Accordingly, we do not express such an opinion or provide such assurance. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control would not necessarily disclose all matters in the internal control components that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the combined 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. However, we noted the following matter involving internal control and its operation that we consider to be a material weakness as defined above.

During 1999/2000, the Health, Life and Disability Insurance Reserve Fund reported a net loss of $91,797,766. This loss, along with other losses in recent years, has resulted in a retained deficit of $82,024,522 for the Fund at June 30, 2000. Additionally, Section 1-11-710(A)(4) of the South Carolina Code of Laws, 1976, as amended, stipulates that "a reserve equal to not less than an average of one and one-half months' claims must be maintained in the accounts and all funds in excess of the reserve must be used to reduce premium rates or expand benefits as funding permits." Due to the above loss and the resulting decrease in cash reserves, the HLDIRF is not in compliance with the above statute.

We recommend that management of the Office continue to monitor this situation and make the necessary changes to return to profitable operations.

Management has reviewed the above situations and offers the following analysis:

State Health Plan claims expenditures during the fiscal year continued to grow at a pace unprecedented in recent years. Contribution rates for Calendar Year 1999 were thought to be adequate at the time they were established in August 1998. Subsequent claims experience proved that not to be the case. Because of this excessive growth in claims, primarily the result of additional service volume, an "emergency" increase in the employer contribution was enacted in June 1999 for a January 2000 effective date. It was understood at that time that expenditures would exceed income for Calendar Year 2000; the contribution increase was established with the intent of generating sufficient revenue, in combination with cash reserves, to pay claims throughout Plan Year 2000.

Office of Insurance Services staff spent a considerable amount of time briefing representatives of the executive and legislative branches as to the Plan's financial condition from the time the critical situation was known late last spring through the 2000 legislative session. A standard presentation was prepared and constantly updated with detailed information concerning the causes of the situation and projections as to short-term financial outcomes. Quarterly reports were distributed to Board members and other interested parties noting the declining cash balance in the State Health Plan's reserve account. The General Assembly recognized the unique nature of the current financial situation by enacting a temporary proviso reducing the cash reserve requirement for Plan Year 2001 by half: from the statutory 1 1/2 claim months to 22 days.