

South Carolina Department of Employment and Workforce

Unemployment Compensation Fund

Report on the

Financial Statements

For the Years Ended June 30, 2019 and 2018

Contents

South Carolina Office of the State Auditor Transmittal Letter.....	1
Independent Auditor’s Report.....	2-3
Management’s Discussion and Analysis.....	4-8
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12-20
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 <i>Government Auditing Standards</i>	21-22
Schedule of Findings and Responses	23
Summary Schedule of Prior Audit Findings	24-26



October 1, 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 Unemployment Compensation Fund for the fiscal year ended June 30, 2019, 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, CPA
State Auditor

GLKIII/cmw

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Trust Fund") as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Trust Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund as of June 30, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As described in Note 1, the financial statements of the Trust Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Trust Fund. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019, on our consideration of the Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust Fund's internal control over financial reporting and compliance.



Columbia, South Carolina
October 1, 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 attributed to the Agency's Unemployment Compensation Fund (the "Trust Fund") for the years ended June 30, 2019 and 2018. Please read this information in conjunction with the Trust Fund's financial statements and accompanying notes.

Overview of the Trust Fund

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

- Per State law and regulation, and in accordance with United States Department of Labor best practices, a healthy unemployment insurance trust fund has a sufficient balance to pay one year of benefits (at historically high cost rates) with no additional contributions. This is referred to as having an Average High Cost Multiple (“AHCM”) of 1.0 or greater. The South Carolina General Assembly has directed the Agency to rebuild the Trust Fund to a level that is equal to having an AHCM of 1.0. Tax year 2019 was the fourth year of a five year rebuilding period that included an assessment going towards rebuilding the Trust Fund. State regulations also provide for a suspension of the rebuilding process if the State enters into a future recession.
- During January 2013, the Trust Fund began receiving federal tax refunds intercepted by the United States Department of the Treasury, which were initially due from claimants that received unemployment compensation payments to which they were not entitled. The Agency’s successful implementation of the Treasury Offset Program allowed the Trust Fund to recover additional overpayments of approximately \$1.2 million and \$1.5 million during the years ended June 30, 2019 and 2018, respectively.
- The Agency may recover overpaid unemployment benefits through involuntary wage withholdings. The wage withholding recoveries were approximately \$1.2 million and \$1.5 million during the years ended June 30, 2019 and 2018, respectively.

Financial Highlights

- Assets of the Trust Fund exceeded its liabilities as of June 30, 2019 by approximately \$1.2 billion, which is shown as net position. The June 30, 2018 net position was approximately \$963.1 million. The Trust Fund has continued to steadily improve its net position since the year ended June 30, 2011 and has not borrowed from the Federal Unemployment Account to make benefit payments since May 2011. Tax revenues have been sufficient to allow the State to continue making benefit payments to unemployed individuals and continue restoring the Trust Fund’s solvency level to an acceptable threshold, following best practices issued by the United States Department of Labor.
- The Trust Fund’s ending net position increased by approximately \$203.4 million during the year ended June 30, 2019. The Trust Fund’s net position increased by approximately \$1.9 billion from July 1, 2010 through June 30, 2019, largely due to the legislative tax reforms effective during 2011, the continued decline of unemployment compensation benefit payments, and increased taxable wages due to an improved economy.
- Total unemployment compensation benefit payments were approximately \$164.8 million and \$179.1 million during the years ended June 30, 2019 and 2018, respectively.

Overview of the Financial Statements

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

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

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

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

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

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

Condensed Financial Data

Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Assets - all current	\$ 1,195,907,728	\$ 1,006,142,272	\$ 189,765,456
Liabilities - all current	<u>29,470,665</u>	<u>43,085,819</u>	<u>(13,615,154)</u>
Total net position - all restricted	<u>\$ 1,166,437,063</u>	<u>\$ 963,056,453</u>	<u>\$ 203,380,610</u>

Statements of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Operating revenues			
Assessments	\$ 323,197,597	\$ 328,183,504	\$ (4,985,907)
Federal grants	5,143,445	5,194,659	(51,214)
Benefit overpayment recoveries	5,573,299	3,860,762	1,712,537
Intergovernmental	10,315,167	9,621,859	693,308
Reimbursements of unemployment compensation benefits from employers	<u>2,416,312</u>	<u>2,209,073</u>	<u>207,239</u>
Total operating revenues	<u>346,645,820</u>	<u>349,069,857</u>	<u>(2,424,037)</u>
Operating expenses			
Unemployment compensation benefits	164,809,059	179,080,609	(14,271,550)
Payments returned to the federal government	<u>624,672</u>	<u>934,994</u>	<u>(310,322)</u>
Total operating expenses	<u>165,433,731</u>	<u>180,015,603</u>	<u>(14,581,872)</u>
Operating income	181,212,089	169,054,254	12,157,835
Non-operating revenues			
Interest income	22,086,514	16,935,578	5,150,936
Reed Act proceeds	81,465	-	81,465
FUTA credit adjustment	<u>542</u>	<u>1,934</u>	<u>(1,392)</u>
Total non-operating revenues	<u>22,168,521</u>	<u>16,937,512</u>	<u>5,231,009</u>
Change in net position	203,380,610	185,991,766	17,388,844
Beginning net position	<u>963,056,453</u>	<u>777,064,687</u>	<u>185,991,766</u>
Ending net position	<u>\$ 1,166,437,063</u>	<u>\$ 963,056,453</u>	<u>\$ 203,380,610</u>

Statements of Net Position:

Total assets increased by approximately \$189.8 million due to an increase in cash collected for Trust Fund replenishment. During the year ended June 30, 2019, there were no payments for federal advances since the Trust Fund paid its final federal advances in full during June 2015. The Trust Fund reported positive cash flows for the year ended June 30, 2019.

Total liabilities decreased by approximately \$13.6 million, primarily due to the decrease in contributions payable and benefits payable.

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

Ending net position increased by approximately \$203.4 million and \$186.0 million during the years ended June 30, 2019 and 2018, respectively, which is the result of a higher than expected growth in employment, causing tax revenues to grow at an increased rate, along with a significant decrease in unemployment compensation benefits payments as the economy continues to complete the recovery from the national recession.

Revenues, Expenses, and Changes in Net Position:

Assessments decreased by approximately \$5.0 million compared to last year. Per South Carolina State law, unemployment insurance tax rates are set each year to raise sufficient revenues to pay projected benefits as well as to either repay outstanding federal loans or begin rebuilding the Trust Fund to an adequate level as defined in State law. For the year ended June 30, 2018, taxes were set to raise approximately \$327.5 million (\$202.5 million for benefit payments and \$125.0 million for South Carolina Unemployment Compensation Fund rebuilding). For the year ended June 30, 2019, tax rates were set to raise slightly less money, approximately \$289.0 million (\$195.0 million for benefit payments and \$94.0 million for South Carolina Unemployment Compensation Fund rebuilding).

Total operating revenues decreased by approximately \$2.4 million during the year ended June 30, 2019 primarily due to a reduction in benefit overpayment recoveries.

Unemployment compensation benefits decreased by approximately \$14.3 million during the year ended June 30, 2019 primarily due to a reduction in the number of unemployment insurance claims. State benefits paid decreased by approximately \$14.0 million and federal benefits paid decreased by approximately \$0.3 million during the year ended June 30, 2019 compared to the year ended June 30, 2018. Benefit payments have also fallen due to a general improvement in the South Carolina economy.

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>
State benefits paid	\$ 159.8	\$ 173.8	\$ (14.0)
Federal benefits paid	5.0	5.3	(0.3)
Total benefits paid	<u>\$ 164.8</u>	<u>\$ 179.1</u>	<u>\$ (14.3)</u>

Request for information:

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

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

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

	2019	2018
Assets		
Current assets:		
Cash	\$ 1,064,728,906	\$ 880,895,937
Assessments receivable, net	117,022,747	112,953,756
Benefit overpayment receivables, net	6,792,613	7,342,229
Accounts receivable, net	2,669,893	2,669,388
Intergovernmental receivables:		
Federal government	778,048	298,676
State agencies	511,471	613,589
Other states	932,395	732,152
Local governments	2,471,655	636,545
Total assets	1,195,907,728	1,006,142,272
 Liabilities		
Current liabilities:		
Benefits payable	1,512,667	4,041,802
Income tax withholdings payable	125,734	9,675
Contributions payable	20,347,219	28,544,738
Due to reimbursable employers	2,080,586	2,043,603
Due to other fund	2,525,199	5,107,159
Intergovernmental payables:		
Federal government	1,333,352	1,499,683
Other states	1,545,908	1,839,159
Total liabilities	29,470,665	43,085,819
Total restricted net position	\$ 1,166,437,063	\$ 963,056,453

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

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

	2019	2018
Operating revenues		
Assessments	\$ 323,197,597	\$ 328,183,504
Reimbursements of unemployment compensation benefits from employers	2,416,312	2,209,073
Benefit overpayment recoveries	5,573,299	3,860,762
Intergovernmental:		
Federal government	5,143,445	5,194,659
State agencies	2,166,640	2,544,736
Other states	3,400,531	4,040,181
Local governments	4,747,996	3,036,942
Total operating revenues	346,645,820	349,069,857
Operating expenses		
Unemployment compensation benefits	164,809,059	179,080,609
Payments returned to the federal government	624,672	934,994
Total operating expenses	165,433,731	180,015,603
Operating income	181,212,089	169,054,254
Non-operating revenues		
Interest income	22,086,514	16,935,578
Reed Act proceeds	81,465	-
FUTA credit adjustment	542	1,934
Total non-operating revenues	22,168,521	16,937,512
Change in net position	203,380,610	185,991,766
Beginning net position	963,056,453	777,064,687
Ending net position	\$ 1,166,437,063	\$ 963,056,453

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

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

	2019	2018
Cash flows from operating activities:		
Cash received from assessments	\$ 325,636,540	\$ 333,976,663
Cash received from employer reimbursements, net	2,453,295	2,193,318
Cash received from benefit overpayment recoveries	6,122,410	5,371,936
Cash received from federal, state and local agencies	13,046,005	15,268,123
Cash paid for benefits	(176,503,908)	(171,632,949)
Cash paid for refunds of overpaid assessments	(9,089,894)	(9,318,073)
Net cash flows provided by operating activities	161,664,448	175,859,018
Cash flows from capital related financing activities		
Cash received from sale of land (Reed Act)	81,465	-
Net cash flows provided by capital related financing activities	81,465	-
Cash flows from non-capital related financing activities:		
Proceeds from federal government, net of FUTA credits	542	1,934
Net cash flows provided by non-capital related financing activities	542	1,934
Cash flows from investing activities:		
Cash received from interest earned on trust fund	22,086,514	16,935,578
Net cash flows provided by investing activities	22,086,514	16,935,578
Net increase in cash	183,832,969	192,796,529
Cash – beginning	880,895,937	688,099,407
Cash – ending	\$ 1,064,728,906	\$ 880,895,937
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 181,212,089	\$ 169,054,254
Net changes in operating assets and liabilities:		
Assessments receivable, net	(4,068,991)	(6,707,725)
Benefit overpayment receivables, net	549,616	1,922,073
Accounts receivable, net	(505)	(410,900)
Intergovernmental receivables:		
Federal government	(479,372)	(243,961)
State agencies	102,118	(67,635)
Other states	(200,243)	639,916
Local governments	(1,835,110)	123,285
Benefits payable	(2,529,135)	3,507,686
Income tax withholdings payable	116,059	17
Contributions payable	(8,197,519)	5,118,688
Due to other fund	(2,581,960)	3,182,811
Due to reimbursable employers	36,983	(15,755)
Intergovernmental payables:		
Federal government	(166,331)	(140,283)
Other states	(293,251)	(103,453)
Net cash flows provided by operating activities	\$ 161,664,448	\$ 175,859,018

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

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

Note 1. Summary of Significant Accounting Policies

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

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

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 other funds used for the payment of unemployment compensation benefits. Interest income earned on excess funds on deposit with the United States Treasury is retained in the Trust Fund for the payment of unemployment compensation benefits as long as the Trust Fund is not indebted to the federal government for Federal Unemployment Account advances.

The accounting policies of the Trust Fund 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 Trust Fund's accounting principles are described below.

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

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.

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

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.

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 Trust Fund reporting entity defined above.

The Trust Fund includes the following:

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

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

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

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

Alternative Trade Adjustment Assistance ("ATAA") - This program provides eligible individuals over the age of fifty who obtain new employment within twenty-six 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.

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

Reemployment Trade Adjustment Assistance (“RTAA”) - This program was implemented during the year ended June 30, 2009 as a wage option available to older workers under the Trade Adjustment Assistance (“TAA”) program to eventually replace ATAA. This program consists of monies paid to individuals who are at least fifty years old and who have lost their jobs due to imports but are now working again at a lower salary. They are paid fifty percent of the difference between their old and new salary. It is funded by the federal government.

Disaster Unemployment Assistance (“DUA”) – This program provides temporary benefits to people whose jobs or self-employment have been lost or interrupted due to a major disaster.

Basis of Accounting - The Trust Fund's financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Trust Fund applies all GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements.

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

These classifications are defined as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at 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 debt proceeds. The Trust Fund does not have any capital assets; thus this classification is not used.

Restricted Net Position - This component of net position consists of restrictions through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Since the entirety of the Trust Fund's assets are restricted for unemployment compensation through state and federal law, its total net position has been classified as restricted net position as of June 30, 2019 and 2018.

Unrestricted Net Position - This component of net position consists of net positions that do not meet the definition of “restricted net position” or “net investments in capital assets.” The Trust Fund had no unrestricted net position as of June 30, 2019 and 2018.

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

The Agency participates in the State's cash management pool. Because the cash management pool operates as a demand deposit account, amounts deposited in the pool are classified as cash. The State Treasurer administers the cash management pool.

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

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

Receivables - Receivables consist of the following:

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

Benefit Overpayments Receivables - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments, intercepting of state and federal income tax refunds, wage withholdings from claimants' pay checks, or withholdings from subsequent benefits due to the claimants.

Benefit overpayment recoupments attributable to reimbursable employers or federal programs are due to such employers or the federal government and are classified as intergovernmental payables. Refunds are made only when there are no current benefit obligations. Historical collection information, along with United States Department of Labor recommended best-practices, are used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts represents all outstanding account balances greater than 450 days old.

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

Intergovernmental Receivables, Federal Government - The amounts due from the federal government represent reimbursements due under various federal grant programs under which the Agency pays unemployment benefits. Revenues and related receivables are recognized at the time and to the extent that allowable expenses are incurred under such programs.

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

Intergovernmental Receivables, Other States and Local Governments - 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.

Accounts Receivable - Accounts receivable represents those amounts due from claimants who are determined to have received benefit overpayments and were assessed a FUTA overpayment penalty for a benefit overpayment deemed fraudulent by the Agency as further described in Note 9.

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

Payables - Payables consist of the following:

Benefits Payable – Benefits payable represents unemployment compensation amounts paid after year-end for benefit weeks ending on or before June 30th.

Contributions Payable – Contributions payable includes amounts received from employers in excess of actual unemployment tax liabilities. The Agency maintains these amounts as credits on the employers' account to cover future tax liabilities.

Intergovernmental Payables, Other States – Intergovernmental payables due to other states represent amounts due to other states as reimbursement for benefits paid by those states to South Carolina claimants.

Intergovernmental Payables, Federal Government – Intergovernmental payables due to the federal government represent overpayments of unemployment compensation benefits that occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Such overpayments that were funded by the federal government are due back to the federal government and are included as intergovernmental payables.

Income Tax Withholdings Payable – Income tax withholdings payable represents those amounts withheld from unemployment compensation benefits attributed to claimants. Tax withholdings are withheld and remitted to the State and federal government on their behalf.

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

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

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

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation. Specifically, amounts were reclassified between cash and due to other fund on the Statements of Net Position and between bad debt recoveries and assessments on the Statements of Revenues, Expenses, and Changes in Net Position. There was no effect on previously reported net position or change in net position as a result of these reclassifications.

Subsequent Events - In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 1, 2019, the date these financial statements were available to be issued.

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

Note 2. Cash

The amounts reported as cash on the Statements of Net Position as of June 30 are composed of the following:

	2019	2018
Deposits held by State Treasurer	\$ 9,573,342	\$ 5,165,577
Deposits held by U.S. Treasury	1,050,622,227	869,420,107
Other deposits	4,533,337	6,310,253
Total	\$ 1,064,728,906	\$ 880,895,937

Deposits Held by State Treasurer - State unemployment taxes received from businesses are initially deposited in the Trust Fund’s clearing bank account, held by the State Treasurer. The deposits of the Trust Fund held by the State Treasurer are under the control of the State Treasurer. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

Deposits Held by United States Treasury - Amounts are regularly transferred from the Trust Fund’s clearing account to the State’s account in the Federal Unemployment Trust Fund. Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the United States Treasury is authorized to credit to the account of each state agency, on a quarterly basis, a proportionate share of the earnings of the Federal Unemployment Trust Fund.

Other Deposits - Amounts needed to cover federal and state unemployment compensation expenses and related tax withholdings are drawn from the State’s account in the Federal Unemployment Trust Fund into the Trust Fund’s benefit payment account on a regular basis. This account is not controlled by the State Treasurer nor is it in the custody of the federal government. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Trust Fund’s deposits may not be returned or the Trust Fund will not be able to recover collateral securities in the possession of an outside party.

Section 11-13-60 of the South Carolina Code of Laws requires these funds to be fully insured or collateralized. All deposits of the Trust Fund met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution’s trust department or agent in the Trust Fund’s name. Funds are transferred on a regular basis from the deposits held by the United States Treasury to cover all benefit payments from this account.

Note 3. Due to Other Fund

The amounts reported on the Statements of Net Position as being due to other fund represent amounts which were collected for penalties, interest, contingency assessments, and interest surcharges via remittances from employers, as well as special administration funds received from the federal government that are payable to the Agency’s Special Revenue fund to support its administration of the Trust Fund.

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

Amounts due to other fund as of June 30 are as follows:

	2019	2018
Contingency assessments	\$ 185,080	\$ 1,156,976
Penalties, interest, service charges and fees	566,713	2,483,861
Special administration funds	1,551	35,931
Reed Act	1,753,556	1,226,026
FUTA penalty and integrity fund	18,299	204,365
Total	\$ 2,525,199	\$ 5,107,159

Note 4. Reed Act

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

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

During the years ended June 30, 2019 and 2018, the Agency sold real property containing Reed Act equity of \$659,260 and \$8,987, respectively. Of these sales, \$608,995 was transferred during the year ended June 30, 2019 with the remaining amount is scheduled to be transferred during the year ending June 30, 2020. Of the \$608,995 transferred, \$81,465 represented a portion of the gain on the sale of the asset and was retained by the Trust Fund. The remaining \$527,530 was credited to the Trust Fund's Reed Act sub-account, representing the amount of original Reed Act participation in the purchase of the property and is included in the balance due to Agency's Governmental Fund presented on the Statements of Net Position as these amounts will be drawn upon for administrative purposes. The remaining \$59,252 of total Reed Act equity received is not included in the balance due to the Agency's governmental fund presented on the Statements of Net Position as these amounts will not be received by the Trust Fund until the year ending June 30, 2020.

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

Note 5. Receivables

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

	2019		
	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Assessments receivable	\$ 158,455,106	\$ 41,432,359	\$ 117,022,747
Benefit overpayment receivables:			
Basic unemployment compensation	13,160,382	6,622,968	6,537,414
Federal employees	23,991	11,592	12,399
Ex-servicemen	49,099	25,269	23,830
Disaster unemployment assistance	49,635	6,779	42,856
Trade readjustment	180,636	4,522	176,114
Emergency unemployment compensation	958,721	958,721	-
Total benefit overpayment receivables	<u>14,422,464</u>	<u>7,629,851</u>	<u>6,792,613</u>
Accounts receivable	<u>6,690,885</u>	<u>4,020,992</u>	<u>2,669,893</u>
Intergovernmental receivables:			
Federal government	778,048	-	778,048
State agencies	511,471	-	511,471
Other states	932,395	-	932,395
Local governments	2,471,655	-	2,471,655
Total intergovernmental receivables	<u>4,693,569</u>	<u>-</u>	<u>4,693,569</u>
Total receivables	<u>\$ 184,262,024</u>	<u>\$ 53,083,202</u>	<u>\$ 131,178,822</u>
	2018		
	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Assessments receivable	\$ 142,327,444	\$ 29,373,688	\$ 112,953,756
Benefit overpayment receivables:			
Basic unemployment compensation	14,311,804	7,068,748	7,243,056
Federal employees	30,049	1,881	28,168
Ex-servicemen	58,244	29,086	29,158
Disaster unemployment assistance	1,957	1,957	-
Trade readjustment	32,619	-	32,619
Emergency unemployment compensation	992,642	983,414	9,228
Total benefit overpayment receivables	<u>15,427,315</u>	<u>8,085,086</u>	<u>7,342,229</u>
Accounts receivable	<u>6,690,380</u>	<u>4,020,992</u>	<u>2,669,388</u>
Intergovernmental receivables:			
Federal government	298,676	-	298,676
State agencies	613,589	-	613,589
Other states	732,152	-	732,152
Local governments	636,545	-	636,545
Total intergovernmental receivables	<u>2,280,962</u>	<u>-</u>	<u>2,280,962</u>
Total receivables	<u>\$ 166,726,101</u>	<u>\$ 41,479,766</u>	<u>\$ 125,246,334</u>

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

Note 6. Information on Business -Type Activities

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

	2019	2018
Charges for services	\$ 341,502,375	\$ 343,875,198
Operating grants and contributions	5,143,445	5,194,659
Less: expenses	(165,433,731)	(180,015,603)
Net program revenues	181,212,089	169,054,254
Non-operating revenues	22,168,521	16,937,512
Change in net position	203,380,610	185,991,766
Beginning net position	963,056,453	777,064,687
Ending net position	<u>\$ 1,166,437,063</u>	<u>\$ 963,056,453</u>

Note 7. Contingencies

Federal Grants - The various programs administered by the Trust Fund for the year ended June 30, 2019 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 Trust Fund believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Trust Fund. Furthermore, there is no evidence to indicate that a liability should be recorded at June 30, 2019 and 2018.

The Trust Fund is administered by the Agency, and the Agency is considered the grantee for Single Audit purposes. The Single Audit is performed for federal grants at the grantee level, and the Schedule of Expenditures of Federal Awards is therefore included in the Agency's government-wide financial statements.

Note 8. Interest Income

The Federal Unemployment Trust Fund's quarterly yield averaged 2.35% and 2.24% for the years ended June 30, 2019 and 2018. The Trust Fund began earning full interest on Federal Unemployment Trust Fund balances during the year ended June 30, 2016. For the years ended June 30, 2019 and 2018, the Trust Fund earned interest income on Federal Unemployment Trust Fund balances for \$22,086,514 and \$16,935,578, respectively.

Note 9. FUTA Penalty

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

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the “Trust Fund”) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Trust Fund’s basic financial statements and have issued our report thereon dated October 1, 2019.

Internal Control Over Financial Reporting

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 Trust Fund'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 Trust Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Elliott Davis, LLC

Columbia, South Carolina
October 1, 2019

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Schedule of Findings and Responses
For the Year Ended June 30, 2019

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? _____ Yes X No
- Significant deficiency (ies) identified?
reported _____ Yes X None

Noncompliance material to financial statements noted? _____ Yes X No

Section II. Financial Statement Findings

None reported

South Carolina Department of Employment and Workforce
Unemployment Compensation Fund
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2019

Item 2018-001: Contributions Payable (Material Weakness)

Condition: We noted that the Trust Fund's contributions payable subsidiary ledger as of June 30, 2018 excluded certain material balances due to employers. As a result, contributions payable and assessments revenue were understated and overstated by \$4,279,264, respectively, as of and for the year ended June 30, 2018.

Recommendation: We recommended that the Unemployment Insurance Division Accounting Department request, obtain and review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger and posting full-accrual journal entries on a monthly basis.

Current status: This error was corrected in the Trust Fund's financial statements as of and for the year ended June 30, 2018. No such finding was noted as a result of our audit of the Trust Fund's financial statements as of and for the year ended June 30, 2019.

Item 2018-002: Allowance for Uncollectible Accounts (Material Weakness)

Condition: We noted that the allowance for uncollectible assessments receivable and the allowance for uncollectible benefit overpayments receivable were not computed based on historical collection rates and previous write-off history as of June 30, 2018. Furthermore, accounts that were deemed uncollectible had not been written off on a consistent basis.

Recommendation: We communicated to the Trust Fund that the general reserve component of the allowance for uncollectible accounts should be evaluated by management to ensure that the reserve percentage being applied is consistent with actual historical collection rates and write-off history. We stated that account balances included in the allowance for uncollectible accounts should be evaluated at least annually and immediately written off if they are determined to be uncollectible. We also stated that a specific past due period should be established to determine individual uncollectible accounts that are to be written off.

Current status: As of and for the year ended June 30, 2019, the Trust Fund's allowance for uncollectible assessments receivable and allowance for benefit overpayments receivable were computed based on historical collection rates and previous write-off history. Although accounts that were deemed uncollectible were still reflected on the Trust Fund's employer tax and unemployment compensation benefits systems, they were written off on the general ledger.

Item 2018-003: Bad Debt Recoveries (Material Weakness)

Condition: For the year ended June 30, 2018, the Trust Fund did not recognize revenue received from bad debt recoveries related to the collection of outstanding assessments receivable accounts that were previously written off. As a result, the allowance for uncollectible assessments receivable and assessments revenue were overstated and understated by \$5,265,761, respectively, as of and for the year ended June 30, 2018.

Recommendation: We recommended that the Trust Fund maintain a separate detail for individual assessments receivable accounts that have been reserved for or written off and that it reconcile each account with subsequent cash collections in order to identify any bad debt recoveries. When such collections are identified, we recommended that the Trust Fund recognize the bad debt recovery revenue.

Item 2018-003: Bad Debt Recoveries (Material Weakness), Continued

Current status: This error was corrected in the Trust Fund's financial statements as of and for the year ended June 30, 2018. No such finding was noted as a result of our audit of the Trust Fund's financial statements as of and for the year ended June 30, 2019.

Item 2018-004: Assessments Receivable (Material Weakness)

Condition: We noted that the Trust Fund's assessments receivable subsidiary ledger as of June 30, 2018 excluded significant balances due from employers. As a result, assessments receivable and assessments revenue were understated by \$3,260,040 as of and for the year ended June 30, 2018.

Recommendation: We recommended that the Unemployment Insurance Division Accounting Department request, obtain and review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger and posting full-accrual journal entries on a monthly basis.

Current Status: This error was corrected in the Trust Fund's financial statements as of and for the year ended June 30, 2018. No such finding was noted as a result of our audit of the Trust Fund's financial statements as of and for the year ended June 30, 2019.

Item 2018-005: Benefit Overpayments Receivable (Material Weakness)

Condition: We noted that the Trust Fund's benefit overpayments receivable subsidiary ledger as of June 30, 2018 excluded significant balances due from claimants. As a result, benefit overpayments receivable, net of the allowance for uncollectible accounts, and benefit overpayments revenue were understated by \$354,988 as of and for the year ended June 30, 2018.

Recommendation: We recommended that the Unemployment Insurance Division Accounting Department request, obtain and review monthly subsidiary ledgers for accuracy, including reconciling the balances and activity to the general ledger and posting full-accrual journal entries on a monthly basis.

Current Status: This error was corrected in the Trust Fund's financial statements as of and for the year ended June 30, 2018. No such finding was noted as a result of our audit of the Trust Fund's financial statements as of and for the year ended June 30, 2019.

Item 2018-006: Timely Financial Reporting (Material Weakness)

Condition: The Trust Fund did not submit its audited financial statements as of and for the year ended June 30, 2018 to the State Comptroller General's Office by the October 1, 2018 due date.

Recommendation: We recommended that management implement monthly financial reporting and closeout processes during the year so that the year-end financial closeout process can be performed more effectively and efficiently.

Current Status: Management implemented additional monthly financial reporting and closeout processes during the year ended June 30, 2019 and issued its financial statements as of and for the year ended June 30, 2019 to the State Comptroller General's Office by the October 1, 2019 due date.

Item 2017-001: Prior Period Adjustment – Allowance for Uncollectible Assessments Receivable (Material Weakness)

Condition: During the year ended June 30, 2017, we noted that the Trust Fund’s allowance for uncollectible assessments receivable was not estimated in accordance with its policy. Per the Trust Fund’s policy, the allowance for uncollectible assessments receivable should be computed based on a historical collection rate applied to all account balances up to two years old, plus a 100% reserve of all balances greater than two years old.

This condition resulted in the understatement of the following financial statement accounts and classes of transactions:

Financial Statement Effects				
Assessments receivable and beginning net position as of July 1, 2015	Assessments revenue for the year ended June 30, 2016	Assessments receivable and beginning net position as of July 1, 2016	Assessments revenue for the year ended June 30, 2017	Assessments receivable and ending net position as of June 30, 2017
(\$18,279,478)	(\$7,415,998)	(\$25,695,476)	(\$6,941,529)	(\$32,637,005)

Current status: These errors were corrected in the Trust Fund’s financial statements as of and for the year ended June 30, 2017. No such finding was noted as a result of our audit of the Trust Fund’s financial statements as of and for the years ended June 30, 2019 and 2018.

Item 2017-002: Timely Reconciliation and Review of Subsidiary Records (Significant Deficiency)

Condition: The Trust Fund’s general ledger does not have a subsidiary ledger function. Therefore, management of the Trust Fund relies on its employer tax system and unemployment compensation benefits system for subsidiary activity and ending balances related to assessments receivable and revenue, benefit overpayments receivable and revenue, and unemployment compensation benefits expense and payables. Management then uses the information generated from these systems to post journal entries to the general ledger. However, management did not review the subsidiary records for accuracy and reconcile their activity and balances to the Trust Fund’s general ledger during the year on a timely basis.

Current status: During the year ended June 30, 2019, all subsidiary records were reviewed and reconciled to the general ledger on a monthly basis. No such finding was noted as a result of our audit of the Trust Fund’s financial statements as of and for the years ended June 30, 2019 and 2018.