of $26 this year and no one in the supply inventory department could provide an explanation.

Generally Accepted Accounting Principles require that obsolete inventory items be written off in a timely manner and that inventory be consistently recorded at its cost.

Recommendation: We recommend that the Commission only include useable inventory in its count and that all items of inventory be recorded at cost.

Response: This condition continues to exist.

ERRORS IN FUTURE OPERATING LEASE LIABILITY SCHEDULES

Condition: The future operating lease commitments schedule contained on the closing package that was provided to the State Comptroller and the supporting schedule understated the future minimum lease payments under non-cancelable operating leases. The first time the Finance Department personnel revised the schedule for us, they did not take into accounts leases which had scheduled rent increases of 5% per year. The second time that the Finance Department revised the schedule, it contained errors in 22 out of 79 leases including incorrect ending dates and incorrect amounts for the future liabilities.

The Finance Department was not aware that some leases contained scheduled rent increase because the Commission's Purchasing Department did not notify them. The remainder of the errors appeared to be because of the lack of adequate supervision and review of the closing package. Good accounting practices require that all schedules be prepared correctly.

Recommendation: That additional care be taken in the preparation of the lease schedule. The person preparing the schedule should review the actual leases to ensure that all data included on the schedule is correct.

Response: This condition continued to exist. This should be corrected for the audit for June 30, 2000.

INTERNAL AUDIT STAFF 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, reconciliation of various general ledger accounts including cash as well as internal controls over the various areas.

Recommendation: We feel that if the Commission put in place a functioning internal audit staff, it would eliminate some of the problems encountered during our audit.

Response: This condition continues to exist. The Internal Audit Section continues to work with the Executive Director on establishing the mission and functionality of the Internal Audit Section.

CORRECTIVE ACTION PLAN

APPENDIX A

UNEMPLOYMENT INSURANCE

South Carolina

Employment Security Commission

JOB SERVICE

COMMISSION
Carole C. Wells, Chairman
(803) 737-2655
McKinley Washington, Jr., Vice-Chairman
(803) 737-2656
J. William McLeod, Commissioner
(803) 737-2652

EXECUTIVE DIRECTOR
C. Michael Mungo
(803) 737-2617

South Carolina Employment Security Commission
Corrective Action Plan

September 17, 2001

The South Carolina Employment Security Commission respectfully submits the following Corrective Action Plan for the year ended June 30, 1999.

Name and address of independent public accounting firm: Rogers & Laban, P.A., 1529 Hampton Street, Suite 200, Columbia, South Carolina 2920

Audit Period: July , 1998 through June 30, 1999

The findings are discussed below: There were no questioned costs. The findings are listed consistently with the listing in the schedule.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

A) Weaknesses in Financial Management, Record Keeping and Reporting

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

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

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

B) BENEFIT OVERPAYMENTS RECEIVABLE MISCLASSIFIED BY FUND

Condition: The Commission recorded all of the benefit overpayments receivable and related deferred revenues in the Expendable Trust Fund - Basic Unemployment Compensation Fund instead of breaking them out between the various other expendable trust funds. This resulted in an overstatement of assets of approximately $259,000 and an overstatement of liabilities of approximately $244,000 in the Basic Unemployment Compensation Fund and an understatement of these amounts in the various other expendable trust funds.

Recommendation: That the Commission should record all of its activity in the correct fund.

Action Taken: This condition was corrected during Fiscal Year ending June 30, 2001 with the assistance of our independent audit firm.

C) SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED

Condition: Our audit of subrecipient advances receivable disclosed that the Commission had not adjusted its advances account to reflect actual expenditures reported by subrecipient. Some of the subrecipients had actually incurred more expenditures than they had been advanced resulting in unrecorded payables. We had the Commission prepare a schedule to support the required adjustments which took the Commission a substantial period of time to complete. The schedule received was incomplete and was not mathematically correct. Our adjustments resulted in a decrease in subrecipient advances receivable of approximately $4,020,000, an increase in accounts payable of approximately $690,000 and an increase in expenditures of approximately $4,710,000. In addition, the receivable from grantors and federal revenue and the expenditures reported on the schedule of expenditures of federal awards were understated by approximately $4,540,000 for the federal portion of these expenditures and state intergovermental revenues were understated and deferred revenues were overstated by approximately $170,000 for the state funded portion. The closing packages supporting the grants receivable and unearned revenue were not correct since inaccurate information was used to complete the closing packages.

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.

Action Taken: The financial staff, working closely with the subrecipient accounting staff, are implementing procedures for more timely submittal of financial data for inclusion in the agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal year ending June 30, 2002.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

99.1 ALL PROGRAMS

Condition: OMB Circular A-133 Subpart C - Section 320 required Single Audit reports to be submitted no later than nine months after the end of the audit period for the Fiscal Year ended June 30, 1999. The Commission did not meet this requirement for the year ended June 30, 1999. The same deficiency was noted for the prior year single audit.

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

Action Taken: The Agency is striving to issue its financial statements as required by OMB Circular A-133. By working closely with the state Auditor's Office and our independent audit firm. This finding should be corrected with the financial statements for the year ending June 30, 2001.

99.2 U.S. DEPARTMENT OF LABOR - EMPLOYMENT SERVICES - CFDA #17.207; TRADE ADJUSTMENT ASSISTANCE - WORKERS CFDA # 17.245; JOB TRAINING PARTNERSHIP ACT - CFDA # 17.250; WELFARE-TO-WORK GRANTS TO STATES AND LOCALITIES - CFDA # 17.253

Condition: The Department underreported federal expenditures by approximately $890,000 on the schedule of federal expenditures which it prepared in addition to the $4,540,000 described in item C of findings related to the financial statements. The schedule was adjusted for these understatements.

Recommendation: The expenditures reported on the schedule of expenditures of federal awards should be reconciled to the Commission's trial balance and the Commission should ensure that all expenditures are classified correctly by funding source.

Action Taken: The financial staff, working closely with the subrecipient accounting staff, are implementing procedures for more timely submittal of financial data for inclusion in the agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal year ending June 30, 2002.

OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 1999

A) ERRORS IN FUTURE OPERATING LEASE LIABILITY SCHEDULES

Condition: The State Comptroller General uses information on agency prepared closing packages in preparing the State's GAAP - basis financial statements. The Commission is required to prepare an operating lease closing package for the Comptroller General showing future minimum lease payments on noncancelable leases with a remaining term exceeding one year and to reconcile rental expenditures per the Commission's books to the Comptroller General's records. Of the 59 leases reported in the closing package, 8 had errors in their beginning or ending dates and 8 had errors in calculations of future minimum lease payments due. Also, no schedule was prepared as required to reconcile the Commission's rental expense per the Commission's books to those in the State's accounting records. A similar finding was cited in the prior year's management letter comments.

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

Action Taken: The Finance Department is reviewing each operating lease carefully in order to ensure accuracy in beginning and ending dates. The future lease payments are verified to ensure that all amounts are correct and reflect any applicable increases. The Finance Department is compiling lease registers on all operating leases. These registers will be for the use of the Finance Department and will be updated as changes warrant. Every month, the Commission reconciles its expenses to the Comptroller General. The Finance Department will produce a report at the end of the fiscal year that reflects all adjustments made in the reconciliation process. These corrective procedures will be implemented, effective with the 2001 audit.

B) ERRORS IN FIXED ASSET CLOSING PACKAGE

Condition: Our audit disclosed the following errors in the preparation of the fixed asset closing package which is required by the State Comptroller General.

Payments of approximately $57,000 on a capital lease were recorded as current year equipment additions even though the equipment was recorded and reported in a prior year when the capital lease obligation was incurred.

Recommendation: That additional care be taken to ensure transactions and balances are properly recorded in the Agency's fixed assets system; ensure information in its fixed assets records are reconciled to Agency's accounting system; and the required independent reviews of the fixed assets closing packages are performed; and all amounts reported on the fixed assets closing package forms are properly reported.

Action Taken: The capital lease obligation will be reduced in the Fiscal Year ending June 30, 2001 closing package and the amount of payments will be denoted in Section C, Number 4 in the closeout package.

Condition: An item was shown as both a fixed asset addition and retirement during the year because it was deleted from the fixed asset system in error and then had to be added back. The amounts should have been noted.

Recommendation: That additional care be taken to ensure transactions and balances are properly recorded in the Agency's fixed assets system; reconciliation's of information in its fixed assets records to that in the Agency's accounting system is performed; the required independent reviews of the fixed assets closing packages are performed; and all amounts reported on the fixed assets closing package forms are properly reported.

Action Taken: In Fiscal Year ending June 30, 2001 any item which is considered a fixed asset addition and is deleted in error will be noted on the closing package.

Condition: The Commission is reporting construction in progress as additions to buildings on the closing package instead of as an addition to construction in progress until the building is completed.

Recommendation: That additional care be taken to ensure transactions and balances are properly recorded in the Agency's fixed assets system; reconciliation's of information in its fixed assets records to that in the Agency's accounting system is performed; the required independent reviews of the fixed assets closing packages are performed; and all amounts reported on the fixed assets closing package forms are properly reported.

Action Taken: Any building addition will not be reported on the closing package as an addition until such time the building is completed. This condition should be corrected for the Fiscal Year ending June 30, 2002.

C. DOCUMENTATION FOR ACCOUNTS PAYABLE CLOSING PACKAGE NOT LOCATED

Condition: The Commission could not locate the detail listing of vouchers supporting the amount reported on the accounts payable closing package. A reconstructed listing did not agree with the amount reported by approximately $23,000.

Recommendation: That the documentation be retained supporting all amounts reported in closing packages.

Action Taken: The STARS section compiles a list of every voucher included on the Accounts Payable Closing Package. The corresponding voucher is also kept with the list. This information is kept with the working papers. This finding will be corrected for Fiscal Year ending June 30, 2000.

D) VOUCHERS NOT CANCELLED AND NO EVIDENCE OF REVIEW

Condition: The Commission is not canceling vouchers or marking them paid to prevent duplicate payments. In addition, there is no evidence of review of the invoices to document that it has been reviewed for clerical and mathematical accuracy before it is paid.

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

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

E) INTERNAL AUDIT STAFF NEEDED

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

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

Action Taken: The internal audit staff is working closely with the agency Commissioners and the Executive Director in defining and expanding the responsibilities of the Internal Audit staff. The need for additional staff or reorganization will have an impact on the Agency's budget. Legislation introduced in the State Senate this past legislative year creating a State OIG (Office of Inspector General) will have an impact on the internal audit operations provided the legislation passes in the next legislative year. The Agency will continue to evaluate pending legislation and procedures to correct this finding by Fiscal Year ending June 30, 2003.

F) INVENTORY DEFICIENCIES

Condition: The Commission's supply inventory disclosed that obsolete inventory totaling approximately $10,000 was being included in the Commission's inventory total. The same finding was cited in the prior year's management letter comments. Also, the inventory listing combined 38 items with a unit cost of less than $5. The Commission's policy is not to include items with a unit cost less than $5 in inventory.

Recommendation: That the Commission not include obsolete inventory or items with a unit cost of less than $5 in their inventory listing.

Action Taken: This finding was corrected for Fiscal Year ending June 2000.

If there are any questions regarding this plan, please contact Charles D. Reeves, Director of Fiscal Affairs, at (803) 737-2560.

Sincerely

C. Michael Mungo

C. Michael Mungo
Executive Director

CMM:sc