

SOUTH CAROLINA GOVERNOR'S OFFICE

**AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION**

YEAR ENDED JUNE 30, 2013

State of South Carolina



Office of the State Auditor

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March 10, 2014

The Honorable Nikki R. Haley, Governor
South Carolina Governor's Office
State House
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina Governor's Office and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2013, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

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

RHGjr/trb

SOUTH CAROLINA GOVERNOR’S OFFICE

AUDITED FINANCIAL STATEMENTS,
OTHER FINANCIAL INFORMATION
AND SINGLE AUDIT SECTION

YEAR ENDED JUNE 30, 2013

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SOUTH CAROLINA GOVERNOR’S OFFICE

AUDITED FINANCIAL STATEMENTS,
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INDEPENDENT AUDITORS REPORT

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina, 29201

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Governor's Office (the "Office"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office'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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Carolina Governor's Office, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1*, the accompanying financial statements of the South Carolina Governor's Office reporting entity are intended to present the financial position and the results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of those divisions of the Office that comprise the South Carolina Governor's Office reporting entity. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2013 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–7 and 44–48 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Carolina Governor's Office basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are 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 February 27, 2014, on our consideration of the Office'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 Office's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Deloach & Williamson, L.L.P.".

Columbia, South Carolina

February 27, 2014

South Carolina Governor's Office
Management's Discussion and Analysis

June 30, 2013

As management of the South Carolina Governor's Office (the "Office" or "Agency"), we offer readers of the Office's financial statements this narrative overview and analysis of the financial activities of the Office for the fiscal year ended June 30, 2013.

Financial Highlights

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by \$17,077,465. These funds will be used to meet the office's ongoing obligations.
- The Office's total net position decreased by \$431,748 in comparison with the prior year.
- As of the close of the current fiscal year, the Office's governmental funds reported combined ending fund balances of \$14,630,648 a decrease of \$562,431 in comparison with the prior year.
- At the end of the current fiscal year, the assigned fund balance for the general fund was \$3,401,942.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Office's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Office's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Governor's Office is improving or deteriorating.

The statement of activities presents information showing how the Office's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned by unused vacation leave).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The South Carolina Governor's Office, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Office are classified as governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The South Carolina Legislature adopts a budget for all state agencies, including the Governor's Office. A budgetary comparison schedule has been provided for the general fund and other budgeted funds to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 to 43 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the South Carolina Governor's Office compliance with its adopted budget. Required supplementary information can be found on pages 44 to 48.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 49 to 53 of this report.

Government Financial Analysis

By far the largest portion of the Office's assets represents cash and cash equivalents. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the agency. They are also able to determine how much the agency owes vendors. Finally, the Statement of Net Position provides a picture of the net position (assets minus liabilities) and their availability for expenditure by the agency.

Condensed Statements of Net Position

	June 30,	
	2013	2012
Assets		
Current assets	\$ 15,785,534	\$ 17,233,289
Capital assets, net of accumulated depreciation	3,453,962	3,345,667
Total Assets	19,239,496	20,578,956
Liabilities		
Current liabilities	1,864,190	2,706,267
Non-current liabilities	297,841	363,476
Total Liabilities	2,162,031	3,069,743
Total Net Position	\$ 17,077,465	\$ 17,509,213

Statement of Activities

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Activities. The purpose of the statement is to present the revenues received by the agency, and the expenses paid by the agency, and any other revenue, expenses, gains, and losses received or spent by the agency.

The statement of Activities is prepared on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

At the end of the current fiscal year, the Office is able to report a positive balance in net position. The same situation held true for the prior fiscal year.

Condensed Statements of Activities

	Years Ended June 30,	
	2013	2012
Operating grants and contributions	\$ 65,315,891	\$ 91,274,291
Expenses	74,330,178	101,181,746
Net expense and changes in net position	(9,014,287)	(9,907,455)
State appropriations	8,571,328	8,459,708
Interest	11,211	36,989
Change in net position	(431,748)	(1,410,758)
Net position at beginning of year	17,509,213	18,919,971
Net position at end of year	\$ 17,077,465	\$ 17,509,213

General Fund Budgeting Highlights

General Fund Appropriations were \$111,620 more in fiscal year 2013 than fiscal year 2012. The South Carolina Governor's Office made it a priority to keep the focus on the critical programs, such as Veterans, Guardian Ad Litem, Continuum of Care, Victims Assistance, Office of Small Minority Business and Foster Care to ensure services for our most vulnerable citizens of this State remains viable.

Capital Assets and Debt Administration

The South Carolina Governor's Office investment in capital assets for its governmental activities as of June 30, 2013 amounts to \$3,453,962 (net of accumulated depreciation). This investment in capital assets includes vehicles, equipment and the Veterans Cemetery. See *Note 5* for additional information.

The South Carolina Governor's Office had total long-term obligations in the amount of \$297,841, all of which was for accrued compensation absences. See *Note 10* for additional information.

Economic Outlook

The Agency gained \$111,620 in state appropriations for the 2013 fiscal year. During the 2013 fiscal year, the Agency implemented efficiencies to achieve significant savings. Some of these items include sharing resources across programs, consolidating/reducing office space, evaluating the use of outside leases, expanding the use of existing technology, reducing duplication, reducing the number of fax lines, consolidating and merging positions, and streamlining paperwork processes.

The general economic forecast for the remainder of FY 2014 appears to be the same as the past year.

On January 27, 2014 Governor Haley signed into law Senate Bill 22 "South Carolina Restructuring Act of 2014". The purpose of the bill was to restructure various agencies and programs. All programs currently within The Governor's Office of Executive Policy and Programs will be transferred to the newly created Department of Administration.

The Agency will not relax in our endeavor to continually look for and exploit a more efficient way of conducting business while serving our most vulnerable population that the South Carolina Governor's Office supports.

Because the current fiscal years have been challenging, we will continue to closely monitor the Agency's financial condition.

Requests for Information

This financial report is designed to provide a general overview of the Office's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the South Carolina Governor's Office, Director of Administrative Services, 1205 Pendleton Street, Columbia, South Carolina 29201.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 14,864,483
Accounts receivable	3,459
Federal grant receivable	436,156
Due from the State General Fund	481,436
Total current assets	<u>15,785,534</u>
Noncurrent assets:	
Capital assets:	
Buildings, land improvements, and equipment	4,897,393
Less: accumulated depreciation	<u>(1,443,431)</u>
Total capital assets, net of depreciation	<u>3,453,962</u>
Total assets	<u>19,239,496</u>
Liabilities	
Current liabilities:	
Accounts payable	191,182
Accrued payroll and related liabilities	963,016
Accrued compensated absences	709,304
Deposits held for clients	688
Total current liabilities	<u>1,864,190</u>
Noncurrent liabilities:	
Accrued compensated absences	<u>297,841</u>
Total non-current liabilities	<u>297,841</u>
Total liabilities	<u>2,162,031</u>
Net Position	
Net investment in capital assets	3,453,962
Restricted - expendable	8,092,230
Unrestricted	5,531,273
Total net position	<u>\$ 17,077,465</u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Functions/Programs:			
General government	\$ 8,014,747	\$ -	\$ (8,014,747)
Grants and programs	<u>66,315,431</u>	<u>65,315,891</u>	<u>(999,540)</u>
Total primary government	<u>\$ 74,330,178</u>	<u>\$ 65,315,891</u>	(9,014,287)
General revenue:			
State appropriations			8,571,328
Interest			<u>11,211</u>
Change in net position			(431,748)
Net position - beginning of year			<u>17,509,213</u>
Net position - end of year			<u>\$ 17,077,465</u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Federal Grants and Programs	Continuum of Care	Victims' Assistance	Veteran's Affairs	Other Nonmajor Governmental Funds	Totals
Assets							
Cash and cash equivalents	\$ 3,412,109	\$ 527,718	\$ 1,958,289	\$ 6,120,734	\$ 1,389,736	\$ 1,455,897	\$ 14,864,483
Accounts receivable	-	-	-	-	-	3,459	3,459
Federal grant receivable	-	436,156	-	-	-	-	436,156
Due from the State General Fund	481,436	-	-	-	-	-	481,436
Total assets	\$ 3,893,545	\$ 963,874	\$ 1,958,289	\$ 6,120,734	\$ 1,389,736	\$ 1,459,356	\$ 15,785,534
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 10,167	\$ 1,064	\$ 27,606	\$ 142,693	\$ -	\$ 9,652	\$ 191,182
Accrued payroll and related liabilities	481,436	91,090	34,113	121,887	-	234,490	963,016
Deposits held for clients	-	-	189	-	-	499	688
Total liabilities	491,603	92,154	61,908	264,580	-	244,641	1,154,886
Fund balances:							
Restricted	-	871,720	-	5,856,154	778,967	347,302	7,854,143
Committed	-	-	-	-	610,769	17,630	628,399
Assigned	3,401,942	-	-	-	-	-	3,401,942
Unassigned	-	-	1,896,381	-	-	849,783	2,746,164
Total fund balances	3,401,942	871,720	1,896,381	5,856,154	1,389,736	1,214,715	14,630,648
Total liabilities and fund balances	\$ 3,893,545	\$ 963,874	\$ 1,958,289	\$ 6,120,734	\$ 1,389,736	\$ 1,459,356	\$ 15,785,534

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

-CONTINUED-

Reconciliation to the statement of net position:

Total fund balances - governmental funds \$ 14,630,648

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 funds. These assets consist of:

Construction in process	184,536
Buildings and improvements	1,641,478
Depreciable land improvements	2,410,235
Furniture and equipment	661,144
Accumulated depreciation	<u>(1,443,431)</u>

Total capital assets, net 3,453,962

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

Accrued compensated absences	<u>(1,007,145)</u>
Net position of governmental activities	<u><u>\$ 17,077,465</u></u>

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	General	Federal Grants and Programs	Continuum of Care	Victims' Assistance	Veterans' Affairs	Other Nonmajor Governmental Funds	Totals
Revenue							
State appropriations	\$ 8,571,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,571,328
Federal grants and programs	-	50,212,776	-	-	-	2,500	50,215,276
Other government grants and contributions	-	-	1	-	47,818	3,784,323	3,832,142
Interest	-	-	-	-	2,110	9,101	11,211
Medicaid reimbursements	-	-	1,964,814	-	-	800,730	2,765,544
Victim restitutions	-	-	-	8,178,313	14,100	-	8,192,413
Miscellaneous	-	196	2,076	501	156,600	151,143	310,516
Total revenue	8,571,328	50,212,972	1,966,891	8,178,814	220,628	4,747,797	73,898,430
Expenditures							
Federal grants and programs:							
Personal services	-	1,141,754	-	-	-	-	1,141,754
Employer contributions	-	393,823	-	-	-	-	393,823
Other operating	-	668,804	-	-	-	-	668,804
Claims and awards	-	3,633,107	-	-	-	-	3,633,107
Distributions to subrecipients	-	43,469,710	-	-	-	-	43,469,710
Finance and administration:							
Personal services	1,491,095	-	-	-	-	19,191	1,510,286
Employer contributions	610,373	-	-	-	-	4,913	615,286
Other operating	321,407	-	-	-	-	202,196	523,603
Foster Care:							
Personal services	278,605	-	-	-	-	575,366	853,971
Employer contributions	86,037	-	-	-	-	188,511	274,548
Other operating	49,635	-	-	-	-	103,845	153,480
Continuum of Care:							
Personal services	1,874,230	-	284,896	-	-	-	2,159,126
Employer contributions	630,469	-	96,662	-	-	-	727,131
Other operating	51,613	-	617,489	-	-	-	669,102
Case Services	-	-	416,947	-	-	-	416,947

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013
-CONTINUED-

	General	Federal Grants and Programs	Continuum of Care	Victims' Assistance	Veterans' Affairs	Other Nonmajor Governmental Funds	Totals
Expenditures (Continued)							
Guardian Ad Litem:							
Personal services	790,450	-	-	-	-	2,167,727	2,958,177
Employer contributions	244,102	-	-	-	-	711,992	956,094
Other operating	129,215	-	-	-	-	1,102,980	1,232,195
Developmental Disabilities:							
Personal services	11,061	-	-	-	-	-	11,061
Employer contributions	3,416	-	-	-	-	-	3,416
Other operating	15,051	-	-	-	-	-	15,051
Ombudsman/Citizen Services:							
Personal services	79,807	-	-	-	-	114,006	193,813
Employer contributions	24,646	-	-	-	-	35,899	60,545
Other operating	1,404	-	-	-	-	17,931	19,335
Veterans Counseling	8,268	-	-	-	-	-	8,268
Victims Assistance:							
Personal services	-	-	-	1,368,264	-	-	1,368,264
Employer contributions	-	-	-	468,871	-	-	468,871
Other operating	-	-	-	520,742	-	-	520,742
Claims and awards	-	-	-	6,652,232	-	-	6,652,232
Distributions to sub-recipients	-	-	-	650,000	-	-	650,000
Veterans Affairs:							
Personal services	462,320	-	-	-	-	-	462,320
Employer contributions	142,771	-	-	-	-	-	142,771
Other operating	5,960	-	-	-	-	-	5,960
POW Commission	368	-	-	-	-	-	368
Veterans' Cemetery:							
Personal services	245,368	-	-	-	-	-	245,368
Employer contributions	75,773	-	-	-	-	-	75,773
Other operating	82,651	-	-	-	400,868	-	483,519
Claims and awards	-	-	-	-	68,000	-	68,000

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013
-CONTINUED-

	General	Federal Grants and Programs	Continuum of Care	Victims' Assistance	Veterans' Affairs	Other Nonmajor Governmental Funds	Totals
Expenditures (Continued)							
Children Affairs:							
Personal services	41,000	-	-	-	-	-	41,000
Employer contributions	12,662	-	-	-	-	-	12,662
Children's Trust Fund:							
Distributions to subrecipients	100,000	-	-	-	-	-	100,000
Small and Minority Business:							
Personal services	117,452	-	-	-	-	-	117,452
Employer contributions	36,271	-	-	-	-	-	36,271
Other operating	14,428	-	-	-	-	-	14,428
Mansion Operations:							
Personal services	-	-	-	-	-	61,341	61,341
Employer contributions	-	-	-	-	-	10,232	10,232
Other operating	-	-	-	-	-	6,333	6,333
Economic Opportunity:							
Distributions to subrecipients	-	-	-	-	-	410,942	410,942
Total expenditures	<u>8,037,908</u>	<u>49,307,198</u>	<u>1,415,994</u>	<u>9,660,109</u>	<u>468,868</u>	<u>5,733,405</u>	<u>74,623,482</u>
Excess (deficit) of revenue over (under) expenditures	<u>533,420</u>	<u>905,774</u>	<u>550,897</u>	<u>(1,481,295)</u>	<u>(248,240)</u>	<u>(985,608)</u>	<u>(725,052)</u>
Other Financing Sources (Uses)							
Indirect costs retained by the							
Office	-	6,331	-	-	-	156,290	162,621
Transfers in	-	-	-	-	220,524	41,864	262,388
Transfers out	-	(41,864)	-	-	-	(220,524)	(262,388)
Total other financing sources (uses)	<u>-</u>	<u>(35,533)</u>	<u>-</u>	<u>-</u>	<u>220,524</u>	<u>(22,370)</u>	<u>162,621</u>
Excess (deficit) of revenue over (under) expenditures and other financing sources (uses)	<u>533,420</u>	<u>870,241</u>	<u>550,897</u>	<u>(1,481,295)</u>	<u>(27,716)</u>	<u>(1,007,978)</u>	<u>(562,431)</u>
Fund balances, beginning of year	<u>2,868,522</u>	<u>1,479</u>	<u>1,345,484</u>	<u>7,337,449</u>	<u>1,417,452</u>	<u>2,222,693</u>	<u>15,193,079</u>
Fund balances, end of year	<u>\$ 3,401,942</u>	<u>\$ 871,720</u>	<u>\$ 1,896,381</u>	<u>\$ 5,856,154</u>	<u>\$ 1,389,736</u>	<u>\$ 1,214,715</u>	<u>\$ 14,630,648</u>

SOUTH CAROLINA GOVERNOR'S OFFICE
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013
-CONTINUED-

Reconciliation to the statement of activities:

Net change in fund balances-total governmental funds	\$	(562,431)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. 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:

Additions to capital assets		357,133
Depreciation expense		(248,838)
		108,295
Excess of capital outlay over depreciation expense		108,295

Some items reported in the statement of activities do not require the uses of current financial resources and therefore, are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences		22,388
Change in net position of governmental activities		(431,748)
		\$ (431,748)

See accompanying notes.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. Summary of Significant Accounting Policies

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The South Carolina Governor's Office (herein referred to as the "Governor's Office" and the "Office") is part of the primary government of the State of South Carolina, and its funds are reported in the State's Comprehensive Annual Financial Report. Generally, all state agencies are included in the State's reporting entity. These entities are financially and fiscally dependent on the State.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Governor's Office (a primary entity).

A primary entity is financially accountable if its officials or appointees appoint a voting majority of an 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 potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all of the following powers:

- (1) Determine its budget without another government having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

The organization is fiscally dependent on the primary government/entity which holds one or more of those powers. Based on these criteria, the Governor's Office has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Governor's Office.

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

The Governor of South Carolina is elected by the general public and administers, has jurisdiction over, and is responsible for the management of the Governor's Office. The Governor's Office is an agency of the State of South Carolina and was established under code section 1-30-110 of the Code of Laws of South Carolina. The laws of the state and the policies and procedures specified by the State for state agencies are applicable to the activities of the Governor's Office. The Governor's Office is composed of four divisions: Mansion and Grounds, Executive Control of State, Office of Executive Policy and Programs, and the State Law Enforcement Division (S.L.E.D.). The S.L.E.D. division is not included in the reporting entity as the State Auditor's Office reports on it separately. Also, the Governor's mansion, buildings, and content assets are not included in this report, as they are owned by a separate commission.

The primary responsibility and services of the divisions of the Governor's Office are as follows: The Mansion and Grounds division is responsible for the household operations of the Governor's mansion. The Executive Control of State serves as a liaison office between the governor and other state agencies and public and private entities. These two divisions are funded solely by State General Fund appropriations. The Office of Executive Policy and Programs is responsible for administering various federal and state grant programs. The services include planning, grant financial records, program evaluation and program audit. The Office of Executive Policy and Programs also provides direct program services to the citizens of South Carolina. This area is funded by federal and state grants, state appropriations, and program service revenues and other sources. The Office of Executive Policy and Programs is divided into three divisions: Division of Administrative Services, Division of Children Services and Division of Constituent Services (see *Note 14*). Each of these divisions is made of offices, which provide the services mentioned above. The governor appoints directors of the state cabinet agencies. These agencies are not included in the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes: 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. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue 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 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 government considers revenue to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Governor's Office uses only one fund category, governmental, within which it maintains two fund types, general and special revenue. Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds). Assets are assigned to the various governmental funds according to the purposes for which they may or must be used and current liabilities are assigned to the fund from which they are to be paid. The difference between the assets and the liabilities is the fund balance.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The government reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions funded from State General Fund appropriations of the three divisions of the Governor's Office (Mansion and Grounds, Executive Control of State and Office of Executive Policy and Programs). Separate programs have been established for each department of the Governor's Office that receives State appropriations.

Special Revenue Funds - Special Revenue Funds (also referred to as "Other Funds") are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Separate programs/funds have been established for federal grants and federal programs and for each department of the Governor's Office that administers restricted proceeds. In the current year, these funds have been broken out by department. The Federal Grants and Programs Fund is used to account for the proceeds from the United States government.

The other special revenue funds are used to account for all other restricted revenue. Monies received include Education Improvement Act (EIA) allocations and Medicaid funds for the Continuum of Care, victim restitution fees for the State Office of Victim Assistance programs used for claims and awards, revenue received from individual donors, awards and grants and federal programs. Other expenditures include allocations of non-State General Fund monies to various sub-recipients under various federal and other programs, administrative costs of the Governor's Office, direct program services, and claims and awards paid under various federal grants and federal programs.

The Federal Grants and Programs Fund, Continuum of Care Fund, Victims' Assistance Fund, and the Veteran's Affairs Fund are considered major funds in the current year. The Guardian Ad Litem Fund, Finance and Administration Fund, Foster Care Fund, Ombudsman/Citizens Services Fund, Economic Opportunity Fund, and the Mansion Operations Fund are classified as nonmajor governmental funds in the current year.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Budget Policy

The Governor's Office is granted an annual appropriation for operating purposes by the General Assembly. The Appropriations Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds.

The Total Funds column includes all budgeted resources, including the State General Fund as well as most federal and department-generated sources. A revenue budget is not adopted for individual budgetary units.

The accompanying required supplementary information includes a budgetary comparison schedule of expenditures. The Budgetary General Fund category on that schedule corresponds to the General Funds column in the Appropriations Act and the Other Budgeted Funds category represents the difference between the Total Funds and General Funds columns in the Appropriations Act.

The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate state government for the current fiscal year. Any unexpended State General Fund appropriations lapse to the General Fund of the State on July 31 unless specific authorization is given to carry over the funds to the ensuing fiscal year. Appropriations carried forward for a specific purpose are reported as assigned fund balance.

During the fiscal year closeout period through July, departments and agencies may continue to charge vendor, interagency, and interfund payments applicable to the current year to this fiscal year's appropriation.

State law does not precisely define the budgetary process of accounting. The budget is prepared mostly on the cash basis with several exceptions. Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12. State law does not require the use of encumbrance accounting. Because the legally prescribed budgetary basis differs materially from GAAP, actual amounts in the accompanying budgetary comparison statements are presented on the budgetary basis. An explanation of the differences between the budgetary basis and GAAP basis is presented in *Note 4, page 48*.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Budget Policy (continued)

The State maintains budgetary control at the line-item level of expenditure within each program of each department or agency. All general fund expenditures are budgeted. The Governor's Office processes its disbursement vouchers through a central budgetary accounting system maintained by the Comptroller General's Office. Disbursement vouchers can only be processed if there is enough cash and appropriations exist. The level of legal control is reported in a publication of the State Comptroller General's Office titled *A Detailed Report of Appropriations and Expenditures*. Transfers of funds may be approved by the State Budget and Control Board (the "Board") under its authority.

Per Proviso 72.5 of the 2012-2013 Appropriations Act, all other provisions of the law not withstanding, the Executive Control of State section, and Mansion and Grounds section, shall be treated as a single budget section for the purpose of transfers and budget reconciliation.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represents cash on deposit with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Office, participate in the State's internal cash management pool.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having a maturity of three months or less at the time of purchase.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (continued)

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Office records and reports its monies in the general deposit account at cost. The Office reports its monies in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the agency's special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings at the stated rate, gains/losses, and unrealized gains/losses arising from changes in the fair value of investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are accrued and allocated at year-end based on percentage ownership in the pool.

For credit risk information pertaining to the cash management pool, see the deposits disclosures in *Note 12*.

Federal Grant Receivable

Federal grant revenue receivable represents revenue earned related to expenditures incurred through June 30, 2013, for federal programs/projects that will not be reimbursed until fiscal year 2014.

Accounts Receivable

Accounts receivable represents revenue earned related to expenditures incurred through June 30, 2013, for General Fund or Special Revenue Fund programs/projects that will not be reimbursed until fiscal year 2014.

Capital Assets

Capital assets are recorded at cost if purchased. Capital assets contributed by other State agencies or funds are recorded at the Governor's Office's original acquisition cost less accumulated depreciation from the purchase date. Assets donated by other parties are valued at fair market value at the date of gift. The capitalization dollar threshold limit for capital assets is \$5,000, and software is \$100,000. The Office has four classes of capital assets: construction in progress, furniture and equipment; building and improvements; and depreciable land improvements. The Office depreciates capital assets over the assets estimated useful lives using the straight-line basis. The estimated useful lives for furniture and equipment are 3-12 years. The estimated useful lives for buildings and improvements, and depreciable land improvements are 5-40 years.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Office does not currently have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Office does not currently have any items that qualify for reporting in this category.

Compensated Absences

Compensated absences are recorded as short and long-term liabilities. Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end up to 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum amount, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Governor's Office calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded. Changes in compensated absences are shown in *Note 10*.

Net Position/Fund Balances

Net position is classified and presented in three components in the government-wide financial statements:

Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and 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.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

The Office reports a portion of its net position or fund balance in its government-wide and fund financial statements as restricted. Net position or fund balance for governmental funds is reported as restricted when constraints placed on resource use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulation of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Enabling legislation authorizes the State to assess, levy, charge, or otherwise mandate payments of resources (from resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable requirement is one that an outside party (such as citizens, public interest groups, or the judiciary) can compel the government to honor. At June 30, 2013, \$8,092,230 was reported as restricted net position.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

The Office reports other constraints in its fund balance in the governmental funds as committed or assigned. Fund balance is reported as committed if a state statute or constitutional provision constraints the use of resources of the state. Fund balance is reported as assigned if the fund balance is constrained by the government's intent to use the funds for a specific purpose. The Office reports amounts as assigned if constrained through appropriations actions of the legislature. Committed constraints can be removed only through similar action that created the constraint, either legislation amending or repealing the statute or ratification of a constitutional change by the electorate. The removal of constraints for assigned funds occurs through the budgetary process.

Unassigned fund balance – All other fund balances that do not meet the definition of “restricted,” “assigned,” or “committed”.

The Office's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position or fund balances are available. Within the unrestricted fund balance, committed resources would be first applied, when available, followed by assigned resources before unassigned resources are used.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

1. Summary of Significant Accounting Policies (Continued)

Interfund Transactions-Fund Financial Statements

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursement to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Amounts owed for reimbursement at the end of the year are recorded as a liability in the reimbursing fund and a receivable in the fund to be reimbursed. The interfund receivable or payable is liquidated as soon as funds are available from the applicable funding source.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers in the period the transfer is authorized. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Indirect Cost Recoveries

The receipt of indirect cost recoveries has been included in the Special Revenue Fund as federal revenue and payment of these recoveries to the State's General Fund is recorded as other financing uses. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants, which the Office may retain. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. State law requires the Governor's Office to remit non-exempt recoveries to the State's General Fund. The State of South Carolina General Fund receives indirect cost reimbursements from Blue Cross/Blue Shield for the Infant Mortality Program and from federal granting agencies based on a predetermined percentage of the personnel costs of the Governor's Office. The Office did not remit any cost reimbursements in fiscal year 2013. The Office retained indirect cost recoveries in the amount of \$162,621 in fiscal year 2013.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

2. State Appropriations

The 2012-2013 original appropriations are the base budget amounts for the Mansion and Grounds, the Executive Control of State, and the Office of Executive Policy and Program budgetary units and are presented in the General Funds column of Sections 72A, 72B, and 72C, respectively, of Part IA of the Appropriations Act. The following are reconciliations of adjusted appropriations to the appropriations revenue and General Fund legal basis budget amounts on the Combined Statement of Revenue, Expenditures and Changes in Fund Balances- All Governmental Fund Types and the Combined Statement of Expenditures - Budget and Actual - All Budgeted Funds.

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Original appropriation	\$ 293,801	\$ 1,841,149	\$ 6,349,592	\$ 8,484,542
Annualization of employee benefits	9,549	70,613	212,868	293,030
Lapse appropriations	-	(200,691)	-	(200,691)
Revised appropriations - legal basis	303,350	1,711,071	6,562,460	8,576,881
Net adjustments to accrual basis:				
Personal services and employer contributions	2,057	6,877	(14,487)	(5,553)
Revenue from state appropriations	<u>\$ 305,407</u>	<u>\$ 1,717,948</u>	<u>\$ 6,547,973</u>	<u>\$ 8,571,328</u>
Revised appropriations	\$ 303,350	\$ 1,711,071	\$ 6,562,460	\$ 8,576,881
Brought-forward appropriations from fiscal year ended June 30, 2012:				
(a) Implementing federal programs-match	23,379	182,541	2,672,048	2,877,968
Legal basis appropriation available for 2013 expenditures	<u>\$ 326,729</u>	<u>\$ 1,893,612</u>	<u>\$ 9,234,508</u>	<u>\$ 11,454,849</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

2. State Appropriations (Continued)

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Approved carry forward of appropriated funds to fiscal year 2014				
(b) Implementing federal programs- match	\$ 7,929	\$ 191,176	\$ 3,213,004	\$ 3,412,109
Accounts payable	-	(2,844)	(7,323)	(10,167)
Total carry forward accrual basis	\$ 7,929	\$ 188,332	\$ 3,205,681	\$ 3,401,942

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2012 for expenditures in fiscal year 2013 and to carry forward unspent appropriations from fiscal year 2013 to expenditure in fiscal year 2014. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

- (a) 2012 Appropriations Act, Proviso 72.1
- (b) 2013 Appropriations Act, Proviso 72.1

Annual fiscal year 2013 appropriations of \$3,401,942 for implementing federal programs approved for carry forward to fiscal year 2014 for expenditure for the same purposes.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

3. Operating Leases

The Governor's Office rents office and parking space on a year-to-year basis from the State Budget and Control Board-Division of General Services. During fiscal year 2013, total payments under this lease were \$361,538. The Governor's Office leases automobiles from the State Budget and Control Board-State Fleet Management Office on a year-to-year basis. During fiscal year 2013, total payments under this lease were \$204,212. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2014 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$440,409 in fiscal year 2013. These leases expire between fiscal years 2012 and 2015. Some leases contain renewal options and scheduled rent increases. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2014 and subsequent years. When these leases expire, they will be replaced with similar leases for like real property.

The Governor's Office also has noncancelable operating leases for various copying and data processing equipment. During fiscal year 2013, total payments were \$106,828, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2014 and subsequent years.

Future minimum lease payments required under noncancelable operating leases that have remaining lease terms of more than one year as of June 30, 2013, are:

<u>Year Ending June 30,</u>	
2014	\$ 295,281
2015	217,581
2016	208,445
2017	141,108
2018	123,142
2019	18,533
	<u>\$ 1,004,090</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

4. Due From State General Fund

Accrued payroll and related liabilities represents personal services and employer contribution expenditures accrued at June 30, but paid in July. By State law, these accruals are paid from funds appropriated for the next fiscal year.

The amount receivable for accrued payroll and fringe benefits represents amounts due from the State General Fund to fund the Office's general fund personal services and employer contribution costs accrued at June 30, but paid in July for employees paid from State General Fund appropriations. See *Note 2* for detail of the net revenue adjustment by division.

5. Changes in Capital Assets

A summary of changes in capital assets follows:

	Balance July 1, 2012	Additions	Deletions and Retirements	Balance June 30, 2013
Construction in Progress				
Office of Executive Policy and Programs	\$ 29,000	\$ 155,536	\$ -	\$ 184,536
Buildings and Improvements				
Office of Executive Policy and Programs	1,641,478	-	-	1,641,478
Depreciable land improvements				
Office of Executive Policy and Programs	2,410,235	-	-	2,410,235
Furniture and equipment:				
Office of Executive Policy and Programs	505,242	201,597	(52,921)	653,918
Executive Control of State	12,251	-	(5,025)	7,226
Total furniture and equipment	517,493	201,597	(57,946)	661,144
Accumulated depreciation:				
Office of Executive Policy and Programs	(1,242,403)	(247,823)	52,921	(1,437,305)
Executive Control of State	(10,136)	(1,015)	5,025	(6,126)
Total accumulated depreciation	(1,252,539)	(248,838)	57,946	(1,443,431)
Capital assets, net of accumulated depreciation	<u>\$ 3,345,667</u>	<u>\$ 108,295</u>	<u>\$ -</u>	<u>\$ 3,453,962</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan

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

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

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 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 benefits 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, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 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 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan (Continued)

Disability annuity benefits are payable to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members qualify for disability annuity benefits provided they have a minimum of eight years of credited service. 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 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. 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 Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years.

Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. The TERI program will end effective June 30, 2018.

Effective July 1, 2012, employees participating in the SCRS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for SCRS was 15.15%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death program and a 4.55% surcharge that will fund retiree health and dental insurance coverage. Employer contributions for State ORP include a 5.45% employer retirement contribution, 4.55% retiree insurance surcharge and .15% incidental death benefit. The Offices actual contributions to the SCRS for the years ended June 30, 2013, 2012, and 2011 were approximately \$1,327,154, \$1,195,947, and \$1,261,229, respectively, and equaled the base required retirement contribution rate, excluding surcharge, of 10.45% for 2013, 9.385% for 2012 and 9.24% for 2011. Also, the Office paid employer incidental death program contributions of approximately \$13,277, \$13,105, and \$13,591, at the rate of .15% of compensation for the current fiscal years ended June 30, 2013, 2012, and 2011 respectively.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan (Continued)

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to PORS as a condition of employment. This plan provides lifetime monthly annuity benefits as well as disability, survivor benefits and incidental benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.00% of all earnable compensation. The employer contribution rate for PORS was 16.85%. Included in the total PORS employer contribution rate is a base retirement contribution of 11.90%, .20% for the incidental death program, .20% for the accidental death program, and a 4.55% surcharge that will fund retiree health and dental insurance coverage. The Offices actual contributions to the PORS for the years ended June 30, 2013, 2012, and 2011 were approximately \$7,379, \$4,351, and \$6,708, respectively, and equaled the base retirement required contribution rate, excluding surcharge, of 11.90% for 2013, 11.363% for 2012 and 11.13% for 2011. The Office also paid employer incidental death program contributions of approximately \$90, \$56, and \$89, at the rate of .20% of compensation for the current fiscal years ended June 30, 2013, 2012, and 2011 respectively. In addition the Office paid accidental death program contributions of approximately \$90, \$56, and \$89, at the rate of .20% of compensation for the current fiscal years ended June 30, 2013, 2012, and 2011 respectively.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

6. Pension Plan (Continued)

As an alternative to membership to SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for State ORP plan other than for payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.55% from the employer in fiscal year 2013. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% and .15% incidental death program contribution amounts are remitted to SCRS.

For fiscal year 2013, total contributions requirements to the ORP were approximately \$277,721 (excluding the surcharge) from the Office as employer.

The amounts paid by the Office for pension, incidental death 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-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates.

For the current fiscal year, 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 Office's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Office recognizes no contingent liability for unfunded costs associated with participation in the plans.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

7. Post Employment and Other Employee Benefits

Plan Description

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

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.55% of annual covered payroll for 2013 and 4.30% of annual covered payroll for 2012. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Office paid approximately \$53,838 and \$53,938 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2013 and 2012, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal years ended June 30, 2013 and 2012. The Office recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately \$8,517 and \$8,700 for the years ended June 30, 2013 and 2012, respectively.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

7. Post Employment and Other Employee Benefits (Continued)

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the complete financial statements for the benefit plans and the trust funds from PEBA Retirement Benefits and Insurance Benefits, 202 Arbor Lake Drive, Suite 360, Columbia, SC 29223.

8. Deferred Compensation Plans

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

The Governor's Office made no contributions for the fiscal year ending June 30, 2013.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

9. Risk Management

The Governor's Office is exposed to various risks of loss and maintains State 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. Settled claims have not exceeded this coverage in any of the past three years. The Governor's Office pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

Several state funds accumulate assets and the State itself assumes substantially all risks for the following:

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

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

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

1. Theft of, damage to, or destruction of assets;
2. Building contents and equipment;
3. Motor vehicles;
4. Torts.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

9. Risk Management (Continued)

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property, equipment, and auto liability. The IRF's rates are determined actuarially.

The Governor's Office obtains coverage up to \$50,000 through a commercial insurer for employee fidelity bond insurance for certain administrative employees of the Office of Executive Policy and Programs for losses arising from theft or misappropriation. The Governor's Office self-insures itself above this amount because it feels the likelihood of loss is remote. The Governor's Office has not purchased business interruption insurance because management believes the risk of a material loss is a remote likelihood.

The Governor's Office has recorded insurance premium expenditures in the applicable expenditure categories. There is no evidence of asset impairment or other information to indicate that a loss expenditures and liability should be recorded at fiscal year end for uninsured losses. Therefore, no loss accrual had been recorded.

10. Changes In Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2013, were as follows:

	Beginning Balance July 1, 2012	Increases	Decreases	Ending Balance June 30, 2013	Due Within One Year
Accrued compensated absences:					
Mansion and Grounds Executive Control of State	\$ 15,424	\$ 1,809	\$ (5,439)	\$ 11,794	\$ 6,763
Office of Executive Policy and Programs	50,989	132,543	(79,443)	104,089	86,267
	963,120	1,262,155	(1,334,013)	891,262	616,274
Total accrued compensated absences	<u>\$ 1,029,533</u>	<u>\$ 1,396,507</u>	<u>\$ (1,418,895)</u>	<u>\$ 1,007,145</u>	<u>\$ 709,304</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

11. Transactions With State Entities

The Governor's Office has significant transactions with various State of South Carolina state agencies.

Services received at no cost from state agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking functions from the State Treasurer; legal services from the Attorney General; interagency mail services from the State Budget and Control Board; and record storage from the Department of Archives and History. The Governor's Office also leases space, equipment and autos from state agencies. See *Note 3* for further disclosure. Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

In addition to the above services received at no cost, the Governor's Office pays for the following services with State agencies:

Agency	Goods or Services Purchased	Amount
The Citadel	Allocations to other entities	\$ 11,096
Comptroller General's Office	Unemployment compensation insurance	66,094
Department of Corrections	Printing services	11,255
Department of Corrections	General repair	755
Department of Corrections	Supplies	5,085
Total Department of Corrections		17,095
Department of Health and Human Services	Other professional services	16,026
Department of Mental Health	Claims and awards	73,939
Department of Mental Health	Allocations to other entities	127,973
Total Department of Mental Health		201,912
College of Charleston	Allocations to other entities	7,165
State Accident Fund	Workers compensation insurance	52,039
State Auditor's Office	Audit	2,379
State Board for Technical and Comprehensive Education	Allocations to other entities	45,000
Parks, Recreation and Tourism	Supplies	1,637
Medical University of South Carolina	Allocations to other entities	250

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

11. Transactions With State Entities (Continued)

Agency	Goods or Services Purchased	Amount
State Budget and Control Board	Office Equipment and Supplies	1,073
State Budget and Control Board	Data processing	44,306
State Budget and Control Board	Postage and freight	1,851
State Budget and Control Board	Telephone services	32,354
State Budget and Control Board	Shared energy savings	3,746
State Budget and Control Board	Motor vehicle repair	140
State Budget and Control Board	General repair	2,512
State Budget and Control Board	Rent	360,662
State Budget and Control Board	Insurance	58,201
State Budget and Control Board	Leased car	204,240
State Budget and Control Board	Retirement	254
State Budget and Control Board	Registration fees	2,275
Total State Budget and Control Board		711,614
University of South Carolina	Allocations to other agencies	143,595
University of South Carolina	Miscellaneous	12,101
Total University of South Carolina		155,696
Various Other	Printing services	1,055
Various Other	Telephone services	106
Various Other	Other fees	2,287
Various Other	Rent - other	3,600
Total Various Other		7,048
Total		\$ 1,295,051

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

12. Cash Deposits

All cash deposits with financial institutions are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. At June 30, 2013, the Office had no deposits with financial institutions. The Office had cash in the amount of \$14,864,483 held by the State Treasurer as of June 30, 2013.

All deposits are held by the State Treasurer and information on credit risk can be found in the Comprehensive Annual Financial Report of the State of South Carolina.

The following schedule reconciles deposits within the footnotes to the financial statement amounts:

	Financial Statements	Footnotes
Deposits with State Treasurer's Office	\$ -	\$ 14,864,483
Cash and cash equivalents	14,864,483	-
Total	<u>\$ 14,864,483</u>	<u>\$ 14,864,483</u>

13. Litigation and Contingencies

At June 30, 2013, the Governor's Office was involved in a number of legal proceedings (predominately civil suits) and claims with various parties, which arose in the normal course of business.

Although any litigation has an element of uncertainty, it is management's opinion that the outcome of litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Office. No provision has been made in these financial statements for losses, if any, which might result from litigation pending, threatened or the combination thereof because there is no evidence to indicate that a loss expenditure and liability should be recorded at year end.

The South Carolina Governor's Office has received grant revenue from several federal agencies. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that refunds, if any, will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

14. Program Classification

The following is how the Office of Executive Policy and Programs is structured as of fiscal year 2013.

Division of Administrative Services	Division of Children Services	Division of Constituent Services
Office of Finance and Administration	Office of Continuum of Care Office of Foster Care Office of Guardian Ad Litem Office of Children Affairs	Office of Veterans' Affairs Office of Commission on Women Office of Ombudsman/Constituent Services Office of Developmental Disabilities Council Office of Victims' Assistance Office of Economic Opportunity Office of Small and Minority Business

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

15. Fund Balances/Deficits By Department

Fund equity is comprised by the following fund balances by department:

Continuum of Care:	
Case management Medicaid	\$ 520,023
Patient Fees	1,375,858
Client Trust Fund	25
Miscellaneous revenue	475
Total Continuum of Care	1,896,381
Foster Care:	
Local review board	467,642
Victims' Assistance:	
Trust fund for claims	5,856,154
Economic Opportunity:	
Project share	347,302
General:	
General	3,401,942
Guardian Ad Litem:	
Operations	162,487
Contributions	165
Gloper Trust Fund	(145,022)
Total Guardian Ad-Litem	17,630
Ombudsman/Citizens Services:	
Operations	129,137
Mansion Operations:	
Operating	214,607
Total Mansion Operations	214,607

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO FINANCIAL STATEMENTS

- CONTINUED -

15. Fund Balances/Deficits By Department (Continued)

Veterans' Affairs:	
Capital Revenue Fund	610,769
Military Family Relief Fund	314,386
Cemetery Donations	31,873
Veterans' State Cemetery Fund	432,708
Total Veterans' Affairs	1,389,736
Finance and Administration:	
Transition One Time Money	26,458
Increased Rehabilitation Collections	730
Vocational Rehabilitation Recovery Account	8,109
Miscellaneous Revenue	3,100
Total Finance and Administration	38,397
Federal Grants and Programs:	
Ombudsman	791
Victims' assistance	7,227
Economic opportunity	18,948
Weatherization Stimulus	823,839
HHS	20,915
Total Federal Grants and Programs	871,720
Total fund balances	\$ 14,630,648

16. Subsequent events

On January 27, 2014 Governor Haley signed into law Senate Bill 22 “South Carolina Restructuring Act of 2014”. The purpose of the bill was to restructure various agencies and programs. All programs currently within The Governor’s Office of Executive Policy and Programs will be transferred to the newly created Department of Administration effective July 1, 2015.

Subsequent events were evaluated through February 27, 2014, which is the date the financial statements were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS)
(UNAUDITED)

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
BUDGETARY GENERAL FUND

YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
	Expenditures:			
Executive Control of the State				
I. Administration				
Personal Services	\$ 1,307,435	\$ 1,332,435	\$ 1,196,737	\$ 135,698
Other Operating Expenses	101,213	183,753	153,093	30,660
Carryforward Appropriations	182,541	100,001	-	100,001
Total Administration	<u>1,591,189</u>	<u>1,616,189</u>	<u>1,349,830</u>	<u>266,359</u>
II. Employee Benefits	<u>432,501</u>	<u>478,114</u>	<u>352,605</u>	<u>125,509</u>
Total Executive Control of the State	<u>2,023,690</u>	<u>2,094,303</u>	<u>1,702,435</u>	<u>391,868</u>
Office of Executive Policy and Programs				
I. Administrative Services				
Personal Services	515,395	557,332	557,332	-
Other Operating Expenses	177,635	143,275	98,600	44,675
Carryforward Appropriations	207,498	-	-	-
Total Administrative Services	<u>900,528</u>	<u>700,607</u>	<u>655,932</u>	<u>44,675</u>
II. Children Services				
Personal Services	2,104,779	3,249,090	2,814,392	434,698
Other Operating Expenses	240,074	1,031,454	230,463	800,991
Case Services	992,885	1,308,970	(167,356)	1,476,326
Allocation Other Entities	100,000	100,000	100,000	-
Special Items:				
Children's Case Resolution System	4,054	4,054	-	4,054
Total Children Services	<u>3,441,792</u>	<u>5,693,568</u>	<u>2,977,499</u>	<u>2,716,069</u>
III. Constituents Services				
Personal Services	847,263	1,028,478	817,989	210,489
Other Operating Expenses	45,622	200,487	74,493	125,994
Special Items:				
Victims Rights	44,022	44,022	43,665	357
POW Commission	2,080	3,613	368	3,245
Veteran's Counseling	65,279	119,860	8,268	111,592
Total Constituents Services	<u>1,004,266</u>	<u>1,396,460</u>	<u>944,783</u>	<u>451,677</u>
IV. Employee Benefits	<u>1,210,504</u>	<u>1,443,874</u>	<u>1,443,290</u>	<u>584</u>
Total Office of Executive Policy and Programs	<u>6,557,090</u>	<u>9,234,509</u>	<u>6,021,504</u>	<u>3,213,005</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
BUDGETARY GENERAL FUND

YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance from Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Mansion and Grounds				
I. Administration				
Personal Services	175,268	180,893	179,823	1,070
Other Operating Expenses	60,500	73,879	68,355	5,524
Carryforward Appropriations	23,379	-	-	-
Total Administration	<u>259,147</u>	<u>254,772</u>	<u>248,178</u>	<u>6,594</u>
II. Employee Benefits	<u>58,033</u>	<u>71,957</u>	<u>70,623</u>	<u>1,334</u>
Total Mansion and Grounds	<u>317,180</u>	<u>326,729</u>	<u>318,801</u>	<u>7,928</u>
Total Expenditures	<u>\$ 8,897,960</u>	<u>\$ 11,655,541</u>	<u>\$ 8,042,740</u>	<u>\$ 3,612,801</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES
(NON-GAAP BUDGETARY BASIS - UNAUDITED)
OTHER BUDGETED FUNDS

YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance from Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
Office of Executive Policy and Programs				
I. Administrative Services				
Personal services	\$ -	\$ 16,853	\$ 16,853	\$ -
Allocation Other State Agencies	1,048,398	1,048,398	127,973	920,425
Total Administrative Services	<u>1,048,398</u>	<u>1,065,251</u>	<u>144,826</u>	<u>920,425</u>
II. Children Services				
Personal Services	5,714,454	5,626,512	966,577	4,659,935
Other Operating Expenses	3,632,771	4,621,074	1,714,950	2,906,124
Case Services	472,781	472,781	417,779	55,002
Total Children Services	<u>9,820,006</u>	<u>10,720,367</u>	<u>3,099,306</u>	<u>7,621,061</u>
III. Constituents Services				
Personal Services	3,662,514	4,129,397	2,618,534	1,510,863
Other Operating Expenses	16,742,835	16,624,143	11,656,204	4,967,939
Case Services	550,000	512,400	68,000	444,400
Distributions to Subdivisions:				
Allocation Municipalities - Restricted	60,000	60,000	-	60,000
Allocation School Districts	300,000	300,000	-	300,000
Allocation County - Restricted	650,000	650,000	650,000	-
Allocation Other State Agencies	767,479	367,479	-	367,479
Allocation Private Sector	-	618,583	273,652	344,931
Allocation Other Entities	69,007,405	68,283,734	43,594,883	24,688,851
Total Constituents Services	<u>91,740,233</u>	<u>91,545,736</u>	<u>58,861,273</u>	<u>32,684,463</u>
IV. Employee Benefits	<u>3,184,034</u>	<u>3,190,458</u>	<u>1,195,556</u>	<u>1,994,902</u>
Total Office of Executive Policy and Programs	<u>105,792,671</u>	<u>106,521,812</u>	<u>63,300,961</u>	<u>43,220,851</u>
Mansion and Grounds				
I. Administration				
Personal Services	50,000	65,000	60,322	4,678
Other Operating Expenses	142,417	123,917	6,333	117,584
Total Administration	<u>192,417</u>	<u>188,917</u>	<u>66,655</u>	<u>122,262</u>
II. Employee Benefits	<u>7,583</u>	<u>11,083</u>	<u>10,232</u>	<u>851</u>
Total Mansion and Grounds	<u>200,000</u>	<u>200,000</u>	<u>76,887</u>	<u>123,113</u>
Total Expenditures	<u>\$ 105,992,671</u>	<u>\$ 106,721,812</u>	<u>\$ 63,377,848</u>	<u>\$ 43,343,964</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

JUNE 30, 2013

Note 1. Budgetary Funds:

South Carolina's Annual Appropriations Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds. These funds are general operating funds. The resources in these funds are primarily taxes. The State expends General Funds to provide traditional State government services. The General Funds column in the Appropriations Act differs somewhat from the GAAP General Fund and is referred to within these notes and in the accompanying schedule as the *Budgetary General Fund*.

Total Funds. The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

Amounts obtained by subtracting the General Funds column in the Appropriations Act from the Total Funds column in the Appropriations Act are referred to within these notes and in the accompanying schedules as *Other Budgeted Funds*.

Note 2. Legal Level of Budgetary Control:

The State maintains budgetary control at the level of summary object category of expenditure within each program of each department or agency. The State's Appropriations Act for the 2012-2013 fiscal year has approximately 3,000 appropriated line items. These line items constitute the level of legal control over expenditures. The level of legal control for all agencies is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures," not included herein.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY

(CONTINUED)

Note 3. Basis of Budgeting:

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended Appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is required.

State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- (i) Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12.
- (ii) Certain revenues collected in advance are recorded as liabilities (deferred revenues) rather than as revenues.
- (iii) The following taxes are recorded on the modified accrual basis in accordance with State law: admissions tax, alcoholic liquors tax, beer and wine tax, business license tax, documentary tax, electric power tax, and retail sales taxes.
- (iv) Certain non-cash activity, such as food stamp benefits, is recorded as revenue and expenditure in the fiscal year in which the resources are distributed to the beneficiaries.
- (v) All other revenues are recorded only when the State receives the related cash.

Note 4. Reconciliation of Budget to GAAP Reporting Differences:

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassifications from financial statement fund types to budgetary fund categories, reversals of payroll accruals and the related fringe benefits, and removals of unbudgeted accounts and funds, if any. Acquisitions of fixed assets by donation are unbudgeted and capital lease and installment purchase transactions are budgeted in the year of payment.

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA GOVERNOR'S OFFICE

BALANCE SHEET -
GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION
JUNE 30, 2013

	<u>Mansion and Grounds</u>	<u>Executive Control of State</u>	<u>Office of Executive Policy and Programs</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 7,929	\$ 191,176	\$ 3,213,004	\$ 3,412,109
Due from the State General Fund	16,086	107,602	357,748	481,436
Total assets	<u>\$ 24,015</u>	<u>\$ 298,778</u>	<u>\$ 3,570,752</u>	<u>\$ 3,893,545</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 2,844	\$ 7,323	\$ 10,167
Accrued payroll and related liabilities	16,086	107,602	357,748	481,436
Total liabilities	<u>16,086</u>	<u>110,446</u>	<u>365,071</u>	<u>491,603</u>
Fund balances:				
Assigned	7,929	188,332	3,205,681	3,401,942
Total fund balances	<u>7,929</u>	<u>188,332</u>	<u>3,205,681</u>	<u>3,401,942</u>
Total liabilities and fund balances	<u>\$ 24,015</u>	<u>\$ 298,778</u>	<u>\$ 3,570,752</u>	<u>\$ 3,893,545</u>

SOUTH CAROLINA GOVERNOR'S OFFICE
 STATEMENT OF REVENUE, EXPENDITURES
 AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2013

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Revenues				
State appropriations	\$ 305,407	\$ 1,717,947	\$ 6,547,974	\$ 8,571,328
Total revenue	<u>305,407</u>	<u>1,717,947</u>	<u>6,547,974</u>	<u>8,571,328</u>
Expenditures				
Finance and Administration:				
Personal services	181,880	1,203,321	105,894	1,491,095
Employer contributions	70,623	352,605	187,145	610,373
Other operating	68,354	153,917	99,136	321,407
Foster Care:				
Personal services	-	-	278,605	278,605
Employer contributions	-	-	86,037	86,037
Other operating	-	-	49,635	49,635
Continuum of Care:				
Personal services	-	-	1,874,230	1,874,230
Employer contributions	-	-	630,469	630,469
Other operating	-	-	51,613	51,613
Guardian Ad Litem:				
Personal services	-	-	790,450	790,450
Employer contributions	-	-	244,102	244,102
Other operating	-	-	129,215	129,215
Developmental Disabilities:				
Personal services	-	-	11,061	11,061
Employer contributions	-	-	3,416	3,416
Other operating	-	-	15,051	15,051
Ombudsman/Citizen Services:				
Personal services	-	-	79,807	79,807
Employer contributions	-	-	24,646	24,646
Other operating	-	-	1,404	1,404
Veterans Counseling			8,268	8,268

(CONTINUED)

SOUTH CAROLINA GOVERNOR'S OFFICE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2013

-CONTINUED-

	Mansion and Grounds	Executive Control of State	Office of Executive Policy and Programs	Totals
Expenditures (Continued)				
Veterans Affairs:				
Personal services	-	-	462,320	462,320
Employer contributions	-	-	142,771	142,771
Other operating	-	-	5,960	5,960
POW Commission	-	-	368	368
Veteran's Cemetery				
Personal services	-	-	245,368	245,368
Employer contributions	-	-	75,773	75,773
Other operating	-	-	82,651	82,651
Children Affairs:				
Personal services	-	-	41,000	41,000
Employer contributions	-	-	12,662	12,662
Children's Trust Fund	-	-	100,000	100,000
Small and Minority Business:				
Personal services	-	-	117,452	117,452
Employer contributions	-	-	36,271	36,271
Other operating	-	-	14,428	14,428
Total expenditures	<u>320,857</u>	<u>1,709,843</u>	<u>6,007,208</u>	<u>8,037,908</u>
Excess of revenue over (under) expenditures	(15,450)	8,104	540,766	533,420
Fund balances, beginning of year	<u>23,379</u>	<u>180,228</u>	<u>2,664,915</u>	<u>2,868,522</u>
Fund balances, end of year	<u>\$ 7,929</u>	<u>\$ 188,332</u>	<u>\$ 3,205,681</u>	<u>\$ 3,401,942</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING BALANCE SHEET -
OTHER NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2013

	<u>Guardian Ad Litem</u>	<u>Finance and Administration</u>	<u>Foster Care</u>	<u>Ombudsman/ Citizen Services</u>	<u>Economic Opportunity</u>	<u>Mansion Operations</u>	<u>Total</u>
Assets							
Cash and cash equivalents	\$ 196,055	\$ 37,775	\$ 515,626	\$ 139,868	\$ 347,302	\$ 219,271	\$ 1,455,897
Accounts receivable	-	3,459	-	-	-	-	3,459
Total assets	<u>\$ 196,055</u>	<u>\$ 41,234</u>	<u>\$ 515,626</u>	<u>\$ 139,868</u>	<u>\$ 347,302</u>	<u>\$ 219,271</u>	<u>\$ 1,459,356</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 8,139	\$ -	\$ 1,258	\$ 255	\$ -	\$ -	\$ 9,652
Accrued payroll and related liabilities	170,286	2,338	46,726	10,476	-	4,664	234,490
Deposits held for clients	-	499	-	-	-	-	499
Total liabilities	<u>178,425</u>	<u>2,837</u>	<u>47,984</u>	<u>10,731</u>	<u>-</u>	<u>4,664</u>	<u>244,641</u>
Fund Balances:							
Restricted	-	-	-	-	347,302	-	347,302
Committed	17,630	-	-	-	-	-	17,630
Unassigned	-	38,397	467,642	129,137	-	214,607	849,783
Total fund balances	<u>17,630</u>	<u>38,397</u>	<u>467,642</u>	<u>129,137</u>	<u>347,302</u>	<u>214,607</u>	<u>1,214,715</u>
Total liabilities and fund balances	<u>\$ 196,055</u>	<u>\$ 41,234</u>	<u>\$ 515,626</u>	<u>\$ 139,868</u>	<u>\$ 347,302</u>	<u>\$ 219,271</u>	<u>\$ 1,459,356</u>

SOUTH CAROLINA GOVERNOR'S OFFICE

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
OTHER NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	Guardian Ad Litem	Finance and Administration	Foster Care	Ombudsman/ Citizen Services	Economic Opportunity	Mansion Operations	Total
Revenue							
Federal grants and programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ 2,500
Other government grants and contributions	2,953,269	-	-	196,000	635,054	-	3,784,323
Interest	9,101	-	-	-	-	-	9,101
Medicaid reimbursements	-	-	800,730	-	-	-	800,730
Miscellaneous	-	-	-	-	-	151,143	151,143
Total revenue	2,962,370	-	800,730	196,000	635,054	153,643	4,747,797
Expenditures							
Administration:							
Personal services	2,167,727	19,191	575,366	114,006	-	61,341	2,937,631
Employer contributions	711,992	4,913	188,511	35,899	-	10,232	951,547
Other operating	1,102,980	202,196	103,845	17,931	-	6,333	1,433,285
Distributions to subrecipients	-	-	-	-	410,942	-	410,942
Total expenditures	3,982,699	226,300	867,722	167,836	410,942	77,906	5,733,405
Excess (deficit) of revenue over (under) expenditures	(1,020,329)	(226,300)	(66,992)	28,164	224,112	75,737	(985,608)
Other Financing Sources (Uses)							
Indirect costs retained by the Office	-	156,290	-	-	-	-	156,290
Transfers In	41,864	-	-	-	-	-	41,864
Transfers Out	-	(220,524)	-	-	-	-	(220,524)
Total other financing sources (uses)	41,864	(64,234)	-	-	-	-	(22,370)
Excess (deficit) of revenue over (under) expenditures and other financing sources (uses)	(978,465)	(290,534)	(66,992)	28,164	224,112	75,737	(1,007,978)
Fund balances, beginning of year	996,095	328,931	534,634	100,973	123,190	138,870	2,222,693
Fund balances, end of year	\$ 17,630	\$ 38,397	\$ 467,642	\$ 129,137	\$ 347,302	\$ 214,607	\$ 1,214,715

SINGLE AUDIT SECTION

SOUTH CAROLINA GOVERNOR'S OFFICE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Federal Expenditures
U. S. Department of Education		
Rehabilitation Services-Client Assistance Program	84.161	\$ 166,782
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons *	81.042	868,673
U. S. Department of Justice		
Crime Victim Assistance	16.575	84,077
Crime Victim Compensation	16.576	3,776,269
U. S. Department of Health and Human Services		
Low Income Home Energy Assistance *	93.568	32,446,833
Community Services Block Grant *	93.569	8,717,959
Developmental Disabilities Basic Support and Advocacy Grants	93.630	941,036
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	127,973
U. S. Department of Housing and Urban Development		
Emergency Solutions Grant Program *	14.231	2,423,250
ARRA - Homeless Prevention and Rapid Re-Housing Program *	14.262	465,823
Grand Total		<u>\$ 50,018,675</u>

* denotes major program

The accompanying notes are an integral part of this schedule.

SOUTH CAROLINA GOVERNOR'S OFFICE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

Note 1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant and federal program activity of South Carolina Governor's Office (the "Office") and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 2. Subrecipients:

Of the federal expenditures presented in the schedule, the South Carolina Governor's Office provided federal awards to subrecipients as follows:

Federal Grantor/ Program Title	Federal CFDA Number	Amount Provided to Subrecipients
U. S. Department of Health and Human Services		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	\$ 551,390
Community Services Block Grant	93.569	8,474,818
Low Income Home Energy Assistance	93.568	31,776,364
U. S. Department of Energy		
Weatherization Assistance for Low Income Persons	81.042	810,116
U. S. Department of Housing and Urban Development		
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.262	452,973
Emergency Solutions Grant Program	14.231	<u>2,220,261</u>
Total provided to subrecipients		<u><u>\$ 44,285,922</u></u>

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**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. Richard H. Gilbert, Jr., CPA
Deputy 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, each major fund and the aggregate remaining fund information of the South Carolina Governor's Office (the "Office"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements and have issued our report thereon dated February 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office'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 Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office'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 Office'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 Office'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 Office'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 Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Deloach & Williamson, C.C.P.".

Columbia, South Carolina

February 27, 2014

DELOACH & WILLIAMSON, L.L.P.

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**Independent Auditors' Report on Compliance For Each Major Federal Program and Report
on Internal Control Over Compliance Required by OMB Circular A-133**

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on Compliance for Each Major Federal Program

We have audited the South Carolina Governor's Office (the "Office") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Office's major federal programs for the year ended June 30, 2013. The Office'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Office'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Office'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 Office's compliance.

Basis for Qualified Opinion on Low Income Home Energy Assistance, Community Services Block Grant, Weatherization Assistance for Low Income Persons, Emergency Solutions Grant Program, and ARRA-Homeless Prevention and Rapid Re-Housing Program

As described in Findings 2013-001 through 2013-006 in the accompanying schedule of findings and questioned costs, the Office did not comply with requirements regarding the following:

<u>Finding #</u>	<u>CFDA#</u>	<u>Program Name</u>	<u>Compliance Requirement</u>
2013-001	81.042	Weatherization Assistance for Low Income Persons	Cash Management
2013-001	93.568	Low Income Home Energy Assistance	Cash Management
2013-001	93.569	Community Services Block Grant	Cash Management
2013-002	93.568	Low Income Home Energy Assistance	Special Reporting
2013-003	81.042	Weatherization Assistance for Low Income Persons	Reporting
2013-004	14.231	Emergency Solutions Grant Program	Sub-Recipient Monitoring
2013-004	14.262	ARRA-Homeless Prevention and Rapid Re-Housing Program	Sub-Recipient Monitoring
2013-005	14.231	Emergency Solutions Grant Program	Matching, Level of Effort, Earmarking
2013-006	81.042	Weatherization Assistance for Low Income Persons	Reporting
2013-006	93.568	Low Income Home Energy Assistance	Reporting
2013-006	14.231	Emergency Solutions Grant Program	Reporting
2013-006	93.569	Community Services Block Grant	Reporting

Compliance with such requirements is necessary, in our opinion for the Office to comply with the requirements applicable to that program.

Qualified Opinion on Low Income Home Energy Assistance, Community Services Block Grant, Weatherization Assistance for Low Income Persons, Emergency Solutions Grant Program, and ARRA-Homeless Prevention and Rapid Re-Housing Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Office, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Low Income Home Energy Assistance, Community Services Block Grant, Weatherization Assistance for Low Income Persons, Emergency Solutions Grant Program, and ARRA-Homeless Prevention and Rapid Re-Housing Program for the year ended June 30, 2013.

The Office’s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Office’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Office 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 Office’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 OMB Circular A-133, but not for the

purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Office'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 combination of deficiencies, in internal control over compliance, such that there is 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 preceding paragraph 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-007 that we consider to be a significant deficiency.

The Office's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Office's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Releach & Williamson, L.L.P.

Columbia, South Carolina

February 27, 2014

SOUTH CAROLINA GOVERNOR'S OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – JUNE 30, 2013

Summary of Auditors' Results:

The auditors' report expresses an unmodified opinion on the financial statements of the South Carolina Governor's Office.

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified? X yes _____ none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes _____ no

Identification of major programs:

- CFDA Number(s) Name of Federal Program or Cluster
- 93.568 Low Income Home Energy Assistance Program ("LIHEAP")
 - 93.569 Community Services Block Grant ("CSBG")
 - 81.042 Weatherization Assistance for Low Income Persons ("WAP")
 - 14.231 Emergency Solutions Grant Program ("ESG")
 - 14.262 ARRA - Homeless Prevention and Rapid Re-Housing Program ("HPRP")

Dollar threshold used to distinguish between type A and type B programs: \$ 1,500,560

Auditee qualified as low-risk auditee? X yes _____ no

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Financial Statement Findings

No financial statement findings.

Federal Awards Findings and Questioned Costs

Finding 2013-001

Programs Affected:

81.042 - Weatherization Assistance for Low Income Persons (Grant number DOE-EE0006183)

93.568 - Low Income Home Energy Assistance (Grant numbers G-11B1SCLIEA, G-12B1SCLIEA, G-13B1SCLIEA)

93.569 - Community Services Block Grant (Grant numbers G-11B1SCCOSR, G-12B1SCCOSR, G-13B1SCCOSR)

Questioned Costs: None

Criteria: In accordance with U.S. Department of the Treasury regulations at 31 CFR part 205, the Office should ensure that the time elapsing between the transfers of Federal funds from the Office to the disbursement of funds for program purposes by the sub-recipient is minimal.

Condition and Context: During our audit of the programs above we noted that certain amounts provided to sub-recipients were not being disbursed by the sub-recipient for program purposes in a timely manner. Some sub-recipients were holding over \$500,000 for more than six months without using the funds. Additionally, the Office continued to provide funding for the new program year before all funding from the prior program year was expended by the sub-recipient.

Cause: Management of the Programs failed to ensure that federal funds were being expended by the sub-recipients before sending additional funding to the sub-recipients.

Effect: The effect of the above is a compliance finding over Cash Management.

Recommendation: We recommend that management improve policies and procedures to ensure that funds provided to a sub-recipient are spent for program purposes in a minimal time after transfer. Additionally, we recommend that management ensure that the sub-recipients understand that the funds will still be allocated to them as they have been in the past, but if they are not able to disburse the funds for program purposes then the Office should be notified immediately so that the funds can be reallocated to other Community Action Agencies that can use the funding.

Management's Response: Management acknowledges that in some cases the cash management act has not been followed. Management is creating new policies and procedures to comply with federal regulations while working with the Community Action Programs to minimize any negative effect the policy change could have on their ability to operate. Also at the time of initial disbursement the

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - JUNE 30, 2013

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Office of Economic Opportunity (“OEO”) had a new fiscal director and interim executive director and followed procedures that had been done in prior years. OEO has enacted policies to recapture unexpended funds and re-allocate them as federal guidelines allow. According to CSBG legislation all CSBG funds are sub grantees and OEO is obligated to disburse regardless of funds on hand.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - JUNE 30, 2013

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Finding 2013-002

Programs Affected:

93.568 - Low Income Home Energy Assistance (Grant numbers G-11B1SCLIEA, G-12B1SCLIEA, G-13B1SCLIEA)

Questioned Costs: None

Criteria: The *LIHEAP Carryover and Reallotment Report (OMB No. 0970-0106)* – Grantees must submit a report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

Condition and Context: During our testing of the Low Income Home Energy Assistance program we noted that the LIHEAP Carryover and Re-allotment Report was not submitted by the deadline of August 1, 2012 for the 2012 grant funds.

Cause: Management of the Programs failed to ensure that the LIHEAP Carryover and Re-allotment Report was submitted by the deadline of August 1, 2012 for the 2012 grant funds.

Effect: The effect of the above is a compliance finding over Special Reporting.

Recommendation: We recommend that management ensure that all deadlines for reporting information to federal agencies are met.

Management's Response: Management did not file the LIHEAP Carryover and Re-allotment Report by the August 1, 2012 deadline. The report was filed on August 3, 2012 by former fiscal manager. Office of Economic Opportunity has a new director since that time, as well as a new senior manager for fiscal services. Filing deadlines are now being met for these reports. OEO has also instituted a new tracking system of all federal reports to be monitored by Director and administrative staff to help ensure timely submission.

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Finding 2013-003

Programs Affected:

81.042 - Weatherization Assistance for Low Income Persons (Grant number DOE-EE0006183)

Questioned Costs: None

Criteria: In accordance with OMB-Circular A-133 requirements, the Office should ensure that the SF-425, *Federal Financial Report* is filed as required.

Condition and Context: During our testing of the Weatherization Assistance Programs we noted that the financial reports for March and June 2013 were not submitted in a timely manner to the US Department of Energy and were in fact submitted approximately six months after the end of the period.

Cause: Management of the Programs failed to ensure that the financial reports for March and June 2013 were not submitted in a timely manner to the United States Department of Energy ("DOE").

Effect: The effect of the above is a compliance finding over Reporting.

Recommendation: We recommend that management ensure that all deadlines for reporting information to federal agencies are met.

Management's Response: Required reporting for the Weatherization grants cannot be completed in the electronic system until DOE has approved the filing of a previous quarter. As of December 4, 2013 the DOE had not approved the March 2013 quarterly submission even though there were no errors in the report. It appears that DOE is that far behind in approving data.

The Office of Executive Policy and Programs ("OEPP") is in the process of hiring additional staff that will assist with the reporting requirements of this grant as well as other areas.

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Finding 2013-004

Programs Affected:

14.231 - Emergency Solutions Grant Program (Grant numbers E-12-DC-45-0001,
E-13-DC-45-0001)

14.262 – ARRA - Homeless Prevention and Rapid Re-Housing Program (Grant number
S09-DY-45-0001)

Questioned Costs: None

Criteria: In accordance with OMB-Circular A-133 requirements, the Office should perform procedures to provide reasonable assurance that the sub recipient obtained required audits and takes appropriate corrective action on audit findings.

Condition and Context: During our testing we noted that the Office has a control to ensure that all sub-recipients that receive Federal funding submit an audit report if required or a form that states the reason an audit report was not provided. However, upon further review of the listing of reports and the listing of agencies receiving funding we determined that the Office is not following up with all agencies to ensure they have an audit report or a form for each entity as required. Additionally, while reviewing the files we noted an audit report that had not been reviewed because it was not on the listing of agencies that are required to send an audit report and the follow-up procedures were not performed.

Cause: Management of the Programs failed to ensure that all sub-recipients that receive Federal funding submit an audit report if required or a form that states the reason an audit report was not provided.

Effect: The effect of the above is a compliance finding over Sub-recipient Monitoring.

Recommendation: We recommend that management ensure that all agencies that are required to have a single audit performed have provided the reports to the Office and that the submitted reports are reviewed in a timely manner.

Management's Response: The control was in place to verify that all required audit reports from sub-grantees be submitted on a timely basis. Follow up procedures were not performed to obtain the reports for a limited number of subgrantees. Management concurs that not all audit reports required from subgrantees were received. The grant award from OEPP to subgrantees did not allow for penalties when subgrantees did not provide required documents on a timely basis. This oversight will be corrected on the next grant award to sub-recipients. In addition to this, the agency is hiring an additional auditor to assist programs in tracking the receipt of required financial documents and is implementing an electronic filing system that will allow better tracking and retrieval of financial documents from sub-grantees.

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Finding 2013-005

Program Affected:

14.231 - Emergency Solutions Grant Program (Grant numbers E-12-DC-45-0001,
E-13-DC-45-0001)

Questioned Costs: None

Criteria: Each grantee must match the funding provided by U.S. Department of Housing and Urban Development (HUD) under its ESG Program with an equal amount from sources other than those provided under the ESG Program. These funds must be provided after the date of the grant award. A grantee may comply with this requirement by providing the supplemental funds itself, or through supplemental funds or voluntary efforts provided by any State recipient or non-profit recipient (sub recipient), as appropriate. The exception is that a State grantee is not required to match the first \$100,000 of assistance provided to it, but the benefit of the unmatched amount must be shared with local governments and other sub recipients (24 CFR section 576.51).

Condition and Context: During our testing we noted that all grant Funds are required to be matched. Some funds were matched with documentation from invalid sources.

Effect: The effect of the above is a compliance finding over Matching, Level of Effort, Earmarking.

Cause: Management of the Programs failed to ensure that all funds were properly matched.

Recommendation: We recommend that management review match requirements and ensure that sub-recipients and the Office are matching funds as required.

Management's Response: Because of the finding by the auditor, OEO has requested that those agencies which used equity as a portion of match funds determine through appropriate measures the market value of office rent for the space used by the program and resubmit match amounts based on the fair value of rent rather than equity.

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Finding 2013-006

Program Affected:

93.568 - Low Income Home Energy Assistance (Grant numbers G-11B1SCLIEA, G-12B1SCLIEA, G-13B1SCLIEA)

93.569 - Community Services Block Grant (Grant numbers G-11B1SCCOSR, G-12B1SCCOSR, G-13B1SCCOSR)

81.042 - Weatherization Assistance for Low Income Persons (Grant number DOE-EE0006183)

14.231 - Emergency Solutions Grant Program (Grant numbers E-12-DC-45-0001, E-13-DC-45-0001)

Questioned Costs: None

Criteria: The Federal Funding Accountability and Transparency Act ("FFATA") requires all Prime Grant Recipients awarded a new federal grant greater than \$25,000 to submit a subaward report by the end of the month following the month in which the prime recipient awards any subaward greater than or equal to \$25,000. This report is submitted through the various FFATA Subaward Reporting Systems (FSRS).

Condition and Context: During our testing we noted that the Office were not submitting subaward reports for any grants.

Cause: Management of the Office failed to ensure the Subaward Report was submitted through the FFATA Subaward Reporting Systems.

Effect: The effect is the noncompliance with the Reporting compliance requirement.

Recommendation: We recommend that management of the Office implement policies and procedures to ensure that all reporting requirements are met in accordance with established guidelines.

Management's Response: Management concurs that these reports were not filed on a timely basis. The agency was unaware of the reporting requirement for these grants prior to the audit discovery. OEPP is currently working to set the agency up as a user on the website and to begin training on data to be provided.

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Finding 2013-007

Program Affected:

93.568 - Low Income Home Energy Assistance (Grant numbers G-11B1SCLIEA, G-12B1SCLIEA, G-13B1SCLIEA)

93.569 - Community Services Block Grant (Grant numbers G-11B1SCCOSR, G-12B1SCCOSR, G-13B1SCCOSR)

81.042 - Weatherization Assistance for Low Income Persons (Grant number DOE-EE0006183)

14.231 - Emergency Solutions Grant Program (Grant numbers E-12-DC-45-0001, E-13-DC-45-0001)

14.262 - ARRA - Homeless Prevention and Rapid Re-Housing Program (Grant number S09-DY-45-0001)

Questioned Costs: None

Criteria: The Office should ensure that current policies and procedures over grants are enforced in accordance with applicable standards.

Condition and Context: During audit of the programs above we noted that each program has policies and procedures in place to allow for the proper compliance with grant requirements. However, due to staffing issues and less than adequate follow-up procedures these policies were not followed by staff of the Office.

Effect: The effect is the noncompliance with procedures as mentioned in findings 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, and 2013-006.

Cause: Management of the Office failed to ensure that policies and procedures over grant compliance requirements are being followed by staff of the Office.

Recommendation: We recommend that management of the Office provide proper staffing and training to ensure that policies and procedures are being followed and continuously monitor grant requirements to ensure policies and procedures are updated with any new requirements.

Management's Response: Management agrees that policies and procedures over grants have not been enforced in all cases.

During fiscal year 2013 the program director for OEO resigned. In addition to that, in September 2013 three accountants who were heavily involved with grant accounting resigned, leaving the agency with new staff members who were not familiar with the agency's grants. Additionally OEO is currently in the process of filling two new staff positions, one of which will be involved with submission of timely reports.

Management has made training of staff a priority since that time, and will continue vigorous training schedules for all accounting staff involved with grants.

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Status of Prior Year Findings

No prior year findings.