

South Carolina
Employment Security Commission

Columbia, South Carolina

Financial Statements
and Independent Auditors' Reports

Year Ended June 30, 2006

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State of South Carolina



Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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

January 24, 2007

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

This report on the audit of the financial statements of the South Carolina Employment Security Commission for the fiscal year ended June 30, 2006, and the accompanying schedule of expenditures of federal awards as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, was issued by Scott McElveen, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

Independent Auditors' Report

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental fund and the business-type activities and each major fund of the South Carolina Employment Security Commission (the "Commission") as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1 to the financial statements, the financial statements of the Commission are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the Commission. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2006, and changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities, and the major funds of the Commission as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The Commission discovered that certain items were misstated in the prior year as discussed in note 14 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Scott McElveen, L.L.P.

Columbia, South Carolina
December 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Employment Security Commission offers readers of this narrative overview and analysis of the financial activities for the year ended June 30, 2006. Please read this information in conjunction with the South Carolina Employment Security Commission's financial statements and accompanying notes.

Financial Highlights

- The Commission's assets exceeded its liabilities at fiscal year ending June 30, 2006 by \$398,601,122 (shown as "total net assets"). The total amount of these funds will be used to administer the South Carolina Employment Law and meet on-going obligations to the citizens of South Carolina for unemployment benefits.
- Total Unemployment Compensation Benefits paid during the year was \$364,828,359.

Overview/Discussion of the Annual Financial Report

The discussion and analysis provides an introduction to the Commission's basic financial statements, which include the following parts: (1) entity-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements.

Entity-wide Financial Statements

The entity-wide statements present a longer-term view of the Commission's finances as a whole, using accrual-basis accounting; the same accounting methods that most businesses use. There are two entity-wide financial statements:

Statement of Net Assets: This statement presents information on all of the Commission's assets and liabilities, both short-term (current) and long-term (non-current). The statement also reports the differences between assets and liabilities as net assets. Over time, increases or decreases in net assets may indicate whether the Commission's financial health (financial position) is strengthening or weakening. But in order to assess the Commission's overall financial health, you would also need to consider factors such as the State's economy and the condition of the entity's capital assets, such as its buildings.

Statement of Activities: This statement presents information showing how the entities overall net assets changed during the year. The statement of activities can help to show how much it costs the Commission to provide various services. It also can help to show the extent to which each entity function covers its own costs through user fees, charges or grants. The net (expense) revenue column on the far right of this statement shows how much a particular function relies on operating and capital grants and contributions.

The entity-wide statements report two different kinds of activities:

Governmental Activities:

Most of the Commission's basic services are included here, such as general administration and employment and training services. Federal grants finance most of these services.

Business-type Activities:

These activities usually recover all or a significant portion of the costs of their services or goods by charging fees to customers. The Unemployment Compensation Fund (the "Fund") is included in these business-type activities. This fund collects money from several different sources but the largest source generally is employer contribution for unemployment insurance taxes.

Fund Financial Statements

The fund financial statements provide detailed information about the Commission's most significant funds, not the entity as a whole. Funds are accounting devices that the Commission uses to track specific funding sources and spending for particular purposes. The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds:

The Commission reports most of its basic services in governmental funds. Governmental funds account for activities that the entity reports as governmental activities in its entity-wide statements. These funds focus on short-term inflows and outflows of expendable resources. All of the Commission's governmental funds are accounted for in the General Fund.

The Special Revenue Fund accounts for the various federal grants and other revenue which the Commission receives for administration purposes and special projects.

Proprietary Funds:

Proprietary funds charge customers for the services they provide to generate operating revenue. The principle operating revenue of the Commission's proprietary funds are from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Commission's proprietary fund is used to account for the Unemployment Compensation Fund.

A brief description of the fund financial statements is as follows:

The balance sheet is the statement of expendable assets which are assigned to the various governmental funds according to the purposes for which they may or may not be used; current liabilities are assigned to the fund for which they are to be paid; and the difference between assets and liabilities is the fund balance.

The statement of revenues, expense and changes in fund balances presents the results of the governmental and business-type activities over the course of the fiscal year and information as to how the net assets changed during the year.

The statement of cash flows presents changes in cash and cash equivalents resulting from operational, financing and investing activities for the proprietary fund. This statement presents cash receipts and cash disbursements information.

Notes to the Financial Statements

The notes to the financial statement provide required disclosures and other information that is essential to a full understanding of material data provided in the statements. These notes present information about the accounting policies, significant account balances and activities.

Entity-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by \$398,601,122 at the year-ended June 30, 2006 compared to \$417,550,880 (as restated – see Note 14) for the prior year-end.

The largest portion of the Commission's net assets (92 percent) is reflected by its Unemployment Insurance Trust Fund. The Commission uses these assets to provide unemployment benefits to the citizens of South Carolina.

The remaining portion of the Commission's net assets (8 percent) represents capital assets and unrestricted net assets. Unrestricted net assets may be used to meet the Commission's on-going obligations to citizens and creditors.

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

Governmental Activities

Total assets decreased by \$3.4 million from last year due largely to the receipt of subrecipient receivable amounts.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets:						
Current & other assets	\$19,664,530	\$23,562,799	\$382,579,309	\$401,312,070	\$402,243,839	\$424,874,869
Capital assets	23,322,733	22,806,790	—	—	23,322,733	22,806,790
Total assets	<u>\$42,987,263</u>	<u>\$46,369,589</u>	<u>\$382,579,309</u>	<u>\$401,312,070</u>	<u>\$425,566,572</u>	<u>\$447,681,659</u>
Liabilities:						
Current	\$8,991,094	\$11,780,764	\$16,463,556	\$16,295,308	\$25,454,650	\$28,076,072
Non-current	1,510,800	2,054,707	—	—	1,510,800	2,054,707
Total liabilities	<u>10,501,894</u>	<u>13,835,471</u>	<u>16,463,556</u>	<u>16,295,308</u>	<u>26,965,450</u>	<u>30,130,779</u>
Net assets:						
Invested in capital assets, net of related debt, 2005 as restated	22,534,990	21,625,610	—	—	22,534,990	21,625,610
Restricted for unemployment benefits, 2005 as restated	—	—	366,115,753	385,016,762	366,115,753	385,016,762
Unrestricted	9,950,379	10,908,508	—	—	9,950,379	10,908,508
Total net assets	<u>\$32,485,369</u>	<u>\$32,534,118</u>	<u>\$366,115,753</u>	<u>\$385,016,762</u>	<u>\$398,601,122</u>	<u>\$417,550,880</u>
Total liabilities & net assets	<u>\$42,987,263</u>	<u>\$46,369,589</u>	<u>\$382,579,309</u>	<u>\$401,312,070</u>	<u>\$425,566,572</u>	<u>\$447,681,659</u>

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$9,394,155	\$9,087,905	\$332,208,460	\$317,421,133	\$341,602,615	\$326,509,038
Operating grants & contributions	58,517,770	107,478,307	13,718,890	13,465,859	72,236,660	120,944,166
General revenues:						
State appropriations	130,724	130,724	—	—	130,724	130,724
Total revenues	<u>\$68,042,649</u>	<u>\$116,696,936</u>	<u>\$345,927,350</u>	<u>\$330,886,992</u>	<u>\$413,969,999</u>	<u>\$447,583,928</u>
Expenses:						
Employment & training services	67,775,582	113,849,983	—	—	67,775,582	113,849,983
Unemployment compensation	—	—	364,828,359	366,581,162	364,828,359	366,581,162
Total expenses	<u>\$67,775,582</u>	<u>\$113,849,983</u>	<u>\$364,828,359</u>	<u>\$366,581,162</u>	<u>\$432,603,941</u>	<u>\$480,431,145</u>
Increase (decrease) in net assets before transfers	<u>267,067</u>	<u>2,846,953</u>	<u>(18,901,009)</u>	<u>(35,694,170)</u>	<u>(18,633,942)</u>	<u>(32,847,217)</u>
Transfers:						
Transfers between funds	—	(30,303)	—	30,303	—	—
Indirect cost remitted to general fund of the State	(315,816)	(401,878)	—	—	(315,816)	(401,878)
Net capital assets transferred to SC Department of Commerce	—	(1,363,585)	—	—	—	(1,363,585)
(Decrease) increase in net assets	<u>(48,749)</u>	<u>1,051,187</u>	<u>(18,901,009)</u>	<u>(35,663,867)</u>	<u>(18,949,758)</u>	<u>(34,612,680)</u>
Net assets – beginning, as restated	32,534,118	31,482,931	385,016,762	420,680,629	417,550,880	452,163,560
Net assets - ending	<u>\$32,485,369</u>	<u>\$32,534,118</u>	<u>\$366,115,753</u>	<u>\$385,016,762</u>	<u>\$398,601,122</u>	<u>\$417,550,880</u>

There was a decrease in federal grant activity, decreasing both revenue and expense by approximately \$48.0 million. This was due largely to the transfer of the Workforce Investment Act Grant to the Department of Commerce, effective July 1, 2005.

Business-Type Activities

Total assets declined by \$18.7 million due primarily to the decline in the cash balance, as a result of the high unemployment rate.

Net assets declined by \$18.9 million due to the loss for the year.

Assessments increased \$10 million over last year.

Total revenue increased by \$19 million primarily due to the increase of revenue from assessments and federal agencies.

Unemployment Compensation's benefits decreased slightly by \$1.7 million.

Operating loss for 2006 was \$33 million as compared to \$53 million loss for the prior year.

Interest income went up slightly by \$253,000 due to increased interest rates.

Ending Net Assets for 2006 decreased by \$18.9 million as compared to \$40 million decrease for the prior year.

Although the unemployment rate increased during the current year, the taxable wage base increased resulting in higher assessments.

As a result of growth in employment, there were fewer claimants and a decrease in unemployment compensation benefits paid, thus reducing the Fund's unemployment compensation expense for the current year.

Financial Analysis of the Governments Funds

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

Governmental Funds

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

As of the end of the current fiscal year, the Commission's governmental fund reported combined ending fund balances of \$14,321,108, a decrease of approximately \$1.3 million for the year. Approximately 57 percent of this total amount (\$8.2 million) constitutes unreserved fund balance, which is available for spending at the Commission's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because they are segregated for specific future uses.

Proprietary Fund

The Commission's proprietary fund provides the same type of information found in the entity-wide financial statements, but in more detail. Restricted net assets of the Commission at the end of the year amounted to \$366 million which are used for payment of unemployment benefits. Other information concerning this fund has been addressed in the discussion of the Commission's business-type activities.

Capital Assets and Debt Administration

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

Long-term debt fell into three areas as follows:

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

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

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

Economic Factors and Next Years Rate

The Unemployment Compensation Trust Fund reserves do not meet the 2.0% requirement of law; therefore, the base rates for employer contributions will continue to include a .7% surcharge, as called for by law.

Request for Information

This financial report is designed to provide a general overview of the South Carolina Employment Security Commission's finances for all those with interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Fiscal Affairs, 1550 Gadsden Street, Post Office Box 995, Columbia, South Carolina 29202.

South Carolina Employment Security Commission
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 11,376,454	\$ 322,822,218	\$ 334,198,672
Assessments receivable, net	1,646,683	52,430,262	54,076,945
Benefit overpayments receivable, net	—	3,763,319	3,763,319
Due from reimbursable employers, net	—	984,570	984,570
Internal balances	1,772,744	(1,772,744)	—
Intergovernmental receivables, net:			
State agencies	4,400,542	916,643	5,317,185
Local governments	—	1,707,865	1,707,865
Other states	—	1,500,177	1,500,177
Federal	301,112	226,999	528,111
Prepaid items	166,995	—	166,995
Total current assets	<u>19,664,530</u>	<u>382,579,309</u>	<u>402,243,839</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>23,322,733</u>	<u>—</u>	<u>23,322,733</u>
Total assets	<u>\$ 42,987,263</u>	<u>\$ 382,579,309</u>	<u>\$ 425,566,572</u>
Liabilities:			
Current liabilities:			
Benefits payable	\$ —	\$ 6,976,055	\$ 6,976,055
Accounts payable	1,178,753	1,081,208	2,259,961
Contributions payable	—	4,759,634	4,759,634
Accrued salaries and related benefits	3,732,293	—	3,732,293
Deferred revenues	429,203	—	429,203
Intergovernmental payables:			
Federal	3,173	1,032,335	1,035,508
Other states	—	2,614,324	2,614,324
Current portion of capital leases payable	75,295	—	75,295
Current portion of capital improvement bond notes payable	332,702	—	332,702
Current portion of accrued compensated absences and related benefits	<u>3,239,675</u>	<u>—</u>	<u>3,239,675</u>
Total current liabilities	<u>8,991,094</u>	<u>16,463,556</u>	<u>25,454,650</u>
Noncurrent liabilities:			
Capital leases payable	35,301	—	35,301
Capital improvement bond notes payable	344,445	—	344,445
Accrued compensated absences and related benefits	<u>1,131,054</u>	<u>—</u>	<u>1,131,054</u>
Total noncurrent liabilities	<u>1,510,800</u>	<u>—</u>	<u>1,510,800</u>
Total liabilities	<u>10,501,894</u>	<u>16,463,556</u>	<u>26,965,450</u>
Net Assets:			
Invested in capital assets, net of related debt, as restated	22,534,990	—	22,534,990
Restricted for unemployment benefits, as restated	—	366,115,753	366,115,753
Unrestricted	<u>9,950,379</u>	<u>—</u>	<u>9,950,379</u>
Total net assets	<u>32,485,369</u>	<u>366,115,753</u>	<u>398,601,122</u>
Total liabilities and net assets	<u>\$ 42,987,263</u>	<u>\$ 382,579,309</u>	<u>\$ 425,566,572</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
Statement of Activities
as of June 30, 2006

Function/Program	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:					
Employment and training services	\$ 67,775,582	\$ 9,394,155	\$ 58,517,770	\$ 136,343	\$ —
Business-type activities:					
Unemployment benefits	364,828,359	332,208,460	13,718,890	—	(18,901,009)
Totals	<u>\$ 432,603,941</u>	<u>\$ 341,602,615</u>	<u>\$ 72,236,660</u>	<u>136,343</u>	<u>(18,901,009)</u>
		General revenues:			
		State appropriations		130,724	—
		Transfers:			
		Indirect costs remitted to General Fund of the State		(315,816)	—
		Total general revenues and transfers		<u>(185,092)</u>	<u>—</u>
		Decrease in net assets		(48,749)	(18,901,009)
		Net assets - beginning as restated		<u>32,534,118</u>	<u>385,016,762</u>
		Net assets - ending		<u>\$ 32,485,369</u>	<u>\$366,115,753</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
 Balance Sheet
 Governmental Fund – Special Revenue
 June 30, 2006

Assets:	
Cash and cash equivalents	\$ 11,376,454
Assessments receivable, net	1,646,683
Intergovernmental receivables, net:	
State agencies	4,400,542
Federal	301,112
Interfund receivable – unemployment compensation fund	1,772,744
Prepaid items	<u>166,995</u>
 Total assets	 <u>\$ 19,664,530</u>
 Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 1,178,753
Accrued salaries and related benefits	3,732,293
Deferred revenue	429,203
Intergovernmental payable - federal	<u>3,173</u>
 Total liabilities	 <u>5,343,422</u>
 Fund balances:	
Reserved:	
Reed Act expenditures	5,777,681
Prepaid items	166,995
South Carolina Occupational Information Coordinating Committee	224,161
Unreserved fund balances:	
Undesignated fund balance	<u>8,152,271</u>
 Total fund balances	 <u>14,321,108</u>
 Total liabilities and fund balances	 <u>\$ 19,664,530</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
 Balance Sheet
 Governmental Fund – Special Revenue (Continued)
 June 30, 2006

Reconciliation to the Statements of Net Assets:

Fund balances – governmental funds		\$ 14,321,108
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Liabilities that are not due and payable in the current period are not reported in the fund:</p>		
Capital leases payable	\$ (110,596)	
Bonds notes payable	(677,147)	
Accrued compensated absences	<u>(4,370,729)</u>	(5,158,472)
<p>Assets are capitalized and depreciated in statement of net assets and charged to expenditures in the governmental fund:</p>		
Capital assets, net of accumulated depreciation		<u>23,322,733</u>
Net assets – governmental activities		<u>\$ 32,485,369</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Fund – Special Revenue
for the year ended June 30, 2006

Revenues:

Employer tax contingency assessments	\$ 7,836,333
Employer tax penalties and interest	1,127,193
User fees	288,694
Intergovernmental:	
State of South Carolina	130,724
Federal	52,843,989
Local	5,673,779
Other	141,937
Total Revenues	68,042,649

Expenditures:

Employment and training administration	46,987,478
Contingency assessments	8,594,591
Penalties and interest	140,752
Workforce Investment Act	456,702
Other federal programs	4,393,550
Other non-federal programs	5,780,957
Parking	58,463
Occupational Information Coordinating Committee	552,526
Capital outlay	1,624,976
Debt service:	
Principal	393,437
Interest	42,765
Total Expenditures	69,026,197

Excess of Expenditures Over Revenues	(983,548)
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Other Financing Uses:

Indirect costs remitted to General Fund of the State	(315,816)
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Total Other Financing Uses	(315,816)
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Excess of Expenditures and Other Financing Uses Over Revenues	(1,299,364)
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Beginning Fund Balance	15,620,472
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Ending Fund Balance	\$ 14,321,108
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The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Fund – Special Revenue (Continued)
for the year ended June 30, 2006

Reconciliation to the Statement of Activities:

Revenues and other financing sources under expenditures and other financing uses for the governmental fund	\$ (1,299,364)
Amounts reported for governmental activities in the statement of activities are different because:	
Costs of capital assets are reported as expenditures in the governmental funds and are reported as capital asset additions in the statement of net assets	1,624,976
Depreciation of capital assets is reported as an expense in the statement of activities	(1,108,548)
Repayments of long-term debt are reported as expenditures in the governmental funds and are reported as a reduction of liabilities in the statement of net assets	
Capital improvement bond notes payable	321,349
Capital leases payable	72,088
Decrease in accrued compensated absences is reported as a reduction of expenses in the statement of activities	341,235
The carrying values of capital assets disposed of are reported as expenses in the statement of activities	<u>(485)</u>
Decrease in net assets	<u>\$ (48,749)</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
 Unemployment Compensation Fund
 Statement of Net Assets – Proprietary Fund
 June 30, 2006

Assets:

Current assets:

Cash and cash equivalents	\$ 322,822,218
Assessments receivable, net	52,430,262
Benefit overpayments receivable, net	3,763,319
Due from reimbursable employers, net	984,570
Intergovernmental receivables, net	
Local governments	1,707,865
Other states	1,500,177
State agencies	916,643
Federal	226,999
Total assets	\$ 384,352,053

Liabilities:

Current liabilities:

Benefits payable	\$ 6,976,055
Accounts payable	1,081,208
Contributions payable	4,759,634
Intergovernmental payables:	
Federal	1,032,335
Other states	2,614,324
Interfund payable – Commission	1,772,744
Total liabilities	18,236,300

Net Assets:

Restricted for unemployment benefits, as restated	366,115,753
Total liabilities and net assets	\$ 384,352,053

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
 Unemployment Compensation Fund – Proprietary Fund
 Statement of Revenues, Expenses and Changes in Fund Net Assets
 for the year ended June 30, 2006

Operating Revenues:	
Assessments	\$ 276,941,805
Reimbursement of unemployment compensation benefits from employers	3,809,874
Benefit overpayment recoveries	4,047,113
Intergovernmental:	
Federal	31,386,372
State agencies	3,681,451
Other states	5,377,123
Local governments	6,964,722
Total operating revenues	332,208,460
 Operating Expenses:	
Unemployment compensation benefits	364,828,359
Total operating expenses	364,828,359
Operating loss	(32,619,899)
 Nonoperating Revenues:	
Interest income	13,718,890
Total nonoperating revenues	13,718,890
Decrease in net assets	(18,901,009)
Total net assets - beginning, as restated	385,016,762
Total net assets – ending	\$ 366,115,753

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission
 Unemployment Compensation Fund – Proprietary Fund
 Statement of Cash Flows
 for the year ended June 30, 2006

Cash flows used by operating activities:	
Cash received from assessments	\$ 278,753,193
Cash received from employers	3,991,974
Cash received from benefit overpayment recoveries	4,022,242
Cash received from federal, state and local agencies	48,441,408
Benefits paid	(364,208,883)
Refund overpayment of assessments	(1,975,729)
Net cash used by operating activities	<u>(30,975,795)</u>
 Cash flows used by non-capital financing activities:	
Repayment of cash overdraft	(549,529)
Repayments to Commission	(44,950)
Transfers to Commission	(3,321,871)
Net cash used by non-capital financing activities	<u>(3,916,350)</u>
 Cash flows provided by investing activities:	
Interest received	<u>13,718,890</u>
Net cash provided by investing activities	<u>13,718,890</u>
 Net decrease in cash	(21,173,255)
 Cash and cash equivalents – beginning	<u>343,995,473</u>
 Cash and cash equivalents – ending	<u>\$ 322,822,218</u>
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (32,619,899)
Net changes in assets and liabilities:	
Assessments receivable	(164,341)
Benefit overpayments receivable	(24,871)
Due from reimbursable employers	182,100
Intergovernmental receivables:	
Local governments	336,103
Other states	(345,638)
State agencies	51,306
Federal	891,668
Benefits payable	421,661
Accounts payable	(60,276)
Contributions payable	742,131
Intergovernmental payable:	
Federal	98,301
Other states	(484,040)
Net cash used by operating activities	<u>\$ (30,975,795)</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by GAAP, 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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Commission was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law which provides for the payment of unemployment insurance benefits, the collection of the unemployment tax from subject employers, and the operation of a statewide employment service. The administrative costs of the Commission are paid from grants primarily from the U.S. Department of Labor. The Unemployment Insurance Program collects taxes from employers covered by the law, and pays out unemployment benefits to unemployed workers under both state and federal law.

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

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

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

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

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

Governmental Funds

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The special revenue fund accounts for the various federal grants and other revenue which the Commission receives for administrative purposes and special projects. Federal grants received for unemployment compensation benefits are accounted for in the proprietary fund. The primary accounts included in the special revenue fund are as follows:

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

Employment Security Administrative Contingency Assessment (“UI Contingency Assessment”) – The assessment was established by the Legislature in 1986 in response to Federal budget cuts which would have forced office closing and reductions in staff. The contingency assessment portion of the tax is accounted for in the special revenue fund which is used primarily to fund administrative costs and employment services, whereas the unemployment tax is used to fund unemployment compensation benefits in the proprietary fund.

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

Workforce Investment Act Program (“WIA”) – Until July 1, 2005, the Commission served as the Administrative Agency for the Governor’s Workforce Investment Act in South Carolina. This included providing staff to the State’s Workforce Investment Board for Policy, Planning and Oversight; and planning for coordinated services with twelve Workforce Investment Areas of the State. In addition, the Agency provided WIA services such as intake; employability; assessment; eligibility determination; on-the-job training; job search assistance; employability development; and job placement services as well as development and maintenance of the statewide eligible providers’ lists. The WIA is a federal program which implements major reforms of the nation’s job training system and provides guidance for statewide and local workforce investment systems that increase the employment, retention and earning of participants, and increase occupational skill attainment by participants, and as a result, improve the quality of the workforce, reduce welfare dependency, and enhance the productivity and competitiveness of the nation. Key components of this reform include streamlining services through a One-Stop service delivery system; empowering individuals through information and access to training resources through Individual Training Accounts; providing universal access to core services; increasing accountability for results; ensuring a strong role for local boards and the private sector in the workforce investment system; facilitating State and local flexibility; and improving youth programs. This program was transferred to the South Carolina Department of Commerce effective July 1, 2005.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

Proprietary Funds

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principle ongoing operations. The principle operating revenue of the Commission’s proprietary funds are from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Commission’s proprietary fund is used to account for the Unemployment Compensation Fund.

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

The Unemployment Compensation Fund includes the following accounts:

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

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

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

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Emergency Unemployment Compensation (“EUC”) – This provides unemployment benefits to individuals who had no rights to the regular, extended, or additional benefits under State law. It is funded 100% by the Federal Government. This program ended in the prior fiscal year and the activity now consists of collecting overpayment benefits.

Alternative Trade Adjustment Assistance Program (“ATAA”) – This account provides eligible individuals over the age of 50 who obtain new employment within 26 weeks of their separation with a wage subsidy to help bridge the salary gap between their old and new employment. It is funded by the Federal Government.

Government-wide and Fund Financial Statements

The financial statements of the Commission are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The GASB is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis method of accounting. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of the cash flows.

Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis method of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within one year of the end of the current reporting period.

Expenditures generally are recorded when liabilities are incurred, as under the accrual basis method of accounting.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The proprietary fund financial statements are reported using the accrual basis method of accounting. For the business-type activities, the Commission applies all applicable GASB pronouncements and has elected to apply only those standards issued by the Financial Accounting Standards Board (“FASB”) on or before November 30, 1989 unless those pronouncements conflict or contradict GASB pronouncements.

Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the Commission either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The Commission mainly engages in voluntary nonexchange transactions. This type of transaction includes most federal grants and State Capital Improvement bond proceeds. Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

- a) The recipient has met the characteristics specified by the provider.
- b) The recipient has met the time requirements specified by the provider.
- c) The provider offers resources on a reimbursement basis and the recipient has incurred the allowable costs under the applicable program.
- d) The provider’s offer of resources is contingent upon a specified action of the recipient and that action has occurred.

Budget Policy

The Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Commission. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

A budget versus actual comparison is not presented as required supplementary information for the general fund since all of the revenues and expenditures are not legally budgeted.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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 depository financial institutions.

Most State agencies, including the Commission, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents.

The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. The pool operates as a demand deposit. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 2.

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

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

Receivables

Receivables consist primarily of the following:

Assessments Receivable

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

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

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

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

Due from Reimbursable Employers

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

Intergovernmental Receivables

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

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

Benefit Overpayments Receivable

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Commission follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Commission capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and improvements and land improvements and 3 to 25 years for software, machinery, equipment, furniture and vehicles.

Benefits Payable

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

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end up to maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination.

The Commission calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the statement of net assets.

Indirect Cost

The Commission recovers indirect cost from federal funding sources based on a negotiated indirect cost agreement approved by the U.S. Department of Labor, Office of Cost Determination. The indirect cost recovered from this agreement is used to offset the administrative costs of the Commission and services provided by other State agencies. During the period July 1, 2005 through June 30, 2006, the Commission recovered approximately \$7,856,000 of indirect cost from the indirect cost agreement. Of this amount, approximately \$316,000 was remitted to the State and approximately \$7,540,000 was retained by the Commission. Indirect cost recoveries are reported as federal revenues.

Interfund Transactions

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Transfers from funds receiving revenues to funds through which the resources are to be expended are classified as operating transfers.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid items. Prepaid items benefiting more than one accounting period are accounted for under the consumption method, and recognized as expenses/expenditures when used.

These services include maintenance contracts on data processing and office equipment, equipment rentals, professional services, software costs paid in advance and insurance coverages.

Intergovernmental Payables – Federal

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

Intergovernmental Payables – Other States

The amounts reported as intergovernmental payables – other states represent amounts due as reimbursements to other states for benefits paid by those states to South Carolina claimants.

Contributions Payable

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

Net Assets / Fund Balances

The Commission records reservations for portions of its fund equity which are legally segregated for specific future uses or which do not represent available expendable resources and therefore, are not available for expenditures in the governmental fund balance sheet. Unreserved fund balances indicate that portion of fund equity, which is available for appropriations in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Net assets are categorized as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

At June 30, 2006, two of the Commission's reserved balances are as follows:

Reed Act – The Commission has funds totaling \$100,684,344 available under the Reed Act in the proprietary funds. These funds are granted to the Fund from the federal government from federal unemployment tax collections to be used for unemployment benefits if they are needed. Upon appropriation by the State legislature and after approval of the Governor, these funds can be used for other purposes. \$13,327,461 of these funds were appropriated by the General Assembly in prior fiscal years to partially fund the purchase of new software and information technology equipment, land acquisition, and office expansion. The \$13,327,461 was shown as a transfer from the Unemployment Compensation Fund to the General Fund upon Legislative appropriation.

Only \$7,549,780 of the funds appropriated has been expended as of June 30, 2006. The remaining appropriated funds totaling \$5,777,681 are shown as a reserved fund balance.

SCOICC – Pursuant to 2005 Appropriation Act Proviso 51.2, all user fees collected by the South Carolina Occupational Information Coordinating Committee through the Commission may be retained to use for operating the South Carolina Occupational Information System. All user fees not expended in the prior fiscal year were brought forward for use in the current fiscal year.

As provided by 2006 Appropriation Act Proviso 51.2, all user fees not expended in fiscal year 2006 may be carried forward to fiscal year 2007 for use in the SCOICC program. As of June 30, 2006, \$224,160 was carried forward and is reported as a reserved fund balance.

Use of Estimates

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Deposits

The amount shown as cash and cash equivalents in the statement of net assets at June 30, 2006 is composed of the following:

Cash on hand	\$	500
Deposits held by State Treasurer		14,194,908
Deposits held by U.S. Treasury		314,184,987
Other deposits		5,818,277
Totals		<u>\$ 334,198,672</u>

Deposits held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. As of June 30, 2006, 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.

Other Deposits

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Commission's deposits may not be returned or the Commission will not be able to recover collateral securities in the possession of an outside party.

Section 11-13-60 of the South Carolina Code of Laws requires these funds to be fully insured or collateralized. All deposits of the Commission met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution's trust department or agent in the Commission's name.

The Commission does not invest in foreign securities or have transactions with foreign currency, and as a result does not have a policy for foreign currency risk.

Note 3. Interfund Receivables/Payables

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 3. Interfund Receivables/Payables (continued)

In addition, the Fund has not transferred all of the Reed Act funds which were appropriated to the Commission as of June 30, 2006. Amounts due to the Commission as of June 30, 2006 are as follows:

Reed Act Funds	\$ 1,676,282
Contingency assessments	25,228
Penalty and interest	71,234
Total	\$ 1,772,744

Note 4. Receivables

The receivable balances at June 30, 2006 and the related amounts for allowances for uncollectibles are as follows:

	Receivables	Allowances for Uncollectibles	Net Receivables
Special revenue fund:			
Assessments receivable:			
Contingency	\$ 1,416,912	\$ 92,995	\$ 1,323,917
Penalty and interest	1,367,529	1,044,763	322,766
Totals	\$ 2,784,441	\$ 1,137,758	\$ 1,646,683
Intergovernmental receivables:			
State agencies	\$ 4,400,542	\$ —	\$ 4,400,542
Federal	301,112	—	301,112
Totals	\$ 4,701,654	\$ —	\$ 4,701,654
Proprietary fund:			
Assessment receivable	\$ 57,663,272	\$ 5,233,010	\$ 52,430,262
Due from reimbursable employers	\$ 996,803	\$ 12,233	\$ 984,570
Intergovernmental receivables			
Local governments	\$ 1,727,510	\$ 19,645	\$ 1,707,865
Other states	\$ 1,500,177	\$ —	\$ 1,500,177
State agencies	\$ 916,643	\$ —	\$ 916,643
Federal	\$ 226,999	\$ —	\$ 226,999
Benefit overpayments receivable:			
Basic unemployment compensation	\$ 5,374,796	\$ 1,953,111	\$ 3,421,685
Federal employees	20,758	7,856	12,902
Ex-servicemen	79,460	44,077	35,383
Trade readjustment compensation	103,449	45,714	57,735
Trade readjustment compensation	239,160	3,546	235,614
Totals	\$ 5,817,623	\$ 2,054,304	\$ 3,763,319

South Carolina Employment Security Commission

Notes to Financial Statements

Note 5. Capital Assets

A summary of capital assets activity for the year ended June 30, 2006 is as follows:

	Balances as Restated June 30, 2005	Increases	Decreases	Balances June 30, 2006
Capital assets not being depreciated:				
Land and land improvements	\$ 3,138,977	\$ 922,546	\$ (980,418)	\$ 3,081,105
Construction in progress	2,492,374	—	(5,299)	2,487,075
Total capital assets not being depreciated	5,631,351	922,546	(985,717)	5,568,180
Other capital assets:				
Buildings and improvements	26,738,587	1,547,505	—	28,286,092
Equipment and furniture	5,767,360	141,825	(1,156,557)	4,752,628
Vehicles	308,080	—	—	308,080
Total other capital assets	32,814,027	1,689,330	(1,156,557)	33,346,800
Less accumulated depreciation for				
Buildings and improvements	10,785,702	652,180	—	11,437,882
Equipment and furniture	4,568,994	442,432	(1,154,894)	3,856,532
Vehicles	283,897	13,936	—	297,833
Total accumulated depreciation	15,638,593	1,108,548	(1,154,894)	15,592,247
Other capital assets, net	17,175,434	580,782	(1,663)	17,754,553
Total capital assets, net	\$ 22,806,785	\$ 1,503,328	\$ (987,380)	\$ 23,322,733

See Note 14 for details of the restated balances as of June 30, 2006.

Total estimated costs for the software which will be capitalized by the Commission is approximately \$3,368,887 with approximately \$1,166,171 costs to complete. Outstanding commitments for this software is approximately \$1,166,171. In addition, the total estimated costs on buildings and improvements and other capitalized projects is approximately \$9,015,000 with approximately \$4,337,000 costs to complete. Total outstanding commitments on projects that will not be capitalized were approximately \$151,000.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance, July 1, 2005	Additions	Reductions	Balance, June 30, 2006	Due within one year
Capital lease payable	\$ 182,684	\$ —	\$ (72,088)	\$ 110,596	\$ 75,295
Capital improvement bond notes payable	998,496	—	(321,349)	677,147	332,702
Accrued compensated absences and related benefits	4,711,964	2,146,112	(2,487,347)	4,370,729	3,239,675
	<u>\$ 5,893,144</u>	<u>\$ 2,146,112</u>	<u>\$ (2,880,784)</u>	<u>\$ 5,158,472</u>	<u>\$ 3,647,672</u>

Note 7. Capital Projects/Capital Improvement Bond Notes Payable

In prior years, the State authorized funds for improvements and expansion of facilities using the proceeds from State capital improvement bond notes. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. Revenues from State capital improvement bonds are recorded when the expenditures are incurred. These authorized funds are requested as needed once State authorities have given approval to begin specific projects. The Commission is not obligated to repay these funds to the State until they have been drawn down. A summary of the balance of the bonds receivable from this authorization as of June 30, 2006 follows:

Act	Total Authorized	Balance Authorized and Not Drawn June 30, 2006
538 of 1987	<u>\$ 9,607,000</u>	<u>\$ 239,455</u>

The capital improvement bond notes are payable in quarterly installments plus interest. Amounts including interest required to complete payment of the obligations as of June 30, 2006, are as follows:

Year Ended June 30,	Principal	Interest	Totals
2007	\$ 332,702	\$ 24,406	\$ 357,108
2008	344,445	9,552	353,997
Totals	<u>\$ 677,147</u>	<u>\$ 33,958</u>	<u>\$ 711,105</u>

South Carolina Employment Security Commission

Notes to Financial Statements

Note 7. Capital Projects/Capital Improvement Bond Notes Payable (continued)

Maturity dates of the notes are in fiscal year 2008 with interest rates ranging from 4.413 to 5.530 percent annually. All revenues derived by the Commission from federal funds under agreement with appropriate federal authorities and other available funds are irrevocably pledged for the payment of principal and interest.

During the fiscal year, the Commission paid \$321,349 and \$36,229 in principal and interest, respectively, on the capital improvement bond notes payable.

Note 8. Leases

The Commission has two capital leases for printers requiring monthly payments of \$6,552 including interest at 4.367% maturing in fiscal year 2008. The carrying amount of the printers totaled approximately \$100,000 as of June 30, 2006. The current year's amortization expense of approximately \$69,000 on the capitalized lease assets is included in depreciation expense. Total payments on the capital leases for the year ended June 30, 2006 were \$78,624 consisting of principal of \$72,088 and interest of \$6,536.

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 2006 through 2012. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Commission is responsible for maintenance on most leased property. Rental expenditures for office space and equipment were approximately \$960,000 for the year ended June 30, 2006.

The following is a schedule by years of future minimum rental payments required under the capital lease and the noncancelable operating lease agreements with remaining terms at June 30, 2006 in excess of one year.

	Year Ended June 30,	Capital Leases	Operating Leases
	2007	\$ 78,624	\$ 226,235
	2008	35,730	230,300
	2009	—	213,744
	2010	—	104,580
	2011	—	62,580
	Thereafter	—	3,465
Total minimum lease payments		114,354	\$ 840,904
Less: interest		(3,758)	
Present value of minimum lease payments		\$ 110,596	

South Carolina Employment Security Commission

Notes to Financial Statements

Note 9. Pension Plans

The majority of employees of the Commission are covered by a retirement plan through the South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (“CAFR”) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2002).

Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (“TERI”) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2004, the employer contribution rate became 10.80 percent, which included a 3.25 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2006, 2005 and 2004 were approximately \$2,715,000, \$2,865,000, and \$2,849,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$54,000 in the current fiscal year at the rate of .15 percent of compensation.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 9. 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, 2005, the employer contribution rate became 13.55 percent which, as for the SCRS, included the 3.25 percent surcharge. The Commission’s actual contributions to the PORS for the years ended June 30, 2006, 2005, and 2004 were approximately \$11,800, \$10,900, and \$11,900, respectively, and equaled the required contributions of 10.30 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$230 and accidental death insurance contributions of approximately \$230 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Certain State employees may elect to participate in the Optional Retirement Program (“ORP”), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.25 percent from the employer in fiscal year 2006.

For the fiscal year, total contributions requirements to the ORP were approximately \$5,200 (excluding the surcharge) from the Commission as employer and approximately \$4,100 from its employees as plan members. Five point seven percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board. Also, the Commission paid employer group life insurance contributions of approximately \$100 in the current fiscal year at the rate of .15 percent of compensation. Five point eight percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board. The balance was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 9. Pension Plans (continued)

The amounts paid by the Commission for pension, group-life benefits and accidental death benefits are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

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

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

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

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

Note 10. Postemployment and Other Employee Benefits

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

The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Commission for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Commission for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 27,000 State retirees met these eligibility requirements at June 30, 2006.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 10. Postemployment and Other Employee Benefits (continued)

The Commission recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$3,550,000 for the year ended June 30, 2006. As discussed in Note 9, the Commission paid approximately \$1,175,000 applicable to the 3.25 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

Note 11. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Commission have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under these plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Note 12. Risk Management

The Commission is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for automobile collision and losses on building contents.

Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage that was in force in the prior year. Settled claims have not exceeded any of its coverage's in any of the prior three years. The Commission pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 12. Risk Management (continued)

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and,
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Commission and other entities pay premiums to the State's Insurance Reserve Fund ("IRF") which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property;
3. Motor vehicles liability; and,
4. Torts.

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

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

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

The Commission has recorded insurance premium expenditures in the applicable program expenditure categories of the special revenue 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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 13. Transactions with State Agencies

The Commission has significant transactions with the State of South Carolina and various State agencies.

The Commission was required to remit \$315,816 of indirect cost recoveries to the General Fund of the State.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General; and records storage from the Commission of Archives and History.

Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, grant services, personnel management, assistance in the preparation of the State Budget and approval of certain budget amendments and other centralized functions.

The Commission had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, unemployment insurance, insurance coverage, office supplies, telephone and interagency mail. Payments were also made during the year to the State Accident Fund for worker's compensation insurance. The amounts of expenditures applicable to these related party transactions are not readily available. The Commission received \$130,724 from State appropriations during the year for expenditures of the SCOICC. The Commission recorded revenues of approximately \$3,681,451 for reimbursements of benefits paid to State employees and was due approximately \$917,000 for these benefits at year-end.

Note 14. Prior Period Adjustments

Pursuant to Proviso 73.18 of the 2004-2006 Appropriation Act, the Commission transferred ownership of its capital assets to the Budget and Control Board effective July 1, 2004, and accordingly, decreased its capital asset balances by the amount transferred for the year ended June 30, 2005. On July 19, 2006, the State of South Carolina's Office of Comptroller General issued a memorandum which stated that pursuant to Proviso 73.12 of the 2005-2006 Appropriation Act, the Commission must report all capital assets used in the Commission's operations, even though the capital assets may be titled in the name of the State. In accordance with the memorandum issued on July 19, 2006, the Commission has restated its beginning capital assets balances as of June 30, 2005.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 14. Prior Period Adjustments (continued)

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

Account	Balances, as previously reported	Prior Period Adjustments	Balances as Restated
Capital assets not being depreciated:			
Land and land improvements	\$ —	\$ 3,138,977	\$ 3,138,977
Construction in progress	2,321,380	170,994	2,492,374
Total capital assets not being depreciated	2,321,380	3,309,971	5,631,351
Other capital assets:			
Building and improvements	—	26,738,587	26,738,587
Total other capital assets	—	26,738,587	26,738,587
Less accumulated depreciation for buildings and improvements	—	10,785,702	10,785,702
Total accumulated depreciation	—	10,785,702	10,785,702
Net assets	\$ 2,321,380	\$ 19,262,856	\$ 21,584,236

Following a review of the Proprietary Fund's (the "Fund") interest revenue received for fiscal year 2006, the Fund identified revenue that was improperly excluded from revenue for fiscal year 2005. The Fund determined that, because the cumulative adjustments resulting from these corrections would have been material to the financial statements for the year ended June 30, 2005, it was required to restate its financial statements for fiscal year 2005.

The US Treasury deposit account is credited with interest quarterly. The Fund did not make an entry to record the interest relating to the quarter ending June 30, 2005 in its accounting records.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 14. Prior Period Adjustments (continued)

The effect of accounting and reporting changes on beginning net assets for the business type activities and the Fund's Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets are as follows:

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated</u>
Net assets restricted for unemployment benefits	<u>\$380,743,147</u>	<u>\$4,273,615</u>	<u>\$385,016,762</u>

Note 15. Contingencies

Federal Grants - The various programs administered by the Commission for fiscal years June 30, 2006 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.

**SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/Program Title	Federal CFDA Number	Total Federal Expenditures
Direct Programs:		
U.S. Department of Labor		
Labor Force Statistics	17.002	\$ 1,173,532
*Employment Service	17.207	9,862,357
*Unemployment Insurance	17.225	38,640,515
*Trade Adjustment Assistance - Workers	17.245	30,355,710
Workforce Investment Act – Adult Programs	17.258	343
Workforce Investment Act – Youth Activities	17.259	25,402
Work Incentives Grant	17.266	589,113
Work Opportunity Tax Credit	17.271	239,109
Labor Certification for Alien Workers	17.272	67,415
Disabled Veterans Outreach Program (DVOP)	17.801	1,307,715
Local Veterans Employment Representative (LVER)	17.804	1,751,897
Homeless Veterans Reintergration Program	17.805	214,928
U.S. Department of Education		
Occupational and Employment Information State Grants	84.346	167,807
U.S. Department of Health and Human Services		
Passed-through from:		
South Carolina Department of Social Services		
Child Support Enforcement	93.563	4,858
Totals		<u>\$ 84,400,701</u>

*Indicates major program

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

1. Basis of Presentation:

The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (as amended).

The financial information shown in the Schedule of Expenditures of Federal Awards reflects amounts recorded by the Commission during its fiscal year July 1, 2005 through June 30, 2006. This information is presented on the accrual basis of accounting.

**Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements performed in accordance with
*Government Auditing Standards***

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the South Carolina Employment Security Commission (the "Commission") as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 1, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving internal control over financial reporting and its operations 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 discovered during the audit are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-3, and items 2006-6 and 2006-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-1 and 2006-2 and items 2006-6 and 2006-7 to be material weaknesses.

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 of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the State Auditor, the Governor of the State of South Carolina, Commission members, Management of the Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
December 1, 2006

**Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control
Over Compliance in accordance with *OMB Circular A-133***

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of South Carolina Employment Security Commission (the "Commission") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. 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, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as items 2006-6 and 2006-7.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-3 and items 2006-6 and 2006-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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, of the reportable conditions described above, we consider items 2006-1 and 2006-2 and items 2006-6 and 2006-7 to be material weaknesses.

This report is intended solely for the information of the State Auditor, the Governor of the State of South Carolina, Commission members, Management of the Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

Section I—Summary of Auditors' Results

Financial Statements

- | | | |
|----|--|------------------------------|
| 1. | Type of auditor's report issued: | Unqualified Opinion |
| 2. | Internal control over financial reporting: | |
| | Material weaknesses identified: | <u> x </u> yes ___ no |
| | Reportable conditions identified not considered to be material weaknesses? | <u> x </u> yes ___ no |
| 3. | Non-compliance material to the Financial Statements noted? | ___ yes <u> x </u> no |

Federal Awards

- | | | |
|----|---|------------------------------|
| 4. | Internal control over major programs: | |
| | Material weaknesses identified: | <u> x </u> yes ___ no |
| | Reportable conditions identified not considered to be material weaknesses? | <u> x </u> yes ___ no |
| 5. | Type of auditor's report on compliance for major programs: | Unqualified Opinion |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | <u> x </u> yes ___ no |

7. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
17.207	Employment Service
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance Workers

- | | | |
|----|---|-------------------------|
| 8. | Dollar threshold used to be distinguished between Type A and Type B Programs: | \$2,531,875 |
| 9. | Auditee qualified as low-risk auditee? | ___ yes <u> x </u> no |

SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

Section II- Financial Statement Findings

Reportable Conditions Considered to be Material Weaknesses and/or Violations of State Laws, Rules, or Regulations

2006-1 Weaknesses in Financial Management and Maintenance of Accounting Records in Accordance with Generally Accepted Accounting Principles

Condition:

Our audit identified certain matters attributable to the finance department of the Commission. These weaknesses include the following:

1. The Commission did not record all adjusting journal entries as proposed by the prior year auditors, and the fund balances provided to the current year auditors did not agree with the financial statements issued by the Commission for the year ended June 30, 2005.
2. The Commission did not maintain a complete trial balance or perform periodic analyses of the trial balance in order to ensure it is accurately maintained.
3. The Commission recorded prior year receivable balances as current year revenue.

Cause:

The finance department of the Commission does not have an experienced government accountant who understands and has experience reporting under Generally Accepted Accounting Principles.

Effect:

The Commission's accounting records are not maintained in accordance with Generally Accepted Accounting Principles.

Criteria:

Federal and state laws require that the agency should maintain their accounting records in accordance with Generally Accepted Accounting Principles.

Recommendation:

The Commission's accounting system and processes should be fully examined in order to correct the above noted deficiencies. One possibility is for the agency to consider hiring a certified public accountant with established government financial accounting and reporting experience.

2006-2 Establish Balance Sheet Account Reconciliation Controls

Condition:

At the present time, the Commission has not established any balance sheet reconciliation controls.

Cause:

The Commission's finance department does not have an effective review process in place to identify differences between account reconciliations and the financial statements and general ledger.

Effect:

As the analysis was not performed by the Commission's finance department, journal entries were missed and adjustments were made by the independent auditors.

Criteria:

Good accounting practices dictate that account balances should be reconciled to the financial statements. Recently, the September 2006 issue of the Journal of Accountancy published an article entitled "Account Reconciliation: An Underappreciated Control." This article states that entity's "need to reconcile all accounts that could contain a significant or material misstatement and post all necessary adjustments to the general ledger in a timely manner." The article further states that this internal control over financial reporting must be utilized as a detective control to both identify and correct errors prior to the auditor identifying the error.

Recommendation:

The Commission should adopt a policy requiring reconciliations of balance sheet accounts to be properly reviewed and agreed to amounts included in the Commission's general ledger and financial statements. Balance sheet reconciliations identify errors and needed corrections. If reconciliations are not adequately reviewed and agreed to the Commission's financial statements, errors and adjustments can occur, possibly resulting in the need for significant audit adjustments. The adoption of this policy will help the Commission strengthen its internal controls over financial reporting.

Comment considered a Reportable Condition but not a Material Weakness

2006-3 Closing Packages

The Commission submitted its operating lease closing package to the South Carolina Office of the Comptroller General's Office ("OCG") with the following errors:

1. The submitted closing package showed the difference between the Commission's lease expenditures and the OCG's amount as a positive number instead of a negative number. As the Commission's records reflected a lower amount than the OCG's amount, the reported amount should have been a negative based upon the closing package instructions.

2. The Commission excluded a lease from their operating lease closing package that was signed prior to June 30, 2006. The OCG's closing package manual requires any lease signed by June 30, 2006 to be included on the closing package.

Additionally, it was noted that the Capital Asset Closing Package submitted to the OCG overstated its current year capital asset additions by \$23,000.

We recommend that the Commission carefully consider the instructions of the OCG's closing package manual while completing the required closing packages.

Other Comments not considered to be Reportable Conditions and/or Violations of State Laws, Rules, or Regulations

2006-4 Develop a Fraud Risk Management Program

Condition:

In light of the spate of notorious frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large publicly owned companies. However, fraud occurs in entities of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In order to address the risk of fraud, many organizations have developed a Fraud Risk Management Program. The Commission does not have such a program.

Cause:

The Commission has not allocated the appropriate resources to develop a Fraud Risk Management Program.

Effect:

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect fraud. The absence of a Fraud Risk Management Program for the Commission increases its exposure to fraud.

Criteria:

Risk assessment, including fraud risk assessment, is one element of internal control. Thus, the Commission's internal control structure should include performance of this assessment.

Recommendation:

We recommend that the Commission perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation through the development of a Fraud Risk Management Program. Performance of these measures will help to mitigate the Commission's exposure to fraud and misappropriation.

2006-5 Establish an Audit Committee

Condition:

The establishment of audit committees by boards of directors of public companies is now required by the Public Company Accounting Oversight Board and has long been recommended by the American Institute of CPAs, the Securities and Exchange Commission, and other organizations concerned with financial reporting and fiduciary duties of directors. In addition, audit committees are now required as a condition of listing by the New York Stock Exchange. Many governmental entities are now establishing audit committees.

In addition to providing the Commissioners with an increased understanding of (a) the role of the independent auditors and the nature and limitations of their work and (b) the importance of accounting, financial, and operating controls to the successful management of a business and reliable financial reports, the internal audit division of the Commission could report directly to this committee to provide a stronger level of independence.

Cause:

The Commission has not allocated the time and resources to establish an audit committee. This is likely due to the fact that audit committees for governments are a relatively new concept, and the Commission only has three members which comprise the Commission's Board of Commissioners. Also, it would not be reasonable to establish a separate committee of these three individuals.

Effect:

The Commissioner's are not involved in matters of accounting, internal control, financial reporting, and auditing. Additionally, the internal audit department is limited in its ability to operate independently of management, which places limitations on the procedures and types of audits they are allowed to perform.

Criteria:

Audit committees have become best practices for governments and could be required by law in the future.

Recommendation:

As there are only three members which comprise the Commission's Board of Commissioner's, we recommend that the Commission require that it's Commissioners meet at least once annually in order to achieve an increased understanding of (a) the role of the independent auditors and the nature and limitations of their work and (b) the importance of accounting, financial, and operating controls to the successful management of the Commission and reliable financial reports. Additionally, the internal audit division of the Commission should be allowed to report directly to the Commissioner's which would allow this division to operate independently of management and more adequately fulfill its purpose.

Section III—Federal Award Findings and Questioned Costs

2006-6 Commission does not verify that entities were not suspended or debarred from participation in federal funds

Condition:

The Commission does not have a system in place to determine whether payments are made to parties debarred or suspended from participation in Federal funds by the General Services Administration.

Cause:

The Procurement Department of the Commission does not have internal control procedures in place to identify and document suspended or debarred entities.

Effect:

The Commission could make payments to an entity that is not eligible for federal funds.

Criteria:

Federal regulations prohibit the Commission from entering into a “covered transaction” of more than \$25,000 with entities debarred or suspended by the General Services Administration.

Recommendation:

The Commission should develop an internal control system to ensure contracts are not awarded to debarred or suspended entities.

2006-7 Required reports not filed timely- CFDA #17.245

Condition:

The Commission filed the following reports after the federal deadlines:

Trade Act Participant Report

<u>Report Period</u>	<u>Report Deadline</u>	<u>Report Filing Date</u>
12/31/2005	2/14/2005	5/21/2006
3/31/2006	5/15/2006	6/26/2006
6/30/2006	8/14/2006	8/22/2006

Cause:

The Commission simply did not meet the federal reporting deadlines.

Effect:

Reports were not filed by the required deadline.

Criteria:

Federal grant reporting requirements require that certain reports are required to be filed within 45 days of the end of the reporting period.

Recommendation:

We recommend the education and training technical services department ensure that the Trade Act Participant Report is filed in a timely manner. In addition, documentation of these reports and the dates they were filed should be maintained.

Summary Schedule of Prior Audit Findings:

During the current year audit, we reviewed the status of corrective action taken on the Financial Statement Findings as reported in our prior year's report on internal control and compliance of the Commission dated March 17, 2006, resulting from the audit of the financial statements for the year ended June 30, 2005. We found that adequate corrective action was taken for all of the management letter comments, findings and questioned costs except for items 2005-1, 2005-7 and 2005-8, which are repeated above as comments 2006-1, 2006-6, and 2006-7.

Appendix A

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

EXECUTIVE DIRECTOR
Roosevelt T. Halley
803.737.2617



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January 12, 2007

**South Carolina Employment Security Commission
Corrective Action Plan**

The South Carolina Employment Security Commission respectfully submits the following Corrective Action Plan for the audit of the year ended June 30, 2006.

Name and address of the independent public accounting firm: Scott McElveen, LLP

Audit Period: July 1, 2005 through June 30, 2006

FINANCIAL STATEMENT FINDINGS

2006-1 Weaknesses in Financial Management and Maintenance of Accounting Records in Accordance with Generally Accepted Accounting Principles

Recommendation: The Commission's accounting system and processes should be fully examined in order to correct the above noted deficiencies. One possibility is for the agency to consider hiring a certified public accountant with established government financial accounting and reporting experience.

Response: The Commission agrees with the noted deficiencies. Corrective action is being taken to post all proposed journal entries and record prior year receivable balances not as current year revenue.

2006-2 Establish Balance Sheet Account Reconciliation Controls

Recommendation: The Commission should adopt a policy requiring reconciliations of balance sheet accounts to be properly reviewed and agreed to amounts included in the Commission general ledger and financial statements. Balance sheet reconciliations identify errors and needed corrections. If reconciliations are not adequately reviewed and agreed to the Commission's financial statements, error and adjustments can occur possibly resulting in the need for significant audit adjustments.

The adoption of this policy will help the Commission strengthen its internal controls over financial reporting.

Response: The Commission agrees with this recommendation and will begin reconciliations of all balance sheet accounts.

2006-3 Closing Packages

Recommendation: The Commission will utilize the instructions of the OCG's closing package manual while completing the required closing packages.

Response: The Commission will review all instructions in the closing package manual while completing the necessary closeouts.

2006-4 Develop a Fraud Risk Management Program

Recommendation: We recommend that the Commission perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation through the development of a Fraud Risk Management Program. Performance of these measures will help to mitigate the Commission's exposure to fraud and misappropriation.

Response: The Commission currently has an aggressive and comprehensive risk management program in place relating to the Unemployment Insurance program. Methods for detection of fraud, including employers, claimants and Agency staff are continually developed. Also, crisis prevention training is offered to workforce center staff to enable them to diffuse potentially violent situations. The Commission will work with management to develop a fraud risk program within the administrative area of the agency.

2006-5 Establish an Audit Committee

Recommendation: As there are only three members which comprise the Commission's Board of Commissioner's, we recommend that the Commission require that it's Commissioners meet at least once annually in order to achieve an increased understanding of (a) the role of the independent auditors and the nature and limitations of their work and (b) the importance of accounting, financial and operating controls to the successful management of the Commission and reliable financial reports. Additionally, the internal audit division of the Commission should be allowed to report directly to the Commissioner's which would allow this division to operate independently of management and more adequately fulfill its purpose.

Response: The Commission will work with management to establish an Audit Committee.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2006-6 Commission does not verify that entities were not suspended or debarred from participation in federal funds.

Recommendation: The Commission should develop an internal control system to ensure contracts are not awarded to debarred or suspended entities

Response: The Commission concurs with this finding and will develop an internal control system to ensure vendors have not been debarred or suspended from participation in federally funded programs.

2006-7 Required reports not filed timely – CFDA #17.245

Recommendation: We recommend the education and training technical services department ensure that the Trade Act Participant Report is filed in a timely manner. In addition, documentation of these reports and dates they were filed should be maintained.

Response: While the Commission agrees with the finding, the agency experienced difficulties in implementing the changes in the TAPR report due to changes to the coding of the Data Elements in the revised TAPR Report. Numerous calls were made to the Department of Labor in Washington and the report was also emailed to the programmers in Washington for assistance in correcting error messages. The Commission received direct assistance from them and the problem has now been resolved. The most recent TAPR report for the quarter ending September 30, 2006 was due November 14, 2006 and was submitted November 06, 2006.

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

Sincerely,



Roosevelt T. Halley
Executive Director

RTH:sc

REF: AS-4