

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

# State of South Carolina



## Office of the State Auditor

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March 16, 2015

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, 2014, was issued by Greene, Finney & Horton, 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/cwc

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

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COLUMBIA, SOUTH CAROLINA**

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# Greene Finney & Horton

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, 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, 2014, 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 opinions.

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## ***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, 2014, 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 State 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, 2014 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. Our opinion is not modified with respect to this matter.

## ***Pending Implementation of Governmental Accounting Standards Board Statement on Pensions***

As discussed in Note 15, the Governmental Accounting Standards Board issued Statement No. 68, "Accounting and Financial Reporting for Pension" ("GASB #68"). GASB #68, which will be adopted by the Office for the fiscal year ended June 30, 2015, will require the Office to report a net pension liability on its applicable financial statements for its participation in the South Carolina Retirement System and the Police Officers' Retirement System ("Plans"). Based on recent information provided by the South Carolina Public Employee Benefit Authority, it is anticipated that the Office's share of the net pension liability associated with these Plans will decrease the Office's beginning net position by approximately \$18,832,000. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Budgetary Comparison Schedule – Expenditures (Non-GAAP Budgetary Basis) – Budgetary General Fund 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 and the Schedule of Expenditures of Federal Awards***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. The supplementary information, as listed in the table of contents, and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information 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 supplementary information 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 March 16, 2015 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.



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
March 16, 2015

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2014**

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**INTRODUCTION**

As management of the South Carolina Governor's Office (the "Office"), 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, 2014.

**FINANCIAL HIGHLIGHTS**

- The assets of the Office exceeded its liabilities at the close of the most recent fiscal year by approximately \$26,930,000. These funds will be used to meet the Office's ongoing obligations.
- The Office's total net position increased by approximately \$9,852,000 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 approximately \$22,544,000, an increase of approximately \$7,914,000 in comparison with the prior year.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was approximately \$4,563,000.

**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 required supplementary information and 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 but 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 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 financial requirements.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2014**

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**FUND FINANCIAL STATEMENTS (CONTINUED)**

**Governmental funds (Continued)**

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 reconciliations 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.

**Supplementary Information**

In addition to the 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.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

**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 and deferred outflows of resources, if any, minus liabilities and deferred inflows of resources, if any) and their availability for expenditure by the agency.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2014**

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**GOVERNMENT FINANCIAL ANALYSIS (CONTINUED)**

**Condensed Statement of Net Position**

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current assets	\$ 25,833,650	\$ 15,785,534
Capital assets, net of accumulated depreciation	5,516,930	3,453,962
<b>Total Assets</b>	<b>31,350,580</b>	<b>19,239,496</b>
<b>Liabilities</b>		
Current liabilities	3,794,122	1,864,190
Non-current liabilities	626,556	297,841
<b>Total Liabilities</b>	<b>4,420,678</b>	<b>2,162,031</b>
<b>Net Position</b>		
Net investment in capital assets	5,516,930	3,453,962
Restricted	8,182,983	8,092,230
Unrestricted	13,229,989	5,531,273
<b>Total Net Position</b>	<b>\$ 26,929,902</b>	<b>\$ 17,077,465</b>

Current assets increased approximately \$10,048,000 mainly due to increased cash and cash equivalents as a result of additional budget carryovers and increased cash receipts in other programs. Net capital assets increased approximately \$2,063,000 due to approximately \$2,300,000 in additions partially offset by approximately \$236,000 in depreciation expense and \$1,000 in net disposals.

Total liabilities increased approximately \$2,259,000 primarily due to increases of approximately \$1,002,000, \$716,000, and \$417,000 in cash overdraft, accounts payable, and accrued salaries and benefits, respectively, partially offset by an approximate decrease of \$205,000 in the current portion of accrued compensated absences. The increase in cash overdrafts is due to the timing of federal grant reimbursements. The increase in accounts payable is due to the Office accruing reimbursements to subrecipients for expenditures incurred prior to year end. The increase in accrued salaries and benefits is primarily due to an increase in accrued benefits.

**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.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2014**

**GOVERNMENT FINANCIAL ANALYSIS (CONTINUED)**

**Condensed Statement of Activities**

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
Program revenues:		
Operating grants and contributions	\$ 78,014,299	\$ 65,315,891
General revenues:		
State appropriations	10,425,350	8,571,328
Interest	5,835	11,211
Total revenues	<u>88,445,484</u>	<u>73,898,430</u>
Expenses:		
General government	9,625,828	8,014,747
Grants and programs	68,967,219	66,315,431
Total expenses	<u>78,593,047</u>	<u>74,330,178</u>
Change in net position	9,852,437	(431,748)
Net position at beginning of year	<u>17,077,465</u>	<u>17,509,213</u>
Net position at end of year	<u>\$ 26,929,902</u>	<u>\$ 17,077,465</u>

Operating grants and contributions increased approximately \$12,698,000 due to increases of approximately \$5,300,000, \$4,877,000 and \$1,327,000 in Medicaid reimbursements, federal grants and programs and other government grants and contributions, respectively. State appropriations increased approximately \$1,854,000 as discussed in the budgetary highlights section below.

Total expenses increased approximately \$4,263,000 primarily due to increased disbursements to subrecipients related to federal grants and programs.

**GENERAL FUND BUDGETING HIGHLIGHTS**

General Fund Appropriations were approximately \$1,854,000 more in fiscal year 2014 than fiscal year 2013 primarily due to an approximate \$1,325,000 increase in appropriations for Guardian Ad Litem and an approximate \$288,000 increase in appropriations for the employer contribution of employee benefits.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The South Carolina Governor's Office investment in capital assets for its governmental activities as of June 30, 2014 amounts to approximately \$5,517,000 (net of accumulated depreciation). This investment in capital assets includes vehicles, equipment and the Veterans' Cemetery. The Office had current year additions of approximately \$2,300,000 including approximately \$2,219,000 related to the Veterans' Cemetery, which was completed during the year, and \$81,000 in other additions. These additions were partially offset by approximately \$236,000 in depreciation expense and \$1,000 in net disposals.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2014**

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**ECONOMIC OUTLOOK**

The Office gained approximately \$1,854,000 in state appropriations for the 2014 fiscal year. The general economic forecast for the remainder of FY 2015 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 recent 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  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF NET POSITION**

**JUNE 30, 2014**

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 22,000,795
Accounts receivable	784,682
Federal grant receivable	2,491,620
Due from the State General Fund	556,553
Total current assets	<u>25,833,650</u>
Non-current assets:	
Capital assets:	
Non-depreciable capital assets	2,059,955
Depreciable capital assets, net of accumulated depreciation	3,456,975
Total capital assets, net of accumulated depreciation	<u>5,516,930</u>
Total assets	<u>31,350,580</u>
<b>Liabilities</b>	
Current liabilities:	
Cash overdraft due to State Treasurer	1,001,532
Accounts payable	907,003
Accrued payroll and related liabilities	1,380,194
Accrued compensated absences	504,706
Deposits held for clients	687
Total current liabilities	<u>3,794,122</u>
Non-current Liabilities:	
Accrued compensated absences	626,556
Total Liabilities	<u>4,420,678</u>
<b>Net Position</b>	
Net Investment in Capital Assets	5,516,930
Restricted for:	
Federal Grants and Programs	65,169
Victims' Assistance	7,152,869
Veterans' Affairs	890,292
Economic Opportunity	74,653
Unrestricted	13,229,989
Total Net Position	<u>\$ 26,929,902</u>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2014**

	<b>PROGRAM REVENUES</b>	<b>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION</b>
<b>FUNCTIONS/PROGRAMS</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Expenses</b>	<b>Contributions</b>	<b>Activities</b>
Governmental Activities:		
General government	-	(9,625,828)
Grants and programs	78,014,299	9,047,080
<b>Total Governmental Activities</b>	<b>78,014,299</b>	<b>(578,748)</b>
	<b>\$ 78,593,047</b>	<b>(578,748)</b>
<b>GENERAL REVENUES:</b>		
General Revenues:		
State appropriations		10,425,350
Interest		5,835
<b>Total General Revenues</b>		<b>10,431,185</b>
<b>CHANGE IN NET POSITION</b>		<b>9,852,437</b>
NET POSITION, Beginning of Year		17,077,465
<b>NET POSITION, End of Year</b>		<b>\$ 26,929,902</b>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**JUNE 30, 2014**

	<b>General</b>	<b>Federal Grants and Programs</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,569,812	-
Accounts receivable	-	-
Federal grant receivable	-	2,047,508
Due from the State General Fund	556,553	-
<b>Total assets</b>	<b>\$ 5,126,365</b>	<b>2,047,508</b>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Cash overdraft due to State Treasurer	-	1,001,532
Accounts payable	7,073	850,653
Accrued payroll and related liabilities	556,553	130,154
Deposits held for clients	-	-
<b>Total liabilities</b>	<b>563,626</b>	<b>1,982,339</b>
Fund Balances:		
Restricted for:		
Federal Grants and Programs	-	65,169
Victims' Assistance	-	-
Veterans' Affairs	-	-
Economic Opportunity	-	-
Committed for:		
Continuum of Care	-	-
Veterans' Affairs	-	-
Guardian Ad Litem	-	-
Mansion Operations	-	-
Assigned for:		
Finance and Administration	-	-
Foster Care	-	-
Ombudsman/Citizen Services	-	-
Unassigned	4,562,739	-
<b>Total fund balances</b>	<b>4,562,739</b>	<b>65,169</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,126,365</b>	<b>2,047,508</b>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
6,806,875	7,312,601	922,645	2,388,862	\$ 22,000,795
-	-	-	784,682	784,682
-	-	433,809	10,303	2,491,620
-	-	-	-	556,553
<b>6,806,875</b>	<b>7,312,601</b>	<b>1,356,454</b>	<b>3,183,847</b>	<b>\$ 25,833,650</b>
-	-	-	-	1,001,532
39,669	2,641	-	6,967	907,003
137,292	157,091	-	399,104	1,380,194
188	-	-	499	687
<b>177,149</b>	<b>159,732</b>	<b>-</b>	<b>406,570</b>	<b>3,289,416</b>
-	-	-	-	65,169
-	7,152,869	-	-	7,152,869
-	-	890,292	-	890,292
-	-	-	74,653	74,653
6,629,726	-	-	-	6,629,726
-	-	466,162	-	466,162
-	-	-	841,250	841,250
-	-	-	161,698	161,698
-	-	-	856,019	856,019
-	-	-	721,738	721,738
-	-	-	121,919	121,919
-	-	-	-	4,562,739
<b>6,629,726</b>	<b>7,152,869</b>	<b>1,356,454</b>	<b>2,777,277</b>	<b>22,544,234</b>
<b>6,806,875</b>	<b>7,312,601</b>	<b>1,356,454</b>	<b>3,183,847</b>	<b>\$ 25,833,650</b>



**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION**

**JUNE 30, 2014**

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**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** **\$ 22,544,234**

Amounts reported for the 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 as assets in governmental funds. The cost of the assets was \$7,173,236 and the accumulated depreciation was \$1,656,306. 5,516,930

Long-term obligations are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consisted of the following:

Compensated Absences (1,131,262)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 26,929,902**

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2014**

	<b>General</b>	<b>Federal Grants and Programs</b>
<b>Revenues</b>		
State appropriations	\$ 10,425,350	-
Federal grants and programs	-	52,686,606
Other government grants and contributions	-	-
Interest	-	-
Medicaid reimbursements	-	-
Victim restitutions	-	-
Miscellaneous	-	4,000
<b>Total revenues</b>	<b>10,425,350</b>	<b>52,690,606</b>
<b>Expenditures</b>		
Federal grants and programs:		
Personal services	-	1,022,276
Employer contributions	-	385,775
Other operating	-	590,565
Claims and awards	-	3,284,611
Distributions to subrecipients	-	48,213,930
Finance and administration:		
Personal services	1,612,682	-
Employer contributions	774,528	-
Other operating	881,759	-
Foster Care:		
Personal services	256,452	-
Employer contributions	95,633	-
Other operating	53,043	-
Contiuum of Care:		
Personal services	1,087,358	-
Employer contributions	441,559	-
Other operating	113,991	-
Case services	497,159	-
Guardian Ad Litem:		
Personal services	958,437	-
Employer contributions	345,674	-
Other operating	666,502	-
Developmental Disabilities:		
Personal services	42,425	-
Employer contributions	12,157	-
Other operating	\$ 14,247	-

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
-	-	-	-	\$ 10,425,350
1,931	-	2,403,247	-	55,091,784
4,276	-	48,975	5,106,356	5,159,607
-	-	1,482	4,353	5,835
6,955,384	-	-	1,110,230	8,065,614
-	8,696,338	-	-	8,696,338
180,522	7,062	205,408	497,776	894,768
<b>7,142,113</b>	<b>8,703,400</b>	<b>2,659,112</b>	<b>6,718,715</b>	<b>88,339,296</b>

-	-	-	-	1,022,276
-	-	-	-	385,775
-	-	-	-	590,565
-	-	-	-	3,284,611
-	-	-	-	48,213,930
-	-	-	190,781	1,803,463
-	-	-	2,929	777,457
-	-	-	94,969	976,728
-	-	-	574,568	831,020
-	-	-	193,435	289,068
-	-	-	88,131	141,174
1,055,576	-	-	-	2,142,934
387,244	-	-	-	828,803
544,082	-	-	-	658,073
421,866	-	-	-	919,025
-	-	-	1,960,668	2,919,105
-	-	-	722,853	1,068,527
-	-	-	646,068	1,312,570
-	-	-	-	42,425
-	-	-	-	12,157
-	-	-	-	\$ 14,247

(Continued)

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2014**

	<u>General</u>	<u>Federal Grants and Programs</u>
Ombudsman/Citizen Services:		
Personal services	\$ 106,220	-
Employer contributions	48,021	-
Other operating	20,127	-
Veteran Counseling	31,782	-
Victims' Assistance:		
Personal services	-	-
Employer contributions	-	-
Other operating	-	-
Claims and awards	38,815	-
Distributions to subrecipients	-	-
Veterans' Affairs:		
Personal services	423,780	-
Employer contributions	144,432	-
Other operating	16,554	-
POW Commission	371	-
Veterans' Cemetery:		
Personal services	228,941	-
Employer contributions	9,860	-
Other operating	39,544	-
Claims and awards	-	-
Children Affairs:		
Personal services	37,619	-
Children's Trust Fund:		
Distributions to subrecipients	100,000	-
Small and Minority Business:		
Personal services	103,341	-
Employer contributions	36,506	-
Other operating	25,034	-
Mansion Operations:		
Personal services	-	-
Employer contributions	-	-
Other operating	-	-
Economic Opportunity:		
Distributions to subrecipients	-	-
Total expenditures	<u>9,264,553</u>	<u>53,497,157</u>
<b>Excesss (deficiency) of revenues over expenditures</b>	<b><u>\$ 1,160,797</u></b>	<b><u>(806,551)</u></b>

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
-	-	-	139,986	\$ 246,206
-	-	-	42,914	90,935
-	-	-	20,318	40,445
-	-	-	-	31,782
-	1,379,737	-	-	1,379,737
-	542,012	-	-	542,012
-	416,206	-	-	416,206
-	4,418,730	-	-	4,457,545
-	650,000	-	-	650,000
-	-	-	-	423,780
-	-	-	-	144,432
-	-	-	-	16,554
-	-	-	-	371
-	-	-	-	228,941
-	-	-	-	9,860
-	-	2,378,870	-	2,418,414
-	-	64,000	-	64,000
-	-	-	-	37,619
-	-	-	-	100,000
-	-	-	-	103,341
-	-	-	-	36,506
-	-	-	-	25,034
-	-	-	128,149	128,149
-	-	-	24,849	24,849
-	-	-	36,998	36,998
-	-	-	644,249	644,249
<b>2,408,768</b>	<b>7,406,685</b>	<b>2,442,870</b>	<b>5,511,865</b>	<b>80,531,898</b>
<b>4,733,345</b>	<b>1,296,715</b>	<b>216,242</b>	<b>1,206,850</b>	<b>\$ 7,807,398</b>

(Continued)

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2014**

	<b>General</b>	<b>Federal Grants and Programs</b>
<b>Other Financing Sources (Uses):</b>		
Indirect costs retained by the Office	\$ -	-
Transfers In	-	-
Transfers Out	-	-
Total other financing sources (uses)	-	-
<b>Net changes in fund balances</b>	<b>1,160,797</b>	<b>(806,551)</b>
Fund balances, beginning of year	3,401,942	871,720
<b>Fund balances, end of year</b>	<b>\$ 4,562,739</b>	<b>65,169</b>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

<b>Continuum of Care</b>	<b>Victims' Assistance</b>	<b>Veterans' Affairs</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
-	-	-	106,188	\$ 106,188
-	-	-	249,524	249,524
-	-	(249,524)	-	(249,524)
-	-	(249,524)	355,712	106,188
<b>4,733,345</b>	<b>1,296,715</b>	<b>(33,282)</b>	<b>1,562,562</b>	<b>7,913,586</b>
1,896,381	5,856,154	1,389,736	1,214,715	14,630,648
<b>6,629,726</b>	<b>7,152,869</b>	<b>1,356,454</b>	<b>2,777,277</b>	<b>\$ 22,544,234</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2014**

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<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 7,913,586</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This represents the change in the compensated absences accrual for the current year.	(124,117)
In the Statement of Activities the loss on disposal of capital assets is reported, whereas in the governmental funds, proceeds from the disposal of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed.	(1,135)
Governmental funds report capital asset additions as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions of \$2,300,126 exceeded current year depreciation expense of \$236,023.	2,064,103
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 9,852,437</b>

The notes to the financial statements are an integral part of this statement.  
See accompanying independent auditor's report.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**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.

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.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**1. Summary of Significant Accounting Policies (Continued)**

Reporting Entity (Continued)

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.

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. State appropriations 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.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**1. Summary of Significant Accounting Policies (Continued)**

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

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.

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 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 Victims' Assistance programs used for claims and awards, and revenue received from grants and other programs for Veterans' Affairs. Special revenue funds are also used to report 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 Veterans' 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.

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.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**1. Summary of Significant Accounting Policies (Continued)**

Budget Policy (Continued)

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*.

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 92.5 of the 2013-2014 Appropriations Act, all other provisions of the law notwithstanding, 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" represent 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  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**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, 2014, for federal programs/projects that will not be reimbursed until fiscal year 2015.

Accounts Receivable

Accounts receivable represents revenue earned related to expenditures incurred through June 30, 2014, for General Fund or Special Revenue Fund programs/projects that will not be reimbursed until fiscal year 2015.

Capital Assets

Capital assets are recorded at cost if purchased. Capital assets contributed by other State agencies or funds are recorded at the 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 two classes of non-depreciable capital assets: construction in progress and non-depreciable land improvements, and three classes of depreciable capital assets: 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.

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.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**1. Summary of Significant Accounting Policies (Continued)**

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.

The Office reports a portion of its net position in its government-wide financial statements as restricted. Net position 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, 2014, \$8,182,983 was reported as restricted net position.

Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets".

The Office reports constraints in its fund balance in the governmental funds as restricted, committed or assigned. Fund balance is reported as restricted in accordance with the guidelines described above for restricted net position. 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," "committed," or "assigned".

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**1. Summary of Significant Accounting Policies (Continued)**

Net Position/Fund Balances (Continued)

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.

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 2014. The Office retained indirect cost recoveries in the amount of \$106,188 in fiscal year 2014.

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.

**2. State Appropriations**

The 2013-2014 original appropriations are the base budget amounts for the Executive Control of State, the Office of Executive Policy and Programs, and Mansion and Grounds budgetary units and are presented in the General Funds column of Sections 92A, 92B, and 92C, 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 Statement of Revenue, Expenditures and Changes in Fund Balances and the Budgetary Comparison Schedule – Expenditures – Budgetary General Fund.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

**2. State Appropriations (Continued)**

	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Mansion and Grounds</b>	<b>Totals</b>
Original appropriation	\$ 1,911,762	8,062,460	303,350	\$ 10,277,572
Annualization of employee benefits	12,642	57,828	2,191	72,661
Revised appropriations - legal basis	1,924,404	8,120,288	305,541	10,350,233
Net adjustments to accrual basis:				
Personal services and employer contributions	33,039	35,262	6,816	75,117
Revenue from state appropriations - accrual basis	<u>\$ 1,957,443</u>	<u>8,155,550</u>	<u>312,357</u>	<u>\$ 10,425,350</u>
Revised appropriations - legal basis	\$ 1,924,404	8,120,288	305,541	\$ 10,350,233
Brought-forward appropriations from fiscal year ended June 30, 2013:				
(a) Implementing federal programs-match	191,176	3,213,004	7,929	3,412,109
Legal basis appropriation available for 2014 expenditures	<u>\$ 2,115,580</u>	<u>11,333,292</u>	<u>313,470</u>	<u>\$ 13,762,342</u>

	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Mansion and Grounds</b>	<b>Totals</b>
Approved carryforward of appropriated funds to fiscal year 2015				
(b) Implementing federal programs-match	\$ 192,440	4,374,422	2,950	\$ 4,569,812
Accounts payable	(838)	(6,235)	-	(7,073)
Total carry forward accrual basis	<u>\$ 191,602</u>	<u>4,368,187</u>	<u>2,950</u>	<u>\$ 4,562,739</u>

The following cite the authorities for the Office to bring forward appropriations from fiscal year 2013 for expenditures in fiscal year 2014 and to carry forward unspent appropriations from fiscal year 2014 to expenditure in fiscal year 2015. The restricted purposes are noted in the captions for the referenced amounts on the preceding tables.

- (a) 2013 Appropriations Act, Proviso 72.1
- (b) 2014 Appropriations Act, Proviso 92.1

Annual fiscal year 2014 appropriations of \$4,562,739 for implementing federal programs approved for carry forward to fiscal year 2015 for expenditure for the same purposes.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**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 2014, total payments under this lease were \$359,332. 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 2014, total payments under this lease were \$209,629. The Governor's Office anticipates that such lease expenditures will remain at approximately the same level for fiscal year 2015 and subsequent years.

The Governor's Office leased non-state owned real property under noncancelable operating leases. The rent expense under these leases was \$341,573 in fiscal year 2014. These leases expire between fiscal years 2015 and 2020. 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 2015 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 2014, total payments were \$104,918, and the Governor's Office anticipates that such lease expenditures will remain at approximately the same level for 2015 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, 2014, are:

<u>Year Ending June 30,</u>	
2015	\$ 388,286
2016	349,423
2017	242,274
2018	205,852
2019	145,186
2020	<u>103,267</u>
Total	<u>\$ 1,434,288</u>

**4. Due From State General Fund**

Accrued payroll and related liabilities represent 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

**5. Changes in Capital Assets**

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:					
Construction in progress:					
Office of Executive Policy and Programs	\$ 184,536	2,218,711	-	(2,403,247)	\$ -
Non-depreciable land improvements:					
Office of Executive Policy and Programs	-	-	-	2,059,955	2,059,955
<b>Total Capital Assets, Not Being Depreciated</b>	<u>184,536</u>	<u>2,218,711</u>	<u>-</u>	<u>(343,292)</u>	<u>2,059,955</u>
Capital Assets, Being Depreciated:					
Buildings and Improvements:					
Office of Executive Policy and Programs	1,641,478	-	-	343,292	1,984,770
Depreciable land improvements:					
Office of Executive Policy and Programs	2,410,235	-	-	-	2,410,235
Furniture and equipment:					
Office of Executive Policy and Programs	653,918	81,415	(24,283)	-	711,050
Executive Control of State	7,226	-	-	-	7,226
<b>Total furniture and equipment</b>	<u>661,144</u>	<u>81,415</u>	<u>(24,283)</u>	<u>-</u>	<u>718,276</u>
<b>Total Capital Assets, Being Depreciated</b>	<u>4,712,857</u>	<u>81,415</u>	<u>(24,283)</u>	<u>343,292</u>	<u>5,113,281</u>
Accumulated depreciation:					
Office of Executive Policy and Programs	(1,437,305)	(235,007)	23,148	-	(1,649,164)
Executive Control of State	(6,126)	(1,016)	-	-	(7,142)
<b>Total accumulated depreciation</b>	<u>(1,443,431)</u>	<u>(236,023)</u>	<u>23,148</u>	<u>-</u>	<u>(1,656,306)</u>
<b>Capital assets, net of accumulated depreciation</b>	<u>\$ 3,453,962</u>	<u>2,064,103</u>	<u>(1,135)</u>	<u>-</u>	<u>\$ 5,516,930</u>

**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 Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA), a public employee retirement system. Generally, all full-time or part-time equivalent State 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 life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, death benefits, and incidental death benefits to eligible employees and retired members.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**6. Pension Plan (Continued)**

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 service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, 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).

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

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

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COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**6. Pension Plan (Continued)**

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Office's actual contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were approximately \$998,341, \$924,408, and \$1,195,947, respectively, and equaled the base required retirement contribution rate, excluding surcharge, of 10.45% for 2014, 10.45% for 2013 and 9.385% for 2012. Also, the Office paid employer incidental death benefit program contributions of approximately \$14,250, \$13,277, and \$13,105, at the rate of .15% of compensation for the current fiscal years ended June 30, 2014, 2013, and 2012 respectively.

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

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 for the PORS 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 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, .20% for the incidental death benefit program, .20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Office's actual contributions to the PORS for the years ended June 30, 2014, 2013, and 2012 were approximately \$9,572, \$7,379, and \$4,351, respectively, and equaled the base retirement required contribution rate, excluding surcharge and death program contributions, of 12.44% for 2014, 11.90% for 2013 and 11.363% for 2012. The Office also paid employer incidental death program contributions of approximately \$77, \$90, and \$56, at the rate of .20% of compensation for the current fiscal years ended June 30, 2014, 2013, and 2012 respectively. In addition the Office paid accidental death benefit program contributions of approximately \$77, \$90, and \$56, at the rate of .20% of compensation for the current fiscal years ended June 30, 2014, 2013, and 2012 respectively.

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**6. Pension Plan (Continued)**

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement 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 the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 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 4.92% from the employer in fiscal year 2014. 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% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2014, total contributions requirements to the ORP were \$236,643 (excluding the surcharge) from the Office as employer and \$167,441 from its employees as plan members.

The amounts paid by the Office for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

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

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.

**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.

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**FOR THE YEAR ENDED JUNE 30, 2014**

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**7. Post Employment and Other Employee Benefits (Continued)**

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, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Office paid \$583,659 and \$488,655 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013, 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, 2014 and 2013.

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 separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, SC 29211-1960.

**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, 2014.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**9. Risk Management (Continued)**

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 Benefits Division); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (PEBA – Insurance Benefits 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.

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, 2014, were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Accrued compensated absences:					
Executive Control of the State	\$ 104,089	51,300	27,492	127,897	\$ 27,425
Office of Executive Policy and Programs	891,262	621,667	527,026	985,903	473,321
Mansion and Grounds	11,794	8,962	3,294	17,462	3,960
Total accrued compensated absences	<u>\$ 1,007,145</u>	<u>681,929</u>	<u>557,812</u>	<u>1,131,262</u>	<u>\$ 504,706</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**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. Retirement plans administration and insurance plans administration, administered by PEBA, and audit services, administered by the Office of the State Auditor, are also received at no cost. Other services received at no cost from the various offices of the State Budget and Control Board include 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:

<u>Agency</u>	<u>Goods or Services Purchased</u>	<u>Amount</u>
Department of Public Safety	Rent	\$ 2,117
Educational Television Commission	Telecommunication services	94
Department of Corrections	Printing services	14,304
Department of Corrections	Supplies	19,608
Total Department of Corrections		<u>33,912</u>
Department of Health and Human Services	Other professional services	16,026
Governor's Office - SLED	Other professional services	100
State Auditor's Office	Audit	2,388
Legislative Services Agency	Printing	263
Parks, Recreation and Tourism	Supplies	179
PEBA - Administration	Registration fees and meals	50

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**FOR THE YEAR ENDED JUNE 30, 2014**

**11. Transactions With State Entities (Continued)**

<u>Agency</u>	<u>Goods or Services Purchased</u>	<u>Amount</u>
State Budget and Control Board	Office equipment and supplies	\$ 3,182
State Budget and Control Board	Data processing	65,062
State Budget and Control Board	Postage and freight	1,845
State Budget and Control Board	Telephone services	38,140
State Budget and Control Board	Fuel	262
State Budget and Control Board	Motor vehicle repair	1,995
State Budget and Control Board	General repair	6,088
State Budget and Control Board	Rent	360,422
State Budget and Control Board	Insurance	58,182
State Budget and Control Board	Leased car	209,629
State Budget and Control Board	Other professional services	1,269
State Budget and Control Board	Registration fees and meals	6,550
Total State Budget and Control Board		<u>752,626</u>
University of South Carolina	Fees and fines	110
Social Services Department	Miscellaneous	<u>64</u>
Total		<u>\$ 807,929</u>

**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, 2014, the Office had no deposits with financial institutions. The Office had cash in the amount of \$20,999,263 held by the State Treasurer as of June 30, 2014.

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:

	<u>Financial Statements</u>	<u>Footnotes</u>
Deposits with State Treasurer's Office	\$ -	\$ 20,999,263
Cash and cash equivalents	22,000,795	-
Cash overdraft	(1,001,532)	-
Total	<u>\$ 20,999,263</u>	<u>\$ 20,999,263</u>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**13. Litigation and Contingencies**

At June 30, 2014, 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, with the potential exception of the item noted below.

The Office is currently in negotiations with the U.S. Department of Energy ("DOE") regarding potential disallowed costs related to substandard weatherization work performed by a subgrantee with Federal Weatherization Assistance Program funds. The DOE is currently withholding payment of \$325,217 in questioned costs; however, the Office has proposed that the disallowed costs be reduced to \$108,143 based on several factors. In response, the DOE has requested additional information in order to determine any amount due to the DOE. Any disallowance would be repaid by the subgrantee and should result in no financial impact on the Office. Since the amount will likely result in no financial impact to the Office and the final amount due has not been determined, no provision has been made in the accompanying financial statements for the refund of grant monies.

**14. Program Classification**

<u>Division of Administrative Services</u>	<u>Division of Children Services</u>	<u>Division of Consituent Services</u>
Office of Finance and Administration	Office of Continuum of Care	Office of Veterans' Affairs
	Office of Foster Care	Office of Commision of Women
	Office of Guardian Ad Litem	Office of Ombudsman/Consituent Services
	Office of Children Affairs	Office of Developmental Disabilities Council
		Office of Victims' Assistance
		Office of Economic Opportunity
		Office of Small and Minority Business

**15. Pending Implementation of GASB Statement on Pensions**

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" ("GASB #68"), which was issued by the Governmental Accounting Standards Board ("GASB") in June 2012, is required to be implemented by the Office for the fiscal year ended June 30, 2015. The primary objective of GASB #68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that are provided by other entities. In addition, state and local governments who participate in a cost-sharing multiple employer plan will now be required to recognize a liability for its proportionate share of the net pension liability of that plan. It is GASB's intention that GASB #68 will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Office's financial obligations to current and former employees for past services rendered.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**15. Pending Implementation of GASB Statement on Pensions (Continued)**

In particular, GASB #68 will require the Office to recognize a net pension liability (and related deferred outflows and inflows of resources) for its participation in the SCRS and PORS on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures. It is anticipated that its implementation will not have a significant impact on the Office's governmental funds.

The Office has been in communications with PEBA on the effect of implementing GASB #68. Based on recent information provided by the PEBA, it is anticipated that the Office's net pension liability for its proportionate share of the net pension liability associated with the SCRS and PORS will decrease the Office's beginning unrestricted net position for the year ended June 30, 2015 by approximately \$18,832,000.

**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.



# **REQUIRED SUPPLEMENTARY INFORMATION**

SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA

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

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance from Final Budget - Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Executive Control of the State				
I. Administration				
Personal Services	1,351,730	1,233,398	1,233,398	-
Other Operating Expenses	101,213	177,564	177,564	-
Total Administration	1,452,943	1,410,962	1,410,962	-
II. Employee Benefits	458,819	365,744	365,744	-
Total Executive Control of the State	1,911,762	1,776,706	1,776,706	-
Office of Executive Policy and Programs				
I. Administrative Services				
Personal Services	541,356	520,743	520,743	-
Other Operating Expenses	177,635	211,412	211,412	-
Total Administrative Services	718,991	732,155	732,155	-
II. Children Services				
Personal Services	2,717,924	2,404,929	2,404,929	-
Other Operating Expenses	1,000,074	809,053	809,053	-
Case Services	992,885	497,159	497,159	-
Special Items:				
Children's Case Resolution System	4,054	-	-	-
Children's Trust Fund	100,000	100,000	100,000	-
Total Children Services	4,814,937	3,811,141	3,811,141	-
III. Constituents Services				
Personal Services	873,461	904,713	904,713	-
Other Operating Expenses	45,622	122,786	122,786	-
Special Items:				
Victims Rights	44,022	44,022	44,022	-
POW Commission	2,080	371	371	-
Veteran's Counseling	65,279	19,499	19,499	-
Total Constituents Services	1,030,464	1,091,391	1,091,391	-
IV. Employee Benefits	1,498,068	1,324,181	1,324,181	-
Total Office of Executive Policy and Programs	8,062,460	6,958,868	6,958,868	-
Mansion and Grounds				
I. Administration				
Personal Services	180,526	189,744	189,744	-
Other Operating Expenses	60,867	43,821	43,821	-
Total Administration	241,393	233,565	233,565	-
II. Employee Benefits	61,957	76,955	76,955	-
Total Mansion and Grounds	303,350	310,520	310,520	-
<b>TOTAL EXPENDITURES</b>	<b>10,277,572</b>	<b>9,046,094</b>	<b>9,046,094</b>	<b>-</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

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

**YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance from Final Budget - Positive (Negative)
	Original	Final		
<b>Expenditures:</b>				
Office of Executive Policy and Programs				
I. Administrative Services				
Personal Services	-	15,400	12,650	2,750
Total Administrative Services	-	15,400	12,650	2,750
II. Children Services				
Personal Services	4,305,554	4,144,415	1,555,682	2,588,733
Other Operating Expenses	1,984,738	1,570,806	1,262,623	308,183
Case Services	472,781	882,452	409,649	472,803
Total Children Services	6,763,073	6,597,673	3,227,954	3,369,719
III. Constituents Services				
Personal Services	3,662,514	3,669,323	2,529,161	1,140,162
Other Operating Expenses	16,987,835	16,331,056	8,945,424	7,385,632
Case Services	550,000	550,000	64,000	486,000
Distributions to Subdivisions:				
Allocation Municipalities - Restricted	60,000	-	-	-
Allocation to School District	300,000	-	-	-
Allocation County - Restricted	650,000	1,225,000	650,000	575,000
Allocation Other State Agencies	767,479	367,479	-	367,479
Allocation Private Sector	-	163,911	113,911	50,000
Allocation Other Entities	65,825,661	66,646,750	48,819,509	17,827,241
Total Constituents Services	88,803,489	88,953,519	61,122,005	27,831,514
IV. Employee Benefits	3,173,863	3,173,863	1,423,425	1,750,438
Total Office of Executive Policy and Programs	98,740,425	98,740,455	65,786,034	32,954,421
Mansion and Grounds				
I. Administration				
Personal Services	50,000	121,558	121,433	125
Other Operating Expenses	142,417	54,328	36,998	17,330
Total Administration	192,417	175,886	158,431	17,455
II. Employee Benefits	7,583	24,114	21,306	2,808
Total Mansion and Grounds	200,000	200,000	179,737	20,263
<b>TOTAL EXPENDITURES</b>	<b>98,940,425</b>	<b>98,940,455</b>	<b>65,965,771</b>	<b>32,974,684</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**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 2013-2014 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.

**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:

1. Departments and agencies charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 12.
2. Certain revenues collected in advance are recorded as liabilities (unearned revenues) rather than as revenues.
3. 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.
4. 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.
5. All other revenues are recorded only when the State receives the related cash.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**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.

# **SUPPLEMENTARY INFORMATION**

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION**

**JUNE 30, 2014**

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,950	192,440	4,374,422	\$ 4,569,812
Due from the State General Fund	22,902	140,642	393,009	556,553
<b>Total assets</b>	<b>\$ 25,852</b>	<b>333,082</b>	<b>4,767,431</b>	<b>\$ 5,126,365</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ -	838	6,235	\$ 7,073
Accrued payroll and related liabilities	22,902	140,642	393,009	556,553
<b>Total liabilities</b>	<b>22,902</b>	<b>141,480</b>	<b>399,244</b>	<b>563,626</b>
Fund Balances:				
Unassigned	2,950	191,602	4,368,187	4,562,739
<b>Total fund balances</b>	<b>2,950</b>	<b>191,602</b>	<b>4,368,187</b>	<b>4,562,739</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 25,852</b>	<b>333,082</b>	<b>4,767,431</b>	<b>\$ 5,126,365</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION**

**YEAR ENDED JUNE 30, 2014**

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
<b>Revenues</b>				
State appropriations	\$ 312,357	1,957,443	8,155,550	\$ 10,425,350
<b>Total revenues</b>	<b>312,357</b>	<b>1,957,443</b>	<b>8,155,550</b>	<b>10,425,350</b>
<b>Expenditures</b>				
Finance and administration:				
Personal services	188,910	1,231,052	192,720	1,612,682
Employer contributions	84,605	400,745	289,178	774,528
Other operating	43,821	322,376	515,562	881,759
Foster Care:				
Personal services	-	-	256,452	256,452
Employer contributions	-	-	95,633	95,633
Other operating	-	-	53,043	53,043
Contium of Care:				
Personal services	-	-	1,087,358	1,087,358
Employer contributions	-	-	441,559	441,559
Other operating	-	-	113,991	113,991
Case services	-	-	497,159	497,159
Guardian Ad Litem:				
Personal services	-	-	958,437	958,437
Employer contributions	-	-	345,674	345,674
Other operating	-	-	666,502	666,502
Developmental Disabilities:				
Personal services	-	-	42,425	42,425
Employer contributions	-	-	12,157	12,157
Other operating	-	-	14,247	14,247
Ombudsman/Citizen Services:				
Personal services	-	-	106,220	106,220
Employer contributions	-	-	48,021	48,021
Other operating	-	-	20,127	20,127
Veteran Counseling	-	-	31,782	31,782
Victims Assistance:				
Claims and awards	-	-	38,815	38,815
Veterans Affairs:				
Personal services	-	-	423,780	423,780
Employer contributions	-	-	144,432	144,432
Other operating	-	-	16,554	16,554
POW Commission	-	-	371	371
Veterans' Cemetery:				
Personal services	-	-	228,941	228,941
Employer contributions	-	-	9,860	9,860
Other operating	-	-	39,544	39,544
Children Affairs:				
Personal services	-	-	37,619	37,619
Children's Trust Fund:				
Distributions to subrecipients	\$ -	-	100,000	\$ 100,000

(Continued)

SOUTH CAROLINA GOVERNOR'S OFFICE  
 COLUMBIA, SOUTH CAROLINA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS - GENERAL FUND BY DIVISION

YEAR ENDED JUNE 30, 2014

	<b>Mansion and Grounds</b>	<b>Executive Control of State</b>	<b>Office of Executive Policy and Programs</b>	<b>Totals</b>
Small and Minority Business:				
Personal services	\$ -	-	103,341	\$ 103,341
Employer contributions	-	-	36,506	36,506
Other operating	-	-	25,034	25,034
Total expenditures	<u>317,336</u>	<u>1,954,173</u>	<u>6,993,044</u>	<u>9,264,553</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(4,979)</u>	<u>3,270</u>	<u>1,162,506</u>	<u>1,160,797</u>
Fund balances, beginning of year	<u>7,929</u>	<u>188,332</u>	<u>3,205,681</u>	<u>3,401,942</u>
<b>Fund balances, end of year</b>	<u><b>\$ 2,950</b></u>	<u><b>191,602</b></u>	<u><b>4,368,187</b></u>	<u><b>\$ 4,562,739</b></u>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**COMBINING BALANCE SHEET - OTHER NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2014**

	<b>Guardian Ad Litem</b>	<b>Finance and Administration</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,129,649	282,555
Accounts receivable	-	573,963
Federal grant receivable	10,303	-
<b>Total assets</b>	<b>\$ 1,139,952</b>	<b>856,518</b>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Accounts payable	\$ 5,934	-
Accrued payroll and related liabilities	292,768	-
Deposits held for clients	-	499
<b>Total liabilities</b>	<b>298,702</b>	<b>499</b>
Fund Balances:		
Nonspendable	-	-
Restricted For:		
Economic Opportunity	-	-
Committed For:		
Guardian Ad Litem	841,250	-
Mansion Operations	-	-
Assigned	-	856,019
<b>Total fund balances</b>	<b>841,250</b>	<b>856,019</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,139,952</b>	<b>856,518</b>

<b>Foster Care</b>	<b>Ombudsman/ Citizen Services</b>	<b>Economic Opportunity</b>	<b>Mansion Operations</b>	<b>Totals</b>
586,404	138,980	74,653	176,621	\$ 2,388,862
210,719	-	-	-	784,682
-	-	-	-	10,303
<b>797,123</b>	<b>138,980</b>	<b>74,653</b>	<b>176,621</b>	<b>\$ 3,183,847</b>
898	135	-	-	\$ 6,967
74,487	16,926	-	14,923	399,104
-	-	-	-	499
<b>75,385</b>	<b>17,061</b>	<b>-</b>	<b>14,923</b>	<b>406,570</b>
-	-	-	-	-
-	-	74,653	-	74,653
-	-	-	-	841,250
-	-	-	161,698	161,698
721,738	121,919	-	-	1,699,676
<b>721,738</b>	<b>121,919</b>	<b>74,653</b>	<b>161,698</b>	<b>2,777,277</b>
<b>797,123</b>	<b>138,980</b>	<b>74,653</b>	<b>176,621</b>	<b>\$ 3,183,847</b>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER  
NONMAJOR GOVERNMENTAL FUNDS**

**YEAR ENDED JUNE 30, 2014**

	<b>Guardian Ad Litem</b>	<b>Finance and Administration</b>	<b>Foster Care</b>
<b>Revenues</b>			
Other government grants and contributions	\$ 4,148,856	389,900	-
Interest	4,353	-	-
Medicaid reimbursements	-	-	1,110,230
Miscellaneous	-	360,689	-
<b>Total revenues</b>	<b>4,153,209</b>	<b>750,589</b>	<b>1,110,230</b>
<b>Expenditures</b>			
Finance and administration:			
Personal services	-	190,781	-
Employer contributions	-	2,929	-
Other operating	-	94,969	-
Foster Care:			
Personal services	-	-	574,568
Employer contributions	-	-	193,435
Other operating	-	-	88,131
Guardian Ad Litem:			
Personal services	1,960,668	-	-
Employer contributions	722,853	-	-
Other operating	646,068	-	-
Ombudsman/Citizen Services:			
Personal services	-	-	-
Employer contributions	-	-	-
Other operating	-	-	-
Mansion Operations:			
Personal services	-	-	-
Employer contributions	-	-	-
Other operating	-	-	-
Economic Opportunity:			
Distributions to subrecipients	-	-	-
<b>Total expenditures</b>	<b>3,329,589</b>	<b>288,679</b>	<b>856,134</b>
<b>Excesss (deficiency) of revenues over expenditures</b>	<b>823,620</b>	<b>461,910</b>	<b>254,096</b>
<b>Other Financing Sources (Uses):</b>			
Indirect costs retained by the Office	-	106,188	-
Transfers In	-	249,524	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>355,712</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>823,620</b>	<b>817,622</b>	<b>254,096</b>
Fund balances, beginning of year	17,630	38,397	467,642
<b>Fund balances, end of year</b>	<b>\$ 841,250</b>	<b>856,019</b>	<b>721,738</b>

<b>Ombudsman/ Citizen Services</b>	<b>Economic Opportunity</b>	<b>Mansion Operations</b>	<b>Totals</b>
196,000	371,600	-	\$ 5,106,356
-	-	-	4,353
-	-	-	1,110,230
-	-	137,087	497,776
<b>196,000</b>	<b>371,600</b>	<b>137,087</b>	<b>6,718,715</b>
-	-	-	190,781
-	-	-	2,929
-	-	-	94,969
-	-	-	574,568
-	-	-	193,435
-	-	-	88,131
-	-	-	1,960,668
-	-	-	722,853
-	-	-	646,068
139,986	-	-	139,986
42,914	-	-	42,914
20,318	-	-	20,318
-	-	128,149	128,149
-	-	24,849	24,849
-	-	36,998	36,998
-	644,249	-	644,249
203,218	644,249	189,996	5,511,865
<b>(7,218)</b>	<b>(272,649)</b>	<b>(52,909)</b>	<b>1,206,850</b>
-	-	-	106,188
-	-	-	249,524
-	-	-	355,712
<b>(7,218)</b>	<b>(272,649)</b>	<b>(52,909)</b>	<b>1,562,562</b>
129,137	347,302	214,607	1,214,715
<b>121,919</b>	<b>74,653</b>	<b>161,698</b>	<b>\$ 2,777,277</b>

# **COMPLIANCE SECTION**

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2014**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education</b>		
Direct Program:		
Rehabilities Services - Client Assistance Program	84.161	\$ 149,296
<b>Total U.S. Department of Education</b>		<u>149,296</u>
<b>U.S. Department of Veterans' Affairs</b>		
Direct Program:		
State Cemetery Grants	64.203	2,403,247
<b>Total U.S. Department of Veterans' Affairs</b>		<u>2,403,247</u>
<b>U.S. Department of Energy</b>		
Direct Program:		
ARRA - Weatherization Assistance for Low Income Persons	81.042	1,450,150
Weatherization Assistance for Low Income Persons	81.042	1,153,230
<b>Total U.S. Department of Energy</b>		<u>2,603,380</u>
<b>U.S. Department of Justice</b>		
Direct Programs:		
Crime Victim Compensation	16.576	3,323,955
<b>Total U.S. Department of Justice</b>		<u>3,323,955</u>
<b>U.S. Department of Health and Human Services</b>		
Direct Programs:		
Low Income Home Energy Assistance	93.568	33,088,608
Community Services Block Grant	93.569	9,678,903
Developmental Disabilities Basic Support and Advocacy Grants	93.630	1,128,028
<b>Total U.S. Department of Health and Human Services</b>		<u>43,895,539</u>
<b>U.S. Department of Housing and Urban Development</b>		
Direct Programs:		
Emergency Solutions Grant Program	14.231	2,668,322
<b>Total U.S. Department of Housing and Urban Development</b>		<u>2,668,322</u>
Grand Total		<u>\$ 55,043,739</u>

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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**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 modified accrual 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*. Due to timing differences in the recording of expenditures, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements and amounts reported in federal financial reports.

**Note 2. Subrecipients:**

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
U.S. Department of Health and Human Services		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	\$ 843,445
Community Service Block Grant	93.569	9,318,290
Low Income Home Energy Assistance	93.568	32,264,971
U.S. Department of Energy		
ARRA - Weatherization Assistance for Low Income Persons	81.042	1,439,725
Weatherization Assistance for Low Income Persons	81.042	1,023,922
U.S. Department of Housing and Urban Development		
Emergency Solution Grant Program	14.231	<u>2,469,768</u>
Total provided to subrecipients		<u><u>\$ 47,360,121</u></u>

**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***

**INDEPENDENT AUDITOR'S REPORT**

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, 2014, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated March 16, 2015.

**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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

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

**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*.

### **Office's Response to Finding**

The Office's response to the 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 the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
March 16, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

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's (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, 2014. 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.

***Opinion on Each Major Federal Program***

In our opinion, 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 each of its major federal programs for the year ended June 30, 2014.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-002 and 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

The Office's response to the noncompliance findings identified in our audit are 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-002, 2014-003 and 2014-004 that we consider to be significant deficiencies.

The Office's response to the internal control over compliance findings identified in our audit are 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.



Greene, Finney & Horton, LLP  
Mauldin, South Carolina  
March 16, 2015

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2014**

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**2013-001**

**Federal Agency: U.S. Department of Energy, U.S. Department of Health and Human Services**

**Pass-Through Agency: N/A**

**CFDA #'s 81.042, 93.568 and 93.569**

**Pass-Through Grantor's Award Numbers and Years: N/A**

**Condition:** 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.

**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.

**Status:** In order to minimize that the time elapsing between the transfer of funds from the recipient and the disbursement of funds for program purposes by the subrecipient, the Office implemented a new procedure in fiscal year 2014 whereby the Fiscal Manager reviews the monthly financial status reports from the subrecipients and only disburses funds if the subrecipient has expended 75% of the funds already received and cash on hand is less than one month of operating needs. If these two requirements aren't met, the Office will only disburse the funds necessary for program operation until an additional request is made by the subrecipient. A memo was sent to all subrecipients detailing the new procedures in May 2014.

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**2013-002**

**Federal Agency: U.S. Department of Health and Human Services**

**Pass-Through Agency: N/A**

**CFDA # 93.568**

**Pass-Through Grantor's Award Numbers and Years: N/A**

**Condition:** 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.

**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).

**Status:** The *LIHEAP Carryover and Reallotment Report (OMB No. 0970-0106)* was submitted on July 16, 2014; thus, it was submitted timely in fiscal year 2014.

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**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2014**

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**2013-003**

**Federal Agency: U.S. Department of Energy**  
**Pass-Through Agency: N/A**  
**CFDA # 81.042**  
**Pass-Through Grantor's Award Numbers and Years: N/A**

- Condition:** 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.
- Criteria:** In accordance with OMB-Circular A-133 requirements, the Office should ensure that the SF-425, *Federal Financial Report* is filed as required.
- Status:** A sample of SF-425's for the Weatherization Assistance Programs for FY2014 were tested and all of the reports tested were filed timely.
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**2013-004**

**Federal Agency: U.S. Department of Housing and Urban Development**  
**Pass-Through Agency: N/A**  
**CFDA #'s 14.231 and 14.262**  
**Pass-Through Grantor's Award Numbers and Years: N/A**

- Condition:** 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.
- 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.
- Status:** A sample of subrecipient audit reports was tested in fiscal year 2014 and all audit reports had been received with the exception of one report, which had not yet been issued. The Office provided documentation detailing their correspondence with the subrecipient concerning the filing of the audit report; thus, the Office has appropriately addressed this comment.
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**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2014**

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**2013-005**

**Federal Agency: U.S. Department of Housing and Urban Development**

**Pass-Through Agency: N/A**

**CFDA # 14.231**

**Pass-Through Grantor's Award Numbers and Years: N/A**

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

**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).

**Status:** The Office was able to provide appropriate matching documenting during the current year audit; however, a finding related to the matching requirement was also reported as finding 2014-003.

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**2013-006**

**Federal Agency: U.S. Department of Housing and Urban Development, U.S. Department of Energy, and U.S. Department of Health and Human Services**

**Pass-Through Agency: N/A**

**CFDA #'s 14.231, 81.042, 93.568, and 93.569**

**Pass-Through Grantor's Award Numbers and Years: N/A**

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

**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).

**Status:** A similar finding is noted in the current year as finding 2014-002.

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**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2014**

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**2013-007**

**Federal Agency: U.S. Department of Housing and Urban Development, U.S. Department of Energy, and U.S. Department of Health and Human Services**

**Pass-Through Agency: N/A**

**CFDA #'s 14.231, 14.262, 81.042, 93.568, and 93.569**

**Pass-Through Grantor's Award Numbers and Years: N/A**

**Condition:** 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.

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

**Status:** The Office filled vacant positions in fiscal year 2014 and emphasized the need to follow the established policies and procedures.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2014**

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**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>  x  </u> Yes	<u>          </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>          </u> Yes	<u>  x  </u> None Reported
Noncompliance material to financial statements noted?	<u>          </u> Yes	<u>  x  </u> No

***Federal Awards***

Internal control over major programs:

Material weakness(es) identified?	<u>          </u> Yes	<u>  x  </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>  x  </u> Yes	<u>          </u> None Reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u>  x  </u> Yes	<u>          </u> No
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Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
64.203	State Cemetery Grants
81.042	Weatherization Assistance for Low Income Persons, including ARRA
93.568	Low Income Home Energy Assistance
93.569	Community Services Block Grants
14.231	Emergency Solutions Grant Program

Dollar threshold used to distinguish between type A and type B programs	<u>  \$  1,651,312  </u>
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Auditee qualified as low-risk auditee?	<u>          </u> Yes	<u>  x  </u> No
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

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Section II – Current Year Financial Statement Findings

**2014-001: RECORDING OF TRANSACTIONS AND ACCRUALS**

**Condition/Context:** Internal controls were not sufficient to detect material misstatements in the Office's financial statements for the year ended June 30, 2014. During our audit, we identified several transactions that were not properly recorded in accordance with generally accepted accounting principles. The Office improperly reported a returned allocation to a grantor agency of approximately \$925,000 as expenditures during the current year rather than properly reducing federal revenues. In addition, the Office failed to properly accrue disbursements made to subrecipients after year-end for amounts earned prior to year-end. We also noted approximately \$351,000 in employee benefits that were earned but not yet paid as of year-end were excluded from accrued liabilities.

**Criteria:** The Office should have internal controls in place to ensure that revenues and expenditures and related accruals are properly recorded in accordance with generally accepted accounting principles.

**Effect:** Audit adjustments were required to properly report current year transactions, as follows:

- Federal revenues and expenditures, including expenditures reported on the Schedule of Expenditures of Federal Awards, required an adjustment of approximately \$925,000. Though the SEFA was initially overstated, the excess expenditures reported were not claimed by the Office; thus, there were no findings related to allowable costs.
- An adjustment of approximately \$850,000 was required to properly report expenditures to subrecipients and related accounts payable for amounts incurred but not yet paid as of June 30, 2014.

**Cause:** The misstatements identified above were the result of management oversight.

**Recommendation:** We recommend the Office carefully review all transactions to ensure they are reported accurately and in the proper reporting period in accordance with generally accepted accounting principles.

**Response:** Management concurs with this finding and in the future will carefully review all transactions to ensure they are reported accurately and in the proper reporting period in accordance with generally accepted accounting principles.

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Section III Findings – Federal Award Findings and Questioned Costs

**2014-002: REPORTING – SUBAWARD REPORTING UNDER THE TRANSPARENCY ACT**

**Federal Agency:** U.S. Department of Veteran Affairs, U.S. Department of Housing and Urban Development, U.S. Department of Energy, and U.S. Department of Health and Human Services

**Pass-Through Agency:** N/A

**CFDA #'s** 14.231, 64.203, 81.042, 93.568, and 93.569

**Pass-Through Grantor's Award Numbers and Years:** N/A

**Questioned Costs:** \$0

**Condition:** During our testing of the reporting compliance requirements, we noted the Office did not submit the required subaward reports for the Community Services Block Grants (93.569) and the Low Income Home Energy Assistance Program (93.568) and submitted the subaward reports for the Weatherization Assistance Program (81.042), State Cemetery Grant (64.203), and Emergency Solutions Grants (14.231) after the required deadline.

**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

**SOUTH CAROLINA GOVERNOR'S OFFICE  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2014**

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the month following the month in which the prime recipient awards any subaward or subcontract greater than or equal to \$25,000. This report is submitted through the various FFATA Subaward Reporting Systems (FSRS).

**Context:** As noted above, the reports are only required to be submitted in the month following the month in which a subaward or subcontract is made, which would generally only require the reports to be submitted once a year for the Office due to the logistics of their grants. As noted above, the Office failed to submit the reports for two of the five major programs, and the reports for the other three major programs were submitted after the required deadline.

**Effect:** The Office was not in compliance with the subaward reporting under the FFATA portion of the reporting compliance requirement.

**Cause:** The Office was unaware of these requirements prior to completion of the prior year audit, which was completed in February 2014. After the Office was made aware of the requirements, they submitted the subaward reports for the Weatherization Assistance Program and the State Cemetery Grant in October 2014; however, the subawards and subcontracts had been awarded in prior months resulting in the reports being completed after the required deadline. The Emergency Solutions Grant was awarded under a different state entity's DUNS number; thus, the Office was unable to complete the required reports until access was granted late in 2014. The Community Services Block Grants and the Low Income Home Energy Assistance Program grants were also awarded under a different state entity's DUNS number. The Office has not yet been granted access to complete the required reports, but has been in contact with the grantor and other state entities in order to gain access to the FSRS.

**Recommendation:** We recommend that the Office implement additional procedures to ensure that subaward reports under FFATA are completed in a timely manner for all applicable grants. We also recommend that the Office continue to work with the grantors and other state entities to obtain access to FSRS for the remaining grants to ensure compliance with these requirements in the future.

**Response:** Management concurs that these reports were not filed on a timely basis and has implemented appropriate procedures to ensure future compliance with this requirement.

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**2014-003: MATCHING FUNDS**

**Federal Agency: U.S. Department of Housing and Urban Development ("HUD")**

**Pass-Through Agency: N/A**

**CFDA #'s 14.231**

**Pass-Through Grantor's Award Numbers and Years: N/A**

**Questioned Costs: \$0**

**Condition:** During our testing of the matching compliance requirement, we noted that the Office was not documenting the matching funds used to comply with the Emergency Solutions Grant ("ESG") compliance requirement. In addition, the Office was aware that the first \$100,000 of the grant was not required to be matched, but they were not aware that it had to be shared proportionately with the subgrantees. The Office was ultimately able to provide documentation showing that the grants were fully matched.

**Criteria:** Title 24, Section 576.51 of the Code of Federal Regulations states that each grantee must match the funding provided by HUD under its ESG Program with an equal amount from sources other than those provided under the ESG Program. 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 subrecipients.

**SOUTH CAROLINA GOVERNOR'S OFFICE  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2014**

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**Context/Effect:** While the Office was in compliance with the matching requirement for the year ended June 30, 2014, the lack of proper internal controls over compliance could result in future instances of non-compliance.

**Cause:** The Office did not have proper procedures in place to ensure compliance with the matching requirement.

**Recommendation:** We recommend the Office implement additional procedures to ensure compliance with the matching requirement. We also recommend the Office document and review the funds used to meet the required match, including the allocation of the first \$100,000 to the subrecipients, if applicable.

**Response:** Management will ensure proper documentation of the matching funds, when applicable, to ensure compliance with the matching requirement.

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**2014-004: DAVIS BACON**

**Federal Agency:** U.S. Department of Veterans' Affairs  
**Pass-Through Agency:** N/A  
**CFDA #'s:** 64.203  
**Pass-Through Grantor's Award Numbers and Years:** N/A

**Questioned Costs:** \$0

**Condition:** During our testing of the Davis-Bacon compliance requirement, we noted that the Office was not obtaining weekly certified payroll reports.

**Criteria:** The Davis-Bacon Act requires all laborers employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds to be paid wages not less than those established for the locality of the project. Non-Federal entities are required to obtain certified payrolls from the contractors or subcontractors weekly for each week in which any contract work is performed.

**Context/Effect:** The Office was not in compliance with the certified payrolls portion of the Davis-Bacon compliance requirement.

**Cause:** The Office obtained statements of compliance from the contractors. They were not aware of the requirement to obtain weekly certified payrolls in addition to the statements of compliance.

**Recommendation:** We recommend the Office implement additional procedures to ensure that weekly certified payrolls are obtained and reviewed for all applicable grant programs to ensure full compliance with the Davis-Bacon compliance requirement in the future.

**Response:** Management concurs with this finding and will ensure full compliance with the Davis-Bacon compliance requirement in the future.

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