

South Carolina Department of Employment and Workforce

Unemployment Compensation Fund

Report on the

Financial Statements

For the Years Ended June 30, 2017 and 2016



George L. Kennedy, III, CPA
State Auditor

September 29, 2017

Ms. Cheryl M. Stanton, Executive 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 Unemployment Compensation Fund for the fiscal year ended June 30, 2017, was issued by Elliott Davis Decosimo, LLC, 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 blue ink that reads 'George L. Kennedy, III'. The signature is written in a cursive style with a prominent 'G' and 'K'.

George L. Kennedy, III, CPA
State Auditor

GLKIII/cwc

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Independent Auditor's Report

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Trust Fund") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Trust Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As described in Note 1, the financial statements of the Trust Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Trust Fund. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2017 and 2016, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Prior Period Adjustment

As described in Note 10 to the financial statements, net position as of July 1, 2015 has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–7 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of the Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust Fund's internal control over financial reporting and compliance.



Columbia, South Carolina
September 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Department") offers readers this narrative overview and analysis of the financial activities attributed to the Department's Unemployment Compensation Fund (the "Trust Fund") for the fiscal years ended June 30, 2017 and 2016. Please read this information in conjunction with the Trust Fund's financial statements and accompanying notes.

Overview of the Trust Fund

- The Trust Fund was created per Section 41-33-10 of the South Carolina Employment Security Law. The Trust Fund is made up of three separate accounts: (1) a clearing account which is used for the deposit of contributions, interest surcharges, penalties and interest, contingency funds, service charges, recording fees, and payments in lieu of contributions received from employers in the State; (2) an unemployment trust fund account consisting of funds transferred from the clearing account and funds received from other states to be held to withdraw for unemployment benefit claims and to make required principal payments on federal unemployment account advances; this account also contains money received from the federal government as reimbursements pursuant to Section 204 of the Federal-State Extended Compensation Act of 1970; and (3) a benefit payment account which receives cash from the Trust Fund to pay unemployment benefit claims.
- Generally, the principal source of revenues for the Trust Fund are quarterly unemployment tax contributions paid by employers. However, the Trust Fund also receives federal reimbursements for federal emergency and extended unemployment benefits, as well as benefits paid to former employees of the federal government and former military employees. Federal law requires the Trust Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings on the Federal Unemployment Trust Fund may be used only to pay benefits. With the exception of certain federal allocations, the Trust Fund's reserves may be used only to pay unemployment benefits and, in certain circumstances, to refund excess overpayment recoveries to employers, claimants or the federal government.
- Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.
- If the Trust Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Account via Title XII advances to continue paying benefits. With the exception of some short-term cash flow situations and the period of federal interest forgiveness between February 2009 and December 2010, any federal borrowing carries interest charges. The interest charges may not be funded from regular employer tax contributions.
- Administrative costs of the Unemployment Insurance Program are accounted for in the Department's Special Revenue Fund and are not reported within the Trust Fund's financial statements. In addition, interest liabilities and payments on outstanding advances from the federal government are accounted for in the Department's Special Revenue Fund, and are not reported within these financial statements.

- Per State law and regulation, and in accordance with United States Department of Labor best practices, a healthy unemployment insurance trust fund has a sufficient balance to pay one year of benefits (at historically high cost rates) with no additional contributions. This is referred to as having an Average High Cost Multiple (AHCM) of 1.0 or greater. The South Carolina General Assembly has directed the Department to rebuild the South Carolina Unemployment Compensation Fund to a level that is equal to having an AHCM of 1.0. Tax year 2017 was the second year of a five year rebuilding period that included an assessment going towards rebuilding the South Carolina Unemployment Compensation Fund. State regulations also provide for a suspension of the rebuilding process if the State enters into a future recession.
- During January 2013, the Trust Fund began receiving federal tax refunds intercepted by the United States Treasury, which were initially due from claimants that received unemployment compensation payments to which they were not entitled. The Department's successful implementation of the Treasury Offset Program allowed the Trust Fund to recover additional overpayments of \$4.1 million and \$5.0 million during fiscal years 2017 and 2016, respectively.
- The Department may recover overpaid unemployment benefits through involuntary wage withholdings. The Wage withholding recoveries were \$5.5 million and \$8.1 million during fiscal years 2017 and 2016, respectively.

Financial Highlights

- Assets of the Trust Fund exceeded its liabilities as of June 30, 2017 by \$777.1 million, which is shown as the net position. The June 30, 2016 net position was \$567.9 million. The Trust Fund has continued to steadily improve its net position since 2011, and has not borrowed from the Federal Unemployment Account to make benefit payments since May 2011. Tax revenues have been sufficient to allow the State to continue making benefit payments to unemployed individuals, and continue restoring the Trust Fund's solvency level to an acceptable threshold, following best practices issued by the United States Department of Labor.
- The Trust Fund's ending net position increased \$209.2 million during the fiscal year ended June 30, 2017. The Trust Fund's net position increased \$1.5 billion from July 1, 2010 through June 30, 2017, largely due to the legislative tax reforms effective during 2011, the continued decline of unemployment compensation benefit payments, and increased taxable wages due to an improved economy.
- Total unemployment compensation benefit payments were \$195.2 million and \$201.3 million during the fiscal years ended June 30, 2017 and 2016, respectively.

Overview of the Financial Statements

Management's discussion and analysis serves as an introduction to the basic financial statements. These financial statements consists of (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Notes to Financial Statements. The Management Discussion and Analysis represents management's own analysis of the Trust Fund's financial condition.

The Statements of Net Position provide information about the nature and amount of resources (assets) and obligations (liabilities) at fiscal year-end.

The Statements of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the fiscal year.

The Statements of Cash Flows present changes in cash resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursements information.

The Notes to Financial Statements provide required disclosures and other information that is essential to a full understanding of the information provided in the statements. The notes present information about the accounting policies, significant account balances, and activities.

Condensed Financial Data

Statements of Net Position

	<u>2017</u>	<u>2016 (As Restated)</u>	<u>Change</u>
Assets - all current	\$ 808,546,080	\$ 595,290,790	\$ 213,255,290
Liabilities – all current	31,481,393	27,382,104	4,099,289
Total net position - all restricted	<u>\$ 777,064,687</u>	<u>\$ 567,908,686</u>	<u>\$ 209,156,001</u>

Statements of Revenues, Expenses, and Changes in Net Position

	<u>2017</u>	<u>2016 (As Restated)</u>	<u>Change</u>
Operating revenues			
Assessments	\$ 355,337,119	\$ 408,702,921	\$ (53,365,802)
Federal grants	9,651,488	11,091,395	(1,439,907)
Benefit overpayment recoveries	15,424,783	13,700,756	1,724,027
Intergovernmental	11,847,026	11,648,826	198,200
Other	<u>1,968,516</u>	<u>1,650,550</u>	<u>317,966</u>
Total operating revenues	394,228,932	446,794,448	(52,565,516)
Operating expenses			
Unemployment compensation benefits	195,228,061	201,288,326	(6,060,265)
Payments returned to federal government	<u>2,053,162</u>	<u>5,157,137</u>	<u>(3,103,975)</u>
Total operating expenses	197,281,223	206,445,463	(9,164,240)
Operating income	196,947,709	240,348,985	(43,401,276)
Non-operating revenues			
Interest income	12,208,042	7,192,500	5,015,542
FUTA credit adjustment	250	7,552	(7,302)
Total non-operating revenues	<u>12,208,292</u>	<u>7,200,052</u>	<u>5,008,240</u>
Change in net position	209,156,001	247,549,037	(38,393,036)
Beginning net position	567,908,686	302,080,171	265,828,515
Prior period adjustment	-	18,279,478	(18,279,478)
Adjusted beginning net position	<u>567,908,686</u>	<u>320,359,649</u>	<u>247,549,037</u>
Ending net position	<u>\$ 777,064,687</u>	<u>\$ 567,908,686</u>	<u>\$ 209,156,001</u>

Statements of Net Position:

Total assets increased \$213.3 million due to an increase in cash collected for Trust Fund replenishment. During fiscal year 2017, there were no payments for federal advances since the Trust Fund paid its final federal advances in full during June 2015. The Trust Fund reported positive cash flow for fiscal year 2017.

Total liabilities increased \$4.1 million, primarily due to the increase in contributions payable.

Federal intergovernmental payables include claimant overpayment refunds received by the Department, cancelled payments, and other items being owed back to the federal government.

Ending net position increased \$209.2 million and \$247.5 million during the fiscal years ended June 30, 2017 and 2016, respectively, which is the result of a higher than expected growth in employment, causing tax revenues to grow at an increased rate, along with a significant decrease in unemployment compensation benefits payments as the economy continues to complete the recovery from the national recession.

Revenues, Expenses, and Changes in Net Position:

Assessments decreased \$53.4 million compared to last fiscal year due to a decrease in taxes assessed on businesses. Per South Carolina state law, unemployment insurance tax rates are set each year to raise sufficient revenues to pay projected benefits as well as to either repay outstanding federal loans or begin rebuilding the South Carolina Unemployment Compensation Fund to an adequate level as defined in state law. For fiscal year 2016, taxes were set to raise approximately \$368.45 million (\$207.5 million for benefit payments and \$160.95 million for loan repayments/Unemployment Compensation Fund rebuilding). For fiscal year 2017, tax rates were set to raise slightly less money, \$336.95 million (\$206 million for benefit payments and \$130.95 million for Unemployment Compensation Fund rebuilding).

Total operating revenues decreased \$52.6 million during fiscal year 2017 primarily due to a reduction in assessment collections.

Unemployment compensation benefits decreased \$6.1 million during fiscal year 2017 due to a reduction in the unemployment rate. State benefits paid decreased \$4.6 million and federal benefits paid decreased \$1.5 million during fiscal year 2017 compared to fiscal year 2016. Benefit payments have also fallen due to a general improvement in the South Carolina economy.

The following is a summary of the benefits paid (in millions) for the fiscal year ended June 30,

	<u>2017</u>	<u>2016</u>	<u>Change</u>
State benefits paid	\$185.6	\$190.2	\$ (4.6)
Federal benefits paid	9.6	11.1	(1.5)
Total benefits paid	<u>\$195.2</u>	<u>\$201.3</u>	<u>\$ (6.1)</u>

Request for information:

The primary purpose of this financial report is to provide a general overview of the Trust Fund's finances and to demonstrate the Trust Fund's accountability for the money it receives and spends. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Employment and Workforce
Attn: Chief Financial Officer
1550 Gadsden Street, P.O. Box 995
Columbia, SC 29202

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Statements of Net Position
As of June 30,

	2017	2016 (As Restated)
Assets:		
Current assets:		
Cash	\$ 688,099,407	\$ 469,745,994
Assessments receivable, net	106,246,031	112,409,677
Benefit overpayment receivables, net	9,264,302	9,746,590
Accounts receivable	2,258,488	756,294
Intergovernmental receivables, net:		
Local governments	759,830	831,034
State agencies	545,954	428,946
Other states	1,372,068	1,372,255
Total assets	808,546,080	595,290,790
Liabilities:		
Current liabilities:		
Benefits payable	534,116	681,905
Income tax withholdings payable	9,658	11,451
Contributions payable	23,426,050	19,843,966
Amounts due to reimbursable employers	2,059,358	21,832
Amounts due to the Department	1,924,348	2,595,874
Intergovernmental payables:		
Amounts due to federal government	1,585,251	2,147,794
Amounts due to other states	1,942,612	2,079,282
Total liabilities	31,481,393	27,382,104
Total restricted net position	\$ 777,064,687	\$ 567,908,686

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30,

	<u>2017</u>	<u>2016 (As Restated)</u>
Operating revenues:		
Assessments	\$ 355,337,119	\$ 408,702,921
Reimbursement of unemployment compensation benefits from employers	1,968,516	1,650,550
Benefit overpayment recoveries	15,424,783	13,700,756
Intergovernmental:		
Federal	9,651,488	11,091,395
State agencies	2,135,270	2,274,943
Other states	5,979,757	5,796,024
Local governments	3,731,999	3,577,859
Total operating revenues	<u>394,228,932</u>	<u>446,794,448</u>
Operating expenses:		
Unemployment compensation benefits	195,228,061	201,288,326
Payments returned to federal government	2,053,162	5,157,137
Total operating expenses	<u>197,281,223</u>	<u>206,445,463</u>
Operating income	<u>196,947,709</u>	<u>240,348,985</u>
Non-operating revenues:		
Interest income	12,208,042	7,192,500
FUTA credit adjustment	250	7,552
Total non-operating revenues	<u>12,208,292</u>	<u>7,200,052</u>
Change in net position	209,156,001	247,549,037
Beginning net position	567,908,686	302,080,171
Prior period adjustment	-	18,279,478
Adjusted beginning net position	<u>567,908,686</u>	<u>320,359,649</u>
Ending net position	<u>\$ 777,064,687</u>	<u>\$ 567,908,686</u>

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Statements of Cash Flows
For the Years Ended June 30,

	2017	2016 (As Restated)
Cash flows from operating activities:		
Cash received from assessments	\$ 366,934,021	\$ 431,369,481
Cash received from employer reimbursements, net	4,006,042	1,928,811
Cash received from benefit overpayment recoveries	14,404,877	17,626,608
Cash received from federal, state and local agencies	21,452,897	23,443,293
Cash paid for benefits	(194,547,934)	(203,818,233)
Cash paid for refunds of overpaid assessments	(6,104,782)	(4,090,855)
Net cash flows provided by operating activities	206,145,121	266,459,105
 Cash flows from non-capital related financing activities:		
Proceeds from federal government, net of FUTA credits	250	7,552
Net cash flows provided by non-capital related financing activities	250	7,552
 Cash flows from investing activities:		
Cash received from interest earned on trust fund	12,208,042	7,192,500
Net cash flows provided by investing activities	12,208,042	7,192,500
 Net increase in cash	218,353,413	273,659,157
Cash – beginning	469,745,994	196,086,837
Cash – ending	\$ 688,099,407	\$ 469,745,994
 Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 196,947,709	\$ 240,348,985
Net changes in assets and liabilities:		
Assessments receivable, net	6,163,646	18,752,634
Benefit overpayment receivables, net	482,288	4,682,146
Accounts receivable	(1,502,194)	(756,294)
Due from reimbursable employers	-	256,429
Intergovernmental receivables, net:		
Amounts due from local governments	71,204	(202,937)
Amounts due from state agencies	(117,008)	1,041,859
Amounts due from other states	187	(135,850)
Benefits payable	(147,789)	(328,845)
Income tax withholdings payable	(1,793)	(14,851)
Contributions payable	3,582,084	1,958,976
Amounts due to the Department	(671,526)	(176,929)
Due to reimbursable employers	2,037,526	21,832
Intergovernmental payables:		
Amounts due to federal government	(562,543)	964,162
Amounts due to other states	(136,670)	47,788
Net cash provided by operating activities	\$ 206,145,121	\$ 266,459,105

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

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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

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 financial entity includes the Trust Fund (a primary entity). The Trust Fund has determined that it has no component units.

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina.

The accompanying financial statements present the financial position and the results of operations of only the portions of the funds of the State of South Carolina that are attributable to the transactions of the Trust Fund and do not include any other funds, agencies, divisions, instrumentalities or component units of the State of South Carolina.

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. During 1966, the name of the law was changed to the South Carolina Employment Security Law.

The Employment Security Commission was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law which provides for the payment of unemployment insurance benefits, the collection of the unemployment tax from subject employers, and the operation of a statewide employment service. Section 41-29-10 was amended by the South Carolina General Assembly during 2011 through Act 146 to replace the Commissioners with an Executive Director. The act also renamed the agency the Department of Employment and Workforce (the “Department”), moved it to the Governor's cabinet, moved the Workforce Investment Act (“WIA”) and Trade Assistance Act (“TAA”) programs back to the agency from another State agency, and established an appellate panel charged with hearing higher level appeals for unemployment benefits.

These financial statements include only the portion of the activities of the Department attributable to the Unemployment Compensation Fund. All administrative costs of programs are paid from the administrative funds of the Department, which are not reported in the Trust Fund's financial statements.

The Unemployment Compensation Fund is included in the Comprehensive Annual Financial Report of the State of South Carolina. The South Carolina General Assembly elects the three members of the appellate panel for four-year terms. The Department must be managed and operated by an Executive Director nominated by the State Department of Employment and Workforce Review Committee and appointed by the Governor. The Governor must transmit the name of his appointee to the Senate for advice and consent. The term of the Executive Director is conterminous with that of the Governor and until a successor is appointed. The Executive Director is subject to removal by the Governor.

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements

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, cash flows and note disclosures of only those transactions of the State of South Carolina, the primary government that is attributable to the Department's Unemployment Compensation 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 United States Treasury is retained in the Trust Fund for the payment of unemployment compensation benefits as long as the Trust Fund is not indebted to the federal government for Federal Unemployment Account advances.

The Trust Fund includes the following:

Basic Unemployment Compensation ("UC") - This fund accounts for regular unemployment benefits paid to individuals. It is funded by quarterly tax remittances from employers within the State, reimbursements from various state and local government and non-profit entities, as well as reimbursement from other states, recoupment of overpayments, and interest received on fund balances, when applicable.

Unemployment Compensation for Federal Employees ("UCFE") - This fund accounts for unemployment compensation paid to ex-federal employees and is funded by the federal government.

Unemployment Compensation for Ex-Servicemen ("UCX") - This fund accounts for unemployment compensation 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 unemployment insurance benefits and extended benefits have been exhausted. It is funded by the federal government.

Alternative Trade Adjustment Assistance ("ATAA") - This program 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.

Reemployment Trade Adjustment Assistance ("RTAA") - This program was implemented during fiscal year 2009 as a wage option available to older workers under the TAA program to eventually replace ATAA. This program consists of monies paid to individuals who are age 50+ who have lost their jobs due to imports but are now working again at a lower salary. They are paid 50% of the difference between their old and new salary. It is funded by the federal government.

Disaster Unemployment Assistance ("DUA") - The Disaster Unemployment Assistance program provides temporary benefits to people whose jobs or self-employment has been lost or interrupted due to a major disaster.

Basis of Presentation - The Trust Fund reports under the provisions of Statement No. 34 ("Statement 34") of the GASB, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a classification of net position into three components - net investment in capital assets, restricted net position, and unrestricted net position. These classifications are defined as follows:

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, 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 fiscal year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. The Trust Fund does not have any capital assets, thus this classification is not used.

Restricted net position - This component of net position consists of constraints placed on net position used 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. Since the Trust Fund's assets are restricted by state and federal law, its net position has been classified as restricted net position as of June 30, 2017 and 2016.

Unrestricted net position - This component of net position consists of net positions that do not meet the definition of "restricted net position" or "net investments in capital assets." The Trust Fund had no unrestricted net position as of June 30, 2017 and 2016.

The financial statements of the Trust Fund are prepared as an enterprise fund using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash - The amounts shown in the financial statements as cash represents cash on hand with the State Treasurer as part of the State's internal cash management pool and cash on deposit with the United States Treasury and in various banks.

Most state agencies, including the Trust Fund, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts deposited in the pool are classified as cash. The State Treasurer administers the cash management pool.

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 Trust Fund records and reports its deposits in the general deposit account at cost.

Receivables - Receivables consist of the following:

Assessments Receivable - Unemployment tax contributions are assessed each quarter based on covered wages during the quarter. Taxes 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 Department is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Department is directed to issue a warrant of execution upon real and personal property of the employer. Historical collection information is used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts is computed based on historical collection activity applied to outstanding account balances up to two years old with all account balances greater than two years old being fully reserved for.

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements

Benefit Overpayments Receivable - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments, intercepting of state and federal income tax refunds, wage withholdings from claimants' pay checks or withholdings from subsequent benefits due to the claimants. Benefit overpayment recoupments attributable to reimbursable employers or federal programs are due to such employers or the federal government and are classified as intergovernmental payables. Refunds are made only when there are no current benefit obligations. Historical collection information, along with United States Department of Labor recommended best-practices, are used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts represents all outstanding account balances greater than 450 days old.

Due from Reimbursable Employers - Amounts due from reimbursable employers include those amounts attributable to the actual benefits paid on behalf of certain non-profit employers to former employees.

Intergovernmental Receivables, Federal - The federal receivable amount represents reimbursements due under various federal grant programs under which the Department pays unemployment benefits. Revenues and related receivables are recognized at the time and to the extent that allowable expenditures are incurred under such programs.

Intergovernmental Receivables, State Agencies - The amounts due from the state agencies represent unemployment benefit reimbursements due from other South Carolina state agencies.

Intergovernmental Receivables, Other States and Local Governments - The benefit reimbursement receivable from other states and local governments is based on the prorata share of wages earned by the employees to whom benefits are being paid by South Carolina in those states and localities.

Payables - Payables consist of the following:

Benefits Payable - Represents unemployment compensation amounts paid after fiscal year-end for benefit weeks ending prior to June 30th.

Contributions Payable - Includes amounts received from employers in excess of actual unemployment tax liabilities. The Department maintains these amounts as credits on the employers' account to cover future tax liabilities.

Intergovernmental Payables - Represent amounts due to other states as reimbursement for benefits paid by those states to South Carolina claimants.

Amounts due to reimbursable employers - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Such overpayments that were funded by the federal government are due back to the federal government and are included as intergovernmental payables.

Operating and Non-operating Revenues and Expenses - The Trust Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with an enterprise fund's principal ongoing operations. The Trust Fund's primary operating revenues are from assessments and federal grants. The Trust Fund's primary operating expenses are unemployment compensation benefit payments. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

South Carolina Department of Employment and Workforce
 Unemployment Compensation Fund
 Notes to Financial Statements

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Reclassifications - Certain prior fiscal year amounts have been reclassified to conform to the current fiscal year presentation. There was no effect on previously reported net position or change in net position as a result of these reclassifications.

Subsequent Events - In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 29, 2017, the date these financial statements were available to be issued.

Note 2. Cash

The amounts shown as cash on the Statements of Net Position are composed of the following at June 30,

	2017	2016
Deposits held by State Treasurer	\$ 4,673,336	\$ 2,945,353
Deposits held by U.S. Treasury	678,148,439	461,637,676
Other deposits	5,277,632	5,162,965
Total	\$ 688,099,407	\$ 469,745,994

Deposits held by State Treasurer - State unemployment taxes received from businesses are initially deposited in the Trust Fund’s clearing bank account, held by the State Treasurer. The deposits of the Trust Fund held by the State Treasurer are under the control of the 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.

Deposits held by United States Treasury - Amounts are regularly transferred from the Trust Fund’s clearing account to the State’s account in the Federal Unemployment Trust Fund. 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 Federal Unemployment Trust Fund. States are not due any interest while carrying Federal Unemployment Account advances on their books.

Other Deposits - Amounts needed to cover federal and state unemployment compensation expenses and related tax withholdings are drawn from the State’s account in the Federal Unemployment Trust Fund into the Trust Fund’s benefit payment account on a regular basis. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Trust Fund’s deposits may not be returned or the Trust Fund 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 be fully insured or collateralized. All deposits of the Trust Fund 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 Trust Fund’s name. Funds are transferred on a regular basis from the deposits held by the United States Treasury to cover all benefit payments from this account.

South Carolina Department of Employment and Workforce
 Unemployment Compensation Fund
 Notes to Financial Statements

Note 3. Amounts Due to the Department

The amounts shown on the financial statements as being due to the Department represent amounts which were collected for penalties, interest, contingency assessments, and interest surcharges via remittances from employers, as well as special administration funds received from the federal government that are payable to the Department to support its administration of the Trust Fund.

Amounts Due to the Department as of June 30 are as follows:

	2017	2016
Contingency assessments	\$ 225,359	\$ 20,361
Penalty, interest, service charges and fees	386,565	46,991
Special administration funds	70,311	1,979,137
Reed Act	1,226,026	214,294
FUTA penalty and integrity fund	16,087	335,091
Total	\$ 1,924,348	\$ 2,595,874

Note 4. Reed Act

The Reed Act, P.L. 83-567, establishes statutory ceilings in the Federal Unemployment Trust Fund accounts that, from time to time, may trigger funds to be distributed to state accounts. Federal law restricts states to using Reed Act distributions only to cover the cost of state benefits, employment services, labor market information, and administration of state unemployment compensation and employment services programs. Suggested uses by the United States Department of Labor included establishing revolving funds for automation costs, performance improvement, costs related to reducing unemployment insurance fraud and abuse, and other Unemployment Insurance Program improvements. An appropriation by the State's legislature is necessary before the State's share of this distribution may be used for unemployment compensation and employment services administrative expenses.

The Trust Fund has not received a Reed Act distribution since 2002; however, when certain properties owned by the State are sold, and contain Reed Act equity, the portion of proceeds attributable to original Reed Act equity must be deposited into the Trust Fund and credited as Reed Act funds, up to the original amount of Reed Act participation in the property that has been sold. Any additional proceeds that represent appreciation over the original Reed Act amount of participation can only be used to pay unemployment insurance benefits.

During fiscal year 2017, the Department sold real property containing Reed Act equity, of which \$1,011,732 was credited to the Trust Fund's Reed Act subaccount, representing the amount of original Reed Act participation in the purchase of the property. This amount is shown as Due to Department on the Statements of Net Position, as it will be drawn upon for administrative purposes.

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements

Note 5. Receivables

The receivable balances at June 30 and the related amounts for the allowances for uncollectible accounts are as follows:

	2017		
	Gross Receivables	Allowance for Uncollectibles	Net Receivables
Assessments receivable	\$ 142,859,858	\$ 36,613,827	\$ 106,246,031
Benefit overpayment receivables:			
Basic unemployment compensation	15,201,837	6,107,224	9,094,613
Federal employees	47,928	18,550	29,378
Ex-servicemen	138,520	69,584	68,936
Disaster unemployment assistance	19,303	15,812	3,491
Trade readjustment	3,275	1,636	1,639
Emergency unemployment compensation	3,158,093	3,091,848	66,245
Total benefit overpayment receivables	<u>18,568,956</u>	<u>9,304,654</u>	<u>9,264,302</u>
Accounts receivable	2,258,488	-	2,258,488
Intergovernmental receivables:			
Local governments	759,830	-	759,830
State agencies	545,954	-	545,954
Other states	1,372,068	-	1,372,068
Total intergovernmental receivables	<u>2,677,852</u>	<u>-</u>	<u>2,677,852</u>
Total receivables	<u>\$ 166,365,154</u>	<u>\$ 45,918,481</u>	<u>\$ 120,446,673</u>
	2016 (As Restated)		
	Gross Receivables	Allowance for Uncollectibles	Net Receivables
Assessments receivable	\$ 145,808,939	\$ 33,399,262	\$ 112,409,677
Benefit overpayment receivables:			
Basic unemployment compensation	19,771,888	11,588,563	8,183,325
Federal employees	85,497	36,292	49,205
Ex-servicemen	203,836	118,434	85,402
Disaster unemployment assistance	-	-	-
Trade readjustment	8,849	4,671	4,178
Emergency unemployment compensation	7,005,723	5,581,243	1,424,480
Total benefit overpayment receivables	<u>27,075,793</u>	<u>17,329,203</u>	<u>9,746,590</u>
Accounts receivable	756,294	-	756,294
Intergovernmental receivables:			
Local governments	831,034	-	831,034
State agencies	428,946	-	428,946
Other states	1,372,255	-	1,372,255
Total intergovernmental receivables	<u>2,632,235</u>	<u>-</u>	<u>2,632,235</u>
Total receivables	<u>\$ 176,273,261</u>	<u>\$ 50,728,465</u>	<u>\$ 125,544,796</u>

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements

Note 6. Information on Business -Type Activities

The following information is provided for incorporation into the State of South Carolina Comprehensive Annual Financial Report for the fiscal years ended June 30,

	<u>2017</u>	<u>2016 (As Restated)</u>
Charges for services	\$ 384,577,444	\$ 435,703,053
Operating grants and contributions	9,651,488	11,091,395
Non-operating revenues	12,208,292	7,200,052
Less: expenses	<u>(197,281,223)</u>	<u>(206,445,463)</u>
Net program revenues	<u>209,158,018</u>	<u>247,549,037</u>
Change in net position	209,156,001	247,549,037
Beginning net position	567,908,686	302,080,171
Prior period adjustment	<u>-</u>	<u>18,279,478</u>
Adjusted beginning net position	<u>567,908,686</u>	<u>320,359,649</u>
Ending net position	<u>\$ 777,064,687</u>	<u>\$ 567,908,686</u>

Note 7. Contingencies

Federal Grants - The various programs administered by the Trust Fund for the fiscal year ended June 30, 2017 and fiscal years prior to that are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due to federal grantors have not been determined, but the Trust Fund believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Trust Fund. Furthermore, there is no evidence to indicate that a liability should be recorded at fiscal year-end.

The Trust Fund is administered by the Department, and the Department is considered the grantee for single audit purposes. The single audit is performed for federal grants at the grantee level, and the schedule of expenditures of federal awards is therefore included in the Department's financial statements.

Note 8. Interest Income

The Federal Unemployment Trust Fund's quarterly yield averaged 2.24% for the fiscal years ended June 30, 2017 and 2016. The Trust Fund began earning full interest on Federal Unemployment Trust Fund balances during the fiscal years ended June 30, 2017 and 2016, resulting in interest income of \$12,208,042 and \$7,192,500.

Note 9. FUTA Penalty

Effective October 21, 2013, pursuant to the Federal Trade Adjustment Assistance Extension Act of 2011, and section 41-41-45 of the South Carolina Code of Laws, the Department began assessing a monetary penalty of 25% on fraudulent overpayments.

Of the 25% total, 15% is a federally mandated penalty to be returned to the Trust Fund upon collection, and 10% represents a State mandated penalty to be transferred to the Department's Integrity Fund, to be used for the purpose of promoting unemployment insurance integrity efforts by the Department.

Effective June 8, 2015, the FUTA penalty rate changed to 33% from 25%. As a result, the federal mandated penalty increased by 8% to 23%, while the State mandated penalty remained at 10%.

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Notes to Financial Statements

Note 10. Prior Period Adjustment

During the fiscal year ended June 30, 2017, it was discovered that the Trust Fund's beginning net position as of July 1, 2016 and 2015 was understated by \$25,695,476 and \$18,279,478, respectively, as a result of the Trust Fund overstating its allowance for uncollectible accounts related to its assessments receivable balance during previous years. The allowance for uncollectible accounts was overstated because it was not previously estimated in accordance with the Trust Fund's policy, which is to compute the allowance for uncollectible accounts based upon previous collection history for all outstanding account balances up to two years old with all outstanding balances greater than two years old being fully reserved for. Accordingly, this error has been corrected by restating each of the affected financial statement line items. Following is a summary of financial statement line items that were restated as of and for the fiscal year ended June 30, 2016 and July 1, 2015:

June 30, 2016 Amounts

	As Previously Reported <u>2016</u>	Adjustment	As Restated <u>2016</u>
Assessments receivable, net	\$ 86,714,201	\$ 25,695,476	\$ 112,409,677
Total assets	569,595,314	25,695,476	595,290,790
Restricted net position	542,213,210	25,695,476	567,908,686
Total net position	542,213,210	25,695,476	567,908,686
Assessments	401,286,923	7,415,998	408,702,921
Total operating revenues	439,378,450	7,415,998	446,794,448
Operating income	232,932,987	7,415,998	240,348,985
Change in net position	240,133,039	7,415,998	247,549,037
Ending net position	542,213,210	25,695,476	567,908,686

July 1, 2015 Amounts

	As Previously Reported <u>2015</u>	Adjustment	As Restated <u>2015</u>
Assessments receivable, net	\$ 112,882,833	\$ 18,279,478	\$ 131,162,311
Total assets	326,990,142	18,279,478	345,269,620
Restricted net position	302,080,171	18,279,478	320,359,649
Total net position	302,080,171	18,279,478	320,359,649



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the 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, the financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the “Trust Fund”) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Trust Fund’s basic financial statements and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust Fund’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust Fund’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 in the accompanying schedule of findings and responses as Item 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or 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 deficiency described in the accompanying schedule of findings and responses as Item 2017-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust Fund's financial statements are free from 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*.

South Carolina Department of Employment and Workforce Unemployment Compensation Fund's Response to Findings

The Trust Fund's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Trust Fund's responses were not subjected to the auditing procedures applied in the audit of financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
September 29, 2017

South Carolina Department of Employment and Workforce
 Unemployment Compensation Fund
 Schedule of Findings and Responses
 For the Year Ended June 30, 2017

Section I. Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? X Yes No
- Significant deficiency (ies) identified? X Yes None
 reported

Noncompliance material to financial statements noted? Yes X No

Section II. Financial Statement Findings

Item 2017-001: Prior Period Adjustment – Allowance for Uncollectible Accounts

Condition: The allowance for uncollectible assessments receivable (the "Allowance") was not estimated in accordance with the Trust Fund’s policy (the "Policy"). Per the Policy, the Allowance should be computed based on a historical collection rate applied to all account balances up to two years old, plus a 100% reserve of all balances greater than two years old. The Allowance of \$69,250,832 as of June 30, 2017 exceeded management’s estimate per the Policy by \$32,637,005.

Criteria: The Allowance should be computed using a consistently applied policy that considers (1) historical collection rates as a basis for a general reserve applied to the total receivable balance and (2) a specific reserve resulting from the evaluation of individual past due accounts.

Cause: Internal controls are not in place to ensure that the basis for the Policy is being consistently reviewed and updated based on historical collection rates, and that the Allowance is being computed in accordance the Policy.

Effect: The Trust Fund’s Allowance and ending net position was overstated and understated, respectively, by \$32,637,005, in its financial statements as of and for the fiscal year ended June 30, 2017. This amount represented a cumulative error as of June 30, 2017 that included activity for the fiscal years ended June 30, 2017 and 2016 and previous fiscal years. As a result of this cumulative error, assessment revenues for the fiscal years ended June 30, 2017 and 2016 were understated by \$6,941,529 and \$7,415,998, respectively, and beginning net position as of July 1, 2015 was understated by \$18,279,478.

Recommendation: Management should review the Allowance calculation at least annually to determine that it is being computed in accordance with the Policy. The general reserve component of the Policy should be evaluated by management to ensure that the reserve percentage being applied is consistent with actual historical collection rates. Account balances included in the Allowance should be evaluated at least annually and immediately written off if they are determined to be uncollectible. A specific past due period should be established to determine uncollectible accounts that are to be written off.

Views of Responsible Officials and Planned Corrective Actions: Management concurs that the allowance should be based on previous collection and write-off history and that this methodology is consistently applied when developing its estimate. The Trust Fund will document the updated process for developing this estimate and provide proper training to all staff involved in the process during the fiscal year ending June 30, 2018.

Item 2017-002: Timely Reconciliation and Review of Assessments Receivable Subsidiary Records

Condition: The Trust Fund's general ledger does not have a subsidiary ledger function. Therefore, management of the Trust Fund relies on the Trust Fund's tax system for subsidiary activity and ending balances, and management uses information generated from the tax system to post monthly journal entries to the general ledger. Although the Trust Fund's general ledger has the capability to post full-accrual journal entries, activity related to the Trust Fund's assessment revenues is posted to the general ledger using the cash-basis of accounting. During its fiscal year-end financial reporting close process, management converts the cash-basis assessment revenues to full-accrual and then posts the corresponding assessments receivable and allowance for uncollectible accounts balances to the general ledger. However, management is not reviewing the assessments receivable subsidiary ledger generated from the Trust Fund's tax system during the fiscal year to evaluate its accuracy and the collectability of employer account balances.

Criteria: Balances reflected on the general ledger should be supported by balances reflected on the subsidiary records. Subsidiary records should be compiled, distributed and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

Cause: The Trust Fund's Accounting Department does not request and obtain from its Division of Information and Business Solutions monthly reports generated from the tax system that reflect assessment billings or a subsidiary ledger reflecting employer account balances as of month-end.

Effect: Balances reflected on the general ledger have a greater chance of being misstated without reviewing and reconciling balances reflected on the subsidiary records to the general ledger throughout the fiscal year.

Recommendation: We recommend that the Division of Information and Business Solutions provide the Trust Fund's Accounting Department with all requested monthly subsidiary records to be used for reviewing and recording transactions to the general ledger. We also recommend that the Trust Fund's Accounting Department utilize these detailed reports to review and reconcile the subsidiary records to the general ledger and post full-accrual journal entries on a monthly basis. This should help ensure the accuracy of the balances reported on the general ledger and financial statements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs that the subsidiary ledger from which the resulting activity is derived should be routinely obtained and reviewed on a monthly basis, and that the ending (gross) balance should agree with the general ledger. Management will work collaboratively with the Division of Information and Business Solutions and the Unemployment Insurance Division to ensure these detailed reports are compiled, scheduled and distributed to the Trust Fund's Accounting Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.