

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
COLUMBIA, SOUTH CAROLINA**

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 2000

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2000**

	Page
INDEPENDENT AUDITOR'S REPORT	1 and 2
FINANCIAL STATEMENTS:	
Combined balance sheet - all fund types and account groups	3 and 4
Combined statement of revenues, expenditures and changes in fund balances – all governmental fund types and expendable trust funds	5
Notes to financial statements	6 - 31
SUPPLEMENTARY INFORMATION:	
Combining balance sheet – all expendable trust funds	32
Combining statement of revenues, expenditures and changes in fund balances – all expendable trust funds	33
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	34
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	35 and 36
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	37 and 38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39 - 41
OTHER MANAGEMENT LETTER COMMENTS	42 and 43
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	44
CORRECTIVE ACTION PLAN	APPENDIX A

State of South Carolina



Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA

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

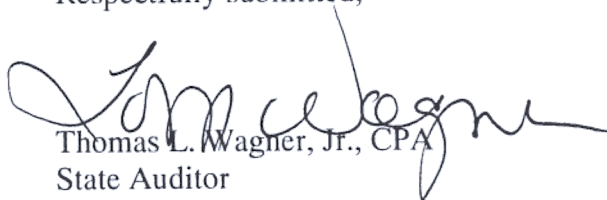
September 11, 2002

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, 2000, 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,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



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, 2000, 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.

A statement of revenues, expenditures, and changes in fund balances – budget and actual for the year ended June 30, 2000 has not been presented. 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, 2000, 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 Note 19 to the financial statements, management discovered an error was made in the application of accounting principles resulting in the under reporting of certain assets, liabilities, revenues and expenditures 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.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2002 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.

*Roger * Lalan, PA*

February 8, 2002

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	Governmental Fund Types			Fiduciary Fund Type	Account Groups	
	General	Special Revenue	Capital Projects	Expendable Trust	General Fixed Assets	General Long-Term Debt
ASSETS AND OTHER DEBITS						
Cash and cash equivalents	\$ 15,422,306	\$299,011		\$ 790,111,643	\$	\$
Accrued interest receivable				12,722,609		
Taxes receivable - net	2,831,657			43,340,639		
Benefit overpayments receivable - net				6,303,336		
Due from reimbursable employers - net			239,455	387,672		
Capital improvement bond proceeds receivable						
Intergovernmental receivables - net:						
State (South Carolina)	90,000			445,879		
Local governments	1,418,909			768,368		
Other states				833,411		
Federal				28,171		
Interfund receivable	1,432,999					
Subrecipient advances - receivable	1,095,962					
Inventories	192,102					
Prepaid items	467,206					
Other assets	655					
Property and equipment:						
Land and land improvements					3,027,199	
Buildings					21,919,231	
Furniture and equipment					19,336,426	
Construction in progress					743,080	
Amount to be provided for retirement of general long-term debt						8,778,024
TOTAL ASSETS AND OTHER DEBITS	\$ 22,951,796	\$ 299,011	\$ 239,455	\$ 854,941,728	\$ 45,025,936	\$ 8,778,024

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2000

	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:						
Benefits payable	\$	\$	\$	\$ 3,611,044	\$	\$
Accounts payable	3,204,679	\$ 17,840		89,721		-
Accrued salaries and related benefits	3,805,220	24,761				
Intergovernmental payables:						
Federal		21		212,779		
States				2,281,587		
Contributions payable				3,639,334		
Interfund payable				1,432,999		
Deferred revenue	7,875,774			11,716,750		
Capital lease payable						485,073
Capital improvement bond notes payable						3,185,137
Accrued compensated absences and related benefits						5,107,814
TOTAL LIABILITIES	<u>14,885,673</u>	<u>42,622</u>	<u>-</u>	<u>22,984,214</u>	<u>-</u>	<u>8,778,024</u>
FUND EQUITY AND OTHER CREDITS:						
Investment in general fixed assets					45,025,936	
Fund balances:						
Reserved for Reed Act expenditures	1,196,917			353,545		
Reserved for inventories	192,102					
Reserved for prepaid expenses	467,206					
Reserved for unemployment benefits				831,603,969		
Reserved for capital projects expenditures			239,455			
Reserved for SCOICC		256,389				
Unreserved fund balance:						
Undesignated fund balance	<u>6,209,898</u>					
TOTAL FUND EQUITY AND OTHER CREDITS	<u>8,066,123</u>	<u>256,389</u>	<u>239,455</u>	<u>831,957,514</u>	<u>45,025,936</u>	<u>-</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$ 22,951,796</u>	<u>\$ 299,011</u>	<u>\$ 239,455</u>	<u>\$ 854,941,728</u>		<u>\$ 8,778,024</u>

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, 2000**

	General	Special Revenue	Capital Projects	Expendable Trust
REVENUES:				
Employer tax contributions	\$ -	\$	\$	\$ 172,382,318
Employer tax contingency assessments	7,298,160			
Employer tax - penalties and interest	931,754			
Reimbursement of unemployment compensation benefits from employers				769,492
Benefit overpayment recoveries				2,170,477
User fees				
Intergovernmental:		532,234		
Local				2,096,273
State of South Carolina	2,273,675	250,554		1,592,535
Other states				3,085,004
Federal	87,646,438	121,912		8,334,869
Interest/investment income				50,195,064
Miscellaneous revenues	282,187			
TOTAL REVENUES	<u>98,432,214</u>	<u>904,700</u>		<u>240,626,032</u>
EXPENDITURES:				
Current:				
Employment and training administration	39,188,682			
Contingency assessments	7,523,636			
Penalties and interest	785,032			
Job Training Partnership Act	36,037,851			
Welfare to Work	7,437,855			
Other federal programs	4,169,104			
Other non-federal programs	131,523			
Parking	36,694			
Occupational Information Coordinating Committee		703,621		
Unemployment compensation benefits - State				194,550,800
Unemployment compensation benefits - Federal				7,239,207
Capital outlay	2,268,233	46,921	458,667	
Debt service:				
Principal	721,089	726		
Interest	264,010	46		
TOTAL EXPENDITURES	<u>98,563,709</u>	<u>751,314</u>	<u>458,667</u>	<u>201,790,007</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(131,495)</u>	<u>153,386</u>	<u>(458,667)</u>	<u>38,836,025</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	1,196,917		458,667	40,404
Operating transfers out	(499,071)			
Proceeds from the sale of fixed assets	6,316			
TOTAL OTHER FINANCING SOURCES (USES)	<u>704,162</u>		<u>458,667</u>	<u>40,404</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>572,667</u>	<u>153,386</u>		<u>38,876,429</u>
BEGINNING FUND BALANCES, as previously reported	7,761,699	103,003	239,455	798,931,615
PRIOR PERIOD ADJUSTMENTS	<u>(268,243)</u>			<u>(2,372,026)</u>
BEGINNING FUND BALANCES, as restated	<u>7,493,456</u>	<u>103,003</u>	<u>239,455</u>	<u>796,559,589</u>
ENDING FUND BALANCES	<u>\$ 8,066,123</u>	<u>\$ 256,389</u>	<u>\$ 239,455</u>	<u>\$ 835,436,018</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Carolina Employment Security Commission (the Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting principles are described below.

Reporting Entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Commission has determined it has no component units. The primary government is the State of South Carolina. The State has determined that the Commission is a part of the primary government.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; and,
- (3) Issues bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary entity that holds one or more of these powers.

Enactment of the first South Carolina Unemployment Compensation Law followed action by Congress in passing the Social Security Act on August 14, 1935. The original South Carolina law, which established a free public employment service and a system of unemployment insurance, became effective June 6, 1936. In 1966, the name of the Law was changed to the South Carolina Employment Security Law.

The Commission was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law which provides for the payment of unemployment insurance benefits, the collection of the unemployment tax from subject employers,

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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 Job Corps activities are funded directly by the Job Corps Regional Office of the U.S. Department of Labor.

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

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

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

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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.

Disaster Unemployment Assistance (DUA) – This fund accounts for unemployment paid to individuals who have lost their job due to a disaster (hurricane, flood, etc.). It is funded by the Federal government.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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 and related benefits 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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 from 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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

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 allowance for uncollectibles for receivables is applied to the entire 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 receivables that is not collected within sixty days.

Benefits Payable

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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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

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.

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 borrowings until completion of the project less interest earned on invested funds for 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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

Indirect Cost Recoveries

The Commission recovers indirect cost from federal funding sources based on a negotiated indirect cost agreement approved by the U.S. Department of Labor, Office of Cost Determination. The indirect cost recovered from this agreement is used to offset the administrative costs of the Commission and services provided by other State agencies. During the period July 1, 1999 through June 30, 2000, the Commission recovered \$6,678,338 of indirect cost from the indirect cost agreement from the various federal agencies. Of this amount, \$335,176 was remitted to the State and \$6,343,162 was retained by the Commission. Indirect cost recoveries are reported as federal revenues. The \$335,176 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 printed materials 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 - Federal

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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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 retains the payments on account to cover future tax liabilities.

Fund Equity

Reserves represent those portions of Governmental and Expendable Trust Fund balances not appropriable for expenditures or legally segregated for specific future uses. Designated fund balances represent tentative managerial plans for future uses of unreserved financial resources. At June 30 2000, two of the Commission's reserves were as follows:

Reed Act – The Commission has funds totaling \$1,550,462 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. \$1,196,917 of these funds were appropriated by the General Assembly in the current fiscal year to partially fund the purchase of new tax software which has not yet been expended. The \$1,196,917 is shown as a transfer from the Expendable Trust Fund to the General Fund upon Legislative appropriation.

SCOICC – Pursuant to 2000 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 2001 Appropriation Act Proviso 51.3, all user fees not expended in fiscal year 2000 may be carried forward to fiscal year 2001 for use in the SCOICC program. At June 30, 2000, \$256,389 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 2. DEPOSITS:

The amounts shown as cash and cash equivalents on the balance sheet at June 30, 2000 are composed of the following:

Cash on hand	\$ 800
Deposits held by State Treasurer	16,871,641
Deposits held by U.S. Treasury	788,268,313
Other deposits	<u>692,206</u>
Totals	<u>\$805,832,960</u>

Deposits held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2000, 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 its agent in the entity's name.
- 2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- 3) Uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 3. RECEIVABLES AND DEFERRED REVENUE:

The receivable balances at June 30, 2000 and the related amounts for the allowances for uncollectibles and deferred revenue are as follows:

<u>Type</u>	Receivables at June 30, 2000	Allowance for Uncollectibles	Net Receivables	Deferred Revenue
<u>Taxes Receivable - Net</u>				
General Fund				
Penalties and interest	\$ 6,980,297	\$ 5,803,107	\$ 1,177,190	\$ 1,013,279
Contingency assessments	1,908,104	253,637	1,654,467	172,170
Totals	<u>\$ 8,888,401</u>	<u>\$ 6,056,744</u>	<u>\$ 2,831,657</u>	<u>\$ 1,185,449</u>
Expendable Trust Fund (ETF)				
Employer tax contributions (UI)	<u>\$ 62,015,528</u>	<u>\$ 18,674,889</u>	<u>\$ 43,340,639</u>	<u>\$ 5,618,550</u>
<u>Due From Reimbursable</u>				
<u>Employers - Net (ETF)</u>				
Non-profit employers (UI)	<u>\$ 425,364</u>	<u>\$ 37,692</u>	<u>\$ 387,672</u>	<u>\$ 159,772</u>
<u>Intergovernmental Receivables - Net</u>				
State agencies (ETF - UI)	<u>\$ 445,879</u>	<u>\$ -</u>	<u>\$ 445,879</u>	<u>\$ -</u>
Local governments (ETF - UI)	<u>\$ 768,368</u>	<u>\$ -</u>	<u>\$ 768,368</u>	<u>\$ 119,646</u>
Other states (ETF - UI)	<u>\$ 833,411</u>	<u>\$ -</u>	<u>\$ 833,411</u>	<u>\$ 6,198</u>
Federal grants				
General fund	<u>\$ 1,407,753</u>	<u>\$ -</u>	<u>\$ 1,407,753</u>	<u>\$ -</u>
Expendable Trust Fund:				
Extended Benefits (EB)	\$ 430		\$ 430	
Trade Readjustment (TRA)	<u>\$ 27,741</u>	<u>\$ -</u>	<u>\$ 27,741</u>	<u>\$ -</u>
Totals	<u>\$ 28,171</u>	<u>\$ -</u>	<u>\$ 28,171</u>	<u>\$ -</u>
State grants				
General fund				<u>\$ 6,690,325</u>
<u>Benefit Overpayments Receivable - Net (ETF)</u>				
Basic Unemployment Compensation (UI)	\$ 8,313,384	\$ 2,244,614	\$ 6,068,770	\$ 5,590,366
Federal Employees (UCFE)	75,226	20,311	54,915	51,075
Ex-Servicemen (UCX)	161,790	43,683	118,107	112,469
Trade Readjustment (TRA)	83,965	22,671	61,294	58,423
Emergency Unemployment Compensation (EUC)	342	92	250	250
Totals	<u>\$ 8,634,707</u>	<u>\$ 2,331,371</u>	<u>\$ 6,303,336</u>	<u>\$ 5,812,583</u>
Total deferred revenue				<u>\$ 19,592,524</u>
Allocated to:				
General Fund				<u>\$ 7,875,774</u>
Expendable Trust Fund				<u>\$ 11,716,750</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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, 2000. In addition, the Expendable Trust Fund has not transferred the Reed Act Funds which were appropriated to the General Fund as of June 30, 2000. Amounts due from the Expendable Trust Fund – Basic Unemployment Compensation to the General Fund as of June 30, 2000 are as follows:

Reed Act	\$1,196,917
Contingency assessments	158,299
Principal and interest	<u>77,783</u>
	<u>\$1,432,999</u>

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, 2000.

NOTE 5. PROPERTY AND EQUIPMENT:

A summary of changes in general fixed assets for the fiscal year ended June 30, 2000 follows:

	Land and Land Improvements	Buildings	Furniture and Equipment	Construction in Progress
Beginning balances	\$ 3,010,600	\$ 21,919,231	\$ 17,493,804	\$ 301,913
Additions			2,315,154	458,667
Deletions	(901)		(472,532)	
Completed project costs reclassified	<u>17,500</u>			<u>(17,500)</u>
Ending balances	<u>\$ 3,027,199</u>	<u>\$ 21,919,231</u>	<u>\$ 19,336,426</u>	<u>\$ 743,080</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 6. CHANGES IN GENERAL LONG-TERM DEBT:

A summary of changes in long-term debt for the year ended June 30, 2000 was:

	Balance, July 1, 1999	Additions	Retirements	Balance, June 30, 2000
Capital leases payable	\$ 921,279	\$	\$ 436,206	\$ 485,073
Capital improvement bond notes payable	3,470,746		285,609	3,185,137
Accrued compensated absences and related benefits	<u>5,466,742</u>		<u>358,928</u>	<u>5,107,814</u>
Totals	<u>\$ 9,858,767</u>	<u>\$</u>	<u>\$ 1,080,743</u>	<u>\$ 8,778,024</u>

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

NOTE 7. CAPITAL PROJECTS/CAPITAL IMPROVEMENT BOND NOTES PAYABLE:

In prior years, the State authorized funds for improvements and expansion of facilities using the proceeds from State capital improvement bond notes. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When authorized, the Commission records the authorized amount of the bond notes as revenue and the issue costs as expenditures in the capital projects fund. These authorized funds are requested as needed once State authorities have given approval to begin specific projects. The Commission is not obligated to repay these funds to the State until they have been drawn down. The total balance of 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 of the receivable from this authorization as of June 30, 2000 follows:

<u>Act</u>	Total <u>Authorized</u>	Amount Drawn in <u>Prior Years</u>	Amount Drawn in Fiscal Year Ended <u>June 30, 2000</u>	Balance Authorized and Not Drawn <u>June 30, 2000</u>
538 of 1987	<u>\$5,607,000</u>	<u>\$5,367,545</u>	<u>\$ -0-</u>	<u>\$239,455</u>

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, 2000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	401,453	115,220	516,673
2006 through 2011	<u>1,425,317</u>	<u>173,849</u>	<u>1,599,166</u>
Totals	<u>\$3,185,137</u>	<u>\$ 997,394</u>	<u>\$4,182,531</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 7. CAPITAL PROJECTS/CAPITAL IMPROVEMENT BOND NOTES PAYABLE: (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.

During the fiscal year, the Commission paid \$285,609 and \$231,065 in principal and interest, respectively, on the capital improvement bond notes payable.

The Commission had capital projects in progress at June 30, 2000 which are expected to be completed over the next two years at an estimated total cost of approximately \$2,030,000. At June 30, 2000 \$743,080 was expended for the capital projects in progress. The estimated cost to complete the capital projects in progress is approximately \$1,290,000. The Commission did not have any outstanding commitments attributable to the capital projects in progress at June 30, 2000.

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 2001 through 2006. 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 \$307,400 and \$334,100, respectively, for the year ended June 30, 2000. The following is a schedule by years of future minimum rental payments at June 30, 2000 required under the noncancellable operating lease agreements with remaining terms at June 30, 2000 in excess of one year.

<u>Year ending June 30</u>	<u>Amount</u>
2001	\$210,048
2002	190,777
2003	168,303
2004	70,180
2005	35,145
2006	<u>26,359</u>
Total	<u>\$700,812</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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 a maturity in April, 2001	\$ 333,214
Lease on computer printer payable in monthly installments of \$5,225 including interest at 4.9% with a maturity in January, 2003	<u>151,859</u>
	<u>\$ 485,073</u>

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, 2000.

Total payments on capital leases for the year ended June 30, 2000 was \$469,197 and consisted of \$437,206 of principal and \$31,991 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, 2000:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 388,731	\$ 12,716	\$ 401,447
2002	59,350	3,350	62,700
2003	<u>35,992</u>	<u>583</u>	<u>36,575</u>
Totals	<u>\$484,073</u>	<u>\$ 16,649</u>	<u>\$ 500,722</u>

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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 Commission 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. Compensation deferred under the plans is placed in trust for the contributing employees. The State has no liability for losses under the plans. Employees may withdraw contributions prior to termination if they meet the requirements specified by the applicable plan.

The State appropriated funds from unspent fiscal year 1998-1999 State General Fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its other applicable revenue sources. The appropriated 401(k) match was limited to \$300. To be eligible an employee must have met the following eligibility requirements:

- (1) The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999 and employed on the date of distribution, and;
- (2) The employee established a 401(k) account with annual contributions equal to match (this requirement is not required for employees earning less than \$20,000).

In April, 2000 the Commission made contributions from State appropriations of \$118 to the 401(k) account of each eligible State employee for a total of \$66,198 for all of its employees.

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 its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 21,000 retirees met these eligibility requirements as of June 30, 2000.

The Commission recorded employer contributions expenditures within the applicable program for these insurance benefits for active employees in the amount of approximately \$2,860,000 for the year ended June 30, 2000. As discussed in Note 12, the Commission paid approximately \$737,000 applicable to the 1.95 percent surcharge for July 1, 1999 – December 31, 1999 and 2.16 percent surcharge for January 1, 2000 – June 30, 2000 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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 from 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.

The majority 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, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage and effective January 1, 2000, the employer contribution rate became 9.71 percent which included a 2.16 percent surcharge to fund retiree and dental insurance coverage. The Commission's actual contributions to the SCRS for the three most recent years ended June 30, 2000, 1999 and 1998 were approximately \$2,708,000, \$2,564,000 and \$2,448,000, 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 \$53,000 at the rate of .15 percent of compensation.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

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, 1999, the employer contribution rate became 12.25 percent which, as for the SCRS, included the 1.95 percent surcharge and effective January 1, 2000, the employer contribution rate became 12.46 percent which included a 2.16 percent surcharge. The Department's actual contributions to the PORS for the three most recent years ended June 30, 2000, 1999 and 1998 were approximately \$8,100, \$5,500 and \$6,900, 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 \$160 and accidental death insurance contributions of approximately \$160 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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000**

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. \$3,042,256 was earned as of June 30, 1999 and \$2,267,419 was earned in the current year and the \$6,690,325 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.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

NOTE 14. TRANSACTIONS WITH STATE AGENCIES: (CONTINUED)

The Commission advanced \$90,000 to the State Budget and Control Board to perform construction on its behalf. As of June 30, 2000 the work has not been performed and the advance is reported as an intergovernmental receivable.

NOTE 15. STATE APPROPRIATION:

The Commission received \$250,544 from State appropriations during the year for expenditures of the SCOICC.

NOTE 16. CONTINGENCIES:

Federal Grants - The various programs administered by the Commission for fiscal years June 30, 2000 and prior are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Commission believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Commission. Furthermore, there is no evidence to indicate that a liability should be recorded at year-end.

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

NOTE 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. \$458,667 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. RETIREMENT INCENTIVE

Pursuant to Section 51.8 of the 2000 Appropriations Act, the Commission implemented an incentive plan to retarget resources by providing for a separation incentive payment. The Commission paid out approximately \$1,100,000 in salary and approximately \$500,000 in annual leave pursuant to this plan.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

NOTE 19. PRIOR PERIOD ADJUSTMENTS:

The Commission failed to record benefits payable and the related expenditures for benefits paid subsequent to year-end in the expendable trust funds for the year ended June 30, 1999. In addition, federal intergovernmental receivables or payables and federal intergovernmental revenues were understated to the extent the benefits were reimbursable from federal sources and various other receivables and revenues were understated to the extent the benefits were reimbursable from other sources.

The Commission also determined that cash balances in the general fund had been overstated.

Required changes to June 30, 1999 balances were as follows:

	As Previously Reported	Increase (Decrease)	As Restated
General Fund			
Cash	\$ 16,574,302	\$ (268,243)	\$ 16,306,059
Fund Balances	7,761,699	(268,243)	7,493,456
Expendable Trust Funds:			
Basic Unemployment Compensation (UI):			
Due from reimbursable employers - net	345,756	16,907	362,663
Intergovernmental receivable - net			
Local governments	672,575	36,669	709,244
Other states	651,727	26,083	677,810
Benefits payable		2,451,685	2,451,685
Intergovernmental payables:			
States		2,096,630	2,096,630
Fund balances	798,931,615	(4,468,656)	794,462,959
Federal Employees (UCFE):			
Intergovernmental payables - federal	119,917	(20,650)	99,267
Benefits payable		20,650	20,650
Ex-Servicemen (UCX):			
Intergovernmental payables - federal	150,803	(41,366)	109,437
Benefits payable		41,366	41,366
Trade Adjustment (TRA):			
Intergovernmental receivable - federal		23,038	23,038
Intergovernmental payables - federal	27,310	(23,710)	3,600
Benefits payable		46,748	46,748

The effect on the statement of revenues, expenditures and changes in fund balances for the year ended June 30, 1999 was not readily determinable.

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**COMBINING BALANCE SHEET - ALL EXPENDABLE TRUST FUNDS
JUNE 30, 2000**

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex- Servicemen (UCX)	Extended Benefits (EB)	Trade Readjustment (TRA)	Emergency Unemployment Compensation (EUC)	Disaster Unemployment (DU)	Totals
ASSETS								
Cash and cash equivalents	\$ 789,796,801	\$ 133,779	\$ 136,316	\$ (430)	\$ 40,476	\$ 2,404	\$ 2,297	\$ 790,111,643
Accrued interest receivable	12,722,609							12,722,609
Taxes receivable - net	43,340,639							43,340,639
Benefit overpayments receivable - net	6,068,770	54,915	118,107		61,294	250		6,303,336
Due from reimbursable employers - net	387,672							387,672
Intergovernmental receivable - net:								
State	445,879							445,879
Local governments	768,368							768,368
Other states	833,411							833,411
Federal				430	27,741			28,171
TOTAL ASSETS	\$ 854,364,149	\$ 188,694	\$ 254,423	\$ -	\$ 129,511	\$ 2,654	\$ 2,297	\$ 854,941,728
LIABILITIES AND FUND EQUITY								
LIABILITIES:								
Benefits payable	\$ 3,472,304	\$ 21,588	\$ 49,907	\$ -	\$ 67,245	\$ -	\$ -	\$ 3,611,044
Accounts payable	85,878				3,843			89,721
Intergovernmental payables:								
Federal		116,031	92,047			2,404	2,297	212,779
States	2,281,587							2,281,587
Contributions payable	3,639,334							3,639,334
Interfund payable - general fund	1,432,999							1,432,999
Deferred revenue	11,494,533	51,075	112,469		58,423	250		11,716,750
TOTAL LIABILITIES	22,406,635	188,694	254,423	\$ -	129,511	2,654	2,297	22,984,214
FUND EQUITY								
Fund balances:								
Reserved for Reed Act expenditures	353,545							353,545
Reserved for unemployment benefits	831,603,969							831,603,969
TOTAL FUND EQUITY	831,957,514	-	-	-	-	-	-	831,957,514
TOTAL LIABILITIES AND FUND EQUITY	\$ 854,364,149	\$ 188,694	\$ 254,423	\$ -	\$ 129,511	\$ 2,654	\$ 2,297	\$ 854,941,728

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, 2000**

	Basic Unemployment Compensation (UI)	Federal Employees (UCFE)	Ex- Servicemen (UCX)	Extended Benefits (EB)	Trade Readjustment (TRA)	Disaster Unemployment (DU)	Totals
REVENUES:							
Employer tax contributions	\$ 172,382,318	\$	\$	\$	\$	\$	\$ 172,382,318
Reimbursement of unemployment compensa- tion benefits from employers	769,492						769,492
Benefit overpayment recoveries	2,069,290	20,415	58,832		21,891	49	2,170,477
Intergovernmental:							
Local	2,096,273						2,096,273
State of South Carolina	1,592,467			68			1,592,535
Other states	3,085,004						3,085,004
Federal	1,196,917	1,118,235	2,721,391	68	3,229,555	68,703	8,334,869
Interest/investment income	50,195,064						50,195,064
TOTAL REVENUES	233,386,825	1,138,650	2,780,223	136	3,251,446	68,752	240,626,032
EXPENDITURES:							
Unemployment compensation benefits:							
State	194,735,757						194,735,757
Federal		1,138,650	2,780,223	136	3,251,446	68,752	7,239,207
TOTAL EXPENDITURES	194,735,757	1,138,650	2,780,223	136	3,251,446	68,752	201,974,964
EXCESS OF REVENUES OVER EXPENDITURES	38,651,068						38,651,068
OTHER FINANCING SOURCES:							
Operating transfers in - general fund	40,404						40,404
Operating transfers out - general fund	(1,196,917)						(1,196,917)
	(1,156,513)						(1,156,513)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	37,494,555						37,494,555
BEGINNING FUND BALANCES, AS PREVIOUSLY REPORTED	798,931,615						798,931,615
PRIOR PERIOD ADJUSTMENTS	(4,468,656)						(4,468,656)
BEGINNING FUND BALANCES, AS RESTATED	794,462,959						794,462,959
FUND BALANCES, END OF YEAR	\$ 831,957,514	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 831,957,514

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures to Subrecipients</u>
U.S. Department of Labor			
Labor Force Statistics	17.002	\$ 934,048	
Labor Certification for Alien Workers	17.203	120,100	171,597
Employment Service	17.207	13,455,860	
Unemployment Insurance	17.225	30,700,956	
Trade Adjustment Assistance - Workers	17.245	4,342,319	
Employment and Training Assistance - Dislocated Workers	17.246	12,813,709	7,905,438
Employment Service and Job Training - Pilot and Demonstration Programs	17.249	82,646	
Job Training Partnership Act	17.250	23,342,718	19,808,819
Welfare to Work Grants to States and Localities	17.253	5,167,874	4,609,274
Job Corps	N/A	575,657	
Women's Special Employment Assistance - Basic Assistance Grant	17.700	121,912	
Disabled Veterans' Outreach Program	17.801	1,693,206	
Local Veterans Employment Representative	17.804	1,645,048	
TOTAL U.S. DEPARTMENT OF LABOR		<u>\$ 94,996,053</u>	<u>\$ 32,495,128</u>
U.S. Department of Health and Human Services			
Passed through to South Carolina Department of Social Services			
Child Support Enforcement	93.563	<u>11,645</u>	<u>11,645</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>11,645</u>	<u>11,645</u>
TOTAL FEDERAL ASSISTANCE		<u><u>\$ 95,007,698</u></u>	<u><u>\$ 32,506,773</u></u>

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



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

We have audited the financial statements of the South Carolina Employment Security Commission (the Commission) as of and for the year ended June 30, 2000, and have issued our report thereon dated February 8, 2002 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 00-2.

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 00-2 described on the accompanying schedule of findings and questioned costs are material weaknesses.



We also noted other matters involving the internal control over financial reporting as described on pages 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 & Lalen, PA

February 8, 2002



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, 2000. 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, 2000. 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 00-1 and 00-2.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matter coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our 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 00-2.

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 + Latham, PA

February 8, 2002

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. A qualified opinion dated February 8, 2002 on the financial statements of the Commission for the year ended June 30, 2000 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 February 8, 2002 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:

<u>CFDA #</u>	<u>Program</u>
17.207	Employment Service
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 \$2,850,231.
9. The Commission was determined not to be a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

A. WEAKNESSES IN FINANCIAL MANAGEMENT, RECORD KEEPING AND REPORTING

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

1. The Commission is not recording all journal entries made by the auditors and the fund balances per the general ledger do not agree with the audited financial statements.
2. Journal entries to correct certain prior year-end balances made by the Commission were recorded in current year's revenue and expenditure accounts causing the current year's revenues and expenditures to be misstated. Journal entries are not being properly reviewed and approved and are being posted in some cases by the same individual that prepare the entry. 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.
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, 2000 was not completed until April 2002. The bank reconciliations for the cash on deposit with the State Treasurer and the Unemployment Insurance Trust Funds contain numerous reconciling items which are several years old.
5. 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.
6. The Commission is recording operating transfers for Reed Act 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.
7. The Commission is recording capital lease principal and interest payments as equipment expenditures instead of separate expenditure accounts for principal and interest.
8. 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.
9. 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.

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

00-1. 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, 2000. The Commission did not meet this requirement for the year ended June 30, 2000. The same deficiency was noted in the prior years.

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.

00-2. U.S. DEPARTMENT OF LABOR – EMPLOYMENT SERVICE – CFDA # 17.207; UNEMPLOYMENT INSURANCE – CFDA# 17.225; JOB TRAINING PARTNERSHIP ACT – CFDA # 17.250; WELFARE TO WORK GRANTS TO STATES AND LOCALITIES – CFDA # 17.253

Statement of Condition: The Department underreported federal expenditures by approximately \$1,381,000 on the schedule of federal expenditures which it prepared in addition to the \$8,800 described in item C of findings related to the financial statements. The schedule also overreported expenditures by approximately \$4,540,000 as explained in item C. 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: Misstatement of expenditures on schedule of expenditures of federal awards.

Cause of Condition: Posting of prior year adjustments as a reduction of expenditures in the Commission's general ledger.

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

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

OTHER MANAGEMENT LETTER COMMENTS FOR THE YEAR ENDED JUNE 30, 2000

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 sample of 10 leases reported in the closing package which we tested, 2 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. The same 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 of the fixed asset closing package which is required by the State Comptroller General.

1. Payments of approximately \$63,000 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. 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.

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

Because of the above deficiencies, the Commission is overstating the amounts of equipment additions, 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. 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. The same finding was reported in the prior year's management letter comments.

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

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

D. FIXED ASSET

Out of 25 pieces of movable equipment selected for testing, we noted the following:

- 1) One item had a turn in document show that the item was transferred to surplus property. The document was not dated so we could not determine when the item should have been deleted from the fixed asset listing.
- 2) One item was reported stolen in February 1998 but was still on the Commission's fixed asset at June 30, 2000.
- 3) One item was sent to surplus property on January 20, 1997 and was still on the fixed asset inventory on June 30, 2000.

The problems appear to exist because the Commission is utilizing two property management systems. The system used by the Finance Department is utilized to prepare the financial statements while the Property Management Department is also maintaining a system. The Finance Department is not always being made aware of disposals. In addition, the Property Management Department is tagging and inventorying numerous items that do not meet the Commission's capitalization policy.

We recommend that the Commission implement procedures to ensure that all items that are disposed of, junked, etc. be promptly removed from the fixed asset system. A periodic fixed asset inventory verification should also be performed of all fixed assets. Consideration should also be given to maintaining only one system which is agreed to the general ledger. Management should do a costs/benefit analysis to determine whether they should keep the items that do not meet the capitalization criteria on the listing.

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.

SOUTH EMPLOYMENT SECURITY COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

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 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.

Response: This condition continues to exist. The Agency is striving to issue its financial statements as required by OMB Circular A-133. By working closely with the State Auditor's Office and our independent audit firm. This finding should be corrected with the financial statements for the Fiscal Year ending June 30, 2002.

US 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.

Response: This condition continues to exist. The financial staff, working closely with the sub-recipient accounting staff, is implementing procedures for a more timely submittal of financial data for inclusion in the Agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal Year ending June 30, 2002.

CORRECTIVE ACTION PLAN

APPENDIX A



www.sces.org

COMMISSIONERS
J. William McLeod
McKinley Washington, Jr.
Carole C. Wells

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

September 23, 2002

South Carolina Employment Security Commission Corrective Action Plan

The South Carolina Employment Security Commission respectfully submits the following comments and Corrective Action Plan for the audit of the year ended June 30, 2000.

Name and address of the independent public accounting firm: Rogers & Laban, P.A., 1529 Hampton Street, Suite 200, Columbia, South Carolina 29202.

Audit Period: July 1, 1999 through June 30, 2000.

Comments: The following management comments are offered regarding the audit and its findings:

1. Management is pleased to note that there were no questioned costs as a result of this audit and that, except for a "statement of revenues, expenditures and changes in fund balances", the "financial position of the Commission as of June 30, 2000 and the results of its operations for the year ended, is in conformance with the Generally Accepted Accounting Principles (GAAP) of the United States of America".

2. Management also notes that work on the audit for the year ending June 1999 was actually taking place in 2001, which is also beyond the subsequent audit year ending June 30, 2000 and which is the subject of this "corrective action". Therefore, there are some findings in the 2000 audit that were repeated from the 1999 audit prior to the agency having time to take any necessary corrective action. This problem should begin to work itself out as the audit schedule becomes more up-to-date.

3. Management further notes that the nature of grant and accounting requirements associated with the federal funds received by the Agency, which are the predominance of all funds managed by the Agency, will likely continue to result in certain on-going differences between the financial reporting processes of our Agency and those of other agencies that are largely state funded. In particular, most federal grant funds are expended across several fiscal years and therefore, the June 30th financial accounting picture of our Agency will not necessarily provide the same picture as would be true for the reporting of state appropriations by other state agencies. Federal grant closeouts, whenever they occur, are of greater significance in our Agency and various adjustments will be on-going until the closeout, regardless of the annual fiscal year financial reporting picture. Any such on-going differences that are not being addressed in the corrective action plan are judged to be of minimal material relevance.

4. Lastly, management has considered the various “organizational” recommendations that are offered in the audit report(s) and has determined that some recommendations, while understandable from a more purely accounting perspective, are either not feasible within current resource limitations or that they do not take into account other considerations that must be a part of the management decisions regarding the overall administration of the Agency’s programs and services.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

WEAKNESSES IN FINANCIAL MANAGEMENT AND REPORTING

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

Recommendation: The Commission should merge the management of and the accounting and recordkeeping functions of the various areas under one common management team that will be charged with the overall responsibility of ensuring that all of the records of the Commission are properly maintained. All bank accounts of the Commission should be reconciled monthly in a timely manner and supporting detail should be attached for all reconciling items. All account reconciliations should be initialed and dated by the preparer and an independent supervisory employee assigned to approve and review the reconciliations. All other balance sheet accounts should be agreed to supporting schedules monthly. Errors detected in the reconciliation should be promptly corrected in STARS and/or the Commission’s internal records, as appropriate. 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.

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

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 \$235,000 and an overstatement of liabilities of approximately \$167,000 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.

Response: The Commission has been recording all of the benefit overpayment receivables to the Basic Unemployment Compensation Fund prior to Fiscal Year 2001. After this citing was made in the Fiscal Year 1999 audit, the Commission began making the proper adjustments to break them out between the other expendable trust funds. It is noted that due to the fact the audits were behind, we were not cited until Fiscal Year 2001 and we made changes in our procedures at that time.

SUBRECIPIENT ADVANCES RECEIVABLE AND RELATED ACCOUNTS MISSTATED

Condition: Our audit of sub-recipient advances receivable disclosed that the Commission had not adjusted its advances account to reflect actual expenditures reported by sub-recipient. Some of the sub-recipients had actually incurred more expenditures than they had been advanced, resulting in unrecorded payables, and some had incurred less expenditures. Our adjustments resulted in an increase in sub-recipient advances receivable of approximately \$527,000; and increase in accounts payable of approximately \$15,000; and a decrease in expenditures of approximately \$512,000. 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 \$8,000 for the federal portion of these expenditures and state intergovernmental revenues were understated and deferred revenues were overstated by approximately \$520,000 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. These amounts do not take into account the prior years underreporting of federal expenditures of approximately \$4,540,000 which the Commission reported on its schedule of expenditures of federal awards in the current year. The advances to sub-recipients schedule also detailed a receivable from a sub-recipient under the JTPA Program of \$14,840 for a grant which closed out in the prior year.

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

Response: The financial staff, working closely with the sub-recipient accounting staff, is implementing procedures for a more timely submittal of financial data for inclusion in the Agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal Year ending June 30, 2002.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

ALL PROGRAMS

Condition: OMB Circular A-133, Subpart C – Section 320, required Single Audit reports to be submitted no later than nine months after the end of the audit period for the Fiscal Year ended June 30, 2000. The same deficiency was noted for the prior years.

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

Response: The Agency is striving to issue its financial statements as required by OMB Circular A-133. By working closely with the State Auditor's Office and our independent audit firm. This finding should be corrected with the financial statements for the Fiscal Year ending June 30, 2002.

US 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 \$1,381,000 on the schedule of federal expenditures which it prepared in addition to the \$8,800 described in item C of findings related to the financial statements. The schedule also over-reported expenditures by approximately \$4,540,000, as explained in item C. The schedule was adjusted for these understatements.

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

Response: The financial staff, working closely with the sub-recipient accounting staff, is implementing procedures for a more timely submittal of financial data for inclusion in the Agency's financial statements. These procedures should correct this finding, effective with the financial statement and trial balances for the Fiscal Year ending June 30, 2002.

**OTHER MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

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 non-cancelable 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 sample of 10 leases reported in the closing package which we tested, 2 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 book to those in the State's accounting records. The same 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.

Response: 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.

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 \$63,000 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.

Response: This condition will be corrected in financial statements ending June 30, 2001

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; reconciliations 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.

Response: 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.

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.

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

FIXED ASSET

Condition: Out of 25 pieces of movable equipment selected for testing, we noted the following: one item had a turn in document showing that the item was transferred to surplus property. The document was not dated so we could not determine when the item should have been deleted from the fixed asset listing; one item was reported stolen in February 1998 but was still on the Commission's fixed asset at June 30, 2000; and one item was sent to surplus property on January 20, 1997 and was still on the fixed asset inventory on June 30, 2000.

The problems appear to exist because the Commission is utilizing two property management systems. The system used by the Finance Department is utilized to prepare the financial statements while the Property Management Department is also maintaining a system. The Finance Department is not always being made aware of disposals. In addition, the Property Management Department is tagging and inventorying numerous items that do not meet the Commission's capitalization policy.

Recommendation: That the Commission implement procedures to ensure that all items that are disposed of, junked, etc. be promptly removed from the fixed asset system. A periodic fixed asset inventory verification should also be performed of all fixed assets. Consideration should also be given to maintaining only one system which is agreed to the general ledger. Management should do a costs/benefit analysis to determine whether they should keep the items that do not meet the capitalization criteria on the listing.

Response: This condition continues to exist but will be corrected for the Fiscal Year ending June 30, 2003.

INTERNAL AUDIT STAFF NEEDED

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

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

Response: An additional line of authority has been established between the Commissioners and the Director of the Internal Audit and Review Department. The Commission will direct certain independent and targeted inquiries by the Department. The Executive Director will continue to oversee other regular functions of the Department, such as WIA monitoring and audits, EEO responsibilities, etc. Further expansion of the Department's responsibilities and staffing is not planned at this time, however, management will continue to monitor the need for such as the Agency continues to catch up in the audit process, namely through the Fiscal Year ending June 30, 2003.

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

Sincerely,



Charles O. Middlebrooks
Interim Executive Director

COM:sc