

**STATE OF SOUTH CAROLINA**

**INDEPENDENT AUDITORS' 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***

**June 30, 2005**

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**INDEPENDENT AUDITORS' 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**

The Honorable Mark Sanford, Governor  
and  
Members of the General Assembly  
State of South Carolina  
Columbia, South Carolina

We have jointly audited the financial statements of the governmental activities, the business activities, the aggregate discretely component units, each major fund, and the aggregate remaining fund information of the State of South Carolina as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements and have issued our report thereon dated November 30, 2005. We did not jointly audit the financial statements of certain component units and agencies of the State of South Carolina, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and agencies, is based solely on the reports of the other auditors.

	<u>Percentage audited by other auditors</u>	
	<u>Total Assets</u>	<u>Total Revenue</u>
<u>Government-wide</u>		
Governmental activities	70	20
Business-type activities	100	91
Component units	100	100
<u>Fund statements</u>		
Governmental Funds	30	13
Enterprise Funds	100	91
Internal Service Funds	73	91
Fiduciary Funds	98	100

The Honorable Mark Sanford, Governor  
and  
Members of the General Assembly  
State of South Carolina

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.

Internal Control over Financial Reporting

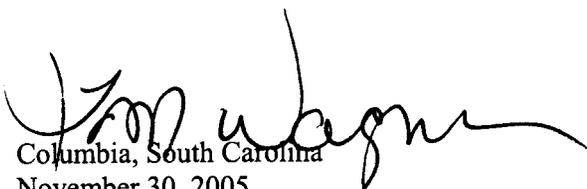
In planning and performing our audit, we considered the State of South Carolina's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of South Carolina's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 05-1, 05-2 and 05-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of South Carolina's financial statements are free of 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*.

This report is intended solely for the information and use of the Governor, Members of the General Assembly, and the governing body and management of State agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
Columbia, South Carolina  
November 30, 2005



Baltimore, Maryland  
November 30, 2005

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

## **05-1 Financial Reporting**

### **Employment Security Commission**

The Comptroller General's STARS Policies and Procedures Manual (STARS Manual) Section 2.1.7.20 states that agencies with federal subfunds are required to perform monthly reconciliations between the State's Comptroller General (CG) CSA 467CM report (Trial Balance by Subfund, Project and GLA) and the agency's records for each project and phase code.

The complexity of the Employment Security Commission's (the "Commission") accounting system has prevented them from implementing a process to efficiently and effectively meet the requirements of the STARS Manual. As a result, there is no process in place to detect and identify variances between the amounts recorded in the Commission's general ledger and the Comptroller General's accounting records (STARS). A similar comment was included in our five prior reports.

We again recommend the Commission work with the Comptroller General to develop a process to prepare monthly reconciliations of agency accounting records to the CSA 467CM report in a timely manner. The reconciliation should be documented in writing, in an easily understandable format with all supporting working papers maintained for audit purposes including the signatures of the preparer and independent reviewer and the dates of preparation and review. The reconciliation of parallel accounting systems assures that transactions are accurately processed by both the agency and the Comptroller General, strengthens the internal accounting controls for both the agency and the State, and assures proper classification of transactions presented in the State's financial statements.

## **05-2 Financial Reporting**

### **Department of Natural Resources**

The Comptroller General's STARS Policies and Procedures Manual (STARS Manual) Section 2.1.7.20 states that agencies with federal subfunds are required to perform monthly reconciliations between the State's Comptroller General (the "CG") CSA 467CM report (Trial Balance by Subfund, Project and GLA) and the agency's records for each project and phase code.

During our audit, we determined that the Department of Natural Resources (the "Department") had not performed the reconciliation of its records for each project and phase code to the CSA 467CM report. This reconciliation process provides management with assurance that transactions are accurately recorded in the accounting records of both the agency and the State. In addition, monthly reconciliations help to ensure timely identification and correction of errors and irregularities.

We recommend that the Department take appropriate action to ensure timely reconciliation of its Federal subfunds. These reconciliations should be documented in writing, in an easily understandable format with all supporting working papers maintained for audit purposes including the signatures of the preparer and independent reviewer and the dates of preparation and review. The reconciliation of parallel accounting systems assures that transactions are accurately processed by both the agency and the CG, strengthens the internal accounting controls for both the agency and the State, and assures proper classification of transactions presented in the State's financial statements.

## **05-3 Federal Reporting**

### **Department of Social Services**

Sound accounting practices require that records used to report federal expenditures and awards be reconciled to the agency's general ledger detail. Further, effective internal controls require that transactions be reviewed and approved by someone independent of document preparation.

During the course of our testwork, we noted certain matters related to the Department of Social Services' (the "Department") federal reporting process that could have impacted our financial statement audit. For the fiscal year-ended June 30, 2005 and through the date of our testwork, the Department had not reconciled the of Schedule of Federal Financial Assistance (SFFA) to the General Ledger (GAFRS). When this reconciliation was prepared by management subsequent to year-end, a discrepancy was identified in the deferred revenue balance. A similar comment was included in the prior year's report.

We recommend the Department establish written procedures to ensure that amounts reported on the SFFA are adequately supported by accounting records. Furthermore, we recommend the Department develop procedures to ensure that the SFFA is timely reconciled to the GAFRS system.

## **SUMMARY OF PRIOR FINDINGS**

During the current engagement, we reviewed the status of corrective action taken on the findings in the prior report on compliance and on internal control over financial reporting at the basic financial statement level, dated December 10, 2004 to determine if the conditions still existed. Based on our audit procedures we determined that adequate corrective action for the Financial Reporting deficiency at the Employment Security Commission and the Federal Reporting deficiency at the Department of Social Services had not been corrected. We have repeated our comments in finding 05-1 and 05-3, respectively, of this report.

**MANAGEMENT'S RESPONSE**

COMMISSIONERS  
J. William McLeod  
Becky D. Richardson  
McKinley Washington, Jr.



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Post Office Box 995  
Columbia, South Carolina 29202

January 11, 2006

Mr. Thomas L. Wagner, Jr.  
State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29211

Dear Mr. Wagner:

As requested, the following is the Commission's response regarding the State of South Carolina's Statewide joint audit of the general purpose financial statements relating to the Fiscal Year 2004-2005.

**05-01 Financial Reporting**

The South Carolina Employment Security Commission reconciles monthly to the balances that are on the CAA 611CR (Trial Balance by Subfund) due to the complexity of the Commission's accounting system. The majority of funds received by the Commission are authorized by the United States Department of Labor which mandates the Commission allocate cost to the functional activity level. This prevents the Commission from balancing to the report specified in the Comptroller General's STARS Policies and Procedures Manual (STARS Manual) as CSA 467CM.

While the Commission does not use this specified report to reconcile the agency's records for each project and phase code, the following State Comptroller General reports are utilized during the monthly reconciliations:

CSA 424CM – Summary of Expenditures  
CSA 441CM – Revenue Transaction Analysis  
CSA 444CM – Cash Transaction Detail  
CSA 467CM – Trial Balance by Subfund, Project and GLA  
CAA 611CR – Summary Trial Balance by Subfund

By utilizing the above reports, the Commission feels any discrepancies in expenditures or revenues are identifiable and can be corrected.

**January 11, 2006**

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It is the opinion of the Commission that once the South Carolina Enterprise Information System (SCEIS) is implemented with its allocation process, this finding will no longer be valid. The Commission, therefore, requests exemption from this exact reconciliation until such time as the SCEIS is implemented.

We want to thank members of your staff and staff of the Comptroller General's in their efforts to alleviate this problem.

If there are any questions or if additional information is needed, please contact me at 737-2560 or <mailto:dreeves@sces.org>

Sincerely,



Charles D. Reeves  
Director of Fiscal Affairs

**CDR:dr**

cc: Honorable Richard Eckstrom  
Comptroller General

# South Carolina Department of Natural Resources



January 10, 2006

John E. Frampton  
Director

Carole Collins  
Deputy Director for  
**Outreach and Support Services**

Ms. Sue Moss  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, South Carolina

RE: 2005 Single Audit Response

## **Financial Reporting**

The DNR Grants Administrator is responsible for performing monthly reconciliations between the State's Comptroller General (the "CG") CSA 467CM report (Trial Balance by Subfund, Project and GLA) and the DNR's records for each project and phase code.

The DNR Grant Administrator resigned in April 2005 and a replacement was not hired until June 2005. Due to this staffing shortage, the FY05 month 13 reconciliation was not done timely.

The reconciliations were caught up and are now being completed in a timely fashion.

Sincerely,

A handwritten signature in cursive script that reads "Charles R. Myers".

Charles R. Myers  
Controller



*Serving Children and Families*

KIM S. AYDLETTE, STATE DIRECTOR

January 12, 2006

Ms. Sue Moss  
Office of the State Auditor  
1401 Main Street  
Columbia, South Carolina 29201

Dear Ms. Moss:

In response to your e-mail of January 9, 2006 to Paul T. Moore, Finance Director, for an update on the finding DSS 05-3, "Federal Reporting, I am writing this:

Based on the State Auditor's recommendations during the Single Audit engagement for SFY 2003 – 2004, the Schedule of Federal Financial Assistance is now prepared using the General Ledger (GAFRS), effective SFY 2004 – 2005. The Department does not anticipate any reconciliation problems when comparing the Schedule of Federal Financial Assistance to the General Ledger (GAFRS) for this year and subsequent fiscal years.

Should you need additional information, please contact me at 898-7354.

Sincerely,

A handwritten signature in cursive script that reads "Michael B. Givens".

Michael B. Givens  
Director, Division of Budgeting Systems

cc: Paul T. Moore, Finance Director

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