

South Carolina
Employment Security Commission
Columbia, South Carolina
Financial Statements
and Independent Auditors' Reports
Year Ended June 30, 2008

State of South Carolina



Office of the State Auditor

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March 30, 2009

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, 2008, 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

Contents

	<u>Pages</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements:	
Entity-wide financial statements:	
Statement of Net Assets	9
Statement of Activities.....	10
Fund financial statements:	
Balance sheet – Governmental Fund – Special Revenue.....	11-12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund – Special Revenue.....	13-14
Statement of Net Assets – Proprietary Fund.....	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund	16
Statement of Cash Flows – Proprietary Fund	17
Notes to Financial Statements.....	18-37
 Schedule of Expenditures of Federal Awards.....	 38-39
 Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	 40-41
 Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	 42-43
 Schedule of Findings and Questioned Costs.....	 44-47
 Summary Schedule of Prior Audit Findings.....	 48
 Corrective Action Plan.....	 Appendix A

Independent Auditors' Report

The Office of the State Auditor and Board of Commissioners
South Carolina Employment Security Commission
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities, 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, 2008, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, 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 (the "State") that is attributable to the transactions of the Commission. They do not purport to and do not present the financial position of the State as of June 30, 2008, and results of its operations, 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.

The accompanying financial statements include business-type activities which consist of the South Carolina Employment Security Commission Unemployment Compensation Fund (the "Trust Fund"). The accompanying financial statements have been prepared assuming that the Trust Fund will continue as a going concern. As discussed in Note 1 to the financial statements, under existing circumstances, there is substantial doubt about the ability of the Trust Fund to continue as a going concern at June 30, 2008. Management's plans in regard to that matter also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major funds of the Commission as of June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages three through eight is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. 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 ("OMB") Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Commission. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scott McElveen, L.L.P.

Columbia, South Carolina
March 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Commission offers readers of this narrative overview and analysis of the financial activities for the year ended June 30, 2008. Please read this information in conjunction with the Commission's financial statements and accompanying notes.

Financial Highlights

- The overall financial condition of the Commission declined during the fiscal year ended June 30, 2008. The Commission's assets exceeded its liabilities at fiscal year ending June 30, 2008 by \$259,400,872 (shown as "total net assets"), which is a decrease of \$99,894,898 from the prior year. 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. Subsequent to year end, all cash resources of the Trust Fund were used to pay unemployment benefits and approximately \$236,000,000 was borrowed from the federal government to continue to pay these benefits through March 31, 2009.
- Total Unemployment Compensation benefits paid were \$449,511,155 and \$389,823,906 during the years ended June 30, 2008 and 2007, respectively.

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 financial 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 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 Trust Fund is included in these business-type activities. This fund collects money from several different sources but the largest source generally is employer contributions 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 financial 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 Special Revenue 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 Trust 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 statements 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 \$259,400,872 at the year-ended June 30, 2008 compared to \$359,295,770 for the prior year-end.

The largest portion of the Commission's net assets (88%) is reflected by the 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 (12%) 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 net asset balances in both the governmental and business-type activities and the Commission as a whole.

Governmental Activities

Total assets decreased by approximately \$1.2 million (-2.6%) from last year due largely to a decrease in the receipt of assessments and federal revenue receivables as well as an increase in the disposal of capital assets.

There was a decrease in federal grant activity, decreasing both revenue and expense by approximately \$1.8 million.

South Carolina Employment Security Commission
Entity-Wide Financial Analysis
(Condensed Financial Data)
Statement of Net Assets
June 30, 2008 and 2007

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current & other assets	\$ 21,799,166	\$22,491,929	\$244,786,511	\$345,811,547	\$266,585,677	\$368,303,476
Capital assets	23,436,636	23,946,265	—	—	23,436,636	23,946,265
Total assets	<u>\$ 45,235,802</u>	<u>\$46,438,194</u>	<u>\$244,786,511</u>	<u>\$345,811,547</u>	<u>\$290,022,313</u>	<u>\$392,249,741</u>
Liabilities:						
Current	\$ 13,181,826	\$12,661,550	\$15,780,029	\$19,032,434	\$28,961,855	\$31,693,984
Non-current	1,659,586	1,259,987	—	—	1,659,586	1,259,987
Total liabilities	<u>14,841,412</u>	<u>13,921,537</u>	<u>15,780,029</u>	<u>19,032,434</u>	<u>30,621,441</u>	<u>32,953,971</u>
Net assets:						
Invested in capital assets, net of related debt	23,009,737	23,566,519	—	—	23,009,737	23,566,519
Restricted for unemployment benefits	—	—	229,006,482	326,779,113	229,006,482	326,779,113
Unrestricted	7,384,653	8,950,138	—	—	7,384,653	8,950,138
Total net assets	<u>\$ 30,394,390</u>	<u>\$32,516,657</u>	<u>229,006,482</u>	<u>\$326,779,113</u>	<u>\$259,400,872</u>	<u>\$359,295,770</u>
Total liabilities & net assets	<u>\$ 45,235,802</u>	<u>\$46,438,194</u>	<u>\$244,786,511</u>	<u>\$345,811,547</u>	<u>\$290,022,313</u>	<u>\$392,249,741</u>

Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 6,466,653	\$13,481,345	\$280,544,018	\$280,158,722	\$348,164,824	\$351,951,755
Operating grants & contributions	69,611,727	58,907,512	61,154,153	58,311,688	79,652,080	71,529,295
General revenues:						
Interest income	—	—	10,040,353	12,621,783	—	—
State appropriations	823,157	1,370,746	—	—	823,157	1,370,746
Total revenues	<u>\$ 76,901,537</u>	<u>\$73,759,603</u>	<u>\$351,738,524</u>	<u>\$351,092,193</u>	<u>\$428,640,061</u>	<u>\$424,851,796</u>
Expenses:						
Employment & training services	\$79,107,125	\$74,117,871	—	—	\$79,107,125	\$74,117,871
Unemployment compensation	—	—	449,511,155	389,823,906	449,511,155	389,823,906
Total expenses	<u>\$79,107,125</u>	<u>\$74,117,871</u>	<u>\$449,511,155</u>	<u>\$389,823,906</u>	<u>\$528,618,280</u>	<u>\$463,941,777</u>
Transfers between funds	—	604,927	—	(604,927)	—	—
Gain on sale of capital assets	348,220	—	—	—	348,220	—
Indirect cost remitted to general fund of the State	(264,899)	(215,371)	—	—	(264,899)	(215,371)
(Decrease) increase in net assets	(2,122,267)	31,288	(97,772,631)	(39,336,640)	(99,894,898)	(39,305,352)
Net assets – beginning	32,516,657	32,485,369	326,779,113	366,115,753	359,295,770	398,601,122
Net assets – ending	<u>\$30,394,390</u>	<u>\$32,516,657</u>	<u>\$229,006,482</u>	<u>\$326,779,113</u>	<u>\$ 259,400,872</u>	<u>\$359,295,770</u>

Business-Type Activities

Total assets declined by \$103.1 million due primarily to the decline in the cash balance, as a result of the increase in unemployment benefit claims paid. Claimants are filing for a longer period of time (average = 11-13 weeks/maximum = 26 weeks).

Net assets declined by \$100 million due to the loss for the year resulting from the payment of unemployment benefits exceeding the amount of employer contributions received. The taxable wage base has not been increased proportionately to the increase in unemployment benefit claims. Assessments decreased by approximately \$2 million as compared to last year due to experience rating adjustments on employer accounts.

Total revenue increased by \$3 million primarily due to an increase of revenues from other states reimbursements as well as increased focus by field agents to recover overpayments.

Unemployment compensation benefits increased by approximately \$60 million due to Trade Readjustment Act (“TRA”) claims and the payment of regular claims increasing. TRA allowances are unemployment claims that are paid out to individuals who have lost their jobs due to foreign trade. These payments are made after regular unemployment benefits and extended benefits have been exhausted. Operating loss for 2008 was approximately \$108 million as compared to \$51 million loss for the prior year, which was due the increase in total benefits paid.

Interest income went down approximately \$2.6 million due to a lower Trust Fund balance.

Ending net assets decreased by approximately \$100 million for 2008 as compared to a \$39 million decrease for the prior year. This is a result of expenditures exceeding revenues.

The Trust Fund has been generating substantial operating losses using a substantial amount of cash resources to fund its operations. Due to the increasing unemployment rate and the increased amount of unemployment benefits, without a corresponding increase in assessment revenue, the Trust Fund is unable to operate without acquiring additional capital. Management has asked the General Assembly to adjust the taxable wage base of employers in order to raise additional employer contributions to continue the operations of the Trust Fund. If successful, management does not expect such an adjustment to take effect before cash resources are depleted. Therefore, the Trust Fund has raised additional cash resources of approximately \$236,000,000 from the federal government through temporary short-term loans. As a result of this situation, there is substantial doubt about the Trust Fund’s ability to continue as a going concern.

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 \$12,189,353, a decrease of approximately \$1.4 million for the year. Approximately 91% of this total amount (\$11.1 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 \$229 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 two areas as follows:

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

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

The Commission entered into two new capital leases and paid off capital improvement bonds payable as well as two other capital leases during the year.

More detailed information about the Commission's capital assets is presented in Note 6 to the financial statements. More detailed information about the Commission's debt administration is presented in Notes 7 and 8 to the financial statements.

Economic Factors and Next Years Rate

The Trust Fund's 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. Based on current economic conditions, if nothing is done to increase the Trust Fund's balance in the coming year, the Trust Fund's balance is projected to decrease significantly. Subsequent to year-end the Trust Fund obtained a line of credit from the federal government and borrowed a significant amount of cash to pay benefits. Subsequent to year-end the benefit period has been extended to a maximum of 59 weeks and the balance in the net assets of the Trust Fund has significantly decreased.

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, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 12,848,474	\$ 185,079,383	\$ 197,927,857
Assessments receivable, net	1,813,293	50,037,804	51,851,097
Benefit overpayments receivable, net	—	5,259,362	5,259,362
Due from reimbursable employers, net	—	819,791	819,791
Internal balances	1,706,350	(1,706,350)	—
Intergovernmental receivables, net:			
State agencies	4,851,045	1,065,109	5,916,154
Local governments	—	1,592,415	1,592,415
Other states	—	2,362,573	2,362,573
Federal	327,206	276,424	603,630
Prepaid items	252,798	—	252,798
Total current assets	<u>21,799,166</u>	<u>244,786,511</u>	<u>266,585,677</u>
Non-current assets:			
Capital assets, net of accumulated depreciation	<u>23,436,636</u>	<u>—</u>	<u>23,436,636</u>
Total assets	<u>\$ 45,235,802</u>	<u>\$ 244,786,511</u>	<u>\$ 290,022,313</u>
Liabilities:			
Current liabilities:			
Benefits payable	\$ —	\$ 2,674,828	\$ 2,674,828
Accounts payable	2,496,308	1,592,546	4,088,854
Contributions payable	—	7,815,220	7,815,220
Accrued salaries and related benefits	3,980,868	—	3,980,868
Deferred revenues	3,132,637	—	3,132,637
Intergovernmental payables:			
Federal	—	143,834	143,834
Other states	—	3,553,601	3,553,601
Current portion of capital leases payable	97,922	—	97,922
Current portion of accrued compensated absences and related benefits	<u>3,474,091</u>	<u>—</u>	<u>3,474,091</u>
Total current liabilities	<u>13,181,826</u>	<u>15,780,029</u>	<u>28,961,855</u>
Non-current liabilities:			
Non-current portion of capital leases payable	328,977	—	328,977
Accrued compensated absences and related benefits	<u>1,330,609</u>	<u>—</u>	<u>1,330,609</u>
Total non-current liabilities	<u>1,659,586</u>	<u>—</u>	<u>1,659,586</u>
Total liabilities	<u>14,841,412</u>	<u>15,780,029</u>	<u>30,621,441</u>
Net Assets:			
Invested in capital assets, net of related debt	23,009,737	—	22,919,737
Restricted for unemployment benefits	—	229,006,482	229,006,482
Unrestricted	<u>7,384,653</u>	<u>—</u>	<u>7,474,653</u>
Total net assets	<u>30,394,390</u>	<u>229,006,482</u>	<u>259,400,872</u>
Total liabilities and net assets	<u>\$ 45,235,802</u>	<u>\$ 244,786,511</u>	<u>\$ 290,022,313</u>

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

South Carolina Employment Security Commission
Statement of Activities
Year ended June 30, 2008

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	\$ 79,107,125	\$ 6,466,653	\$ 69,611,727	\$ (3,028,745)	\$ —
Business-type activities:					
Unemployment benefits	449,511,155	280,544,018	61,154,153	—	(107,812,984)
Totals	<u>\$ 528,618,280</u>	<u>\$ 287,010,671</u>	<u>\$ 130,765,880</u>	<u>(3,028,745)</u>	<u>(107,812,984)</u>
		General revenues:			
		Interest income		—	10,040,353
		State appropriations		823,157	—
		Gain on sale of capital assets		348,220	—
		Indirect costs remitted to General Fund of the State		(264,899)	—
		Total general revenue (expenses) and transfers		<u>906,478</u>	<u>10,040,353</u>
		Decrease in net assets		(2,122,267)	(97,772,631)
		Net assets - beginning		<u>32,516,657</u>	<u>326,779,113</u>
		Net assets - ending		<u>\$ 30,394,390</u>	<u>\$ 229,006,482</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, 2008

Assets:	
Cash and cash equivalents	\$ 12,848,474
Assessments receivable, net	1,813,293
Intergovernmental receivables, net:	
State agencies	4,851,045
Federal	327,206
Interfund receivable – unemployment compensation fund	1,706,350
Prepaid items	<u>252,798</u>
 Total assets	 <u>\$ 21,799,166</u>
 Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 2,496,308
Accrued salaries and related benefits	3,980,868
Deferred revenue	<u>3,132,637</u>
 Total liabilities	 <u>9,609,813</u>
 Fund balances:	
Reserved:	
Reed Act expenditures	507,388
Prepaid items	252,798
South Carolina Occupational Information Coordinating Committee	336,171
Unreserved fund balances:	
Undesignated fund balance	<u>11,092,996</u>
 Total fund balances	 <u>12,189,353</u>
 Total liabilities and fund balances	 <u>\$ 21,799,166</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, 2008

Reconciliation to the Statements of Net Assets:

Fund balances – governmental funds		\$ 12,189,353
<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	\$ (426,899)	
Accrued compensated absences	<u>(4,804,700)</u>	(5,231,599)
<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>23,436,636</u>
Net assets – governmental activities		<u>\$ 30,394,390</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
Year ended June 30, 2008

Revenues:	
Employer tax contingency assessments	\$ 5,635,368
Employer tax penalties and interest	722,656
User fees	53,581
Intergovernmental:	
State of South Carolina	823,157
Federal	51,064,036
Local	18,547,691
Other	55,048
Total Revenues	<u>76,901,537</u>
Expenditures:	
Employment and training administration	44,248,099
Contingency assessments	7,343,244
Penalties and interest	265,309
Workforce Investment Act	716,609
Trade Act Adjustment	7,765,166
Other federal programs	4,312,150
Other non-federal programs	11,151,105
Parking	53,026
Occupational Information Coordinating Committee	826,580
Capital outlay	1,944,270
Debt service:	
Principal	450,027
Interest	14,503
Total Expenditures	<u>79,090,088</u>
Excess of Expenditures Over Revenues	<u>(2,188,551)</u>
Other Financing Sources (Uses):	
Capital lease proceeds	513,140
Proceeds from sale of capital assets	501,494
Indirect costs remitted to General Fund of the State	<u>(264,899)</u>
Total Other Financing Sources	<u>749,735</u>
Excess of Expenditures Over Revenues and Other Financing Sources	(1,438,816)
Beginning Fund Balance	<u>13,628,169</u>
Ending Fund Balance	<u>\$ 12,189,353</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 (Continued)
Year ended June 30, 2008

Reconciliation to the Statement of Activities:

Expenditures and other financing uses over revenues and other financing sources for the governmental fund	\$ (1,438,816)
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	1,944,270
Depreciation of capital assets is reported as an expense in the statement of activities	(2,300,626)
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	344,445
Capital leases payable	105,582
Amount of capital leases forgiven	15,959
Capital lease proceeds are reported as other financing sources in the governmental funds and are reported as an increase of liabilities in the statement of net assets	(513,140)
Increase in accrued compensated absences is reported as an increase of expenses in the statement of activities	(126,669)
The carrying values of capital assets disposed of are reported as expenses in the statement of activities	<u>(153,272)</u>
Increase in net assets	<u><u>\$ (2,122,267)</u></u>

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

South Carolina Employment Security Commission
Statement of Net Assets
Proprietary Fund
June 30, 2008

Assets:

Current assets:

Cash and cash equivalents	\$ 185,079,383
Assessments receivable, net	50,037,804
Benefit overpayments receivable, net	5,259,362
Due from reimbursable employers, net	819,791
Intergovernmental receivables, net	
Local governments	1,592,415
Other states	2,362,573
State agencies	1,065,109
Federal	276,424
Total assets	\$ 246,492,861

Liabilities:

Current liabilities:

Benefits payable	\$ 2,674,828
Accounts payable	1,592,546
Contributions payable	7,815,220
Intergovernmental payables:	
Federal	143,834
Other states	3,553,601
Interfund payable – Commission	1,706,350
Total liabilities	17,486,379

Net Assets:

Restricted for unemployment benefits	229,006,482
Total liabilities and net assets	\$ 246,492,861

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

South Carolina Employment Security Commission
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Year ended June 30, 2008

Operating Revenues:	
Assessments	\$ 271,258,639
Reimbursement of unemployment compensation benefits from employers	3,534,486
Benefit overpayment recoveries	5,750,893
Intergovernmental:	
Federal	40,883,338
State agencies	4,285,778
Other states	8,531,963
Local governments	7,453,074
Total operating revenues	<u>341,698,171</u>
Operating Expenses:	
Unemployment compensation benefits	<u>449,511,155</u>
Total operating expenses	<u>449,511,155</u>
Operating loss	<u>(107,812,984)</u>
Nonoperating Revenues (Expenses):	
Interest income	<u>10,040,353</u>
Total non-operating revenues	<u>10,040,353</u>
Decrease in net assets	(97,772,631)
Total net assets - beginning	<u>326,779,113</u>
Total net assets – ending	<u>\$ 229,006,482</u>

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

South Carolina Employment Security Commission
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2008

Cash flows used by operating activities:	
Cash received from assessments	\$ 274,050,466
Cash received from employers	3,347,686
Cash received from benefit overpayment recoveries	4,358,270
Cash received from federal, state and local agencies	59,909,962
Benefits paid	(452,328,110)
Refund overpayment of assessments	(2,627,171)
Net cash used by operating activities	(113,288,897)
 Cash flows used by non-capital financing activities:	
Payments to Commission/change in amount due to Commission	(2,091,981)
Net cash used by non-capital financing activities	(2,091,981)
 Cash flows provided by investing activities:	
Interest received	10,040,353
Net cash provided by investing activities	10,040,353
Net decrease in cash	(105,340,525)
Cash and cash equivalents – beginning	290,419,908
Cash and cash equivalents – ending	\$ 185,079,383
 Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$(107,812,984)
Net changes in assets and liabilities:	
Assessments receivable	164,656
Benefit overpayments receivable	(1,392,623)
Due from reimbursable employers	(186,800)
Intergovernmental receivables:	
Local governments	(106,719)
Other states	(849,734)
State agencies	(66,836)
Federal	214,548
Benefits payable	(5,743,098)
Accounts payable	498,601
Contributions payable	1,646,279
Intergovernmental payable:	
Federal	(435,450)
Other states	781,263
Net cash used by operating activities	\$(113,288,897)

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 1. Going Concern

To date, the Trust Fund has generated substantial operating losses and has been required to use a substantial amount of cash resources to fund its operations. At June 30, 2008, the Trust Fund had cash and cash equivalents of approximately \$185,000,000. However, subsequent to June 30, 2008, because unemployment continued to increase and unemployment benefits were extended, the Trust Fund has exhausted all of its available reserves to pay participant unemployment benefits, and incurred debt to the federal government as described below.

Management's plan for addressing the matter discussed above is to ask the State General Assembly to enact legislation that would adjust the taxable wage base of employers in order to raise additional employer contributions to continue the operations of the Trust Fund. If successful, management does not expect such an adjustment to take effect before cash resources are depleted completely. Since year-end, the Trust Fund did raise additional cash resources from the federal government through temporary short-term loans. As of March 31, 2009, the Trust Fund had requested approximately \$256,000,000 of funds from the federal government of which approximately \$236,000,000 had been received and used to pay unemployment benefits. The amount of liability due to the federal government as of March 31, 2009, is approximately \$236,000,000. Currently, benefits paid are approximately \$20,000,000 per week. During the fiscal year ended June 30, 2008, the Trust Fund collected an average of approximately \$7,000,000 per week, and this average is expected by management to be significantly lower for the year ended June 30, 2009. The Trust Fund expects to borrow significant additional funds from the federal government until the State's unemployment decreases. At this time the benefit period is a maximum of 59 weeks. Under the stimulus package all interest is forgiven for money borrowed from the federal government during 2008 and 2009. The means for repaying the debt by the Trust Fund is yet to be determined.

As a result, there is substantial doubt about the Trust Fund's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from this uncertainty. However, management believes that any adjustments to reflect the possible future effects on the recoverability and classification of assets and amounts of liabilities would materially change the Trust Fund's financial statements by reducing cash balances to \$0 and recording a liability due to the federal government of approximately \$236,000,000 at March 31, 2009.

Note 2. Summary of Significant Accounting Policies

Reporting Entity

The accounting policies of 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.

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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

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. An organization may also be considered a component unit if the omission of its financial statements from the primary entity's financial statements would be misleading to the user of the financial statements.

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

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

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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

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.

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.

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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Proprietary Funds

Proprietary funds distinguish operating revenues from non-operating 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 Trust Fund.

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

The Trust 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 and is funded by the federal government.

Unemployment Compensation for Ex-Servicemen ("UCX") – This accounts for unemployment paid to ex-servicemen and 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 have been exhausted and are funded by the federal government.

Emergency Unemployment Compensation ("EUC") – This provides unemployment benefits to individuals who had no rights to the regular, extended, or additional benefits under State law and is funded 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 and is funded by the federal government.

Government-wide and Fund Financial Statements

The financial statements of the Commission are presented in accordance with GAAP 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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

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.

Non-exchange Transactions

Non-exchange 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 non-exchange transactions. This type of transaction includes most federal grants and State Capital Improvement bond proceeds. Voluntary non-exchange 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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

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.

The Commission's budget is not presented for comparison purposes because GASB 34 calls for only major special revenue funds of the State to present such information. Since the Commission is not a major special revenue fund of the State, budgetary comparison information is excluded from the basic financial statements.

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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Receivables (continued)

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

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

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

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

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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

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

Benefits Payable

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

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 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, 2007 through June 30, 2008, the Commission recovered approximately \$9,324,000 of indirect cost from the indirect cost agreement. Of this amount, approximately \$265,000 was remitted to the State and approximately \$9,059,000 was retained by the Commission. Indirect cost recoveries are reported as federal revenues.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Interfund Transactions

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

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

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 Special Revenue 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.

Operating and Nonoperating Revenues and Expenses

The Trust Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The Trust Fund's primary operating revenues are from assessments. Operating expenses include unemployment compensation benefits paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Included in nonoperating revenues for the fiscal year ended June 30, 2008 is approximately \$10,000,000 in interest income.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Net Assets / Fund Balances

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

Net assets are categorized as follows:

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

Restricted – This component of net assets consists of constraints placed on net 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, 2008, two of the Commission's reserved balances are as follows:

Reed Act – The Commission has funds totaling \$99,499,446 available under the Reed Act in the proprietary funds. These funds are granted to the Trust 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. Of these funds, \$13,827,461 was 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 \$13,827,461 was shown as a transfer from the Trust Fund to the Special Revenue Fund upon Legislative appropriation. As of June 30, 2008, \$13,320,073 of the appropriated amount under this appropriation had been transferred. Of the funds appropriated, \$507,388 had not been transferred by the Trust Fund to the Special Revenue Fund as of June 30, 2008 and 2007, respectively and is included in the payable – Commission on the Statement of Net Assets – Proprietary Fund.

Only \$13,320,073 of the appropriated funds has been expended as of June 30, 2008. The remaining appropriated funds totaling \$507,388 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 2008 Appropriation Act Proviso 51.2, all user fees not expended in fiscal year 2008 may be carried forward to fiscal year 2008 for use in the SCOICC program. As of June 30, 2008, \$336,171 was carried forward and is reported as a reserved fund balance.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Note 3. Deposits

The amount shown as cash and cash equivalents in the statement of net assets at June 30, 2008 is composed of the following:

Cash on hand	\$	500
Deposits held by State Treasurer		21,033,666
Deposits held by U.S. Treasury		182,892,907
(Bank overdraft) other deposits		<u>(5,999,216)</u>
Totals		<u>\$ 197,927,857</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, 2008, 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 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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 4. 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. In addition, the Trust Fund has not transferred all of the Reed Act funds which were appropriated to the Commission as of June 30, 2008. Amounts due to the Commission as of June 30, 2008 are as follows:

Reed Act Funds	\$ 507,388
Contingency assessments	1,060,492
Penalty and interest	<u>138,470</u>
Total	<u>\$ 1,706,350</u>

Note 5. Receivables

The receivable balances at June 30, 2008 and the related amounts for allowances for uncollectibles are as follows:

	Receivables	Allowances for Uncollectibles	Net Receivables
Special revenue fund:			
Assessments receivable:			
Contingency	\$ 1,478,625	\$ 119,720	\$ 1,358,905
Penalty and interest	<u>2,913,307</u>	<u>2,458,919</u>	<u>454,388</u>
Totals	<u>\$ 4,391,932</u>	<u>\$ 2,578,639</u>	<u>\$ 1,813,293</u>
Intergovernmental receivables:			
State agencies	\$ 4,851,045	\$ —	\$ 4,851,045
Federal	\$ 327,206	\$ —	\$ 327,206
Proprietary fund:			
Assessment receivable	\$ 56,937,530	\$ 6,899,726	\$ 50,037,804
Due from reimbursable employers	\$ 852,497	\$ 32,706	\$ 819,791
Intergovernmental receivables			
Local governments	\$ 1,629,796	\$ 37,381	\$ 1,592,415
Other states	\$ 2,362,573	\$ —	\$ 2,362,573
State agencies	\$ 1,065,109	\$ —	\$ 1,065,109
Federal	\$ 276,424	\$ —	\$ 276,424
Benefit overpayments receivable:			
Basic unemployment compensation	\$ 9,408,643	\$ 4,357,668	\$ 5,050,975
Federal employees	45,447	24,309	21,138
Ex-servicemen	100,849	49,415	51,434
Trade readjustment compensation	172,809	91,110	81,699
Emergency Unemployment Compensation (EUC)	<u>247,690</u>	<u>193,574</u>	<u>54,116</u>
Totals	<u>\$ 9,975,438</u>	<u>\$ 4,716,076</u>	<u>\$ 5,259,362</u>

South Carolina Employment Security Commission

Notes to Financial Statements

Note 6. Capital Assets

A summary of capital assets activity for the year ended June 30, 2008 is as follows:

	Balances June 30, 2007	Increases	Decreases	Balances June 30, 2008
Capital assets not being depreciated:				
Land and land improvements	\$ 3,562,191	\$ —	\$ (142,812)	\$ 3,419,379
Construction in progress	886,658	1,364,709	(1,745,018)	506,349
Total capital assets not being depreciated	4,448,849	1,364,709	(1,887,830)	3,925,728
Other capital assets:				
Buildings and improvements	28,157,948	1,645,018	—	29,802,966
Equipment and furniture	8,288,391	679,561	(1,013,995)	7,953,957
Vehicles	344,702	—	(13,351)	331,351
Total other capital assets	36,791,041	2,324,579	(1,027,346)	38,088,274
Less accumulated depreciation for				
Buildings and improvements	12,137,903	719,553	—	12,857,456
Equipment and furniture	4,848,367	1,565,091	(1,003,534)	5,409,924
Vehicles	307,355	15,982	(13,351)	309,986
Total accumulated depreciation	17,293,625	2,300,626	(1,016,885)	18,577,366
Other capital assets, net	19,497,416	23,953	(10,461)	19,510,908
Total capital assets, net	\$ 23,946,265	\$ 1,388,662	\$ (1,898,291)	\$ 23,436,636

The total estimated costs on buildings and improvements and other capitalized projects is approximately \$3,152,000 with approximately \$2,679,000 costs to complete. Total outstanding commitments on projects that will not be capitalized were approximately \$34,000.

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance, July 1, 2007	Additions	Reductions	Balance, June 30, 2008	Due within one year
Capital lease payable	\$ 35,301	\$ 513,140	\$ (121,542)	\$ 426,899	\$ 97,922
Capital improvement bond notes payable	344,445	—	(344,445)	—	—
Accrued compensated absences and related benefits	4,678,031	2,973,329	(2,846,660)	4,804,700	3,474,091
	\$ 5,057,777	\$ 3,486,469	\$ (3,312,647)	\$ 5,231,599	\$ 3,572,013

The reductions in long-term liabilities differ from the principal debt service amount by approximately \$16,000 which is the amount of capital lease payable that was forgiven during 2008.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 8. 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, 2008 follows:

Act	Total Authorized	Balance Authorized and Not Drawn June 30, 2008
538 of 1987	\$ 9,607,000	\$ 239,455

The capital improvement bond notes were paid in full during fiscal year 2008. During the fiscal year, the Commission paid \$344,445 and \$9,552 in principal and interest, respectively, on the capital improvement bond notes payable.

Note 9. Leases

During 2008 the Commission paid in full its two capital leases for printers and entered into two new capital leases for printers requiring monthly payments of \$14,066 including principal and interest at 4.18% maturing in fiscal year 2013. Monthly executory costs of \$4,574 are included in the \$14,066 but do not reduce the principal balance. The carrying amount of the printers totaled approximately \$462,000 as of June 30, 2008. The current year's amortization expense of approximately \$51,000 on the capitalized lease assets is included in depreciation expense. Total payments on the capital leases for the year ended June 30, 2008 were \$132,203 consisting of principal of \$121,542 and interest of \$10,661. Of this principal paid, \$15,960 consisted of a forgiveness of principal which was a non-cash payment.

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 2008 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 \$974,000 for the year ended June 30, 2008.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 9. Leases (continued)

The following is a schedule by years of future minimum rental payments required under the capital lease and the noncancellable operating lease agreements with remaining terms at June 30, 2008 in excess of one year. The future minimum rental payments for the capital leases exclude the monthly executory costs.

	Year Ended June 30,	Capital Leases	Operating Leases
	2009	\$ 113,904	\$ 240,072
	2010	113,904	110,848
	2011	113,904	62,568
	2012	113,904	3,464
	2013	9,492	—
Total minimum lease payments		465,108	\$ 416,952
Less: interest		(38,209)	
Present value of minimum lease payments		\$ 426,899	

Note 10. 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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 10. Pension Plans (continued)

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. Beginning July 1, 2005, TERI participants are required to make SCRS contributions.

Effective July 1, 2006, employees participating in the SCRS were required to contribute 6.50% of all compensation. Effective July 1, 2007, the employer contribution rate became 12.48%, which included a 3.42% surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2008 and 2007 were approximately \$3,364,000 and \$2,886,000, respectively, and equaled the required contributions of 9.06% (excluding the surcharge) for each year. Also, the Commission paid employer group life insurance contributions of approximately \$56,000 and \$54,000 at the rate of .15% of compensation for the current fiscal year ended June 30, 2008 and 2007, respectively.

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 PORS 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 and choose to 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% 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% 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 6.50% of all compensation. Effective July 1, 2007, the employer contribution rate became 13.72% which, as for the SCRS, included the 3.42% surcharge. The Commission's actual contributions to the PORS for the years ended June 30, 2008 and 2007, were approximately \$11,000 and \$11,900, respectively, and equaled the required contributions of 10.30% (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$210 and accidental death insurance contributions of approximately \$210 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% 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

South Carolina Employment Security Commission

Notes to Financial Statements

Note 10. Pension Plans (continued)

90 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.06% plus the retiree surcharge of 3.42% from the employer in fiscal year 2008.

For the fiscal year, total contributions requirements to the ORP were approximately \$18,200 (excluding the surcharge) from the Commission as employer and approximately \$20,900 from its employees as plan members. Employer contributions in the amount of 7.48% were remitted to the Retirement Division of the State Budget and Control Board. Also, the Commission paid employer group life insurance contributions of approximately \$480 in the current fiscal year at the rate of .15% of compensation. The balance was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

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 SCRS 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 11. Post-Employment Benefits Other than Pensions

a. Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Commission contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB).

South Carolina Employment Security Commission

Notes to Financial Statements

Note 11. Post-Employment Benefits Other than Pensions (continued)

a. Plan Description (continued)

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

b. Funding Policies

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.42% and 3.35% of annual covered payroll for 2008 and 2007, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Commission paid approximately \$1,366,000 and \$1,288,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2008 and 2007, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2008 and 2007. The Commission recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$3,955,000 and \$3,652,000 for the years ended June 30, 2008 and 2007, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

Note 12. 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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 13. Risk Management

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

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

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

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

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

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

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

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 IRF'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.

South Carolina Employment Security Commission

Notes to Financial Statements

Note 13. Risk Management (continued)

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.

Note 14. 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 \$264,899 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 \$823,157 from State appropriations during the year for expenditures of the SCOICC. The Commission recorded revenues of approximately \$4,285,778 for reimbursements of benefits paid to State employees and was due approximately \$1,065,000 for these benefits at year-end.

Note 15. Contingencies

Federal Grants – The various programs administered by the Commission for fiscal years June 30, 2008 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**

Year Ended June 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
Direct Programs:		
U.S. Department of Labor		
Labor Force Statistics	17.002	\$ 1,132,433
Employment Service	17.207	10,589,674
Unemployment Insurance	17.225	41,539,703
Trade Adjustment Assistance - Workers	17.245	34,465,671
Work Incentives Grant	17.266	726,841
Work Opportunity Tax Credit	17.271	181,903
Labor Certification for Alien Workers	17.272	74,808
Disabled Veterans Outreach Program (DVOP)	17.801	1,320,811
Local Veterans Employment Representative (LVER)	17.804	1,707,401
Homeless Veterans Reintegration Program	17.805	201,391
U.S. Department of Health and Human Services		
Passed-through from:		
South Carolina Department of Social Services		
Child Support Enforcement	93.563	<u>6,738</u>
Totals		<u>\$ 91,947,374</u>

**South Carolina Employment Security Commission
Note to Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2008

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, 2007 through June 30, 2008. 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***

The Office of the State Auditor and Board of Commissioners
South Carolina Employment Security Commission
Columbia, South Carolina

We have audited the financial statements of the governmental activities, 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, 2008, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency and material weakness.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider deficiency 2008-1 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

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, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
March 31, 2009

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

The Office of the State Auditor and Board of Commissioners
South Carolina Employment Security Commission
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, 2008. 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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements, which is 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 2008-2 and 2008-3.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Commission's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-2 and 2008-3 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the significant deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commission's response and, accordingly we express no opinion on it.

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, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Scott McElveen, L.L.P.

Columbia, South Carolina
March 31, 2009

**South Carolina Employment Security Commission
Schedule of Findings and Questioned Costs**

Year Ended June 30, 2008

Section I—Summary of Auditors’ Results

Financial Statements:

We have issued an unqualified opinion dated March 31, 2009, on the basic financial statements of the South Carolina Employment Security Commission.

Internal control over financial reporting:

- Material weaknesses identified? YES
- Significant deficiencies identified that are not considered to be material weaknesses? NO
- Noncompliance material to financial statements noted? NO

Federal Awards:

We have issued an unqualified opinion dated March 31, 2009 on the South Carolina Employment Security Commission’s compliance for major programs.

Internal control over major programs:

- Material weaknesses identified? NO
- Significant deficiencies identified that are not considered to be material weaknesses? YES
- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? YES

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
17.207	Employment Service
17.801	Veterans Employment and Training - DVOP
17.804	Veterans Employment and Training - LVER
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance - Workers

Dollar threshold used to be distinguished between Type A and Type B Programs: \$2,758,421

Auditee qualified as low-risk auditee? NO

**South Carolina Employment Security Commission
Schedule of Findings and Questioned Costs**

Year Ended June 30, 2008

Section II- Financial Statement Findings

Significant Deficiency Considered to be a Material Weakness:

2008-1: Weaknesses in Maintenance of Accounting Records in Accordance with Generally Accepted Accounting Principles

Condition:

Our audit identified certain matters attributable to the maintenance of accounting records in accordance with Generally Accepted Accounting Principles. These weaknesses include the following:

1. Separate accounting systems are maintained for the Commission and the Trust Fund. The Commission did not record all adjusting journal entries as proposed by the auditors in either accounting system, and therefore fund balances provided to the auditors did not agree with the financial statements issued by the Commission for the year ended June 30, 2007.
2. The Commission did not maintain complete trial balances or perform periodic analyses of the trial balances in order to ensure they are accurately maintained in both of the accounting systems that it maintains.
3. The Commission recorded prior year receivable balances as current year revenue in both of the accounting systems that it maintains.

Cause:

The Commission's accounting staff does not currently have the necessary skills and training to perform the above functions and duties.

Effect:

The Commission's accounting records are not maintained in accordance with Generally Accepted Accounting Principles. Because management does not prepare the financial statements, errors are not detected and the independent auditors find numerous audit adjustments. The Commission must make numerous journal entries to its accounting records at year-end to adjust its records to the accrual basis of accounting. Some of the required journal entries were not made by management and adjustments were found by the independent auditors and agreed by management to be made. In addition, additional audit adjustments found by the independent auditors in prior years were not made by management which in turn caused the beginning fund balances to be incorrect in the current audit year.

Criteria:

In accordance with Generally Accepted Accounting Principles, trial balances and financial statements should be prepared using the accrual basis of accounting.

Recommendation:

Staffing who maintains both of the accounting systems of the Commission should make efforts to understand fully the purpose of audit adjustments made by the auditors. Governmental Auditing Standards require that management take responsibility for the financial statements. The material weaknesses noted above are attributable to the Commission's management and staffing not fully understanding audit adjustments and not maintaining its accounting systems on an accrual basis. The Commission's accounting systems must be converted to the accrual basis of accounting at year-end for financial reporting purposes. This conversion should be performed by staff and reviewed by management so that no significant audit adjustments result from the Commission's year-end audit. If the independent auditors find audit adjustments, management must understand and agree with these adjustments before they are booked and financial statements issued. Staff who maintains the accounting systems of the Commission should make efforts to record the audit adjustments made by the auditors and reconcile the trial balance to the issued financial statements. *Government Auditing Standards* require that management take responsibility for the financial statements. In order to address this matter, the Commission should identify and hire accountants who have the requisite knowledge and experience to perform all necessary functions of the Commission's accounting departments.

**South Carolina Employment Security Commission
Schedule of Findings and Questioned Costs**

Year Ended June 30, 2008

Section III—Federal Award Findings and Questioned Costs

Significant Deficiencies Not Considered to be Material Weaknesses:

2008-2: Federal Purchases Exceeding \$50,000 That Are Administered Through the South Carolina Budget and Control Board (“SC B&CB”) and Federal Purchases Made Through SC B&CB’s State Term Contracts Are Given a Preference to South Carolina Vendors; CFDA #17.207, #17.225, #17.245, #17.801, and #17.804

Condition: According to the Commission’s procurement policy, South Carolina vendors are given preference for purchases over \$50,000 and items or services purchased through SC B&CB’s State Term Contracts.

Cause: The Commission applies the SC B&CB’s procurement policies to federal purchases exceeding \$50,000 without regard for certain federal procurement guidelines which prohibit geographic preference from being given to vendors.

Effect: Federal funds may be paid to vendors in South Carolina for items or services that do not provide the most effective or efficient application of federal awards.

Criteria: Federal grant procurement requirements prohibit preferential vendor selection based on geographical location.

Recommendation: We recommend that the Commission implement revisions to the procurement policy which exclude procurements made with federally awarded funds from the SC B&CB’s provisions regarding SC vendor preference.

2008-3: Vendor Was Not Tested for Suspension or Debarment CFDA #17.207, #17.225, #17.245, #17.801, and #17.804

Condition: On one of the twenty selected procurements, the Commission did not test for suspension and debarment.

Cause: Services purchased were vendor-specific and were required for continued operations. The Commission could not receive these services from another vendor, so suspension and debarment was not tested. The Commission could not provide evidence that vendor had ever been tested.

Effect: Federal funds may be used to purchase goods or services from a vendor that has been suspended or debarred from receiving federal funds.

Criteria: Federal grant procurement requirements state that all procurements over \$25,000 are tested for suspension and debarment.

Recommendation: We recommend that the Commission test all vendors for suspension and debarment, regardless of services purchased.

Summary Schedule of Prior Audit Findings:

During the current year audit, we reviewed the status of corrective action taken on the findings as reported in our prior year's reports on internal control and compliance of the Commission dated December 14, 2007, resulting from the audit of the financial statements and OMB Circular A-133 audit reports for the year ended June 30, 2007. We found that adequate corrective action was taken for all of the management letter comments, findings and questioned costs except for item 2007-1 which is repeated above as comment 2008-1.

Appendix A

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

EXECUTIVE DIRECTOR
Roosevelt T. Halley
803.737.2617



Your
onestop
for Workforce Solutions!
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Post Office Box 995
Columbia, South Carolina 29202

March 31, 2009

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, 2008.

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

Audit Period: July 1, 2007 through June 30, 2008

FINANCIAL STATEMENT FINDINGS

2008-1 Weakness in Financial Management and Maintenance of Accounting Records in Accordance with Generally Accepted Accounting Principles

Recommendation: Staffing who maintains both of the accounting systems of the Commission should make efforts to understand fully the purpose of audit adjustments made by the auditors. Governmental Auditing Standards require the management take responsibility for the financial statements. The material weaknesses noted above are attributable to the Commission's management and staffing not fully understanding audit adjustments and not maintaining its accounting systems on an accrual basis. The Commission's accounting systems must be converted to the accrual basis of accounting at year-end for financial reporting purposes. This conversion should be performed by staff and reviewed by management so that no significant audit adjustments result from the Commission's year-end audit. If the independent auditors find audit adjustments, management must understand and agree with these adjustments before they are booked and financial statements issued. Staff who maintains the accounting system of the Commission should make efforts to record the audit adjustments made by the auditors and reconcile the trial balance to the issued financial statements. *Governmental Auditing Standards* require that management take the responsibility for the financial statements. In order to address this matter, the Commission should identify and hire accountants who have the requisite knowledge and experience to perform all necessary functions of the Commission's accounting departments.

Response: The Commission agrees with the noted deficiencies. Corrective action is being taken to post all revenues and expenditures on an accrual basis. We have two (2) employees currently enrolled in the Government Finance Officer's Association of South Carolina Certification Program. These individuals will complete their coursework and certification exams during the upcoming fiscal year. The Commission plans to enroll more employees that work in the Accounting Systems, depending on the State Funding for the Certification Program. Where feasible, concentration of future hires will be on employees with governmental experience.

2008-2 Federal Purchases Exceeding \$50,000 that are Administered through the SC Budget and Control Board ("SC B&CB") and Federal Purchases made through SC B&CB's State Term Contracts are given a Preference to South Carolina Vendors: CFDA #17.207, #17.225, #17.245, #17.801, and #17.804

Recommendation: We recommend the Commission implement revisions to the procurement policy which exclude procurements made with federally awarded funds from the SC B&CB's provisions regarding SC vendor preference.

Response: The commission does not agree with this finding. While receiving a large majority of federal funds, the Commission is still an agency of the South Carolina State Government. The Commission believes that it must comply with the South Carolina Consolidated Procurement Code, specifically sections 11-35-40(3) and 11-35-1524.

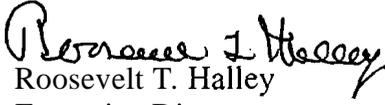
2008-3 Vendor was Not Tested for Suspension or Debarment: CFDA #17.207, #17.225, #17.245, #17.801, and #17.804

Recommendation: We recommend that the Commission test all vendors for suspension and debarment, regardless of services purchased.

Response: The Commission agrees with this administrative finding. Our internal investigation revealed that there were no tests for suspension or debarment. We did check the vendor as of today and the vendor in question is not on the suspension or debarment lists. The Commission will assure that all vendors are tested and documented in the future.

If you have any questions, or if additional information is needed, please contact Charles D. Reeves, Director of Finance, at (803) 737-2584.

Sincerely,


Roosevelt T. Halley
Executive Director

RTH/vnb

REF: AS-4