South Carolina
Department of Employment and Workforce

Columbia, South Carolina

Report on the Financial Statements

Year Ended June 30, 2017

SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

July 31, 2019

Mr. Dan Ellzey, Executive Director
South Carolina Department of Employment and Workforce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Employment and Workforce and the accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the fiscal year ended June 30, 2017, was issued by Elliott Davis, 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,

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the Agency'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 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 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 entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the South Carolina Department of Employment and Workforce as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Restatements

As described in Note 13 to the financial statements, beginning net position and fund balance as of July 1, 2016 for the Agency's governmental activities, business-type activities, special revenue fund, and unemployment compensation fund have been restated to correct misstatements. Our opinion is not modified with respect to these matters.

Reporting Entity

As described in Note 1, the financial statements of the Agency are intended to present the financial position, the changes in financial position, and where applicable, cash flows of only that portion of the governmental activities, business-type activities, and each major fund 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 of South Carolina as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended. 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 management's discussion and analysis, the schedule of the employer's proportionate share of the net pension liability, and the schedule of the employer's contributions, as listed in the table of contents, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2019, on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

Elliott Davis, LLC

Columbia, South Carolina
July 31, 2019

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, 2017. Please read this information in conjunction with the Agency's financial statements and accompanying notes.

Overview of the Agency

- The South Carolina Department of Employment and Workforce is a federally-funded state agency. The programs of the Agency, under the direction of the Governor of South Carolina, report to the federal government. The United States Congress appropriates all funds expended to administer the Agency's federal programs. Funding for the employment service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Program (UI Program) comes from the Federal Unemployment Tax Act (FUTA) on employers for administrative funds and from State of South Carolina employer taxes and the federal government for benefit funds. All federal funds received by the Agency are cleared through the State of South Carolina's treasury, and the authority to expend these funds is granted by the State of South Carolina's Legislature.

- During March 2010, via Act 146 and under Section 41-29-35 of the South Carolina Code of Laws, the General Assembly replaced the Commissioners with an Executive Director, nominated by the South Carolina Department of Employment and Workforce Review Committee and appointed by the Governor, who then transmits the name of the 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 Act also renamed the Agency, moved it to the Governor's cabinet, moved the Workforce Investment Act Program (WIA Program) and Trade Assistance Act Program (TAA Program) back to the Agency, and established an appellate panel charged with hearing higher level appeals for unemployment benefits. The State of South Carolina's General Assembly elects the three-member appellate panelists to four-year terms.

- The South Carolina Department of Employment and Workforce Unemployment Compensation 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, penalties, contingency, 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 Reed Act funds received from the federal government; and (3) a benefit payment account which receives funds from the Trust Fund to pay unemployment benefit claims.

- Generally, the principal source of revenue for the Trust Fund is quarterly unemployment tax contributions paid by employers. However, the Trust Fund also receives federal reimbursements for emergency and extended unemployment benefits. 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 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, or in certain circumstances, to refund benefit overpayments to employers, claimants, or the federal government.

Overview of the Agency (continued)

- Federal special administrative allocations granted by the U.S. Department of Labor and distributed to the Trust Fund, may be used to pay costs associated with implementing and administering the provisions of state law that qualified the State of South Carolina to receive incentive payments 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 to continue paying benefits. With the exception of some short-term cash flow loan 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.

- The Agency's administrative costs funded under the UI Program, Workforce Innovation and Opportunity Act Program (WIOA Program), and Wagner-Peyser Program, and other programs are accounted for in the Agency's special revenue fund. The Agency's operations are primarily funded via a series of federal grants from the U.S. Department of Labor, and the Agency is economically dependent on those grant funds to provide for its overall administration, the payment of certain unemployment compensation benefits, and the administration and funding of the UI Program, WIOA Program, Wagner-Peyser Program, and other programs for the State of South Carolina.

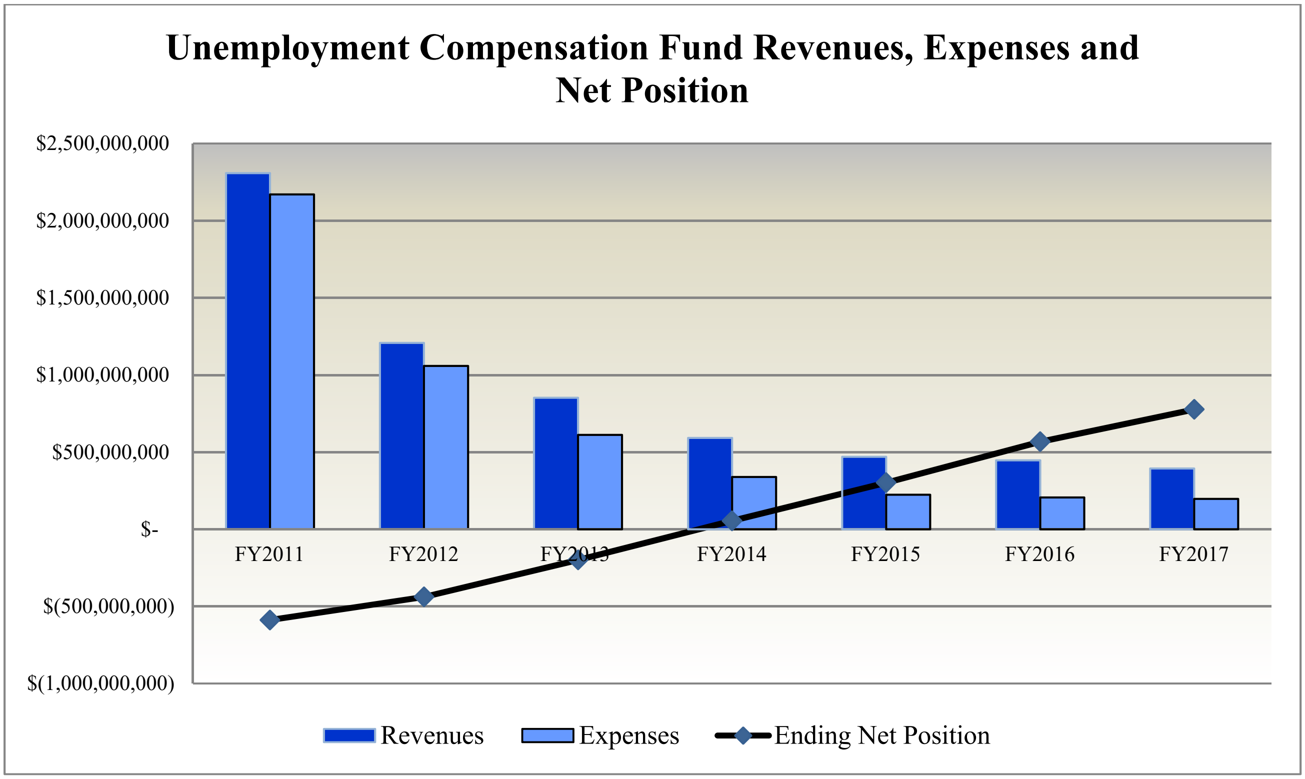
Unemployment Compensation Fund Financial Highlights

- Legislative reforms to the State of South Carolina's unemployment insurance tax structure implemented during 2011 continue to facilitate the Trust Fund's path to solvency. As of June 30, 2017, all Title XII advances have been repaid. Since 2011, State unemployment tax rates have been structured to raise revenues that adequately address the demands of the State of South Carolina's unemployment insurance system and the changing economic environment in which the system operates. During the time that the State of South Carolina had outstanding federal loans, unemployment insurance tax rates were set to raise sufficient revenue to pay projected benefits for the subsequent year, an amount to repay all loans by 2015, and an additional surcharge designated to pay accrued interest on outstanding advances. As the expected level of State of South Carolina unemployment insurance benefit payments decreased, a greater proportion of the State of South Carolina unemployment insurance tax revenues were available to repay the advanced funds. Improving economic conditions resulted in lower than anticipated benefit payments which allowed the State of South Carolina to make early payments on federal advances. The State of South Carolina's voluntary, early payments on the federal loans resulted in approximately $12.5 million in interest savings.

- Assets of the Trust Fund exceeded its liabilities as of June 30, 2017 by approximately $777.1 million, which is shown as net position. The net position as of June 30, 2016 was approximately $542.2 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 of South Carolina to repay outstanding federal advances, 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 U.S. Department of Labor.

- Before the prior period restatement of $25.7 million as of July 1, 2016, the Trust Fund's net position increased by approximately $209.2 million during the year ended June 30, 2017, and has increased by approximately $1.5 billion during the period 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.

Unemployment Compensation Fund Financial Highlights (continued)



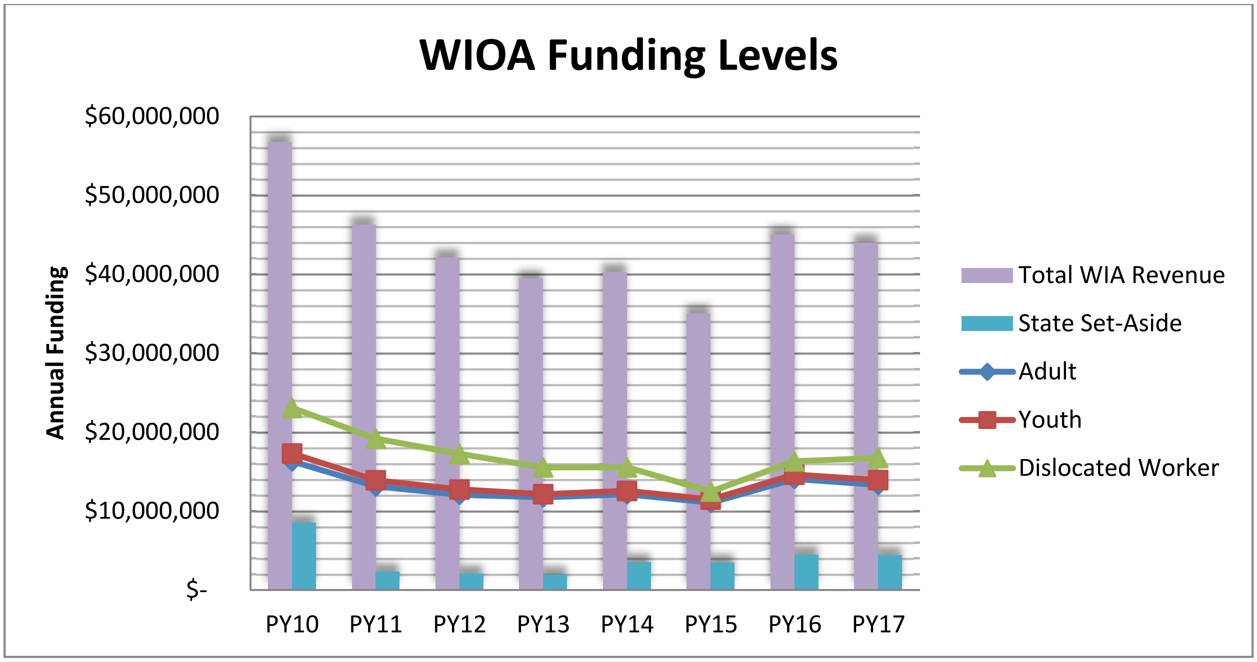
- Total unemployment compensation benefit payments were approximately $195.2 million and $201.3 million during the years ended June 30, 2017 and 2016, respectively.

- During January 2013, the Agency began receiving federal tax refunds intercepted by the U.S. Treasury, which were originally due from claimants that received unemployment compensation benefit payments to which they were not entitled. The Agency's successful implementation of the Treasury Offset Program allowed it to recover overpayments of $4.1 million, $5.0 million, $9.3 million, $11.2 million, and $11.3 million during the years ended June 30, 2017, 2016, 2015, 2014 and 2013, respectively.

- The Agency may recover overpaid unemployment benefits through involuntary wage withholdings. The wage withholding recoveries were $5.5 million and $8.1 million during the years ended June 30, 2017 and 2016, respectively.

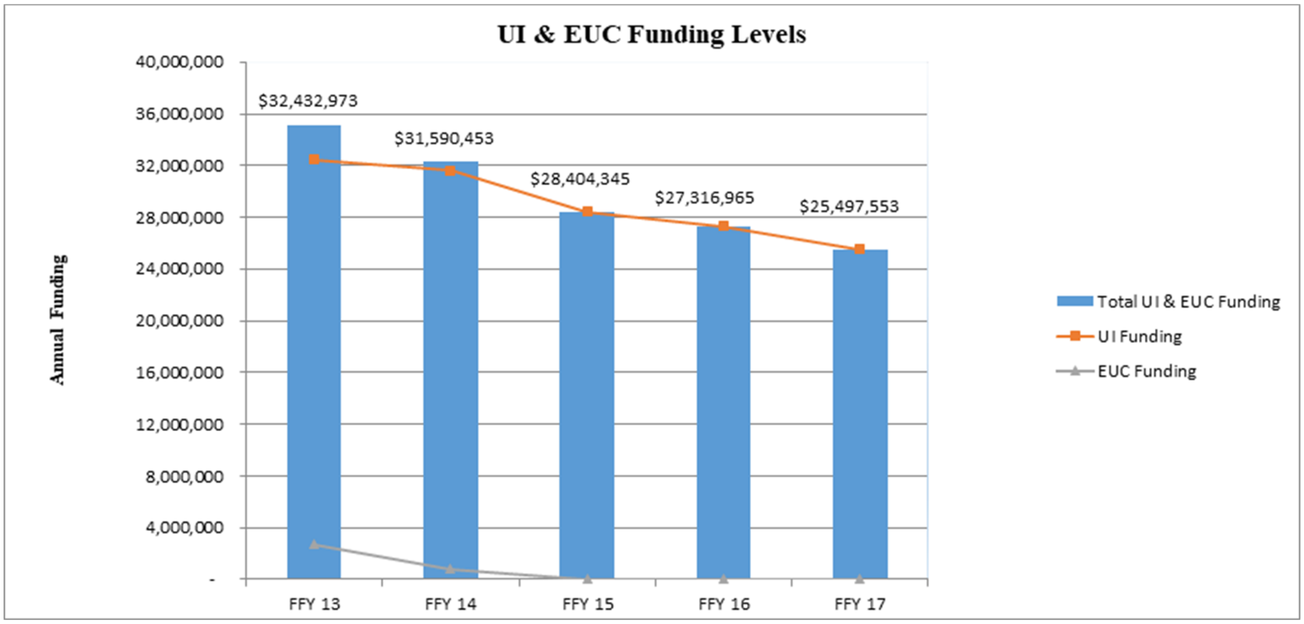
Administrative Financial Highlights

- Funding for the WIOA Program has experienced an overall decline for the State of South Carolina of approximately 24%, or $11 million, from approximately $46 million allocated to the State of South Carolina for the federal program year ended September 30, 2011 to approximately $35 million for the federal program year ended September 30, 2015. In addition, beginning in federal program year 2011, discretionary WIA Program dollars available for state-wide activities (state set-aside) under the WIA Program were reduced from 15% of the annual allocation, to 5%, until they were increased to 8.75% in federal program year 2014 and 10% in federal program year 2015. During federal program years 2016 and 2017, the annual allocation increased back to 15%.



- Federal funding for the UI Program and Emergency Unemployment Compensation Program (EUC Program) has also experienced a decline over the last five years. Amounts granted to the State of South Carolina for these programs are closely tied to the projected and actual state-wide workloads for various required activities associated with administering the UI Program and EUC Program. Overall, UI Program and EUC Program funding levels have declined by 33%, or approximately $12.3 million from the federal program year ended September 30, 2012 to the federal program year ended September 30, 2017. The Agency's modernized UI Program service delivery model, discussed under the Governmental Activities section below, was designed to better balance the Statewide UI Program workload while absorbing these federal funding reductions.

Administrative Financial Highlights (continued)



- Beginning during June 2013, the Agency began streamlining its service delivery model to become more efficient, provide improved customer service, and increase the use of technology to provide critical services to individuals and businesses in the State of South Carolina. These changes have also facilitated positive changes in the Agency's financial condition and results, primarily via reducing recurring costs, and increasing the financial resources available for process and technology improvements. The Agency has also consolidated its UI Program hub call center locations to become more efficient and reduce overhead costs. This has also enabled the Agency to continue to sell vacated facilities, and utilize those sales proceeds to fund the UI Program tax system modernization.

- The Agency is actively pursuing the sale of vacant buildings and other capital assets. During the year ended June 30, 2017, two (2) properties, two (2) parcels of land, and one (1) vehicle were sold, providing $1,404,668 in net proceeds after remitting the proportionate share of non-federal equity to the Department of Administration.

- The reported financial condition of the Governmental Activities improved during the year ended June 30, 2017, due mainly to the recognition of federal revenues applicable to the implementation of a new benefits system and secondarily related to the increase in the amount of assessment revenues. The Governmental Activities assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2017 by $70,844,716 (shown as "total net position"), which represents an increase in net position of $46,260,460 from the prior year.

Overview/Discussion of the Annual Financial Report

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

Government-wide Financial Statements

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

Government-wide Financial Statements (continued)

Statement of Net Position: This statement presents information on all of the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. This statement also reports the differences between assets and deferred outflows of resources less liabilities and deferred inflows of resources as net position. Over time, increases or decreases in net position may indicate whether the Agency's financial health (financial position) is strengthening or weakening. In order to assess the Agency's overall financial health, readers must also consider factors such as the national and state economy, the condition of the Agency's capital assets, such as its buildings, and any changes in Generally Accepted Accounting Principles (GAAP).

Statement of Activities: This statement presents information showing how the Agency's overall net position changed during the year. The Statement of Activities is useful in illustrating the costs incurred by the Agency to provide various services. It can also help to show the extent to which each Agency function covers its own costs through user fees, charges, or grants.

The government-wide financial statements report two different kinds of activities:

Governmental Activities:
The Agency's internal administrative activities are reported as governmental activities including reemployment, workforce development and job training services. Federal grants finance most of these activities. The activities of the special revenue fund are considered governmental activities.

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 activities of the Trust Fund are considered business-type activities. This fund collects money through federal grant revenues, unemployment taxes paid by businesses, and federal loans, when needed.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's most significant funds, not the Agency as a whole. Funds are accounting designations 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 its governmental fund. The governmental fund accounts for activities that the Agency reports as governmental activities in its government-wide financial statements. This fund focuses on short-term inflows and outflows of expendable resources. The special revenue fund is the Agency's only governmental fund.

The special revenue fund accounts for the various federal grants and other revenues which the Agency receives for administration purposes and special projects.

Proprietary Funds:
Proprietary funds charge customers for the services they provide to generate operating revenues. The principle operating revenues of the Agency's proprietary fund are from assessments on businesses and reimbursement from the federal government for the payment of unemployment compensation benefits. The Agency's proprietary fund is used to account for the activities of the Trust Fund.

Fund Financial Statements (continued)

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 governmental fund according to the purposes for which they may or may not be used. Liabilities are assigned to the fund for which they are to be paid, and the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is fund balance.

The Statement of Fund Net Position is the statement of expendable assets which are assigned to the proprietary fund according to the purposes for which they may or may not be used. Liabilities are assigned to the fund for which they are to be paid; and the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is fund net position.

The Statement of Revenues, Expenditures, and Changes in Fund Balance presents the results of the governmental fund's activities over the course of the year and information as to how the fund balance changed during the year.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents the results of the proprietary fund's activities over the course of the year and information as to how the fund net position 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 amounts provided in the financial statements. These notes to the financial statements present information about the accounting policies, significant account balances, and activities of the Agency.

South Carolina Department of Employment and Workforce

Statements of Net Position
June 30, 2017 and 2016
(Condensed Financial Data)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets:						
Current	$ 100,653,010	$ 53,210,994	$ 806,621,732	$ 566,999,440	$ 907,274,742	$ 620,210,434
Non-current	74,991,901	34,017,270	-	-	74,991,901	34,017,270
Total assets	175,644,911	87,228,264	806,621,732	566,999,440	982,266,643	654,227,704
Deferred outflows of resources	9,269,610	4,646,069	-	-	9,269,610	4,646,069
Liabilities:						
Current	45,862,657	18,621,350	29,557,045	24,786,230	75,419,702	43,407,580
Non-current	63,342,708	57,755,287	-	-	63,342,708	57,755,287
Total liabilities	109,205,365	76,376,637	29,557,045	24,786,230	138,762,410	101,162,867
Deferred inflows of resources	4,864,440	1,857,242	-	-	4,864,440	1,857,242
Net position:						
Net investment in capital assets	74,954,041	34,017,270	-	-	74,954,041	34,017,270
Restricted	2,367,291	-	777,064,687	542,213,210	779,431,978	542,213,210
Unrestricted	(6,476,616)	(20,376,816)	-	-	(6,476,616)	(20,376,816)
Total net position	$ 70,844,716	$ 13,640,454	$ 777,064,687	$ 542,213,210	$ 847,909,403	$ 555,853,664

South Carolina Department of Employment and Workforce

Statements of Activities
June 30, 2017 and 2016
(Condensed Financial Data)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$ 19,871,944	$ 16,507,828	$ 384,577,444	$ 428,287,055	$ 404,449,388	$ 444,794,883
Operating grants & contributions	130,298,109	101,306,964	9,651,488	11,091,395	139,949,597	112,398,359
General revenues:						
State appropriations	500,000	28,162	-	-	500,000	28,162
Total revenues	150,670,053	117,842,954	394,228,932	439,378,450	544,898,985	557,221,404
Expenses:						
Employment, workforce development & training services	103,758,629	103,372,752	-	-	103,758,629	103,372,752
Unemployment benefits	-	-	197,281,223	206,445,463	197,281,223	206,445,463
Total expenses	103,758,629	103,372,752	197,281,223	206,445,463	301,039,852	309,818,215
Loss on sale of capital assets	(44,191)	(880)	-	-	(44,191)	(880)
Non-operating revenues	-	-	12,208,292	7,200,052	12,208,292	7,200,052
Indirect cost remitted to General Fund of the State	(606,773)	(356,311)	-	-	(606,773)	(356,311)
Transfers out	-	(27,519,829)	-	-	-	(27,519,829)
Change in net position	46,260,460	(13,406,818)	209,156,001	240,133,039	255,416,461	226,726,221
Net position, beginning of year, as originally reported	13,640,454	27,047,272	542,213,210	302,080,171	555,853,664	329,127,443
Prior period restatement	10,943,802	-	25,695,476	-	36,639,278	-
Net position, beginning of year, as restated	24,584,256	27,047,272	567,908,686	302,080,171	592,492,942	329,127,443
Net position, end of year	$ 70,844,716	$ 13,640,454	$ 777,064,687	$ 542,213,210	$ 847,909,403	$ 555,853,664

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2017 and 2016, the Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by approximately $847.9 million and $555.9 million, respectively.

The increase in the Agency's net position is attributable to the overall improvement in the State of South Carolina's economy. As of June 30, 2017, the Agency was able to report positive net position balances in the governmental activities, which represent capital assets and unrestricted net position, as well as business-type activities, which represents the financial position of the Trust Fund.

Governmental Activities

Statement of Net Position:

Total assets increased by approximately $88.4 million or 101% from the prior year, primarily from the recognition of both additional construction in process from the implementation of the new benefits system and additional receivables recognized from the pending reimbursement from the U.S. Department of Labor for the use of federal funds to implement the new benefits system.

Total liabilities increased by approximately $32.8 million or 43%, primarily due to the increase of the amount payable recognized for the vendor completion of the new benefits system implementation.

Statement of Activities:

There was an increase in charges for services, operating grants and contributions, and state appropriations, thereby increasing total revenues by approximately $32.8 million or 28%, primarily due to the recognition of revenue to be received from the U.S. Department of Labor resulting from the billing of expenses incurred as a result of the implementation of the new benefits system.

Transfers out for the governmental activities decreased by approximately $27.5 million or 100% from the prior year due to residual interest assessment funds being transferred to the Federal Unemployment Trust Fund during August 2015. Total expenses were consistent with the prior year as there was only an increase of approximately $0.1 million or 1%.

Business-Type Activities

Statement of Net Position:

Total assets increased by approximately $239.6 million or 42% due to an increase in cash collected for Trust Fund replenishment. During the year ended June 30, 2017, there were no payments for federal advances since the Trust Fund paid its final federal advances in full during the year ended June 30, 2016. The Trust Fund reported positive cash flow for the year ended June 30, 2017.

Total liabilities increased by approximately $4.8 million or 19%, primarily due to the increase in contributions payable.

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

Ending net position increased by approximately $234.9 million or 43% during the year ended June 30, 2017, which is primarily 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 benefit payments as the economy continues to recover from the national recession.

Statement of Activities

Assessments decreased by approximately $45.9 million or 11% compared to last year due to a decrease in taxes assessed on businesses. Per the South Carolina Code of Laws, 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 Trust Fund to an adequate level as defined in the South Carolina Code of Laws. For the year ended June 30, 2016, tax rates were set to raise $368.45 million ($207.5 million for benefit payments and $160.95 million for loan repayments and Trust Fund rebuilding). For the year ended June 30, 2017, tax rates were set to raise slightly less money, $336.95 million ($206 million for benefit payments and $130.95 million for Trust Fund rebuilding).

Business-Type Activities (continued)

Statement of Activities (continued)

Unemployment compensation benefits decreased by approximately $6.1 million or 3% during the year ended June 30, 2017, primarily due to a reduction in the unemployment rate. State benefits paid decreased by approximately $4.6 million or 2% and federal benefits paid decreased by approximately $1.5 million or 14% during the year ended June 30, 2017.

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

	2017	2016	Change
State Benefits	$ 185.6	$ 190.2	$ (4.6)
Federal Benefits	9.6	11.1	(1.5)
Total	$ 195.2	$ 201.3	$ (6.1)

Total operating revenues decreased by approximately $45.1 million or 10% during the year ended June 30, 2017 primarily due to a reduction in assessment collections.

Fund Financial Analysis

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

Governmental Fund

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. In particular, the assigned fund balance may serve as a useful measure of the Agency's net resources available for spending at the end of the year. As of the end of the current year, the Agency's governmental fund reported a combined ending fund balance of approximately $57.2 million, an increase of approximately $6.1 million from the prior year.

Assigned fund balance accounts for approximately $54.6 million or 95% of total ending fund balance, and is available for administrative expenditures made in accordance with federal and state guidelines.

Restricted fund balance accounts for approximately $2.4 million or 4% of total ending fund balance, and includes amounts that can only be spent for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Non-spendable fund balance accounts for approximately $0.2 million or 1% of total ending fund balance, and represents prepaid and inventory items.

Proprietary Fund

The Agency's proprietary fund provides the same type of information found in the government-wide financial statements in more detail for the Trust Fund. Restricted net position for the Trust Fund as of June 30, 2017 amounted to approximately $777.1 million.

The Trust Fund reported positive cash flow as of June 30, 2017, with an increase in cash of approximately $218.4 million versus $273.7 million for the year ended June 30, 2016. The Trust Fund continued to report positive cash flow provided by operating activities of approximately $206.1 million during the year ended June 30, 2017 versus approximately $266.5 million during the year ended June 30, 2016.

Proprietary Fund (continued)

Other information concerning the Trust Fund has been addressed in the discussion of the Agency's business-type activities above, as well as in the audited financial statements for the Trust Fund, which were issued on September 29, 2017.

Capital Assets and Debt Administration

Primary changes in capital asset amounts during the year related to incurring expenses for the development of internally generated/modified computer software, currently classified as intangible asset construction in progress (CIP), and for the development of modernized unemployment insurance benefits and unemployment tax systems. In addition, two (2) buildings, two (2) parcels of land, and one (1) vehicle were sold.

Long-term liabilities fell into three areas: accrued compensated absences and related benefits, capital lease payable, and the net pension liability.

More detailed information about the Agency's capital assets is presented in Note 5 to the financial statements. More detailed information about the Agency's debt administration is presented in Notes 6 and 8 to the financial statements.

Economic Factors and Next Year's Rate

Tax rates for calendar year 2017 were set to raise sufficient revenues to cover projected benefit costs, pay off the remaining balance of the outstanding federal advances, and to increase net trust fund solvency as required to avoid FUTA credit reductions for State of South Carolina businesses. The Trust Fund's net position is expected to continue to increase as the State of South Carolina begins a five-year rebuilding plan to bring the Trust Fund balance to a level sufficient to withstand a moderate recession. The maximum number of weeks of benefits for unemployment insurance is twenty (20) weeks.

Unemployment insurance tax rates for the 2018 calendar year have been set based on projected benefit expenses of $185 million.

Per South Carolina State law and regulation, and following best practices issued by the U.S. Department of Labor, 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 Agency to rebuild the South Carolina Unemployment Compensation Fund to a level that is equal to having an AHCM of 1.0 by the year 2020. Tax year 2016 was the first time that assessments included a portion going towards rebuilding the South Carolina Unemployment Compensation Fund. South Carolina State regulations also provide for a suspension of the rebuilding process if the State of South Carolina enters into a future recession.

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 an 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 Chief Financial Officer, 1550 Gadsden Street, P.O. Box 995, Columbia, South Carolina 29202.

BASIC FINANCIAL STATEMENTS

South Carolina Department of Employment and Workforce
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-type Activities	Totals
Assets:			
Current assets:			
Cash	$ 32,173,807	$ 688,099,407	$ 720,273,214
Assessments receivable, net	13,026,027	106,246,031	119,272,058
Benefit overpayments receivable, net	-	9,264,302	9,264,302
Accounts receivable, net	-	2,258,488	2,258,488
Internal balances	1,924,348	(1,924,348)	-
Intergovernmental receivables, net:			
Federal government	52,378,087	-	52,378,087
State agencies	808,699	545,954	1,354,653
Local governments	162,409	759,830	922,239
Other states	-	1,372,068	1,372,068
Prepaid and inventory items	179,633	-	179,633
Total current assets	100,653,010	806,621,732	907,274,742
Non-current assets:			
Non-depreciable capital assets	64,761,160	-	64,761,160
Capital assets, net of accumulated depreciation	10,230,741	-	10,230,741
Total non-current assets	74,991,901	-	74,991,901
Total assets	175,644,911	806,621,732	982,266,643
Deferred outflows of resources:			
Deferred outflows of resources related to pension plan	9,269,610	-	9,269,610
Total deferred outflows of resources	9,269,610	-	9,269,610
Liabilities:			
Current liabilities:			
Benefits payable	-	534,116	534,116
Accounts payable	38,715,591	-	38,715,591
Retainage payable	1,431,529	-	1,431,529
Income tax withholdings payable	-	9,658	9,658
Contributions payable	-	23,426,050	23,426,050
Accrued salaries and related benefits	3,221,315	-	3,221,315
Intergovernmental payables:			
Federal government	-	1,585,251	1,585,251
State agencies	80,129	-	80,129
Other states	-	1,942,612	1,942,612
Amounts due to reimbursable employer	-	2,059,358	2,059,358
Current portion of accrued compensated absences and related benefits	2,401,473	-	2,401,473
Current portion of capital lease payable	12,620	-	12,620
Total current liabilities	45,862,657	29,557,045	75,419,702
Non-current liabilities:			
Accrued compensated absences and related benefits, net of current portion	972,926	-	972,926
Capital lease payable, net of current portion	25,240	-	25,240
Net pension liability	62,344,542	-	62,344,542
Total non-current liabilities	63,342,708	-	63,342,708
Total liabilities	109,205,365	29,557,045	138,762,410
Deferred inflows of resources:			
Deferred inflows of resources related to pension plan	4,864,440	-	4,864,440
Total deferred inflows of resources	4,864,440	-	4,864,440
Net position:			
Net investment in capital assets	74,954,041	-	74,954,041
Restricted	2,367,291	777,064,687	779,431,978
Unrestricted	(6,476,616)	-	(6,476,616)
Total net position	$ 70,844,716	$ 777,064,687	$ 847,909,403

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, 2017

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Total
Governmental activities:						
Employment, workforce development, and training services	$ 103,758,629	$ 19,871,944	$ 130,298,109	$ 46,411,424	$ -	$ 46,411,424
Business-type activities:						
Unemployment benefits	197,281,223	384,577,444	9,651,488	-	196,947,709	196,947,709
Totals	$ 301,039,852	$ 404,449,388	$ 139,949,597	$ 46,411,424	$ 196,947,709	$ 243,359,133
		General revenues (expenses):				
		State appropriations		500,000	-	500,000
		Loss on sale of capital assets		(44,191)	-	(44,191)
		Non-operating revenues		-	12,208,292	12,208,292
		Indirect costs remitted to General Fund of the State		(606,773)	-	(606,773)
		Total general revenues, (expenses) and transfers		(150,964)	12,208,292	12,057,328
		Change in net position		46,260,460	209,156,001	255,416,461
		Net position, beginning of year, as originally reported		13,640,454	542,213,210	555,853,664
		Prior period restatement		10,943,802	25,695,476	36,639,278
		Net position, beginning of year, as restated		24,584,256	567,908,686	592,492,942
		Net position, end of year		$ 70,844,716	$ 777,064,687	$ 847,909,403

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

South Carolina Department of Employment and Workforce
Balance Sheet
Governmental Fund
June 30, 2017

Assets:	
Cash	$ 32,173,807
Assessments receivable, net	13,026,027
Intergovernmental receivables, net:	
Federal government	52,378,087
State agencies	808,699
Local governments	162,409
Due from the Trust Fund	1,924,348
Prepaid and inventory items	179,633
Total assets	$ 100,653,010
Liabilities and fund balance:	
Liabilities:	
Accounts payable	$ 38,715,591
Retainage payable	1,431,529
Intergovernmental payables:	
State agencies	80,129
Accrued salaries and related benefits	3,221,315
Total liabilities	43,448,564
Fund balance:	
Non-spendable:	
Prepaid and inventory items	179,633
Restricted:	
Reed Act	1,226,026
Integrity funds	1,141,265
Assigned	54,657,522
Total fund balance	57,204,446
Total liabilities and fund balance	$ 100,653,010

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

South Carolina Department of Employment and Workforce
Reconciliation of the Balance Sheet of the Governmental Fund to the
Statement of Net Position
June 30, 2017

Reconciliation to the Statement of Net Position:

Fund balance – governmental fund	$ 57,204,446
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund. These assets consist of:	
Land	2,415,570
Land improvements	237,556
Buildings and improvements	25,305,466
Equipment and furniture	4,196,836
Intangible asset CIP	62,345,590
Intangible assets	7,212,516
Vehicles	386,802
Accumulated depreciation	(27,108,435)
Total capital assets	74,991,901
Balances for deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental fund	
Net pension plan difference between expected and actual experience	578,882
Net difference between projected and actual earnings on pension plan investments	5,246,828
Pension plan contributions made subsequent to the measurement date	3,376,255
Changes in proportion and differences between employer contributions and proportionate share of contributions	(4,796,795)
	4,405,170
Some liabilities and deferred amounts are not due and payable in the current period and therefore are not reported in the governmental fund. These liabilities and deferred amounts consist of:	
Accrued compensated absences	(3,374,399)
Capital lease payable	(37,860)
Net pension liability	(62,344,542)
	(65,756,801)
Net position – governmental activities	$ 70,844,716

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 Balance
Governmental Fund
Year Ended June 30, 2017

Revenues:	
Employer tax contingency assessments	$ 14,838,532
Employer tax penalties and interest	3,590,869
Employer tax integrity assessments	597,157
User fees	6,364
Intergovernmental:	
Federal government	130,298,109
State agencies	500,000
Local governments	795,752
Parking	43,270
Total revenues	150,670,053
Expenditures:	
Employment and training administration	43,224,975
Contingency assessments	8,424,349
Penalties and interest	36,304
Integrity assessments	49,948
Workforce Innovation and Opportunity Act	39,728,075
Trade Adjustment Assistance	5,335,054
Other federal programs	4,197,372
Other non-federal expenditures	870,429
Occupational Information Coordinating Committee	123
Capital outlay	43,512,291
Total expenditures	145,378,920
Excess of revenues over expenditures	5,291,133
Other financing sources and (uses):	
Proceeds from sale of capital assets	1,551,710
Issuance of capital lease	37,860
Remittance to Department of Administration for proceeds from sale of capital assets	(147,042)
Indirect costs remitted to General Fund of the State	(606,773)
Total other financing sources	835,755
Change in fund balance	6,126,888
Beginning fund balance, as originally reported	40,133,756
Prior period restatement	10,943,802
Beginning fund balance, as restated	51,077,558
Ending fund balance	$ 57,204,446

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

South Carolina Department of Employment and Workforce
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities
Year Ended June 30, 2017

Reconciliation to the Statement of Activities:

Net increase in fund balance	$ 6,126,888
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported as expenditures in the governmental fund. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	43,474,431
Depreciation expense	(1,050,941)
	42,423,490
The proceeds from the sale of capital assets are reported as revenue in the governmental fund. The cost of the capital assets are removed from the capital asset account on the Statement of Net Position and is offset against the proceeds from the sale of capital assets resulting in a gain or loss on the sale of capital assets on the Statement of Activities.	
Net proceeds from sale of capital assets	(1,404,668)
Loss on sale of capital assets	(44,191)
	(1,448,859)
Capital leases provide current financial resources to governmental funds, but issuing long-term debt increases long-term liabilities in the Statement of Net Position. Repayment of capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which the capital lease obligation exceeded repayments.	(37,860)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the government fund.	
Pension expense	(531,550)
Net increase in accrued compensated absences	(271,649)
	(803,199)
Change in net position	$ 46,260,460

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

South Carolina Department of Employment and Workforce
Statement of Fund Net Position
Proprietary Fund
June 30, 2017

Assets:	
Current assets:	
Cash	$ 688,099,407
Assessments receivable, net	106,246,031
Benefit overpayments receivable, net	9,264,302
Accounts receivable, net	2,258,488
Intergovernmental receivables, net:	
State agencies	545,954
Local governments	759,830
Other states	1,372,068
Total assets	808,546,080
Liabilities:	
Current liabilities:	
Benefits payable	534,116
Income tax withholdings payable	9,658
Contributions payable	23,426,050
Amounts due to reimbursable employers	2,059,358
Amounts due to the Department	1,924,348
Intergovernmental payables:	
Federal government	1,585,251
Other states	1,942,612
Total liabilities	31,481,393
Net position:	
Restricted	777,064,687
Total net position	$ 777,064,687

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 Position
Proprietary Fund
Year Ended June 30, 2017

Operating revenues:	
Assessments	$ 355,337,119
Reimbursement of unemployment compensation benefits from employers	1,968,516
Benefit overpayment recoveries	15,424,783
Intergovernmental:	
Federal government	9,651,488
State agencies	2,135,270
Local governments	3,731,999
Other states	5,979,757
Total operating revenues	394,228,932
Operating expenses:	
Unemployment compensation benefits	195,228,061
Payments returned to federal government	2,053,162
Total operating expenses	197,281,223
Operating income	196,947,709
Non-operating revenues:	
Interest income	12,208,042
FUTA credit adjustment	250
Total non-operating revenues	12,208,292
Change in net position	209,156,001
Beginning net position, as originally reported	542,213,210
Prior period restatement	25,695,476
Beginning net position, as restated	567,908,686
Ending net position	$ 777,064,687

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, 2017

Cash flows from operating activities:	
Cash received from assessments	$ 366,934,021
Cash received from employer reimbursements, net	4,006,042
Cash received from benefit overpayment recoveries	14,404,877
Cash received from federal, state and local agencies	21,452,897
Cash paid for benefits	(194,547,934)
Cash paid for refunds of overpaid assessments	(6,104,782)
Net cash flows provided by operating activities	206,145,121
Cash flows from non-capital related financing activities:	
Proceeds from federal government, net of FUTA credits	250
Net cash flows provided by non-capital related financing activities	250
Cash flows from investing activities:	
Cash received from interest earned on trust fund	12,208,042
Net cash flows provided by investing activities	12,208,042
Net increase in cash	218,353,413
Cash, beginning of year	469,745,994
Cash, end of year	$ 688,099,407
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 196,947,709
Net changes in operating assets and liabilities:	
Assessments receivable, net	6,163,646
Benefit overpayments receivable, net	482,288
Accounts receivable, net	(1,502,194)
Intergovernmental receivables, net:	
State agencies	(117,008)
Local governments	71,204
Other states	187
Benefits payable	(147,789)
Income tax withholdings payable	(1,793)
Contributions payable	3,582,084
Amounts due to reimbursable employers	2,037,526
Amounts due to the Department	(671,526)
Intergovernmental payables:	
Federal government	(562,543)
Other states	(136,670)
Net cash provided by operating activities	$ 206,145,121

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

Note 1. Summary of Significant Accounting Policies

Reporting Entity

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 compensation benefits, the collection of the unemployment tax from subject employers, and the operation of a system for statewide employment services. During March 2010, Section 41-29-10 of the South Carolina Code of Laws was amended by the General Assembly through Act 146, restructuring the Employment Security Commission into a State of South Carolina cabinet agency under the Governor. The Employment Security Commission merged with the Workforce Development Division of the South Carolina Department of Commerce to become the South Carolina Department of Employment and Workforce (the "Agency"). Act 159 designated the Agency as the entity responsible for the administration of the Workforce Investment Act (WIA) and Trade Adjustment Assistance (TAA) activities and for carrying out all functions necessary to comply with the WIA, as amended by the Workforce Innovation and Opportunity Act of 2014 (WIOA), and the Trade Act of 1974, as amended by the Trade and Globalization Adjustment Assistance Act of 2009. The administrative costs of the Agency are paid from grants primarily from the U.S. Department of Labor.

The Agency'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 state 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 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 Employment Services Program operates as a free labor exchange where workers and jobs are brought together in local "SC Works" centers throughout the State of South Carolina. Workers of all skills, professions, and types, including veterans, migrant and seasonal farm workers, youth, older workers, and disabled individuals are placed in suitable jobs by Employment Services staff.

Special emphasis is given to the job placement of unemployment insurance claimants. In addition, the Agency maintains a comprehensive Labor Market Information program, which collects and disseminates employee statistics, job forecasts, wage information, demographics, and other information in cooperation with the U. S. Department of Labor's Bureau of Labor Statistics.

The Agency is primarily funded with federal grant funding, but prepares an annual budget to be included in the State of South Carolina's Appropriations Act to request spending authority for its federal, state, and other funds. The appropriation, as enacted, becomes the state-level legal operating budget for the Agency. The Appropriations Act authorizes expenditures from the State of South Carolina's General Fund and authorizes expenditures of total funds.

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.

Note 1. Summary of Significant Accounting Policies (continued)

Component Units

The Agency applies the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, in evaluating the nature of the financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. An organization other than the primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as the primary entity. Therefore, the Agency has determined that it is not a component of another entity and it has no component units. The Agency's operations accounted for in its governmental fund and enterprise fund are included in the State of South Carolina's Departmental Services Program Fund and Unemployment Compensation Fund, respectively. However, this financial reporting entity only includes the Agency (a primary entity).

A 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 is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization's officials, or if the organization is fiscally dependent on the primary government, and there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations.

An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

1. The primary government is legally entitled to or can otherwise access the organization's resources.
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
3. The primary government is obligated in some manner for the debt of the organization.

Governmental Funds

The laws of the State of South Carolina and the policies and procedures specified by the State of South Carolina 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.

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Funds, continued

Governmental funds are used to account for a 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 deferred outflows of resources less liabilities and deferred inflows of resources is the fund balance. The Agency's governmental fund is accounted for as a 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 – This is the division of the U.S. Department of Labor which administers and provides funding for the Agency's major grant programs.

Administrative Contingency (Contingency Assessments) – The assessment was established by the South Carolina State Legislature during 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 State of South Carolina unemployment taxes fund unemployment compensation benefits in the proprietary fund. Contingency assessment funds are used for purposes established under Section 41-33-710 of the South Carolina Code of Laws.

Special Administration (Penalties and Interest) – Employers who do not submit required reports or tax payments by their due dates are subject to penalties and must pay interest on unpaid contributions. The monies are transferred to the Special Administration Fund each month to be used for purposes established under Section 41-33-610 of the South Carolina Code of Laws.

Integrity – This account consists of penalties assessed and received from unemployment insurance claimants found to have received unemployment compensation benefits due to having made false statements or failing to disclose a material fact pursuant to South Carolina State law. Integrity funds are used for purposes established under Section 41-33-910 of the South Carolina Code of Laws.

Unemployment Compensation Modernization Incentive Payments – This is a special transfer of funds from the U.S. 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 benefit claimants.

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Funds, continued

South Carolina Occupational Information Coordinating Committee (SCOICC) – The SCOICC was established during 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). The SCOIS also develops printed career development products for schools grade K through 12. The SCOICC is charged with giving special attention to the career and educational needs of individuals involved in career decision making. The SCOIS 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 the State of South Carolina have free access to the SCOIS. During the year ended June 30, 2016, the SCOIS, its authority, responsibilities, full-time equivalent employees, and funding were transferred to the South Carolina Department of Education.

Workforce Innovation and Opportunity Act (WIOA) – The WIOA Program is a federal program administered throughout the State of South Carolina through the Workforce and Economic Development Division of the Agency, and through twelve (12) Workforce Investment areas throughout the State of South Carolina. A statewide board, appointed by the Governor and comprised of business owners, state government officials, educators and private citizens, guides policy for all WIOA-funded programs. WIOA programs help businesses meet their need for skilled workers and provide individuals with access to training that helps them prepare for work. The WIOA was signed into law on July 22, 2014 and became effective on July 1, 2016, amending the Workforce Investment Act (WIA).

Trade Adjustment Assistance (TAA) – The TAA Program is a federal program funded by the U.S. Department of Labor 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 revenues of the Agency's proprietary fund are assessments from employers and reimbursements from the federal government for the payment of unemployment compensation benefits. The Agency's proprietary fund is used to account for the activity of 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 may be retained in the Trust Fund for the payment of unemployment compensation benefits, unless the State of South Carolina has outstanding Federal Unemployment Account advances.

Note 1. Summary of Significant Accounting Policies (continued)

Proprietary Funds, continued

The Trust Fund includes the following accounts:

Basic Unemployment Compensation (UI) – The UI Program accounts for regular unemployment benefits paid to individuals. It is funded by quarterly tax remittances from employers within the State of South Carolina, as well as reimbursements from other states, recoupment on overpayments, and interest received on Trust Fund balances, when applicable.

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

Unemployment Compensation for Ex-Servicemen (UCX) – The UCX Program accounts for unemployment compensation paid to ex-servicemen and is funded by the federal government.

Trade Readjustment Allowance (TRA) – The TRA Program accounts for unemployment compensation benefits paid to individuals who have lost their jobs due to foreign trade. These payments are made after regular unemployment compensation benefits and extended benefits have been exhausted. It is funded by the federal government.

Alternative Trade Adjustment Assistance (ATAA) – The ATAA Program provides eligible individuals over the age of fifty (50) who obtain new employment within twenty-six (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) – The RTAA program was implemented during the year ended June 30, 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 older than the age of fifty (50) who lost their jobs due to imports, but are now working again at a lower salary. The recipients are paid fifty percent (50%) of the difference between their old and new salary. It is funded by the federal government.

Disaster Unemployment Insurance (DUA) – The DUA Program provides temporary benefits to individuals whose jobs or self-employment has been lost or interrupted due to a major disaster.

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.

Note 1. Summary of Significant Accounting Policies (continued)

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 non-federal revenues to be available if they are collected within sixty (60) days of the end of the current reporting period while federal revenues are recorded based on when related expenses are incurred. 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.

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 South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Agency. The Appropriation Act authorizes expenditures from funds appropriated from the State of South Carolina's General Fund and authorizes expenditures of federal and other funds by the Agency. 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 South Carolina General Assembly enacts the budget through the passage of line-item appropriations by program within budgetary unit within budgetary fund category, State of South Carolina General Fund, or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity.

Note 1. Summary of Significant Accounting Policies (continued)

Budget Policy, continued

Agencies may process disbursement vouchers in the State of South Carolina's budgetary accounting system only if enough cash and appropriation authorization exist.

The Agency's budget is not presented for comparison purposes because GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires only major special revenue funds of the State of South Carolina to present such information. Since the Agency is not a major special revenue fund of the State of South Carolina, budgetary comparison information is excluded from the basic financial statements.

New Accounting Pronouncements

During June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

This Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires governments to report a liability on the face of the financial statements for the unfunded portion of the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*, the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.

- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

Note 1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

Statement No. 75 carries forward from Statement No. 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new required supplementary information includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB becomes due for employees of other governments. In certain circumstances, called special funding situations, Statement No. 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.

The provisions of this Statement are effective for financial statement periods beginning after June 15, 2017. The Agency implemented the provisions of this Statement during the year ended June 30, 2018.

During June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2019. Management is currently evaluating the potential effects of this accounting standard on the Agency's financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

During April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in the notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in the notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2018. Management is currently evaluating the potential effects of this accounting standard on the Agency's financial statements.

During June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5 through 22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The provisions of this Statement are effective for financial statement periods beginning after December 15, 2019. Management is currently evaluating the potential effects of this accounting standard on the Agency's financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

Cash

The amounts shown in the financial statements as "cash" represent petty cash, cash on hand with the South Carolina State Treasurer, and cash on deposit with the U.S. Treasury and in various depository financial institutions.

Most state agencies, including the South Carolina Department of Employment and Workforce, participate in the State of South Carolina's internal cash management pool. Because the internal cash management pool operates as a demand deposit account, amounts deposited in the pool are classified as cash. The South Carolina State Treasurer administers the internal cash management pool. For credit risk information pertaining to the internal cash management pool, see the deposits disclosure in Note 2.

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

Receivables

Receivables consist primarily 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 Agency is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten (10) days thereafter, the Agency 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 upon historical collection activity applied to outstanding account balances up to two (2) years old with all account balances greater than two (2) years old being fully reserved for.

Due from Reimbursable Employers

The 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

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.

The amounts due from state agencies represent unemployment compensation benefit reimbursements due from other South Carolina state agencies.

Note 1. Summary of Significant Accounting Policies (continued)

Receivables (continued)

Intergovernmental Receivables (continued)

The benefit reimbursement receivable due from other states and local governments is based on the pro-rata 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, intercepting of state and federal income tax refunds, wage withholdings from claimant's 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 U.S. 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.

During January 2013, the Agency began receiving federal tax refunds intercepted by the U.S. Treasury, which were initially due to claimants that have received unemployment compensation benefit payments to which they were not entitled. The Agency's implementation of the Treasury Offset Program allowed it to recover significant amounts of overpayments receivable due from unemployment compensation benefit recipients during the year.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation in the case of gifts. The Agency follows the State of South Carolina's capitalization guidelines. 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 one (1) year 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 during 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 twenty (20) to fifty (50) years for buildings and improvements and land improvements and three (3) to twenty-five (25) years for intangible assets, equipment, furniture, and vehicles.

Benefits Payable

Benefits payable represents unemployment compensation benefits paid after year-end for benefit weeks ending prior to June 30th.

Note 1. Summary of Significant Accounting Policies (continued)

Accrued Compensated Absences

Generally all full-time equivalent State of South Carolina employees and certain part-time employees scheduled to work at least one-half of the month are entitled to accrue and carry forward at calendar year-end up to maximums of one hundred eighty (180) days sick leave and forty-five (45) days annual vacation leave. Upon termination of State of South Carolina 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 current year-end salary costs and the cost of the salary-related benefit payments, is recorded on the Statement of Net Position.

Indirect Cost

The Agency recovers indirect costs from federal funding sources based on a negotiated cost allocation plan approved by the U.S. Department of Labor, Office of Cost Determination. The indirect costs recovered from this agreement are used to offset the administrative costs of the Agency and services provided by other state agencies. During the year ended June 30, 2017, the Agency recovered $9,599,386 of indirect costs within the cost allocation plan. Of this amount, $606,773 was remitted to the State of South Carolina and $8,992,613 was retained by the Agency. Indirect cost recoveries are reported as a reduction to federal expenditures.

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 transactions that fall into this category are indirect costs, which are initially captured in the cost pool, then 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.

Prepaids

Payments made to vendors for services that will benefit periods beyond the current year-end are recorded as prepaids. Prepaids 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, and insurance coverage.

Intergovernmental Payables

The amounts reported as intergovernmental payables – state agencies represent those amounts due to the South Carolina Technical College System.

The amounts reported as intergovernmental payables – federal agencies represent amounts due to the U.S. Department of Labor for the UCX, EB and EUC Programs.

Note 1. Summary of Significant Accounting Policies (continued)

Intergovernmental Payables (continued)

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

Contributions Payable

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

Operating and Non-operating Revenues and Expenses

The Agency 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 entity's principal ongoing operations. The Agency's primary operating revenues are from assessments and reimbursement from the federal government for the payment of unemployment compensation benefits. Operating expenses include unemployment compensation benefits paid. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension plan, and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in the net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions made subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position / 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. Unassigned fund balance indicates 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 position is categorized as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, as well as 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.

Note 1. Summary of Significant Accounting Policies (continued)

Net Position / Fund Balances (continued)

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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position 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 - This component of net position consists of items that do not meet the definition of "restricted" or "net investment in capital assets."

The Agency has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes criteria for classifying governmental fund balances into specifically defined classifications. Classifications are hierarchical and are based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds may be spent. Application of this Statement requires the Agency to classify and report amounts in the appropriate fund balance classifications.

The Agency’s accounting and finance policies are used to interpret the nature and/or requirements of the funds and their corresponding assignment of non-spendable, restricted, committed, assigned, or unassigned. Fund balances are classified as follows:

Non-spendable - Amounts that cannot be spent either because they are not in a spendable form, such as inventory or prepaids, or because they are legally or contractually required to be maintained intact, such as a trust.

Restricted - Amounts that can be spent only for specific purposes because of Agency ordinances, state or federal laws, or externally imposed conditions established by grantors or creditors.

Committed - Amounts constrained to specific purposes by the Agency itself, using the highest level of decision-making authority, the South Carolina State Legislature and the Governor. To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level of action to remove or change the constraint.

Assigned - Amounts the Agency intends to use for a specific purpose. Intent can be expressed by an official or body to which the Agency delegates the authority.

Unassigned - All amounts not included in other spendable classifications.

The Agency permits funds to be expended in the following order: committed, assigned, and unassigned.

At June 30, 2017, the Agency's restricted balances are as follows:

Payment of benefits – The principal source of revenue for the Agency is quarterly unemployment tax contributions paid by employers, which may only be used to pay unemployment compensation benefits. Federal law requires the Agency to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings may be used only to pay unemployment compensation benefits.

Note 1. Summary of Significant Accounting Policies (continued)

Net Position / Fund Balances (continued)

Reed Act - The Agency sold real property containing Reed Act equity, and as of June 30, 2017, $1,226,026 of funds are available under the Reed Act in the proprietary fund. No funds were spent during year ended June 30, 2017 from the previously appropriated funds and $1,226,026 is shown as a restricted fund balance for the special revenue fund.

Integrity – The integrity account, and any related receivables, consist of monetary penalties recorded pursuant to the South Carolina Code of Laws. Integrity funds are restricted as they are solely to be used for the purpose of specifically promoting unemployment insurance integrity efforts. These efforts may include, but are not limited to, identifying overpayments, verifying eligibility, determining status, and updating technology and educational tools to support integrity activities.

SCOICC - Pursuant to the 2005 Appropriation Act Proviso 51.2, all user fees collected by the South Carolina Occupational Information Coordinating Committee (SCOICC) through the Agency may be retained to use for operating the South Carolina Occupational Information System (SCOIS). All user fees not expended during the prior year were brought forward for use during the current year. As of June 30, 2017, there were no user fees to carry forward to the year ending June 30, 2018.

During the year ended June 30, 2016, the SCOIS, its authority, responsibilities, full-time equivalent employees, and funding were transferred to the South Carolina Department of Education and the remaining user fees were transferred to the South Carolina Department of Education during the year ended June 30, 2017.

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. The most significant estimates are the allowance for uncollectible accounts and the useful lives of capital assets.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through July 31, 2019, the date these financial statements were available to be issued.

Note 2. Deposits

The amount shown as cash in the Statement of Net Position at June 30, 2017 is composed of the following:

Cash on hand	$ 1,500
Deposits held by the South Carolina State Treasurer	36,536,086
Deposits held by the U.S. Treasury	678,148,439
Other deposits	5,587,189
Total	$ 720,273,214

Note 2. Deposits (continued)

Deposits held by the South Carolina State Treasurer

South Carolina State law requires full collateralization of all South Carolina State Treasurer bank balances. The South Carolina State Treasurer must correct any deficiencies in collateral within seven (7) days. As of June 30, 2017, all South Carolina State Treasurer bank balances were fully insured or collateralized with securities held by the State of South Carolina or its agent in the State of South Carolina's name.

Deposits held by the U.S. Treasury

Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the U.S. 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. 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 3. Interfund Receivables and Payables

The amounts shown on the financial statements as being interfund receivables and payables represent the following amounts which were collected by the Trust Fund for penalties and interest, contingency assessments, and interest surcharges via tax remittances from employers, unemployment insurance special administrative funds, Reed Act and FUTA integrity funds as of June 30, 2017:

Contingency assessments	$ 225,359
Penalties, interest, service charges and fees	386,565
Special Administration Fund	70,311
Reed Act	1,226,026
FUTA Penalty Integrity Fund	16,087
Total	$ 1,924,348

Note 4. Receivables

The receivable balances at June 30, 2017 and the related amounts for allowances for uncollectible accounts are as follows:

	Receivables	Allowance for Uncollectible Accounts	Net Receivables
Special Revenue Fund:			
Assessments receivable:			
Contingency	$ 4,320,705	$ 481,448	$ 3,839,257
Penalties, interest, service charges and fee	20,915,393	11,728,623	9,186,770
Interest surcharge	1,364,615	1,364,615	-
Total	$ 26,600,713	$ 13,574,686	$ 13,026,027
Intergovernmental receivables:			
Federal government	$ 52,378,087	$ -	$ 52,378,087
State agencies	808,699	-	808,699
Local governments	162,409	-	162,409
Total	$ 53,349,195	$ -	$ 53,349,195

	Receivables	Allowance for Uncollectible Accounts	Net Receivables
Proprietary Fund:			
Assessments receivable	$ 142,859,858	$ 36,613,827	$ 106,246,031
Benefit overpayments receivable:			
Basic unemployment compensation (UI)	$ 15,201,837	$ 6,107,224	$ 9,094,613
Federal employees (UCFE)	47,928	18,550	29,378
Ex-servicemen (UCX)	138,520	69,584	68,936
Disaster unemployment assistance (DUA)	19,303	15,812	3,491
Trade readjustment compensation (TRA)	3,275	1,636	1,639
Emergency unemployment compensation (EUC)	3,158,093	3,091,848	66,245
Total	$ 18,568,956	$ 9,304,654	$ 9,264,302
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	$ 2,677,852	$ -	$ 2,677,852

Note 5. Capital Assets

A summary of capital assets activity for the year ended June 30, 2017 is as follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	$ 2,550,570	$ -	$ (135,000)	$ 2,415,570
Intangible asset CIP	19,220,372	43,266,926	(141,708)	62,345,590
Construction in progress	102,112	1,818	(103,930)	-
Total capital assets not being depreciated	21,873,054	43,268,744	(380,638)	64,761,160
Depreciable capital assets:				
Buildings and improvements	27,305,735	103,930	(2,104,199)	25,305,466
Land improvements	237,556	-	-	237,556
Equipment and furniture	4,464,311	149,025	(416,500)	4,196,836
Intangible assets	7,055,352	157,164	-	7,212,516
Vehicles	384,470	41,206	(38,874)	386,802
Total depreciable capital assets	39,447,424	451,325	(2,559,573)	37,339,176
Less accumulated depreciation for:				
Buildings and improvements	15,890,933	644,464	(790,340)	15,745,057
Land Improvements	237,556	-	-	237,556
Equipment and furniture	3,878,990	319,190	(416,500)	3,781,680
Intangible assets	7,044,597	42,921	-	7,087,518
Vehicles	251,132	44,366	(38,874)	256,624
Total accumulated depreciation	27,303,208	1,050,941	(1,245,714)	27,108,435
Depreciable capital assets, net	12,144,216	(599,616)	(1,313,859)	10,230,741
Total capital assets, net	$ 34,017,270	$ 42,669,128	$ (1,694,497)	$ 74,991,901

Depreciation expense was $1,050,941 for the year ended June 30, 2017. Total outstanding commitments on projects as of June 30, 2017 were $43,313,945.

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017	Due Within One Year
Accrued compensated absences and related benefits	$ 3,102,750	$ 2,594,137	$ 2,322,488	$ 3,374,399	$ 2,401,473
Capital lease payable	-	37,860	-	37,860	12,620
	$ 3,102,750	$ 2,631,997	$ 2,322,488	$ 3,412,259	$ 2,414,093

Capital Leases

On June 1, 2017, the Agency entered into a capital lease to purchase equipment. Terms of the lease required thirty-six (36) monthly payments, including principal and interest at 5.47% beginning on July 1, 2017 with the final payment due on July 1, 2019. The cost of the asset acquired was $37,860 and the accumulated depreciation was $631 as of June 30, 2017. The future minimum principal and interest payments for the capital lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 12,620	$ 678	$ 13,298
2019	12,620	678	13,298
2020	12,620	678	13,298
	$ 37,860	$ 2,034	$ 39,894

Note 7. Leases

The Agency has entered into operating leases for office rent, equipment and computers. All of the leases are non-cancellable leases with no purchase options and their terms are greater than one (1) year. Payments are due on a quarterly or annual basis. Ending payment dates range from the year ended June 30, 2018 through the year ended June 30, 2022. Certain operating leases provide for renewal options for periods from one (1) to five (5) 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 of its leased property. Rental expenditures for office rent, equipment and computers were $520,472 for the year ended June 30, 2017.

The following is a schedule by years of future minimum rental payments required under the non-cancellable operating lease agreements with remaining terms at June 30, 2017 in excess of one year. The future minimum rental payments for the operating leases exclude the monthly executory costs.

Year Ending June 30,	Operating Leases
2018	$ 470,691
2019	336,589
2020	128,766
2021	50,425
2022	17,166
	$ 1,003,637

Note 8. Pension Plans

The majority of employees of the Agency are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State of South Carolina employees in a permanent position 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, as amended, or are eligible and elect to participate in the State of South Carolina Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

The Retirement Benefits Division maintains five (5) independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report which includes financial statements and required supplementary information. A copy of the separately issued Comprehensive Annual Financial Report may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Retirement Benefits Division and the five (5) pension plans are included in the State of South Carolina's Comprehensive Annual Financial Report.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching the age of sixty-five (65) or completion of twenty-eight (28) years of credited service regardless of age. Employees who first became members of the SCRS after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching the age of sixty-five (65) or upon meeting the rule of ninety (90) requirement (i.e., the members' age plus the years of service add up to a total of at least 90).

The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, the AFC is the average annual earnable compensation during the twelve (12) highest consecutive quarters and includes an amount for up to forty-five (45) days of termination pay at retirement for unused annual leave. For Class III members, the AFC is the average annual earnable compensation during the twenty (20) highest consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age fifty-five (55) for Class II members and age sixty (60) for Class III members. Class II members are vested for a deferred annuity after five (5) years of earned service. Class III members are vested for a deferred annuity after eight (8) years of earned service. Members qualify for a survivor's benefit upon the completion of five (5) years of earned service and either have at least fifteen (15) years of total service credit or are at least sixty (60) years of age at the time of death.

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least five (5) years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight (8) years of credited service. For disability applications received after December 31, 2013, a member of the SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

Note 8. Pension Plans (continued)

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one (1) year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to $6,000 based on years of service at retirement. Teacher and Employee Retention Incentive (TERI) participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

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 TERI program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five (5) 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 benefit adjustments granted during the TERI period.

Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Effective July 1, 2016, employees participating in the SCRS were required to contribute 8.66% of all earnable compensation. The employer contribution rate for SCRS was 16.74%. Included in the total SCRS employer contribution rate is a base retirement contribution of 11.41% and a 5.33% surcharge that will fund retiree health and dental insurance coverage.

The Agency's actual retirement and incidental death benefit program contributions to the SCRS for the years ended June 30, 2017, 2016, and 2015 were approximately $4,559,000, $4,368,000, and $4,474,000, respectively, and equaled the base required retirement contribution rate, excluding the surcharge, of 11.41%, 10.91%, and 10.75% for the years ended June 30, 2017, 2016, and 2015, respectively. Also, the Agency paid employer incidental death benefit program contributions of approximately $45,000, $40,000, and $42,000, at the rate of 0.15% of earnable compensation for the years ended June 30, 2017, 2016, and 2015, respectively.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement plan. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the PORS as a condition of employment. This plan provides for lifetime monthly annuity benefits as well as disability, survivor benefits and incidental death benefits to eligible employees and retirees. In addition, participating employers in the PORS may elect to contribute to the accidental death program 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.

Note 8. Pension Plans (continued)

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching the age of fifty-five (55) or completion of twenty-five (25) years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching the age fifty-five (55) or twenty-seven (27) years of credited service. The benefit formula for full benefits for the PORS is 2.14 percent of an employee's AFC multiplied by the number of years of credited service. For Class II members, the AFC is the average annual compensation during the twelve (12) consecutive quarters and includes an amount for up to forty-five (45) days of termination pay for unused annual leave. For Class III members, the AFC is the average annual earnable compensation during the twenty (20) consecutive quarters and termination pay for unused annual leave at retirement is not included. The PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five (5) years of earned service. Class III members are vested for a deferred annuity after eight (8) years of earned service. Members qualify for a survivor's benefit upon the completion of fifteen (15) years of credited service (five (5) years effective January 1, 2002).

Effective July 1, 2016, employees participating in the PORS were required to contribute 9.24% of all earnable compensation. The employer contribution rate for PORS was 19.17%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.84% and a 5.33% surcharge that will fund retiree health and dental insurance coverage. The Agency's actual contributions to the PORS for the years ended June 30, 2017, 2016, and 2015 were approximately \$5,600, \$5,300, and \$6,000 respectively, and equaled the base retirement required contribution rate, excluding the surcharge, of 13.84%, 13.34%, and 13.01% for the years ended June 30, 2017, 2016, and 2015, respectively.

The Agency also paid employer incidental death benefit program contributions of approximately \$60 at the rate of 0.20% of earnable compensation for the years ended June 30, 2017, 2016, and 2015. In addition, the Agency paid accidental death program contributions of approximately \$60 at the rate of 0.20% of earnable compensation for the years ended June 30, 2017, 2016, and 2015.

As an alternative to membership in the SCRS, newly hired State of South Carolina and school district employees may elect to participate in the ORP, a defined contribution retirement plan. The ORP was established during 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State of South Carolina ORP participants direct the investment of their funds into a plan administered by one (1) of four (4) investment providers. The State of South Carolina assumes no liability for the ORP plan other than for the employer's payment of contributions to designated companies.

To elect participation in the ORP, eligible employees must elect membership within their first thirty (30) days of employment. Under South Carolina State law, contributions to the ORP are required at the same rates as for the SCRS, 6.41% plus the retiree surcharge of 5.33% from the employer during the year ended June 30, 2017. Of the 11.74% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 6.74% retirement contribution amount is remitted to the SCRS.

Total contribution requirements to the ORP were approximately \$402,000, \$393,000, and \$383,000 for the years ended June 30, 2017, 2016 and 2015, respectively.

Note 8. Pension Plans (continued)

The amounts paid by the Agency for pension, incidental death benefit program, and accidental death program contributions 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 of South Carolina 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.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for the administration of retiree health and dental insurance benefits and the establishment of the applicable retiree insurance surcharge rate.

For the year ended June 30, 2017, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Agency's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by PEBA and as appropriated in the South Carolina Appropriations Act and from other applicable revenue sources. Accordingly, the Agency recognizes no contingent liability for unfunded costs associated with participation in the plans.

Net Pension Liability

At June 30, 2017, the Agency reported a liability of $62,288,320 and $56,222 for its proportionate share of the SCRS and PORS net pension liability, respectively. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Agency's proportionate share of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Agency's proportionate shares of the SCRS and PORS plans were 0.29161% and 0.00222%, respectively.

Pension Expense

For the year ended June 30, 2017, the Agency recognized pension expense for the SCRS and PORS plans of $3,971,102 and $(63,297), respectively.

Note 8. Pension Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SCRS	
	Deferred outflows of	Deferred inflows of resources
Differences between expected and actual experience	$ 645,692	$ 67,645
Net difference between projected and actual earnings on pension plan investments	5,240,449	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	4,601,476
Employer contributions subsequent to the measurement date	3,372,088	-
Total	$ 9,258,229	$ 4,669,121

	PORS	
	Deferred outflows of	Deferred inflows of resources
Differences between expected and actual experience	$ 835	$ -
Net difference between projected and actual earnings on pension plan investments	6,379	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	195,319
Employer contributions subsequent to the measurement date	4,167	-
Total	$ 11,381	$ 195,319

Note 8. Pension Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

The deferred outflows of resources of $3,372,088 for SCRS and $4,167 for PORS related to pensions resulting from Agency contributions made subsequent to the measurement date for the SCRS and PORS plans during the year ended June 30, 2017. These deferred outflows of resources will be recognized as a reduction of the net pension liability during the year ending June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS and PORS plans:

SCRS

Year Ending June 30:		
2018	$	(176,380)
2019		(513,888)
2020		862,190
2021		1,045,098
	$	1,217,020

PORS

Year Ending June 30:		
2018	$	(67,750)
2019		(67,792)
2020		(52,987)
2021		424
	$	(188,105)

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina State statute requires that an actuarial experience study be completed at least once in each five (5) year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2017 annual valuation is completed.

Note 8. Pension Plans (continued)

Actuarial Assumptions and Methods (continued)

The most recent annual actuarial valuation reports adopted by the PEBA Board of Directors and the Department of Administration are as of July 1, 2015. The net pension liability of each defined benefit pension plan was therefore determined by PEBA's consulting actuary, Gabriel, Roeder, Smith and Company (GRS) based on the July 1, 2015 actuarial valuations, using membership data as of July 1, 2015, projected forward to the end of the year, and financial information of the pension trust funds as of June 30, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by GRS.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2015 valuations for SCRS and PORS.

	SCRS	PORS
Actuarial cost method	Entry age normal	Entry age normal
Investment rate of return	7.50%	7.50%
Projected salary increases	3.50% to 12.50% (varies by service)	4.00% to 10.00% (varies by service)
Benefit adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015 valuations for SCRS and PORS are as follows:

Former Job Class	Males	Females
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Note 8. Pension Plans (continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015 actuarial valuations, was based upon the thirty (30) year capital markets outlook at the end of the third quarter 2015. The long-term expected rates of return represent assumptions developed using a building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	**43.00%**		
Global Public Equity	34.00%	6.52%	2.22%
Private Equity	9.00%	9.30%	0.84%
Real Assets	**8.00%**		
Real Estate	5.00%	4.32%	0.22%
Commodities	3.00%	4.53%	0.13%
Opportunistic	**20.00%**		
GTAA/Risk Parity	10.00%	3.90%	0.39%
HF (Low Beta)	10.00%	3.87%	0.39%
Diversified Credit	**17.00%**		
Mixed Credit	5.00%	3.52%	0.17%
Emerging Middle Markets Debt	5.00%	4.91%	0.25%
Private Debt	7.00%	4.47%	0.31%
Conservative Fixed Income	**12.00%**		
Core Fixed Income	10.00%	1.72%	0.17%
Cash and Short Duration (Net)	2.00%	0.71%	0.01%
Total Expected Real Rate of Return	**100.00%**		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Rate of Return			**7.85%**

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina Code of Laws will remain unchanged in future years. Based on those assumptions, each retirement system's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 8. Pension Plans (continued)

Sensitivity Analysis

The following table presents the Agency's proportionate share of the net pension liability of the respective plans calculated using the discount rate of 7.50 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	**1.00% Decrease (6.50%)**	**Discount Rate (7.50%)**	**1.00% Increase (8.50%)**
SCRS	$ 77,702,974	$ 62,288,320	$ 49,456,202
PORS	$ 73,732	$ 56,222	$ 40,556

Pension Plan Fiduciary Net Position

The net pension liability is calculated separately for each retirement system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, less that system's fiduciary net position. As of June 30, 2017, net pension liability amounts for SCRS and PORS are as follows:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	$ 45,356,214,752	$ 23,996,362,354	$ 21,359,852,398	52.9%
PORS	$ 6,412,510,458	$ 3,876,035,732	$ 2,536,474,726	60.4%

The total pension liability is calculated by the systems' actuary, and each plan's fiduciary net position is reported in the systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the systems' notes to the financial statements and required supplementary information. Liability calculations performed by the systems' actuary for the purpose of satisfying the requirements of GASB Statement Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued Comprehensive Annual Financial Report containing financial statements and required supplementary information for SCRS and PORS which can be accessed via the contact information provided above.

Note 9. Post-Employment Benefits Other Than Pensions

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides post-employment health and dental and long-term disability benefits to retired State of South Carolina and school district employees and their covered dependents. The Agency contributes to the South Carolina Retiree Health Insurance Trust Fund and the South Carolina Long-Term Disability Insurance Trust Fund, cost-sharing multiple employer defined benefit post-employment healthcare, and long-term disability plans administered by the Insurance Benefits Division of PEBA.

Generally, retirees are eligible for the health and dental benefits if they have established at least ten (10) years of retirement service credit. For new hires beginning employment on May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five (25) years of service for 100% employer funding and fifteen (15) through twenty-four (24) years of service for 50% employer funding. Benefits become effective when the former employee retires under a State of South Carolina retirement system. Basic Long-Term Disability benefits are provided to active State of South Carolina, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these post-employment and long-term disability benefits to be funded through annual appropriations by the South Carolina General Assembly for active employees to the Insurance Benefits Division and participating retirees to PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the Insurance Benefits Division, for its active employees who are not funded by State of South Carolina General Fund appropriations.

Employers participating in the required medical plan are mandated by South Carolina State statue to contribute at a rate assessed each year by the Executive Budget Office, 5.33%, 5.33%, and 5.00% of annual covered payroll for the years ended June 30, 2017, 2016 and 2015, respectively. The Insurance Benefits Division sets the employer contribution rate based on a pay-as-you-go basis. The Agency paid approximately $3.72 million, $3.70 million, and $3.77 million in employer contributions for health and dental benefits for the years ended June 30, 2017, 2016 and 2015, respectively. The Agency paid approximately $1.58 million, $1.55 million, and $1.53 million, applicable to the surcharge included with the employer contributions for retirement benefits for the years ended June 30, 2017, 2016 and 2015, respectively. Basic Long-Term Disability benefits are funded through an individual's premium charged to state agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to the Insurance Benefits Division was $3.22 for the years ended June 30, 2017, 2016 and 2015.

Effective May 1, 2008, the State of South Carolina established two (2) 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 of South Carolina appropriated dollars, accumulated Insurance Benefits Division reserves, and income generated from investments. The South Carolina Long-Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions. A copy of the complete financial statements for the benefit plans and the trust funds can be obtained from the South Carolina Public Employee Benefit Authority, Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

Note 10. Deferred Compensation Plans

Several optional deferred compensation plans are available to State of South Carolina 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 State of South Carolina's Comprehensive Annual Financial Report.

Compensation deferred under the plans is placed in trust for the contributing employee. The State of South Carolina has no liability for losses under these plans. Employees may withdraw the current value of their contributions when they terminate State of South Carolina employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Note 11. Risk Management

The Agency is exposed to various risks of loss and maintains State of South Carolina or commercial insurance coverage for each of those risks. 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 place in the prior year. Settled claims have not exceeded any of its coverages in any of the previous three (3) 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 accordance with insurance policy and benefit program limits except for deductibles.

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

1. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State of South Carolina Accident Fund);
2. Claims of covered public employees for health and dental insurance benefits (South Carolina Public Employee Benefit Authority - Insurance Benefits Division); and
3. Claims of covered public employees for long-term disability and group life insurance benefits (South Carolina Public Employee Benefit Authority - Insurance Benefits Division).

Employees elect health coverage through the State of South Carolina's self-insured plan. All of the other coverages listed above are through the applicable State of South Carolina self-insured plan except dependent and optional life premiums, which are remitted to commercial carriers.

The Agency and other entities pay premiums to the South Carolina Insurance Reserve Fund 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 South Carolina Insurance Reserve Fund 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 South Carolina Insurance Reserve Fund's rates are actuarially determined.

Note 11. Risk Management (continued)

State agencies and other entities are the primary participants in the State of South Carolina's Retiree Health Insurance and Long-Term Disability Insurance Trust Funds and Insurance Reserve Fund. 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. The Agency has recorded insurance premium expenditures in the applicable program expenditure categories of the special revenue fund.

In management's opinion, claim 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 for expenditure and liability should be recorded at year-end for such risks. Therefore, no loss accrual has been recorded or disclosed in these financial statements.

Note 12. 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 $606,773 of indirect cost recoveries to the State of South Carolina's General Fund for payment of services received from state agencies including maintenance of certain accounting records and payroll and disbursement processing from the South Carolina Comptroller General, check preparation and banking from the South Carolina State Treasurer, legal services from the South Carolina Attorney General, records storage from the South Carolina Department of Archives and History, retirement plan administration from PEBA, insurance plan administration, procurement services, grant services, personnel management, assistance in the preparation of the State of South Carolina's budget, use and support of the State of South Carolina's accounting system, SCEIS, and approval of certain budget amendments and other centralized functions from the South Carolina Department of Administration.

The Agency had additional direct financial transactions with various state agencies during the current year. Payments were made to divisions of the South Carolina Department of Administration for unemployment insurance, building, auto and tort liability insurance, building and grounds maintenance, office supplies, telephone, and interagency mail. Payments were also made during the year to the South Carolina State Accident Fund for worker's compensation insurance.

Note 12. Transactions with State Agencies (continued)

The amounts of expenditures applicable to related party transactions with South Carolina state agencies reported in the special revenue fund are as follows for the year ended June 30, 2017:

Public Employee Benefit Authority	$10,319,411
Department of Administration	2,450,868
Department of Revenue	68,777
State Accident Fund	111,158
State Fiscal Accountability Authority	133,572
Comptroller General	26,700
Law Enforcement Division	81,649
Department of Commerce	61,000
Technical & Comprehensive Education Board	434,666
University of South Carolina	21,032
Department of Education	262,168
Clemson University	54,709
Francis Marion University	31,889
The Citadel	10,390
Coastal Carolina University	32,728
Department of Corrections	6,842
Attorney General	1,423
Other	963
	$14,109,945

In the proprietary fund, the Agency recorded revenues of $2,135,270 for reimbursements of benefits paid to State of South Carolina employees and was due $545,954 for these benefits at year-end.

Note 13. Prior Period Restatements

Allowance for Uncollectible Assessments Receivable (Condition One)

As of June 30, 2016, the Agency's allowance for uncollectible assessments receivable was not estimated in accordance with its policy, which is to compute the allowance for uncollectible assessments receivable based upon previous collection history for all outstanding account balances up to two (2) years old with all outstanding account balances greater than two (2) years old being fully reserved for. Accordingly, the allowance for uncollectible assessments receivable and assessments receivable (net) were overstated and understated as of June 30, 2016, respectively, as a result of this condition.

Assessments Receivable (Condition Two)

As of June 30, 2016, assessments receivable balances reflected on the Agency's subsidiary ledger were not recorded on its general ledger. Accordingly, assessments receivable was understated as of June 30, 2016 as a result of this condition.

Federal Grant Revenues (Condition Three)

During the year ended June 30, 2016, the Agency did not recognize certain federal grant revenues when the corresponding federal grant expenditures were incurred and when all eligibility requirements imposed by the federal grantors were met. Accordingly, federal grant revenues were understated for the year ended June 30, 2016 as a result of this condition.

Note 13. Prior Period Restatements (continued)

Collectively, these conditions resulted in the understatement of the following financial statement amounts as of and for the year ended June 30, 2016:

Financial Statement Line Item	Governmental Activities and Governmental Fund	Business-Type Activities and Proprietary Fund	Total
Understatement of assessments receivable (Condition one)	($2,627,679)	($25,695,476)	($28,323,155)
Understatement of assessments receivable (Condition two)	($2,522,732)	$ -	($2,522,732)
Understatement of federal grant revenue (Condition three)	($5,793,391)	$ -	($5,793,391)
Understatement of beginning fund balance and net position as of July 1, 2016 (Total prior period restatement)	($10,943,802)	($25,695,476)	($36,639,278)

These errors have been corrected in the Agency's financial statements as of and for the year ended June 30, 2017.

Note 14. Commitments and Contingencies

Commitments

The Agency had significant purchase commitments as of June 30, 2017. These include $36,818,106 for the design and implementation of the Southeast Consortium Unemployment Benefits Insurance (SCUBI) system; $6,495,839 for the design and implementation of the UI tax system; and $1,043,532 for equipment leases.

Federal Grants

The various programs administered by the Agency for the year ended June 30, 2017 and previous years 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 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 or disclosed in these financial statements.

Note 15. Subsequent Events

Previously, the Agency entered into a consortium agreement to develop a new benefits system to replace an aging mainframe benefits system. The consortium consists of three members (South Carolina, North Carolina and Georgia). The Agency had previously reported expenditures for the production of this new benefits system as capital expenditures to be solely captured by the State of South Carolina. However, upon the implementation of the new benefits system on September 12, 2017, the consortium agreed to proportionately account for these capital expenditures during the year ended June 30, 2018. As of June 30, 2017, total capitalized expenditures were $47,910,456. Of this amount, the Agency contributed $15,970,152 each to the States of North Carolina and Georgia.

Furthermore, the Agency had previously entered into an agreement with a vendor to develop and construct a new tax system to replace an aging mainframe tax system. The construction of the project was not complete at the conclusion of the year. The Agency completed its efforts to construct this system which went live on March 26, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

South Carolina Department of Employment and Workforce
Schedule of the Employer's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2017

	SCRS			
	2017	**2016**	**2015**	**2014**
Proportion of the net pension liability	0.29161%	0.31711%	0.32790%	0.32790%
Proportionate share of the net pension liability	$ 62,288,320	$ 60,140,832	$ 56,455,388	$ 58,813,742
Covered payroll during the measurement period	$ 26,651,965	$ 30,544,918	$ 30,462,010	$ 38,735,226
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	233.71005%	196.89309%	185.33048%	151.83529%
Plan fiduciary net position as a percentage of the total pension liability	52.90645%	56.99175%	59.91945%	56.38821%

	PORS			
	2017	**2016**	**2015**	**2014**
Proportion of the net pension liability	0.00222%	0.00256%	0.01816%	0.01816%
Proportionate share of the net pension liability	$ 56,222	$ 55,817	$ 347,659	$ 376,493
Covered payroll during the measurement period	$ 27,681	$ 31,521	$ 213,665	$ 222,891
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	203.10682%	177.07877%	162.71219%	168.91350%
Plan fiduciary net position as a percentage of the total pension liability	60.44490%	64.56865%	67.54949%	62.97880%

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (10) year trend is compiled, information presented is only for those years which is available.

South Carolina Department of Employment and Workforce
Schedule of the Employer's Contributions
Year Ended June 30, 2017

SCRS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 3,372,088	$ 2,907,729	$ 3,283,578	$ 3,183,280	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	3,372,088	2,907,729	3,283,578	3,183,280	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
Covered-employee payroll	$ 30,646,088	$ 26,651,965	$ 30,544,918	$ 30,462,010						
Contributions as a percentage of covered-employee payroll	11.00332%	10.91000%	10.75000%	10.45000%	N/A	N/A	N/A	N/A	N/A	N/A

PORS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 4,167	$ 3,693	$ 4,101	$ 26,580	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	4,167	3,693	4,101	26,580	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
Covered-employee payroll	$ 29,260	$ 27,681	$ 31,521	$ 213,665						
Contributions as a percentage of covered-employee payroll	14.24129%	13.34128%	13.01037%	12.44003%	N/A	N/A	N/A	N/A	N/A	N/A

This schedule is presented to illustrate the requirement to show information for ten (10) years. However, until a full ten (10) year trend is compiled, information presented is only for those years which is available.

SINGLE AUDIT SECTION

South Carolina Department of Employment and Workforce
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures	Subrecipient Expenditures
U.S. Department of Labor:			
Labor Force Statistics	17.002	$ 787,800	$ -
Unemployment Insurance	17.225	81,384,233	-
Trade Adjustment Assistance - Workers	17.245	5,335,106	-
Work Incentives Grant	17.266	642,640	609,793
Work Opportunity Tax Credit	17.271	274,089	-
Labor Certification for Alien Workers	17.273	170,564	-
Workforce Innovation and Opportunity Act - National Emergency Grant	17.277	1,121,167	1,072,030
Workforce Innovation and Opportunity Act - Dislocated Workers National Reserve Demonstration	17.280	710,927	708,784
WIOA Cluster:			
Workforce Innovation and Opportunity Act - Adult	17.258	13,903,512	10,821,424
Workforce Innovation and Opportunity Act - Youth	17.259	11,766,888	11,618,173
Workforce Innovation and Opportunity Act - Dislocated Workers	17.278	11,551,214	10,600,223
Total WIOA Cluster		37,221,614	33,039,820
Employment Services Cluster:			
Employment Service	17.207	8,638,126	-
Disabled Veterans Outreach Program	17.801	1,421,618	-
Local Veterans Employment Representative Program	17.804	979,272	-
Total Employment Services Cluster		11,039,016	-
Total U.S. Department of Labor		138,687,155	35,430,428
Appalachian Regional Commission			
Appalachian Area Development (SC JAG)	23.002	31,681	28,667
Total Appalachian Regional Commission		31,681	28,667
U.S. Department of Defense			
Economic Adjustment Assistance	12.617	976,031	-
Total U.S. Department of Defense		976,031	-
U.S. Social Security Administration			
Disability Insurance/SSI Cluster:			
Employment Network - Navigator Program	96.UNKNOWN	32,577	-
Total Disability Insurance/SSI Cluster		32,577	-
Total U.S. Social Security Administration		32,577	-
Total Expenditures of Federal Awards		$ 139,727,444	$ 35,459,095

South Carolina Department of Employment and Workforce
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal awards programs of the Agency for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Expenditures for federal financial assistance awarded directly from federal agencies are included on the Schedule. Because the Schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Agency.

Note 2. Summary of Significant Accounting Policies

The accompanying Schedule is presented using the full accrual basis of accounting, which is described in the notes to the Agency's basic financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Agency has elected not to use the ten percent (10%) de minimis indirect cost rate allowed under the Uniform Guidance.

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
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 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, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated July 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001, 2017-002, 2017-003, 2017-004, 2017-005 and 2017-006 to be material weaknesses.

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 in the accompanying schedule of findings and questioned costs as items 2017-007 and 2017-008 to be a significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as items 2017-005 and 2017-006.

South Carolina Department of Employment and Workforce's Responses to Findings

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Agency's responses were not subjected to the auditing procedures applied in the audit of the 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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Elliott Davis, LLC

Columbia, South Carolina
July 31, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited South Carolina Department of Employment and Workforce's (the "Agency") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Agency's major federal programs for the year ended June 30, 2017. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-009 and 2017-010. Our opinion on each major federal program is not modified with respect to these matters.

The Agency's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Agency's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2017-009 and 2017-010 that we consider to be material weaknesses.

The Agency's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Agency's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Elliott Davis, LLC

Columbia, South Carolina
July 31, 2019

South Carolina Department of Employment and Workforce
Schedule of Findings and Questioned Costs
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?	X	Yes		No

Federal Awards

Internal control over major federal programs:				
• Material weakness(es) identified?	X	Yes		No
• Significant deficiency(ies) identified?		Yes	X	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	X	Yes		No

Identification of major federal programs:

CFDA #	Program / Cluster Name
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance

Dollar threshold used to distinguish between Type A and Type B programs	$ 3,000,000			
Auditee qualified as low-risk auditee?		Yes	X	No

SECTION II. FINANCIAL STATEMENT FINDINGS

Item 2017-001: Allowance for Uncollectible Assessments Receivable (Material Weakness)

Condition: As of June 30, 2016, the Agency's allowance for uncollectible assessments receivable was not estimated in accordance with its policy. In addition, attempts to correct a portion of this prior period error included increasing assessments revenue during the year ended June 30, 2017 rather than restating beginning fund balance and beginning net position as of July 1, 2016.

Criteria: The allowance for uncollectible assessments receivable should be estimated in accordance with the Agency's policy, which states that it should be computed based on a historical collection rate applied to all account balances up to two (2) years old, plus a 100% reserve of all balances greater than two (2) years old.

Cause: Internal controls are not in place to ensure that the allowance for uncollectible assessments receivable is being calculated in accordance with the Agency's policy and that accounts deemed uncollectible are being written off.

Effect: The condition described above resulted in the overstatement (understatement) of the following financial statement amounts reported by opinion unit:

Financial Statement Line Item	Governmental Activities and Governmental Fund	Business-Type Activities and Proprietary Fund	Total
Understatement of assessments receivable and beginning net position/fund balance as of July 1, 2016	($2,627,679)	($25,695,476)	($28,323,155)
Overstatement (understatement) of assessments revenue for the year ended June 30, 2017	$2,627,679	($6,941,529)	($4,313,850)
Understatement of assessments receivable and ending net position as of June 30, 2017	$ -	($32,637,005)	($32,637,005)

Recommendation: Management should evaluate the allowance for uncollectible assessments receivable at least annually to determine that it is being computed in accordance with the Agency's policy. This evaluation should include (1) reviewing the percentage being applied to all accounts up to two (2) years old to ensure that it is consistent with actual historical collection rates, and (2) ensuring that all balances greater than two (2) years old are written off against assessments receivable and the allowance for uncollectible assessments receivable.

Views of Responsible Officials and Planned Corrective Actions: Management concurs that the allowance for uncollectible assessments receivable should be based on previous collection and write-off history and that this methodology is consistently applied when developing its estimate. Effective July 31, 2019, management will document the updated process for developing this estimate and provide proper training to all staff involved in the process.

Item 2017-002: Assessments Revenue and Receivables (Material Weakness)

Condition: Assessment receivable balances reflected on the Agency's subsidiary ledger as of June 30, 2016 were not recorded on the Agency's general ledger. In addition, attempts to correct this prior period error included increasing assessments revenue during the year ended June 30, 2017 rather than restating beginning fund balance and beginning net position as of July 1, 2016.

Criteria: Assessments revenue should be recognized during the period in which the unemployment tax contributions are assessed.

Cause: Internal controls are not in place to ensure that subsidiary ledgers are being accurately maintained and reconciled to the general ledger.

Effect: The condition described above resulted in the overstatement (understatement) of the following financial statement amounts reported in the governmental activities and governmental fund:

Financial Statement Line Item	Governmental Activities and Governmental Fund
Understatement of assessments receivable and beginning fund balance/net position as of July 1, 2016	($2,522,732)
Overstatement of assessments revenue for the year ended June 30, 2017	$2,522,732

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's financial statements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Effective July 31, 2019, management will work collaboratively with the Division of Information and Business Solutions and the Unemployment Insurance Division to ensure these detailed subsidiary ledgers are compiled, scheduled, distributed to the Unemployment Insurance Accounting Department and Finance Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

Item 2017-003: Federal Grant Revenues (Material Weakness)

Condition: During the year ended June 30, 2016, certain federal grant revenues were not recognized when the corresponding federal grant expenditures were incurred and when all eligibility requirements imposed by the federal grantors were met during the year then ended. In addition, attempts to correct this prior period error included increasing federal grant revenues during the year ended June 30, 2017 rather than restating beginning fund balance and beginning net position as of July 1, 2016.

In addition to the prior period error described above, certain federal grant revenues were not recognized during the year ended June 30, 2017 when the corresponding federal grant expenditures were incurred and when all eligibility requirements imposed by the federal grantors were met during the year then ended.

Criteria: Federal grant revenues should be recognized as soon as all eligibility requirements imposed by the federal grantor have been met.

Item 2017-003: Federal Grant Revenues (Material Weakness), Continued

Cause: Internal controls are not in place to ensure that management is recognizing federal grant revenues when all eligibility requirements are met.

Effect: The condition described above resulted in the overstatement (understatement) of the following financial statement amounts reported in the governmental activities and governmental fund:

Financial Statement Line Item	Governmental Activities and Governmental Fund
Understatement of federal grant receivables and beginning fund balance/net position as of July 1, 2016	($5,793,391)
Net overstatement of federal grant revenues for the year ended June 30, 2017	$ 317,182
Understatement of federal grant receivables and ending fund balance/net position as of June 30, 2017	($5,476,209)

Recommendation: We recommend that management recognize all federal grant revenues as soon as the Agency incurs a federal grant expenditure and all eligibility requirements have been met.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Effective July 31, 2019, management will review all federal grant transactions as part of its monthly financial closeout process. Furthermore, the Agency will recognize federal grant receivables and revenues as soon as it incurs federal grant expenditures and all eligibility requirements have been met.

Item 2017-004: Accounts Payable (Material Weakness)

Condition: The Agency's June 30, 2017 accounts payable balance improperly excluded significant expenditures that were incurred during the year ended June 30, 2017 and that remained outstanding as of this date.

Criteria: The accounts payable subsidiary ledger should be reviewed and reconciled to the general ledger on a monthly basis so that paid and outstanding invoices can be properly accounted for.

Cause: Management is not reviewing subsidiary ledgers for accuracy and reconciling them to the general ledger on a timely basis.

Effect: Expenditures for $2,888,442 that were incurred during the year ended June 30, 2017 and remained outstanding as of this date were not included on the Agency's accounts payable subsidiary ledger. As a result, accounts payable and the related expenditures reflected on the general ledger were understated by this amount as of and for the year ended June 30, 2017.

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all accounts payable and related expenditures are accurately reflected in the Agency's financial statements.

Item 2017-004: Accounts Payable (Material Weakness), Continued

Views of Responsible Officials and Planned Corrective Actions: Management concurs that the eight (8) invoices should have been included in the accounts payable balance as of June 30, 2017. Effective July 31, 2019, management will retrain employees responsible for pulling this accounts payable information together. The information will be more thoroughly reviewed ahead of future submissions and in advance of future audits.

Item 2017-005: Schedule of Expenditures of Federal Awards (Material Weakness) (This material weakness relates to both internal control over financial reporting and compliance. See Item 2017-009 in Section III below.)

Condition: The Agency's Schedule of Expenditures of Federal Awards for the year ended June 30, 2017 excluded significant federal expenditures related to the Unemployment Insurance Program.

Criteria: Per §200.510 (b) of the Uniform Guidance, *Schedule of Expenditures of Federal Awards*, the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with §200.502 of the Uniform Guidance, *Basis for Determining Federal Awards Expended*.

Cause: All federal grant expenditures incurred during the year with federal grant awards are not being posted to the specific general ledger accounts that are segregated for federal grant expenditures.

Effect: Total federal grant expenditures reflected on the Schedule of Expenditures of Federal Awards for the Unemployment Insurance Program were understated by $5,274,857 for the year ended June 30, 2017.

Recommendation: We recommend that management review all federal grant expenditures for indication of proper supporting documentation and general ledger account coding along with reconciling annual federal grant awards with the annual federal grant expenditures presented on the Schedule of Expenditures of Federal Awards.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the fact that the Schedule of Expenditures of Federal Awards required an adjustment for the amount described above. Effective July 31, 2019, management will document the updated process recommended above and provide proper training to all staff involved in the process.

Item 2017-006: Report Submission to the Federal Audit Clearinghouse (Material Weakness) (This material weakness relates to both internal control over financial reporting and compliance. See Item 2017-010 in Section III below.)

Condition: The Agency did not prepare and submit its Data Collection Form and Reporting Package as of and for the year ended June 30, 2017 to the Federal Audit Clearinghouse by the March 31, 2018 due date.

Criteria: Per §200.512 of the Uniform Guidance, *Report Submission*, the audit shall be completed and the Data Collection Form and Reporting Package shall be electronically transmitted within the earlier of thirty (30) days after receipt of the auditor's reports, or nine (9) months after the end of the audit period. If the due date falls on a Saturday, Sunday, or federal holiday, the Data Collection Form and Reporting Package are due the next business day. The Uniform Guidance does not permit federal agencies or pass-through entities to extend the due date.

Item 2017-006: Report Submission to the Federal Audit Clearinghouse (Material Weakness), Continued

Cause: Management is not reviewing subsidiary ledgers for accuracy and reconciling them to the general ledger on a timely basis. Accordingly, the Agency's general ledger as of and for the year ended June 30, 2017 was not closed out in a timely manner.

Effect: The Agency's financial statements were not prepared, reviewed and submitted to the Federal Audit Clearinghouse by the required due date.

Recommendation: We recommend that management implement monthly financial reporting and closeout processes during the year so that the year-end financial closeout process can be performed timely.

Views of Responsible Officials and Planned Corrective Actions: Management concurs that the Data Collection Form and Reporting Package will be submitted after the due date. Effective July 31, 2019, the Agency will deploy the use of a project management approach to completing the financial statements in the future. All deliverables will be prepared by the Finance Department and tracked by the Project Management Office. Updates will be provided based upon the initial client request list and additional requests received from the Agency's external auditors.

Item 2017-007: Bank Reconciliations (Significant Deficiency)

Condition: The Agency's June 30, 2017 bank reconciliation for its operating account was not prepared in a timely manner and did not reconcile to the general ledger.

Criteria: Bank reconciliations should be reconciled on a monthly basis and the adjusted bank balance should agree with the adjusted general ledger balance.

Cause: General ledger accounts are not reconciled to supporting bank statements on a timely basis.

Effect: The adjusted bank balance exceeded the adjusted general ledger balance by $353,345.

Recommendation: We recommend that the Agency reconcile all of its cash accounts with the corresponding bank accounts on a monthly basis and ensure that for each bank reconciliation, the adjusted bank balance agrees with the adjusted general ledger balance prior to having the bank reconciliation reviewed and finalized. We also recommend that each bank reconciliation is prepared and reviewed by separate authorized personnel and that evidence of this review is documented. This will help ensure the accuracy and existence of the cash balances reported on the Agency's general ledger and financial statements.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with this recommendation. Effective July 31, 2019, management will ensure that bank reconciliations are performed on a monthly basis for each bank account. Furthermore, each bank reconciliation will be prepared by one employee and reviewed by an appropriate supervisor, and that review will be properly documented to ensure the accuracy and existence of the cash balances reported on the general ledger.

Item 2017-008: Timely Reconciliation and Review of Assessments Receivable Subsidiary Records (Significant Deficiency)

Condition: The Agency does not maintain accurate subsidiary ledgers for assessment receivables and revenues. In addition, the subsidiary ledgers that are generated are not reconciled to the general ledger.

Item 2017-008: Timely Reconciliation and Review of Assessments Receivable Subsidiary Records (Significant Deficiency), Continued

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

Cause: Internal controls are not in place to ensure that subsidiary ledgers are being accurately maintained and reconciled to the general ledger.

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

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's 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. Effective July 31, 2019, 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 Unemployment Insurance Division's Accounting Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

United States Department of Labor

Item 2017-009: Schedule of Expenditures of Federal Awards; Unemployment Insurance Program – CFDA No. 17.225; Grant Period: Year Ended June 30, 2017 (Material Weakness)

Condition: The Agency's Schedule of Expenditures of Federal Awards for the year ended June 30, 2017 excluded significant federal expenditures related to the Unemployment Insurance Program.

Criteria: Per §200.510 (b) of the Uniform Guidance, *Schedule of Expenditures of Federal Awards*, the auditee must prepare a Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with §200.502 of the Uniform Guidance, *Basis for Determining Federal Awards Expended*.

Cause: All federal grant expenditures incurred during the year with federal grant awards are not being posted to the specific general ledger accounts that are segregated for federal grant expenditures.

Effect: Total federal grant expenditures reflected on the Schedule of Expenditures of Federal Awards for the Unemployment Insurance Program were understated by $5,274,857 for the year ended June 30, 2017.

Recommendation: We recommend that management review all federal grant expenditures for indication of proper supporting documentation and general ledger account coding along with reconciling annual federal grant awards with the annual federal grant expenditures presented on the Schedule of Expenditures of Federal Awards.

Item 2017-009: Schedule of Expenditures of Federal Awards; Unemployment Insurance Program – CFDA No. 17.225; Grant Period: Year Ended June 30, 2017 (Material Weakness), Continued

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the fact that the Schedule of Expenditures of Federal Awards required an adjustment for the amount described above. Effective July 31, 2019, management will document the updated process recommended above and provide proper training to all staff involved in the process.

United States Department of Labor, Appalachian Regional Commission, United States Department of Defense and United States Social Security Administration

Item 2017-010: Report Submission to the Federal Audit Clearinghouse; Grant Period: Year Ended June 30, 2017 (Material Weakness)

Condition: The Agency did not prepare and submit its Data Collection Form and Reporting Package as of and for the year ended June 30, 2017 to the Federal Audit Clearinghouse by the March 31, 2018 due date.

Criteria: Per §200.512 of the Uniform Guidance, *Report Submission*, the audit shall be completed and the Data Collection Form and Reporting Package shall be electronically transmitted within the earlier of thirty (30) days after receipt of the auditor's reports, or nine (9) months after the end of the audit period. If the due date falls on a Saturday, Sunday, or federal holiday, the Data Collection Form and Reporting Package are due the next business day. The Uniform Guidance does not permit federal agencies or pass-through entities to extend the due date.

Cause: Management is not reviewing subsidiary ledgers for accuracy and reconciling them to the general ledger on a timely basis. Accordingly, the Agency's general ledger as of and for the year ended June 30, 2017 was not closed out in a timely manner.

Effect: The Agency's financial statements were not prepared, reviewed and submitted to the Federal Audit Clearinghouse by the required due date.

Recommendation: We recommend that management implement monthly financial reporting and closeout processes during the year so that the year-end financial closeout process can be performed timely.

Views of Responsible Officials and Planned Corrective Actions: Management concurs that the Data Collection Form and Reporting Package will be submitted after the due date. Effective July 31, 2019, the Agency will deploy the use of a project management approach to completing the financial statements in the future. All deliverables will be prepared by the Finance Department and tracked by the Project Management Office. Updates will be provided based upon the initial client request list and additional requests received from the Agency's external auditors.

P.O. Box 995
1550 Gadsden Street
Columbia, SC 29202
dew.sc.gov

Henry McMaster
Governor

G. Daniel Ellzey
Executive Director

July 31, 2019

George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

RE: Corrective Action Plan for the Year Ended June 30, 2017

Dear Mr. Kennedy:

The South Carolina Department of Employment and Workforce (The Agency) respectfully submits the following corrective action plan for the year ended June 30, 2017.

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2017 are described below. The findings are numbered consistently with the numbers assigned in the Schedule of Findings and Questioned Costs.

Financial Statement Findings

Item 2017-001: Allowance for Uncollectible Assessments Receivable (Material Weakness)

Recommendation: Management should evaluate the allowance for uncollectible assessments receivable at least annually to determine that it is being computed in accordance with the Agency's policy. This evaluation should include (1) reviewing the percentage being applied to all accounts up to two (2) years old to ensure that it is consistent with actual historical collection rates, and (2) ensuring that all balances greater than two (2) years old are written off against assessments receivable and the allowance for uncollectible assessments receivable.

Planned Corrective Actions: Management concurs that the allowance for uncollectible assessments receivable should be based on previous collection and write-off history and that this methodology is consistently applied when developing its estimate. Effective July 31, 2019 management will document the updated process for developing this estimate and provide proper training to all staff involved in the process.

Item 2017-002: Assessments Revenue and Receivables (Material Weakness)

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's financial statements.

Planned Corrective Actions: Management concurs with this recommendation. Effective July 31, 2019, management will work collaboratively with the Division of Information and Business Solutions and the Unemployment Insurance Division to ensure these detailed subsidiary ledgers are compiled, scheduled, distributed to the Unemployment Insurance Accounting Department and Finance Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

Item 2017-003: Federal Grant Revenues (Material Weakness)

Recommendation: We recommend that management recognize all federal grant revenues as soon as the Agency incurs a federal grant expenditure and all eligibility requirements have been met.

Planned Corrective Actions: Management concurs with this recommendation. Effective July 31, 2019, management will review all federal grant transactions as part of its monthly financial closeout process. Furthermore, the Agency will recognize federal grant receivables and revenues as soon as it incurs federal grant expenditures and all eligibility requirements have been met.

Item 2017-004: Accounts Payable (Material Weakness)

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all accounts payable and related expenditures are accurately reflected in the Agency's financial statements.

Planned Corrective Actions: Management concurs that the eight (8) invoices should have been included in the accounts payable balance as of June 30, 2017. Effective July 31, 2019, management will retrain employees responsible for pulling this accounts payable information together. The information will be more thoroughly reviewed ahead of future submissions and in advance of future audits.

Item 2017-005: Schedule of Expenditures of Federal Awards (Material Weakness)

Recommendation: We recommend that management review all federal grant expenditures for indication of proper supporting documentation and general ledger account coding along with reconciling annual federal grant awards with the annual federal grant expenditures presented on the Schedule of Expenditures of Federal Awards.

Planned Corrective Actions: Management concurs with the fact that the Schedule of Expenditures of Federal Awards required an adjustment for $5,274,857 for the year ended June 30, 2017. Effective July 31, 2019, management will document the updated process recommended above and provide proper training to all staff involved in the process.

Item 2017-006: Report Submission to the Federal Audit Clearinghouse (Material Weakness)

Recommendation: We recommend that management implement monthly financial reporting and closeout processes during the year so that the year-end financial closeout process can be performed timely.

Planned Corrective Actions: Management concurs that the Data Collection Form and Reporting Package will be submitted after the due date. Effective July 31, 2019, the Agency will deploy the use of a project management approach to completing the financial statements in the future. All deliverables will be prepared by the Finance Department and tracked by the Project Management Office. Updates will be provided based upon the initial client request list and additional requests received from the Agency's external auditors.

Item 2017-007: Bank Reconciliations (Significant Deficiency)

Recommendation: We recommend that the Agency reconcile all of its cash accounts with the corresponding bank accounts on a monthly basis and ensure that for each bank reconciliation, the adjusted bank balance agrees with the adjusted general ledger balance prior to having the bank reconciliation reviewed and finalized. We also recommend that each bank reconciliation is prepared and reviewed by separate authorized personnel and that evidence of this review is documented. This will help ensure the accuracy and existence of the cash balances reported on the Agency's general ledger and financial statements.

Planned Corrective Actions: Management concurs with the recommendation. Effective July 31, 2019, management will ensure bank reconciliations will be performed on a monthly basis for each bank account. Furthermore, each bank reconciliation will be prepared by one employee and reviewed by an appropriate supervisor, and that review will be properly documented to ensure the accuracy and existence of the cash balances reported on the general ledger.

Item 2017-008: Timely Reconciliation and Review of Assessments Receivable Subsidiary Records (Significant Deficiency)

Recommendation: We recommend that management review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger to ensure that all assessment receivables and related revenue are accurately reflected in the Agency's financial statements.

Planned Corrective Actions: Effective July 31, 2019, 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 Unemployment Insurance Division's Accounting Department, and reviewed timely throughout the year to further support the accuracy of the balances reported on the general ledger.

Federal Award Findings

United States Department of Labor

Item 2017-009: Schedule of Expenditures of Federal Awards; Unemployment Insurance Program – CFDA No. 17.225; Grant Period: Year Ended June 30, 2017 (Material Weakness)

Recommendation: We recommend that management review all federal grant expenditures for indication of proper supporting documentation and general ledger account coding along with reconciling annual federal grant awards with the annual federal grant expenditures presented on the Schedule of Expenditures of Federal Awards.

Planned Corrective Actions: Management concurs with the fact that the Schedule of Expenditures of Federal Awards required an adjustment for $5,274,857 for the year ended June 30, 2017. Effective July 31, 2019, management will document the updated process recommended above and provide proper training to all staff involved in the process.

United States Department of Labor, Appalachian Regional Commission, United States Department of Defense and United States Social Security Administration

Item 2017-010: Report Submission to the Federal Audit Clearinghouse; Grant Period: Year Ended June 30, 2017 (Material Weakness)

Recommendation: We recommend that management implement monthly financial reporting and closeout processes during the year so that the year-end financial closeout process can be performed timely.

Planned Corrective Actions: Management concurs that the Data Collection Form and Reporting Package will be submitted after the due date. Effective July 31, 2019, the Agency will deploy the use of a project management approach to completing the financial statements in the future. All deliverables will be prepared by the Finance Department and tracked by the Project Management Office. Updates will be provided based upon the initial client request list and additional requests received from the Agency's external auditors.

Sincerely,

Alfred Comfort III

Alfred Comfort III, MBA, CPM

Chief Financial Officer