

South Carolina
Department of Employment and Workforce
Columbia, South Carolina
Financial Statements
and Independent Auditors' Reports
Year Ended June 30, 2010

State of South Carolina



Office of the State Auditor

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May 23, 2011

The Honorable Nikki R. Haley, Governor
and
Mr. John Finan, Director
South Carolina Department of Employment and Workforce
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Department of Employment and Workforce and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the fiscal year ended June 30, 2010, was issued by Scott and Company, L.L.P., 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 cursive script, appearing to read "Richard H. Gilbert, Jr.", written in black ink.

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

RHGjr/trb

Contents

	<u>Pages</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Entity-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements:	
Balance Sheet – Governmental Fund – Special Revenue.....	12-13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund – Special Revenue.....	14-15
Statement of Net Assets – Proprietary Fund.....	16
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	17
Statement of Cash Flows – Proprietary Fund	18
Notes to Financial Statements.....	19-42
 Schedule of Expenditures of Federal Awards.....	 43-44
 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>	 45-46
 Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	 47-48
 Schedule of Findings and Questioned Costs.....	 49-54
 Summary Schedule of Prior Audit Findings	 54
 Corrective Action Plan.....	 A-1-A-4

Independent Auditors' Report

The Office of the State Auditor and Management
South Carolina Department of Employment and Workforce
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 Department of Employment and Workforce (the "Agency") as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency'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 Agency are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of governmental activities, the business-type activities, and each major fund 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 Agency. They do not purport to and do not present fairly the financial position of the State as of June 30, 2010, the changes in its financial position, or, where applicable, its cash flows 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.

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 Agency as of June 30, 2010, 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 May 23, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through nine be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget ("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 Agency. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Scott and Company LLP

Columbia, South Carolina
May 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Agency") offers readers this narrative overview and analysis of the financial activities for the year ended June 30, 2010. Please read this information in conjunction with the Agency's financial statements and accompanying notes.

Financial Highlights

- The overall financial condition of the Agency declined during the fiscal year ended June 30, 2010. The Agency's liabilities exceeded its assets at fiscal year ending June 30, 2010 by \$728,862,523 (shown as "total net deficit"), which is a decrease of \$443,486,694 from the prior year.
- Total Unemployment Compensation benefits paid were \$2,027,711,376 and \$1,332,327,180 during the years ended June 30, 2010 and 2009, respectively.
- On March 30, 2010, the Governor of South Carolina signed into law Act 159 restructuring the Agency into a State cabinet agency under the Governor. The Agency merged with the Workforce Development division of the South Carolina Department of Commerce to become the South Carolina Department of Employment and Workforce. The three member Board of Commissioners was replaced by an appellate board and the Governor appointed a new Executive Director.

Overview/Discussion of the Annual Financial Report

The discussion and analysis provides an introduction to the Agency'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 Agency'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 Agency'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 (deficit). Over time, increases or decreases in net assets may indicate whether the Agency's financial health (financial position) is strengthening or weakening. But in order to assess the Agency'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 Agency 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 Agency'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 South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Trust Fund") is included in these business-type activities. This fund collects money from several different sources but the largest source generally is federal grant revenue and federal loans.

Fund Financial Statements

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

Governmental Funds:

The Agency 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 Agency'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 Agency 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 Agency's proprietary funds is from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Agency'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 and proprietary 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, expenses, and changes in fund balances presents the results of the governmental and proprietary 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 Agency, liabilities exceeded assets by \$728,862,523 at the year-ended June 30, 2010. In the prior year, assets exceeded liabilities by \$285,375,829.

The Agency's net deficit can be attributed to the Trust Fund due to the effect of increasing unemployment during the recent national recession, coupled with an outdated unemployment insurance tax structure. In response to the net deficit, the Agency has taken advances from the federal government to continue providing unemployment benefits to the citizens of South Carolina. In addition, recent legislation was enacted by the State to restructure the unemployment insurance tax rate system to bring the Trust Fund back to solvency and to establish an acceptable level of reserve funding in the future. The new rate system was also specifically designed to allow the State to repay all federal advances and the associated interest, which began accruing on January 1, 2011. The estimated date of retirement of the federal advances is May 2015.

At the end of the current fiscal year, the Agency is able to report positive net asset balances in the governmental activities which represent capital assets and unrestricted net assets.

Governmental Activities

Total assets increased by approximately \$9,210,107 (20.6%) from last year due primarily to an increase in federal receivables.

There was an increase in federal grant activity, increasing revenue by approximately \$42.6 million.

South Carolina Department of Employment and Workforce
Entity-Wide Financial Analysis
(Condensed Financial Data)
Statement of Net Assets
June 30, 2010 and 2009

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current & other assets	\$ 32,155,381	\$ 23,637,012	\$ 157,834,655	\$ 73,899,330	\$ 189,990,036	\$ 97,536,342
Capital assets	21,780,503	21,088,765	—	—	21,780,503	21,088,765
Total assets	<u>\$ 53,935,884</u>	<u>\$ 44,725,777</u>	<u>\$ 157,834,655</u>	<u>\$ 73,899,330</u>	<u>\$ 211,770,539</u>	<u>\$ 118,625,107</u>
Liabilities:						
Current	\$ 20,500,002	\$ 11,335,457	\$ 32,320,146	\$ 46,284,800	\$ 52,820,148	\$ 57,620,257
Non-current	1,150,562	1,499,174	886,662,352	344,881,505	887,812,914	346,380,679
Total liabilities	<u>21,650,564</u>	<u>12,834,631</u>	<u>918,982,498</u>	<u>391,166,305</u>	<u>940,633,062</u>	<u>404,000,936</u>
Net assets:						
Invested in capital assets, net of related debt	21,553,620	20,759,788	—	—	21,553,620	20,759,788
Unrestricted	10,731,700	11,131,358	(761,147,843)	(317,266,975)	(750,416,143)	(306,135,617)
Total net assets (deficit)	<u>32,285,320</u>	<u>31,891,146</u>	<u>(761,147,843)</u>	<u>(317,266,975)</u>	<u>(728,862,523)</u>	<u>(285,375,829)</u>
Total liabilities & net assets	<u>\$ 53,935,884</u>	<u>\$ 44,725,777</u>	<u>\$ 157,834,655</u>	<u>\$ 73,899,330</u>	<u>\$ 211,770,539</u>	<u>\$ 118,625,107</u>

Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 7,468,825	\$ 6,719,491	\$ 302,762,139	\$ 249,914,068	\$ 310,230,964	\$ 256,633,599
Operating grants & contributions	123,964,581	81,365,985	1,281,068,369	533,426,265	1,405,032,950	614,792,250
General revenues:						
Interest income	—	—	—	2,326,473	—	2,326,473
State appropriations	512,778	650,443	—	—	512,778	650,443
Total revenues	<u>131,946,184</u>	<u>88,735,919</u>	<u>1,583,830,508</u>	<u>785,666,806</u>	<u>1,715,776,692</u>	<u>874,402,725</u>
Expenses:						
Employment & training services	131,378,094	86,629,530	—	—	131,378,094	86,629,530
Unemployment compensation	—	—	2,027,711,376	1,332,327,180	2,027,711,376	1,332,327,180
Total expenses	<u>131,378,094</u>	<u>86,629,530</u>	<u>2,027,711,376</u>	<u>1,332,327,180</u>	<u>2,159,089,470</u>	<u>1,418,956,710</u>
Transfers between funds	—	(386,917)	—	386,917	—	—
Contributed capital	32,760	—	—	—	32,760	—
Loss on disposal of capital assets	(23,026)	(5,962)	—	—	(23,026)	(5,962)
Indirect cost remitted to general fund of the State	(183,650)	(216,754)	—	—	(183,650)	(216,754)
(Decrease) increase in net assets	394,174	1,496,756	(443,880,868)	(546,273,457)	(443,486,694)	(544,776,701)
Net assets (deficit) – beginning	<u>31,891,146</u>	<u>30,394,390</u>	<u>(317,266,975)</u>	<u>229,006,482</u>	<u>(285,375,829)</u>	<u>259,400,872</u>
Net assets (deficit) – ending	<u>\$ 32,285,320</u>	<u>\$ 31,891,146</u>	<u>\$(761,147,843)</u>	<u>\$(317,266,975)</u>	<u>\$(728,862,523)</u>	<u>\$(285,375,829)</u>

Business-Type Activities

Statements of Net Assets:

Total assets increased by approximately \$84 million due primarily to the increase in cash on hand at year-end received from the federal government to pay unemployment benefit claims. Unemployment significantly increased and claimants are filing for a longer period of time, as required by the federal government.

Net assets declined by approximately \$444 million, which is the result of the significant increase in benefits paid.

Revenues, Expenses and Changes in Net Assets:

Assessments increased by approximately \$45 million as compared to last year due to higher tax rates being assessed on employers as a result of the increased number of former employees filing unemployment claims during the year.

Total revenue increased by approximately \$798 million primarily due to an increase in federal grants relating to federally funded unemployment programs.

Unemployment Compensation Benefits increased by approximately \$695 million due to increases in the period of time over which benefits are paid as mandated and funded by the federal government.

Operating loss for 2010 was approximately \$444 million as compared to \$549 million loss for the prior year, which was due to the increase in assessments and federal revenues.

Interest income decreased by approximately \$2 million, since states are not due any accrued interest on trust fund balances while having outstanding federal unemployment account advances.

To date, the Trust Fund has generated substantial operating losses and has been required to use all of its cash resources to fund its operations. Due to the increasing unemployment rate and the resulting increased amount of unemployment benefits, and the increased length of time over which the benefits are paid, the Trust Fund was required to obtain advances from the Federal Unemployment Account of \$541,780,847 during the year ended June 30, 2010. Management plans to continue to borrow from the federal government to fund its deficits for the foreseeable future. The federal government has not established a maximum amount that the Trust Fund can borrow. Information on the Agency's plans for repaying the federal loan amounts is contained in Note 14 to the financial statements.

Financial Analysis of the Governments Funds

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

Governmental Funds

The focus of the Agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency'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 Agency's governmental fund reported combined ending fund balances of \$14,533,535, a decrease of approximately \$1.3 million for the year. Approximately 95% of this total amount (\$13.8 million) constitutes unreserved fund balance, which is available for spending at the Agency's discretion, in accordance with federal and state regulations. 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 Agency's proprietary fund provides the same type of information found in the entity-wide financial statements, but in more detail. Unrestricted net deficit of the Agency at the end of the year amounted to approximately \$761 million. Other information concerning this fund has been addressed in the discussion of the Agency's business-type activities.

Capital Assets and Debt Administration

Primary changes in capital amounts during the year were related to the transfer of intangible assets from the South Carolina Department of Commerce.

Long-term liabilities fell into three areas as follows:

- Advances from the federal government;
- Capital leases payable; and
- Accrued compensated absences and related benefits.

Long-term liabilities are primarily comprised of the advances from the Federal Unemployment Account and accrued compensated absences.

More detailed information about the Agency's capital assets is presented in Note 6 to the financial statements. More detailed information about the Agency's debt administration is presented in Notes 7, 8 and 14 to the financial statements.

Economic Factors and Next Year's Rate

The Trust Fund is currently borrowing funds to pay claimants in 2011. The tax rates for 2011 have been set to raise sufficient revenue in 2011 to cover projected benefit costs, estimated loan repayments, and interest owed on outstanding federal advances. The State anticipates being able to pay off all outstanding debt to the federal government by the year 2015 based on current economic projections and enacted legislation. The Trust Fund's net assets are projected to slowly increase as additional loans are repaid in each year and revenues are sufficient to meet projected obligations. The benefit period continues to be a maximum of 99 weeks of which the Trust Fund is typically used to pay only the first 26.

Request for Information

This management's discussion and analysis is designed to provide a general overview of the South Carolina Department of Employment and Workforce's finances for all those with interest in the Agency'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 Finance, 1550 Gadsden Street, Post Office Box 995, Columbia, South Carolina 29202.

South Carolina Department of Employment and Workforce
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 7,457,265	\$ 71,232,244	\$ 78,689,509
Assessments receivable, net	1,642,406	49,409,725	51,052,131
Benefit overpayments receivable, net	—	6,664,877	6,664,877
Due from reimbursable employers, net	—	1,576,638	1,576,638
Internal balances	8,222,440	(8,222,440)	—
Intergovernmental receivables, net:			
Federal	11,353,250	26,555,731	37,908,981
State agencies	3,225,600	4,270,715	7,496,315
Local governments	—	3,942,077	3,942,077
Other states	—	2,405,088	2,405,088
Prepaid items	254,420	—	254,420
Total current assets	<u>32,155,381</u>	<u>157,834,655</u>	<u>189,990,036</u>
Non-current assets:			
Capital assets, net of accumulated depreciation	21,780,503	—	21,780,503
Total assets	<u>\$ 53,935,884</u>	<u>\$ 157,834,655</u>	<u>\$ 211,770,539</u>
Liabilities:			
Current liabilities:			
Benefits payable	\$ —	\$ 20,684,580	\$ 20,684,580
Accounts payable	12,752,571	—	12,752,571
Tax withholdings payable	—	83,713	83,713
Contributions payable	—	6,808,134	6,808,134
Accrued salaries and related benefits	4,869,275	—	4,869,275
Intergovernmental payables:			
Other states	—	4,743,719	4,743,719
Current portion of capital leases payable	106,444	—	106,444
Current portion of accrued compensated absences and related benefits	2,771,712	—	2,771,712
Total current liabilities	<u>20,500,002</u>	<u>32,320,146</u>	<u>52,820,148</u>
Non-current liabilities:			
Advances from federal government	—	886,662,352	886,662,352
Non-current portion of capital leases payable	120,439	—	120,439
Accrued compensated absences and related benefits	1,030,123	—	1,030,123
Total non-current liabilities	<u>1,150,562</u>	<u>886,662,352</u>	<u>887,812,914</u>
Total liabilities	<u>21,650,564</u>	<u>918,982,498</u>	<u>940,633,062</u>
Net Assets (Deficit):			
Invested in capital assets, net of related debt	21,553,620	—	21,553,620
Unrestricted	10,731,700	(761,147,843)	(750,416,143)
Total net assets (deficit)	<u>32,285,320</u>	<u>(761,147,843)</u>	<u>(728,862,523)</u>
Total liabilities and net assets	<u>\$ 53,935,884</u>	<u>\$ 157,834,655</u>	<u>\$ 211,770,539</u>

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

South Carolina Department of Employment and Workforce
Statement of Activities
Year ended June 30, 2010

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, workforce development and training services	\$ 131,378,094	\$ 7,468,825	\$ 123,964,581	\$ 55,312	\$ —
Business-type activities:					
Unemployment benefits	<u>2,027,711,376</u>	<u>302,762,139</u>	<u>1,281,068,369</u>	<u>—</u>	<u>(443,880,868)</u>
Totals	<u>\$ 2,159,089,470</u>	<u>\$ 310,230,964</u>	<u>\$1,405,032,950</u>	<u>55,312</u>	<u>(443,880,868)</u>
		General revenues:			
				512,778	—
				(23,026)	—
				32,760	—
				(183,650)	—
			Total general revenue (expenses) and transfers	<u>338,862</u>	<u>—</u>
			Increase (decrease) in net assets	394,174	(443,880,868)
			Net assets (deficit) – beginning	<u>31,891,146</u>	<u>(317,266,975)</u>
			Net assets (deficit) – ending	<u>\$ 32,285,320</u>	<u>\$ (761,147,843)</u>

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

South Carolina Department of Employment and Workforce
 Balance Sheet
 Governmental Fund – Special Revenue
 June 30, 2010

Assets:	
Cash and cash equivalents	\$ 7,457,265
Assessments receivable, net	1,642,406
Intergovernmental receivables:	
Federal	11,353,250
State agencies	3,225,600
Interfund receivable – unemployment compensation fund	8,222,440
Prepaid items	<u>254,420</u>
 Total assets	 <u>\$ 32,155,381</u>
 Liabilities and Fund Balances:	
Liabilities:	
Accounts payable	\$ 12,752,571
Accrued salaries and related benefits	<u>4,869,275</u>
 Total liabilities	 <u>17,621,846</u>
 Fund balances:	
Reserved:	
Reed Act expenditures	210,000
Prepaid items	254,420
South Carolina Occupational Information Coordinating Committee	223,255
Unreserved fund balances:	
Undesignated fund balance	<u>13,845,860</u>
 Total fund balances	 <u>14,533,535</u>
 Total liabilities and fund balances	 <u>\$ 32,155,381</u>

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

South Carolina Department of Employment and Workforce
 Balance Sheet
 Governmental Fund – Special Revenue (Continued)
 June 30, 2010

Reconciliation to the Statements of Net Assets:

Fund balances – governmental funds		\$ 14,533,535
<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	\$ (226,883)	
Accrued compensated absences	<u>(3,801,835)</u>	(4,028,718)
<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>21,780,503</u>
Net assets – governmental activities		<u>\$ 32,285,320</u>

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

South Carolina Department of Employment and Workforce
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund – Special Revenue
Year ended June 30, 2010

Revenues:	
Employer tax contingency assessments	\$ 6,202,154
Employer tax penalties and interest	1,188,189
User fees	17,380
Intergovernmental:	
Federal	101,048,336
State of South Carolina	512,778
Local	22,916,244
Other	61,102
Total Revenues	<u>131,946,183</u>
 Expenditures:	
Employment and training administration	60,614,806
Contingency assessments	5,567,027
Penalties and interest	1,383,571
Workforce Investment Act	32,445,742
Trade Adjustment Assistance	3,401,109
Other federal programs	5,446,271
Other non-federal programs	22,231,547
Parking	54,274
Occupational Information Coordinating Committee	529,129
Capital outlay	1,298,702
Debt service:	
Principal	102,094
Interest	11,810
Total Expenditures	<u>133,086,082</u>
Deficiency of Revenues Under Expenditures	<u>(1,139,899)</u>
Other Financing Uses:	
Indirect costs remitted to General Fund of the State	<u>(183,650)</u>
Total Other Financing Uses	<u>(183,650)</u>
Net Change in Fund Balance	(1,323,549)
Beginning Fund Balance	<u>15,857,084</u>
Ending Fund Balance	<u>\$ 14,533,535</u>

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

South Carolina Department of Employment and Workforce
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund – Special Revenue (Continued)
Year ended June 30, 2010

Reconciliation to the Statement of Activities:

Expenditures and other financing uses over revenues and other financing sources for the governmental fund	\$ (1,323,549)
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	1,298,702
Capital assets contributed to the Agency increase net assets in government-wide statements, but are not financial resources and, therefore are not reported in the governmental funds. This is the value of capital assets contributed in the current year.	32,760
Depreciation of capital assets is reported as an expense in the statement of activities	(616,698)
Outlays for construction in progress are reported in the governmental funds as expenditures. However, in the statements of activities the costs are allocated when construction in progress becomes a capital asset. This is the amount of construction in progress costs recognized in prior years for projects that were abandoned in the current year.	(23,026)
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 leases payable	102,094
Net decrease in accrued compensated absences is reported as an increase of expenses in the statement of activities	<u>923,891</u>
Increase in net assets	<u><u>\$ 394,174</u></u>

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

South Carolina Department of Employment and Workforce
Statement of Net Assets
Proprietary Fund
June 30, 2010

Assets:

Current assets:

Cash and cash equivalents	\$ 71,232,244
Assessments receivable, net	49,409,725
Benefit overpayments receivable, net	6,664,877
Due from reimbursable employers, net	1,576,638
Intergovernmental receivables, net:	
Federal	26,555,731
State agencies	4,270,715
Local governments	3,942,077
Other states	2,405,088
Total assets	\$ 166,057,095

Liabilities:

Current liabilities:

Benefits payable	\$ 20,684,580
Tax withholdings payable	83,713
Contributions payable	6,808,134
Intergovernmental payables:	
Other states	4,743,719
Interfund payable – Agency	8,222,440
Total current liabilities	40,542,586

Advances from federal government	886,662,352
Total liabilities	927,204,938

Net Deficit Assets:

Unrestricted	(761,147,843)
Total liabilities and net assets	\$ 166,057,095

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

South Carolina Department of Employment and Workforce
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Year ended June 30, 2010

Operating Revenues:	
Assessments	\$ 282,915,570
Reimbursement of unemployment compensation benefits from employers	6,396,890
Benefit overpayment recoveries	13,449,679
Intergovernmental:	
Federal	1,235,188,534
State agencies	9,510,740
Other states	16,994,946
Local governments	19,374,149
Total operating revenues	<u>1,583,830,508</u>
 Operating Expenses:	
Unemployment compensation benefits	<u>2,027,711,376</u>
Total operating expenses	<u>2,027,711,376</u>
Operating loss	<u>(443,880,868)</u>
Changes in net assets	(443,880,868)
Total net deficit – beginning	<u>(317,266,975)</u>
Total net deficit – ending	<u>\$ (761,147,843)</u>

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

South Carolina Department of Employment and Workforce
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2010

Cash flows used by operating activities:	
Cash received from assessments	\$ 277,077,463
Cash received from employers	6,645,141
Cash received from benefit overpayment recoveries	14,425,092
Cash received from federal, state and local agencies	1,268,511,624
Benefits paid	(2,041,676,029)
Refund overpayment of assessments	(3,064,089)
Net cash used by operating activities	(478,080,798)
 Cash flows provided by non-capital financing activities:	
Proceeds from advances from federal government	541,780,847
Net cash provided by non-capital financing activities	541,780,847
Net increase in cash	63,700,049
Cash and cash equivalents – beginning	7,532,195
Cash and cash equivalents – ending	\$ 71,232,244
 Reconciliation of operating loss to net cash provided (used) by operating activities:	
Operating loss	\$ (443,880,868)
Net changes in assets and liabilities:	
(Increase) in assessments receivable	(7,655,688)
Decrease in benefit overpayments receivable	975,413
Decrease in due from reimbursable employers	248,251
(Increase)/decrease in intergovernmental receivables:	
Federal	(12,822,302)
State agencies	(1,560,039)
Local governments	(232,692)
Other states	2,058,289
Increase in benefits payable	12,888,567
Decrease in tax withholdings payable	(22,739,048)
Decrease in contributions payable	(1,998,472)
Decrease in interfund payable – Agency	(1,246,508)
Decrease in intergovernmental payable:	
Other states	(2,115,701)
Net cash used by operating activities	\$ (478,080,798)

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

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 1. Liquidity

To date, the South Carolina Department of Employment and Workforce (the “Agency”) has generated substantial operating losses and has been required to use most of its cash resources to fund its operations. Due to the increasing unemployment rate and the resulting increased amount of unemployment benefits, and the increased length of time over which the benefits are paid, the Agency has been required to obtain advances from the Federal Unemployment Fund of \$541,780,847 during the year ended June 30, 2010, with a total balance of \$886,662,352 at June 30, 2010.

Comprehensive changes to the State’s Unemployment Insurance (“UI”) tax structure have been implemented and specifically designed to assist in putting the Agency back on a path to solvency. State unemployment tax rates for future years will be structured to raise revenues that more accurately address the demands on the Agency and the changing economic environment in which the Agency operates. While the Agency remains in federal loan status, required tax revenues will consist of estimated benefit payouts for the subsequent year, an amount required to repay the principal on all outstanding federal advances over five years, and an additional surcharge designated to pay accrued interest on outstanding advances. When the expected level of state UI benefits begins to decrease, a greater proportion of state UI tax revenues will be available to repay the advanced funds.

Management plans to continue to borrow from the federal government to fund its deficits for the foreseeable future. The federal government has not established a maximum amount that the Agency can borrow. See Note 14 for further information about the advances.

Note 2. Summary of Significant Accounting Policies

Reporting Entity

The accounting policies of the Agency 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 Agency’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 Agency has determined it has no component units. The primary government is the State of South Carolina. The State has determined that the Agency is a part of the primary government. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

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

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or sets 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 Agency 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. On March 30, 2010, the Governor of South Carolina signed into law Act 159 restructuring the Agency into a State cabinet agency under the Governor. The Commission merged with the Workforce Development division of the South Carolina Department of Commerce to become the South Carolina Department of Employment and Workforce. Act 159 designated the Department of Employment and Workforce as the entity responsible for the administration of Workforce Investment Act ("WIA") and Trade Adjustment Assistance ("TAA") activities and for carrying out all functions necessary to comply with WIA and the Trade Act of 1974, as amended by the Trade and Globalization Adjustment Assistance Act of 2009. As a result, the Workforce Investment Act division transferred certain intangible assets, equipment and furniture to the Department of Employment and Workforce. These assets and related accumulated depreciation are reflected in the accompanying financial statements as contributed capital in the amount of \$32,760. The administrative costs of the Agency 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 UI claimants. The Employment Service Program is affiliated with the U.S. Employment Service. In addition, the Agency maintains a comprehensive Labor Market Information Program.

The Agency 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 Agency. The Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditures of total funds.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Governmental Funds

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 Agency reporting entity defined above.

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 Agency'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 Agency 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 UI, 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.

Unemployment Compensation Modernization Incentive Payments ("Modernization") – This is a special transfer of funds from the Department of Labor to the Agency's account at the Federal Unemployment Trust Fund to be used for certain administrative purposes. Administrative purposes include the improvement of unemployment compensation benefit and tax operations, including responding to increased demand for unemployment compensation and staff-assisted reemployment services for unemployment compensation claimants.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Governmental Funds (continued)

South Carolina Occupational Information Coordinating Committee (“SCOICC”) – The SCOICC was established in 1977 as a consortium of agencies mandated by the Carl D. Perkins Vocational Education Act. 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 education programs and the employment and training programs at national, state, and local levels. These functions have primarily been delivered by the on-line Career Information System referred to as the South Carolina Occupational Information System (“SCOIS”). SCOIS also develops printed career development products for schools grade K-12. The SCOICC is charged with giving special attention to the career and educational needs of individuals involved in career decision making. The SCOIS system delivers up-to-date occupational, educational, employment and career guidance information to career decision makers and job seekers. The SCOICC is funded by an appropriation from the State of South Carolina to support its operations. All school districts in South Carolina have free access to the SCOIS Career System.

Workforce Investment Act (“WIA”) – WIA is a federal program administered in South Carolina through the Workforce Division of the Department of Employment and Workforce and through 12 Workforce Investment areas throughout the State. A statewide board appointed by the Governor and comprised of business owners, state government officials, educators and private citizens guides policy for all WIA-funded programs. WIA programs help businesses meet their need for skilled workers and provide individuals with access to training that helps them prepare for work.

Trade Adjustment Assistance (“TAA”) - TAA is a federal program of the United States Department of Labor (USDOL) that provides reemployment services to workers who have been adversely impacted by increased imports or by a shift in production or services to another country. The goal of the TAA program is to help workers become reemployed in a suitable job as quickly as possible.

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 Agency’s proprietary fund is from assessments to employers and reimbursement from the federal government for the payment of unemployment benefits. The Agency’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 of 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.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Proprietary Funds (continued)

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 and extended benefits have been exhausted. It is funded by the federal government.

Reemployment Trade Adjustment Assistance (“RTAA”) – Program implemented in fiscal year 2010 as a wage option available to older workers under the TAA program to eventually replace ATTA. Consists of monies paid to individuals age 50 + who had lost their jobs due to imports but are now working again at a lower salary. Recipients are paid 50 % of the difference in their old and new salary. It is funded by the federal government.

Emergency Unemployment Compensation Tier I (“EUC 08”) – The Emergency Unemployment Compensation (“EUC”) program, created in June 2008 and expanded in November 2008, provides up to 13 weeks of benefits to eligible jobless workers in all states and up to 20 additional weeks of benefits in states with high unemployment. It was set to expire on March 31, 2009. The ARRA extended the date for new EUC claims to December 31, 2009, with payments on those claims ending May 31, 2010. The Unemployment Compensation Extension Act of 2010 extended the date for new EUC claims to November 30, 2010, with payments on those claims ending April 30, 2011. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the phase out period and expiration date of the EUC 08 program. The end of the period during which an individual may initially establish eligibility for EUC 08 is extended to weeks of unemployment ending on or before January 3, 2012. The last effective date for EUC 08 is December 28, 2011. For those on Saturday weeks, the last effective date for EUC 08 is December 25, 2011. The last payable week for EUC08 is June 9, 2012. It is funded by the federal government and partially funded with ARRA funds.

Emergency Unemployment Compensation Tier II (“EUC 2”) – This is an expansion of the Emergency Unemployment Compensation Tier I for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims is through December 31, 2010 with payments on those claims ending on May 31, 2011. The latest extension for EUC states that the claimant must exhaust the first, second, and third Tiers on or before January 3, 2012 to qualify for the next higher EUC tier. The last effective date for EUC 2 is January 4, 2012. For those on Saturday weeks, the last effective date for a new Tier is January 1, 2012. The last payable week for EUC 2 is June 9, 2012. It is funded by the federal government and partially funded with ARRA funds.

Emergency Unemployment Compensation Tier, wk 14 (“EUC 2 wk 14”) – This is the 14th week of EUC2 which was granted subsequent to EUC3 and EUC4 and allows an extra week of EUC2 claims to be paid to eligible claimants. The 14th week is a part of Tier 2 but cannot be paid until Tier 3 is exhausted. It is funded by the federal government.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Proprietary Funds (continued)

Emergency Unemployment Compensation Tier III (“EUC 3”) – This is an additional 13- week expansion of the EUC for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims is through November 30, 2010 with payments on those claims ending April 30, 2011. The latest extension for EUC states that the claimant must exhaust the first, second, and third Tiers on or before January 3, 2012 to qualify for the next higher EUC Tier. The last effective date for EUC 3 is January 4, 2012. For those on Saturday weeks, the last effective date for a new Tier is January 1, 2012. The last payable week for EUC 3 is June 9, 2012. It is funded by the federal government.

Emergency Unemployment Compensation Tier IV (“EUC 4”) – This is an additional 6- week expansion of the EUC for individuals who had no rights to regular, extended, or additional benefits under State law. The extension for new EUC claims is through November 30, 2010 with payments on those claims ending April 30, 2011. It is funded by the federal government. The latest extension for EUC states that the claimant must exhaust the first, second, and third Tiers on or before January 3, 2012 to qualify for the next higher EUC Tier. The last effective date for EUC 4 is January 4, 2012. For those on Saturday weeks, the last effective date for a new Tier is January 1, 2012. The last payable week for EUC 4 is June 9, 2012.

All EUC Tiers (“EUC08, EUC 2, EUC 2 14th week, EUC 3, and EUC 4”) - No payments may be made for any week of unemployment beginning after June 9, 2012. For those of Saturday weeks, the last payable claim-week ends June 9, 2012. If the week begins on June 9, 2012, the very last payable claim-week ends June 15, 2012.

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

Disaster Unemployment Assistance (“DUA”) - This program provides unemployment benefits to individuals who have lost their jobs due to a disaster, such as, hurricane or flood. It is funded by the federal government.

Extended Benefits (“EB”) - This is a permanent program to pay benefits to unemployed workers who are no longer eligible for other types of unemployment claims during times of high unemployment. This program is available when the state insured unemployment rate reaches a predetermined level and stops when the level drops below this predetermined level. The minimum time period for these benefits is a thirteen week period. All benefits which are not reimbursable by other states are funded by the federal government and partially funded with ARRA funds.

Federal Additional Compensation (“FAC”) - This provides a \$25 weekly supplement to the unemployment compensation of eligible claimants. It is funded by federal government through stimulus funds under ARRA. The June 2, 2010 end date for new FAC claims was not extended under the Unemployment Compensation Extension Act of 2010.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements

The financial statements of the Agency 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. 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 Agency 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 Agency 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.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Non-exchange Transactions

Non-exchange transactions involving financial or capital resources are transactions in which the Agency 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 Agency 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.

Budget Policy

The Agency is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Agency. 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 Agency's budget is not presented for comparison purposes because GASB 34 requires only major special revenue funds of the State to present such information. Since the Agency 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 Agency, 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 3.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

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 Agency 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, and interest and collection charges, net of the allowance for uncollectibles.

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

Taxes and contingency assessments for a quarter are due on or before the end of the month following the close of the quarter. Amounts not paid by such date are considered delinquent and the Agency is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Agency is directed to initiate a collection notification process consisting of follow-up notices, telephone calls, and ultimately the issuance of 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 Agency participates. Revenues and related receivables are recognized at the time and to the extent that allowable expenditures are incurred under such programs.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Receivables (continued)

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 Agency.

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 Agency 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.

Allowance for Uncollectibles

The allowance for uncollectibles is computed based upon an estimate of collections with all receivables over 24 months old being allowed for as doubtful accounts.

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 Agency 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 Agency 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.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Compensated Absences

Generally all full-time equivalent 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 Agency 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 Agency 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 Agency and services provided by other State agencies. During the period July 1, 2009 through June 30, 2010, the Agency recovered approximately \$14,122,000 of indirect cost from the indirect cost agreement. Of this amount, approximately \$184,000 was remitted to the State and approximately \$13,939,000 was retained by the Agency. Indirect cost recoveries are reported as federal revenues.

Interfund Transactions

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

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.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Contributions Payable

Contributions payable includes amounts received from employers in excess of current unemployment tax liabilities. The Agency 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.

Net Assets / Fund Balances

The Agency 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."

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Net Assets / Fund Balances (continued)

At June 30, 2010, two of the Agency's reserved balances are as follows:

Reed Act – The Agency has no funds available under the Reed Act in the proprietary funds. During 2010, due to the Trust Fund becoming insolvent, all funds remaining were used to pay benefits. 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. During fiscal year 2010, \$95,000 was spent from the previously appropriated funds and \$210,000 is 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 Agency 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 2010 Appropriation Act Proviso 67.2, all user fees not expended in fiscal year 2010 may be carried forward to fiscal year 2011 for use in the SCOICC program. As of June 30, 2010, \$223,255 was carried forward and is reported as a reserved fund balance.

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, 2010 is composed of the following:

Cash on hand	\$ 1,500
Deposits held by State Treasurer	14,223,258
Deposits held by U.S. Treasury	59,403,469
Other deposits	5,061,282
Totals	<u>\$ 78,689,509</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, 2010, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or its agent in the State's name.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 3. Deposits (continued)

Deposits held by State Treasurer (continued)

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. However, individual states are not due any interest while carrying federal unemployment account advances on their books.

Other Deposits

Custodial credit risk for deposits is the risk that in the event of a depository financial institution's failure, the Agency's deposits may not be returned or the Agency 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 Agency 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 Agency's name.

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

Note 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 and unemployment compensation modernization funds. Amounts due to the Agency as of June 30, 2010 are as follows:

Penalty and interest loan	\$ 629,708
Special administration funds	4,901,301
Contingency assessments	2,478,929
Penalty and interest	212,502
Total	<u>\$ 8,222,440</u>

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 5. Receivables

The receivable balances at June 30, 2010 and the related amounts for allowances for uncollectibles are as follows:

	Receivables	Allowances for Uncollectibles	Net Receivables
Special revenue fund:			
Assessments receivable:			
Contingency	\$ 1,354,520	\$ 140,587	\$ 1,213,933
Penalty and interest	2,821,140	2,392,667	428,473
Totals	\$ 4,175,660	\$ 2,533,254	\$ 1,642,406
Intergovernmental receivables:			
Federal	\$ 11,353,250	\$ —	\$ 11,353,250
State agencies	3,225,600	—	3,225,600
Proprietary fund:			
Assessments receivable	\$ 57,358,179	\$ 7,948,454	\$ 49,409,725
Due from reimbursable employers	1,680,234	103,596	1,576,638
Intergovernmental receivables			
Local governments	3,979,460	37,383	3,942,077
Other states	2,405,088	—	2,405,088
State agencies	4,270,715	—	4,270,715
Federal	26,555,731	—	26,555,731
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	9,386,239	3,333,083	6,053,156
Federal employees (UCFE)	42,371	26,546	15,825
Ex-servicemen (UCX)	73,791	41,809	31,982
Trade readjustment compensation (TRA)	109,510	35,013	74,497
Emergency Unemployment Compensation (EUC)	5,301,065	4,811,648	489,417
Totals	\$ 14,912,976	\$ 8,248,099	\$ 6,664,877

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 6. Capital Assets

A summary of capital assets activity for the year ended June 30, 2010 is as follows:

	Balances June 30, 2009	Increases	Decreases	Balances June 30, 2010
Capital assets not being depreciated:				
Land and land improvements	\$ 3,419,379	\$ —	\$ —	\$ 3,419,379
Construction in progress	23,026	—	(23,026)	—
Total capital assets not being depreciated	3,442,405	—	(23,026)	3,419,379
Other capital assets:				
Buildings and improvements	30,593,198	—	—	30,593,198
Equipment and furniture	4,811,240	1,284,993	(891,039)	5,205,194
Vehicles	371,674	19,717	(15,667)	375,724
Intangible assets	3,575,905	1,497,879	—	5,073,784
Total other capital assets	39,352,017	2,802,589	(906,706)	41,247,900
Less accumulated depreciation for				
Buildings and improvements	13,601,359	752,208	—	14,353,567
Equipment and furniture	4,510,471	593,763	(833,760)	4,270,474
Vehicles	315,914	30,768	(15,667)	331,015
Intangible assets	3,277,913	653,807	—	3,931,720
Total accumulated depreciation	21,705,657	2,030,546	(849,427)	22,886,776
Other capital assets, net	17,646,360	772,043	(57,279)	18,361,124
Total capital assets, net	\$ 21,088,765	\$ 772,043	\$ (80,305)	\$ 21,780,503

Depreciation expense was approximately \$617,000. Total outstanding commitments on projects that will not be capitalized were approximately \$96,000.

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance, July 1, 2009	Additions	Reductions	Balance, June 30, 2010	Due within one year
Capital lease payable	\$ 328,977	\$ —	\$ (102,094)	\$ 226,883	\$ 106,444
Accrued compensated absences and related benefits	4,725,726	1,933,244	(2,857,135)	3,801,835	2,771,712
	\$ 5,054,703	\$ 1,933,244	\$ (2,959,229)	\$ 4,028,718	\$ 2,878,156

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 8. Leases

During 2010 the Agency paid monthly payments of \$14,066 including principal and interest at 4.18% maturing in fiscal year 2013 for two capital leases for printers. 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 \$257,000 as of June 30, 2010. The current year's amortization expense of approximately \$103,000 on the capitalized lease assets is included in depreciation expense. Total payments on the capital leases for the year ended June 30, 2010 were \$113,904 consisting of principal of \$102,094 and interest of \$11,810.

The Agency 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 2010 through 2015. 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 Agency is responsible for maintenance on most leased property. Rental expenditures for office space and equipment were approximately \$1,321,000 for the year ended June 30, 2010.

The following is a schedule by years of future minimum rental payments required under the capital lease and the noncancelable operating lease agreements with remaining terms at June 30, 2010 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
	2011	\$ 113,904	\$ 84,444
	2012	113,904	46,329
	2013	9,492	42,864
	2014	—	42,864
	2015	—	42,864
Total minimum lease payments		237,300	\$ 259,365
Less: interest		(10,417)	
Present value of minimum lease payments		\$ 226,883	

Note 9. Pension Plans

The majority of employees of the Agency are covered by a retirement plan through the South Carolina Retirements 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 full-time equivalent 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 adjustments, 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.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 9. Pension Plans (continued)

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 a result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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

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

Effective July 1, 2006, employees participating in the SCRS were required to contribute 6.50% of all compensation. Effective July 1, 2008, the employer contribution rate became 12.74%, which included a 3.50% surcharge to fund retiree health and dental insurance coverage. The Agency's actual contributions to the SCRS for the years ended June 30, 2010, 2009, and 2008 were approximately \$5,351,400, \$4,870,600, and \$4,634,000, respectively, and equaled the required contributions of 9.24% (excluding the surcharge) for each year. Also, the Agency paid employer group life insurance contributions of approximately \$63,000, \$57,000, and \$56,000 at the rate of .15% of compensation for the current fiscal years ended June 30, 2010, 2009, and 2008 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.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.50% of all compensation. Effective July 1, 2008, the employer contribution rate became 14.15% which, as for the SCRS, included the 3.50% surcharge. The Agency's actual contributions to the PORS for the years ended June 30, 2010, 2009 and 2008, were approximately \$21,000, \$16,000, and \$15,000, respectively, and equaled the required contributions of 10.65% (excluding the surcharge) for each year. Also, the Agency paid employer group-life insurance contributions of approximately \$300 and accidental death insurance contributions of approximately \$300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 9. Pension Plans (continued)

New 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 benefits through contributions to a 401(a) with one of four approved vendors. The State assumes no liability for this plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24% plus the retiree surcharge of 3.50% from the employer in fiscal year 2010.

For the fiscal year, total contributions requirements to the ORP were approximately \$33,000 (excluding the surcharge) from the Agency as employer and approximately \$38,000 from its employees as plan members.

Employer contributions in the amount of 7.74% were remitted to the Retirement Division of the State Budget and Control Board. Also, the Agency paid employer group life insurance contributions of approximately \$870 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 Agency 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 does not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Agency’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 Agency’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 Agency recognizes no contingent liability for unfunded costs associated with participation in the plans.

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

Note 10. 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 Agency 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).

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 25 years of service for 100% employer funding and 15 through 24 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 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment 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 for the portion funded through the pension surcharge and provided from the 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, 3.50% of annual covered payroll for 2010 and 2009. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Agency paid approximately \$1,685,000 and \$1,467,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2010 and 2009, respectively. BLTD benefits are funded through a person's 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, 2010 and 2009. The Agency recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$4,843,000 and \$3,856,000 for the years ended June 30, 2010 and 2009, 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.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 11. Deferred Compensation Plans

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

Note 12. Risk Management

The Agency 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 Agency 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 Agency);
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 Agency 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.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 12. Risk Management (continued)

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

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

The Agency 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 Agency'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 13. Transactions with State Agencies

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

The Agency was required to remit \$183,650 of indirect cost recoveries to the General Fund of the State in payment of services received from State agencies including maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History.

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

The Agency had financial transactions with various State agencies during the fiscal year. Payments were made to divisions of the SBCB 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 related party transactions with State agencies in the governmental fund – special revenue are as follows:

	2010
Budget and Control Board	\$5,923,158
Comptroller General	1,552,358
Department of Commerce	399,743
Department of Revenue and Taxation	301,031
Legislative Audit Council	210,731
State Accident Fund	169,660
University of South Carolina	133,666
Other	125,989
	<u>\$ 8,816,336</u>

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 13. Transactions with State Agencies (continued)

In the governmental fund - special revenue, the Agency received \$512,778 from State appropriations during the year for expenditures of the SCOICC. In the proprietary fund, the Agency recorded revenues of approximately \$9,510,000 for reimbursements of benefits paid to State employees and was due approximately \$4,270,000 for these benefits at year-end.

Note 14. Advances from Federal Government

On December 26, 2008, the Fund began to obtain advances from the federal government in order to pay unemployment benefits due to the exhaustion of all other funds to pay benefits. These advances were obtained due to the significant increase in unemployment benefits resulting from a significant increase in the unemployment rate in the State and the extension of the period by the Federal government that benefits are paid to claimants. Section 1201 of Title XII of the Social Security Act provides that an advance from the Federal Unemployment Fund to the account of a state's unemployment trust fund is allowed if the governor of a state applies for payment for any three-month period. Only amounts actually drawn down for benefit payments must be repaid. At June 30, 2010, the outstanding balance of these advances was approximately \$887 million. In order to avoid federal credit reductions, principal payments are required to be made on or before November 9, 2011, with interest accruing at the interest rate of approximately 4% beginning on January 1, 2011. The loan is considered noncurrent since the first principal payment is due one or more years after June 30, 2010.

Under Section 1201 of Title XII of the Social Security Act, if a balance of advances to a state is outstanding on January 1, in two consecutive years and not fully repaid prior to November 10 of the second year, employers subject to contributions under such state's unemployment compensation law will be subject to additional federal unemployment taxes determined by a formula of reductions in credit against the tax. Such credit reduction will apply beginning with the second consecutive January 1 as of the beginning of which there is a balance of such advances. The credit reductions, pursuant to Section 3302(c) (2) of FUTA, increase employers' federal tax liability each year. The amount equal to the reduced credits, excluding penalty and interest, will be applied to reduce the state's balance of advances.

A summary of changes in advance for the year ended June 30, 2010 is as follows:

	Balance, July 1, 2009	Additions	Reductions	Balance, June 30, 2010	Due within one year
Advances from federal government	\$ 344,881,505	\$ 541,780,847	\$ —	\$ 886,662,352	\$ —

Note 15. Contingencies

Federal Grants – The various programs administered by the Agency for fiscal years June 30, 2010 and years prior to that 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 Agency believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Agency.

Litigation – The Agency 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 Agency. Therefore, an estimated liability has not been recorded.

South Carolina Department of Employment and Workforce

Notes to Financial Statements

Note 15. Contingencies (continued)

Tax Withholdings – During fiscal year 2009 the Trust Fund remitted late certain federal and State of South Carolina tax withholdings and did not remit certain withholding taxes until after June 30, 2009. The amounts paid are reflected as reductions in tax withholdings payable in the accompanying statement of net assets. The penalties and interest paid to the South Carolina Department of Revenue during 2010 approximately \$280,000 as a result of the 2009 failure to timely deposit state tax withholdings. All penalties and interest due to the IRS for federal tax withholdings were abated subsequent to year-end.

Note 16. Subsequent Events

The balance of the advance from federal government is \$971,952,956 at the date of the audit report.

Subsequent to year-end on July 22, 2010 Congress passed P.L. 111-205 (*Unemployment Compensation Extension Act of 2010*), which extended the end date for the EUC program for new entrants from June 2, 2010 to November 30, 2010. This act also authorized continued general revenue funding of EUC benefits and administrative costs and extended the end date for 100% federal funding of EB and expanded EB eligibility provisions from June 2, 2010 to December 1, 2010.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was passed on December 16, 2010, and extended the phase out period and expiration date of the EUC program. The end of the period during which an individual may initially establish eligibility for the First Tier of EUC 08 is extended to weeks of unemployment ending on or before January 3, 2012. The last effective date for EUC 08 Tier 1 is December 28, 2011. For those on Saturday weeks, the last effective date for Tier 1 is December 25, 2011. The last payable week for EUC08 Tier 1 is June 9, 2012. It is funded by the federal government and partially funded with ARRA funds.

Subsequent to year-end, on August 10, 2010, \$97,459,490 was received in UI modernization incentive funds from the U.S. Department of Labor. The funding stems from various changes made to state unemployment insurance law that will make benefits available to more people, including part-time workers and those who quit work for compelling family reasons. South Carolina qualified for the funds available under the American Recovery and Reinvestment Act. The additional amounts will assist in offsetting the need to obtain additional advances from the federal government until the fourth quarter of the 2010 calendar year.

**South Carolina Department of Employment and Workforce
Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2010

Federal Grantor/Program Title	Federal CFDA Number	Total Federal Expenditures	Passed Through to Sub- Recipients
Direct Programs:			
U.S. Department of Labor			
Labor Force Statistics	17.002	\$ 1,253,369	\$ —
Employment Service*	17.207	11,363,961	—
ARRA - Employment Service*	17.207	4,152,539	—
Unemployment Insurance	17.225	358,408,346	—
ARRA - Unemployment Insurance	17.225	922,868,552	—
Federal Unemployment Account Advance	17.225	541,780,847	—
Trade Adjustment Assistance – Workers	17.245	3,401,109	3,287,273
Workforce Investment Act – Adult **	17.258	6,335,923	6,127,250
ARRA – Workforce Investment Act – Adult**	17.258	2,834,642	2,834,642
Workforce Investment Act – Youth**	17.259	7,340,714	7,035,545
ARRA – Workforce Investment Act – Youth**	17.259	2,212,936	2,212,936
Workforce Investment Act – Dislocated Workers**	17.260	8,301,898	8,061,252
ARRA - Workforce Investment Act – Dislocated Workers**	17.260	4,891,108	4,891,108
Work Incentives Grant	17.266	301,060	—
Quick Skills SC Project Incentive Grant	17.267	227,461	227,461
Work Opportunity Tax Credit	17.271	199,914	—
Labor Certification for Alien Workers	17.272	105,528	—
Disabled Veterans Outreach Program (DVOP)*	17.801	1,298,249	—
Local Veterans Employment Representative (LVER)*	17.804	1,705,504	—
Homeless Veterans Reintegration Program	17.805	5,473	—
Technical Assistance/Training	17.999	1,183,675	—
Totals		\$ 1,880,172,808	\$34,677,467

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

Year Ended June 30, 2010

NOTE 1 – BASIS OF PRESENTATION

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

Loan Program

The amount reported in the accompanying Schedule of Expenditures of Federal Awards for the loan program listed below represents federal advances during the year ended June 30, 2010 and 2009 for unemployment benefits.

Federal Unemployment Account Advance (CFDA 17.225)

This loan is funded by the federal government through the Federal Unemployment Trust Fund and is used by the Agency to pay unemployment benefits. Loans made during fiscal year 2010 and 2009 were \$541,780,847 and \$344,881,005, respectively and the loan balance at June 30, 2010 was \$886,662,352.

NOTE 2 – BASIS OF ACCOUNTING

The financial information shown in the Schedule of Expenditures of Federal Awards reflects amounts recorded by the Agency during its fiscal year July 1, 2009 through June 30, 2010 except for CFDA numbers 17.258, 17.259, and 17.260 which reflect amounts from the period of April 1, 2010 through June 30, 2010. Prior to April 1, 2010, these programs were recorded by the South Carolina Department of Commerce and audited under the South Carolina statewide single audit. 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 Management
South Carolina Department of Employment and Workforce
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 Department of Employment and Workforce (the “Agency”) as of and for the year ended June 30, 2010, which collectively comprise the Agency’s basic financial statements and have issued our report thereon dated May 23, 2011. 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 Agency’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency’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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as items 2010-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as items 2010-1 to 2010-4 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 Agency'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 Agency'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, management of the Agency, 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 and Company LLP

Columbia, South Carolina

**That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

The Office of the State Auditor and Management
South Carolina Department of Employment and Workforce
Columbia, South Carolina

Compliance

We have audited the compliance of South Carolina Department of Employment and Workforce (the “Agency”) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Agency’s major federal programs for the year ended June 30, 2010. The Agency’s major federal programs are identified in the summary of auditor’s 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 Agency’s management. Our responsibility is to express an opinion on the Agency’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 Agency’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency’s compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

This report is intended solely for the information and use of the State Auditor, the Governor of the State of South Carolina, management of the Agency, 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 and Company LLP

Columbia, South Carolina
May 23, 2011

**South Carolina Department of Employment and Workforce
Schedule of Findings and Questioned Costs**

Year Ended June 30, 2010

Section I—Summary of Auditors’ Results

Financial Statements:

We have issued an unqualified opinion dated May 23, 2011 on the basic financial statements of the South Carolina Department of Employment and Workforce.

Internal control over financial reporting:

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

Federal Awards:

We have issued an unqualified opinion dated May 23, 2011 on the South Carolina Department of Employment and Workforce’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? NO
- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? NO

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
17.207 *	Employment Service
17.207 *	ARRA - Employment Service
17.225	Unemployment Insurance
17.225	ARRA - Unemployment Insurance
17.225	Federal Unemployment Account Advance
17.801 *	Disabled Veterans Outreach Program (DVOP)
17.804 *	Local Veterans Employment Representative (LVER)
17.258 **	Workforce Investment Act – Adult
17.258 **	ARRA - Workforce Investment Act – Adult
17.259 **	Workforce Investment Act – Youth
17.259 **	ARRA - Workforce Investment Act – Youth
17.260 **	Workforce Investment Act – Dislocated Workers
17.260 **	ARRA - Workforce Investment Act – Dislocated Workers

* - part of Employment Services federal awards cluster

** - part of Workforce Investment Act federal awards cluster

Dollar threshold used to be distinguished between Type A and Type B Programs: \$4,015,176

Auditee qualified as low-risk auditee? NO

**South Carolina Department of Employment and Workforce
Schedule of Findings and Questioned Costs**

Year Ended June 30, 2010

Section II- Financial Statement Findings

Significant Deficiencies Considered to be Material Weaknesses:

2010-1: Audit Adjustments to the Financial Statements

Condition:

During our audit we proposed two adjustments to cash and accounts payable that were considered to be material to the financial statements. Management agreed to the adjustments and the financial statements reflect the adjustments.

Cause:

Before the necessary audit adjustments were made, cash balances were overstated because a transfer from the Unemployment Compensation Trust Fund was improperly included in cash in fiscal year 2010 when the transfer did not occur until after year-end. Accounts payable were understated due to fiscal year 2010 transactions being coded to the general ledger in fiscal year 2011.

Effect:

Cash and revenue were both overstated while accounts payable and expenditures were understated.

Criteria:

As part of the annual closing of the financial statements, the cut-off of revenue and expense recognition must be kept on the basis of accounting prescribed by generally accepted accounting principles.

Recommendation:

Procedures should be put into place to assure that all balance sheet accounts are adjusted at year-end for the proper cut-off of revenues and expenditures. Two adjustments is a significant decrease in the number of necessary adjustments in prior years. The Agency has made significant improvements to the process of preparing its trial balance.

Significant Deficiencies Not Considered to be Material Weaknesses:

2010-2: Information Technology (“IT”) Contingency Plan

Condition:

The Agency has not adopted an IT contingency plan.

Cause:

The Agency has not had the resources available to focus on preparing an IT contingency plan.

Effect:

The Agency’s business could be significantly interrupted or destroyed without an IT contingency plan in place in case of emergency.

Criteria:

Proper business practices and internal controls indicate that all entities develop an IT contingency plan to deal with unusual circumstances.

Recommendation:

The Agency should adopt an IT contingency plan for emergency situations. The plan should be tested yearly to ensure the organization recovers its business functions timely under unusual conditions. IT contingency planning and testing should be an ongoing objective in the Agency’s risk assessment process and should be appropriately documented. This plan could be part of the Agency’s overall risk assessment program. We understand that subsequent to year-end funds were received to implement an IT contingency plan that will be in place by 2012.

2010-3: IT Disaster Recovery Plan

Condition:

The Agency has not adopted a disaster recovery plan for the IT department.

Cause:

The Agency has not had the resources available to adopt a disaster recovery plan for the IT department.

Effect:

The IT department’s operations could be interrupted or destroyed without a recovery plan in place in case of emergency or disaster.

Criteria:

Proper business practices and internal controls indicate that IT departments develop a department-wide disaster recovery plan and perform periodic testing of the plan.

Recommendation:

The Agency should adopt a disaster recovery plan for the IT department. The plan should be tested at least on a yearly basis to ensure the IT department recovers servers, databases, and applications timely to preserve data integrity under unusual circumstances. The testing plan, testing result, and remediation plan should be documented and approved by the director of the IT department. We understand that subsequent to year-end funds were received to implement a disaster recovery plan that will be in place by 2012.

2010-4: Access to Program and Data (Physical Security and Logical Security)

Condition:

The computer room located on the second floor of the Agency's building is secured by a card reader security system. However, there is no process in place to ensure that computer room access is reviewed for appropriateness on a periodic basis. In addition, although certain application data owners perform a periodic review of user access rights for certain applications, other application data owners have not yet established a plan of periodic review of user access rights for all in-scope applications to ensure all users (including terminated employees and transfers) have appropriate access rights.

Cause:

The IT Department does not have a periodic recertification process for computer room access. In addition, the IT department does not have an adequate review process for all in-scope applications regarding user access rights.

Effect:

Unauthorized users may have access to computer room and applications to disclose, modify, and damage data. All access rights may be inappropriately restricted without periodical recertification.

Criteria:

General computer controls indicate that a formal recertification process that reviews user access listing to the computer room and all in-scope applications.

Recommendation:

The IT department management should perform periodic review of the user access listing to ensure all current users are authorized to access the computer room and other sensitive data storage locations. The IT department also needs to work with various application owners to ensure that application owners or their representative performs periodic review of user access rights for all in-scope applications, in order to be certain that all users (including terminated employees and transfers) have appropriate access rights. This joint effort and objective should be a part of entity's strategic planning and risk assessment process.

**South Carolina Department of Employment and Workforce
Schedule of Findings and Questioned Costs**

Year Ended June 30, 2010

Section III—Federal Award Findings and Questioned Costs

None

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 Agency dated March 31, 2010, resulting from the audit of the financial statements and OMB Circular A-133 audit reports for the year ended June 30, 2009. We found that adequate corrective action was taken for all of the management letter comments, findings, and questioned costs except for items 2009-7, 2009-8, and 2009-9 which are repeated above as comments 2010-2, 2010-3, and 2010-4, respectively.

PO Box 995
1550 Gadsden Street
Columbia, SC 29202
www.dew.sc.gov



Nikki R. Haley
Governor

John L. Finan
Executive Director

May 23, 2011

**South Carolina Department of Employment and Workforce
Corrective Action Plan**

The South Carolina Department of Employment and Workforce respectfully submits the following Corrective Action Plan for the audit of the year ended June 30, 2010 performed by the independent accounting firm:

Scott and Company LLP
1441 Main Street, Suite 800
Columbia, South Carolina 29202

Audit period: July 1, 2009 to June 30, 2010

Schedule of Findings and Responses

2010-1: Audit Adjustments to the Financial Statements

Condition:

During our audit we proposed two adjustments to cash and accounts payable that were considered to be material to the financial statements. Management agreed to the adjustments and the financial statements reflect the adjustments.

Management's Response:

Management has addressed the cash adjustment issue described in this report with staff and implemented procedures to ensure that such adjustments will not be required in the future. The Trust Fund accounting section, formerly in a different agency division than the Department of Finance, has now been merged with the Department of Finance in the Administration and Support Division under a single finance director. This will greatly improve the consistency of financial information reported between the Trust Fund and administrative finance going-forward. As mentioned in our auditors' report, the Agency has made significant improvements in properly preparing its financial statements over the last year. This is evidenced by the substantial decrease in the number of proposed audit adjustments and internal control deficiencies when compared to prior years. Management expects that there will be no further adjustments needed to properly present the Agency's financial condition and results going forward.

The accounts payable adjustment resulted from an entry transmitted by another agency to the State's accounting system to record three months of WIA and TAA activity to the Agency's books for the year ended June 30, 2010, as required by state accounting authorities. This adjusting entry was not received until September of 2010, omitted necessary balance sheet accounts, and the omission was not discovered until our auditors were conducting field work. This represents a non-recurring transfer of federal

programs. The Agency will closely scrutinize any such transfers in the future to evaluate the accuracy and completeness of any entries submitted by other agencies that affect the financial statements of the South Carolina Department of Employment and Workforce.

Significant Deficiencies Not Considered to be Material Weaknesses:

2010-2: Information Technology (“IT”) Contingency Plan

Condition:

The Agency has not adopted an IT contingency plan.

Management’s Response:

IT Continuity Plan

The Department of Information (“DoIT”) within the Agency is actively pursuing the formal updating of our IT Continuity Plan from 2007. The Agency’s IT Continuity and Disaster Recovery Plans are broken into 4 phases. We have completed Phases 1 and 3 of the plan, and will complete Phase 2 by December 2011.

In order to fully address Phase 4 the Agency has joined a research study with the State of South Carolina’s DSIT (Department of State Information Technology) on developing a State offered IT recovery plan if ever required to move the DEW Data Center. (See Phase 4 A & B below.) As a part of completing Phase 4 we will be completing a BIA (Business Impact Analysis) by September 2011. The goal of the BIA is to 1) identify critical agency processes and assign criticality, 2) estimate the maximum downtime the agency can tolerate while still maintaining viability and 3) evaluate resource requirements such as facilities, personnel, equipment, software, data files, vital records, and vendor and service provider relationships.

The Agency will also procure software to facilitate the collecting and storing of the information from the BIA which will be used to develop and maintain team and agency recovery information and processes. Once the BIA Plan is completed, the Phase 4 options and their associated costs will be presented to DEW Executive Management for selection and funding.

Phase 1 (Contingency for outages of minutes)

This phase of the plan is complete. This type of outage is typically caused by the loss of power due to storms / lightning etc. DoIT has a UPS System installed that will allow for the computer systems that support the agency to remain in operation independent of outside power for more than an hour. In addition, funding has been obtained for the replacement of this system by October 2011.

Phase 2 (Contingency for outages for indefinite time periods)

This phase of the plan will be completed after UPS system has been replaced with the installation of a motor generator which will provide power for the computer systems for indefinite time periods. Our estimated time frame is late December 2011 but is contingent on UPS replacement. In addition, the Agency is researching the costs associated with procuring mobile generator services and mobile office services from Disaster Recovery service providers.

2010-3: IT Disaster Recovery Plan

Condition:

The Agency has not adopted a disaster recovery plan for the IT department.

Management's Response:

DEW's DoIT has installed Phase 1 of an IT Recovery Plan and implementation plans are moving forward to satisfy Phase 2. Below are the Agency's plans for addressing Phases 3-4.

Phase 3 Recovery – The first thing required is the ability to recover the programs and databases in the event of a data center disaster. DoIT programs and databases are copied electronically and maintained offsite in a locked vault. In the event that the information is needed, it can be recovered and loaded into computer systems. The State of SC's IT Department and the Agency are together researching additional avenues to store and access Agency back-up information when needed.

Phase 4 A Recovery and move data center to "warm site" – This plan includes the recovery of programs and databases in Phase 1 plus the recovery of IT processing when the computer room and / or the equipment in that data center is not useable. This Phase adds to Phase 3 with the added tasks of relocating the DEW data center to a pre-positioned site. This eliminates the time required to select, develop a site contract, and install power and air conditioning before installing computer hardware, software, and other IT facilities needs.

Phase 4 B Recover and move data center to "hot site" – This plan also adds to Phase 3 and includes a contracted site that includes all the computer and operational hardware necessary to run all critical DEW Systems.

(Both Phase 4A & B option plans will be submitted to Agency Executive Management by the end of 2011 for selection and funding consideration.)

2010-4: Access to Program and Data (Physical Security and Logical Security)

Condition:

The computer room located on the second floor of the Agency's building is secured by a card reader security system. However, there is no process in place to ensure that computer room access is reviewed for appropriateness on a periodic basis. In addition, although certain application data owners perform a periodic review of user access rights for certain applications, other application data owners have not yet established a plan of periodic review of user access rights for all in-scope applications to ensure all users (including terminated employees and transfers) have appropriate access rights.

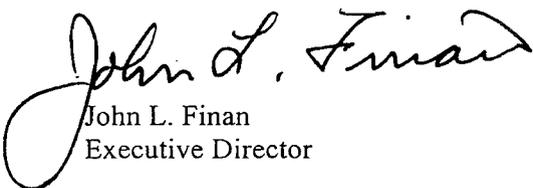
Management's Response:

The Agency is adopting a formal on boarding/off boarding of staff to include activation/deactivation of staff network/email accounts, staff access to data processing systems, and staff access to sensitive IT areas. This will be completed by August 2011. A complete audit of all staff access to all Agency areas will be conducted by October 2011 as the card security system is in the process of being updated to include updated software, additional cameras and door controls.

A review of access controls to sensitive data storage locations will be included in the data center internal inspection which will be annually performed and formally documented by the Agency's IT Auditor. Consideration of risks and controls over user rights and access to critical applications within agency departments will be incorporated during the annual risk assessment performed which is also performed by the Agency's IT auditor.

If there are any questions, or if additional information is needed, please contact Don Grant, CPA, Director of Finance, at (803) 737-4787.

Sincerely,



John L. Finan
Executive Director