

**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, 2009**

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

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 type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Carolina (the State) as of and for the year ended June 30, 2009, which collectively comprise the State’s basic financial statements and have issued our report thereon dated December 4, 2009. We did not jointly audit the financial statements of certain agencies and component units 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 agencies and component units, is based solely on the reports of the other auditors.

	Percentage audited by other auditor	
	Total Assets	Total Revenue
<b><u>Government-wide</u></b>		
Governmental activities	68	18
Business-type activities	98	100
Component units	100	100
<b><u>Fund Statements</u></b>		
Governmental Funds	18	8
Enterprise Funds	98	100
Internal Service Funds	79	93
Fiduciary Funds	98	100

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies 2009-1, 2009-2 and 2009-3 as described in the accompanying schedule of findings and responses, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2009-1 to be 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*.

The State's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. We did not audit the State's responses and, accordingly, we express no opinion on it.

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  
December 4, 2009



Baltimore, Maryland  
December 4, 2009

## **MATERIAL WEAKNESS**

## **2009-01 FINANCIAL REPORTING - DEPARTMENT OF HEALTH AND HUMAN SERVICES**

The Department of Health and Human Services (DHHS) determined that its prior year Medicaid payable was materially overstated. The data used to prepare the prior year accounts payable closing package was extracted by the agency using report logic that was inconsistent with the prior years. DHHS's internal control procedures did not detect the error. As a result a prior period adjustment was recorded in 2009 to correct the error.

Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. Section 1.7 of the Comptroller General's Closing Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office Closing Package forms that are accurate and prepared in accordance with instructions, complete, and timely." This requirement acts as a control over financial reporting for the State's financial statements.

We recommend that DHHS develop and implement control procedures to ensure that it uses the appropriate accounting information to prepare its closing packages. Staff responsible for reviewing the completed package should have sufficient knowledge and training to enable them to review the propriety of the supporting documentation and to detect errors in a timely manner.

**SIGNIFICANT DEFICIENCIES**

## **2009-02 FINANCIAL REPORTING – DEPARTMENT OF SOCIAL SERVICES**

The Department of Social Services (DSS) calculates the receivable closing package allowance for uncollectible accounts by haphazardly sampling a small number of refund receivable accounts. Based on data developed from the sample, DSS extrapolates the results to the population of the refund receivable accounts to estimate the allowance for uncollectible accounts. This methodology may fail to identify significant collectability issues if the sample selected is not representative of the population as a whole. Based on the data that the agency was able to provide, the allowance for uncollectible accounts appeared to be understated by \$12,796,238, which was reported as a passed adjusting journal entry.

Section 1.7, Summary of Agency Responsibilities of the Comptroller General's GAAP Closing Package Procedures Manual, states, "Each agencies executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are accurate and prepared in accordance with instructions, complete, and timely." This requirement acts a control over financial reporting for the State's financial statements.

We recommend DSS examine their financial reporting systems and work to ensure that the systems are able to track receivable origination dates and collected claims by date paid to ensure that the system can provide information related to receivable aging, which would allow DSS to more accurately estimate their allowance by examining historical trends for collectability based on delinquencies and charge offs of receivable balances. In addition, we recommend DSS management perform a detailed review of the year end receivable closing package, and ensure that Department staff preparing and reviewing the closing package have adequate knowledge and training to properly estimate this allowance.

## **2009-03 FINANCIAL REPORTING – PAROLE, PROBATION, AND PARDON SERVICES**

The Department of Probation, Parole and Pardon Services (PPP) does not reconcile its composite account general ledger balances to the State Treasurer's Office (STO) monthly bank reports or to the monthly bank statements. As a result PPP was unable to explain differences between its book balance and bank balance. In addition, as result of not performing the reconciliations, PPP failed to properly identify unauthorized access to the account and use of funds, via electronic transactions, by individuals not employed by the State.

Management is responsible for developing and implementing control procedures that will timely detect and correct errors and identify any unauthorized access or use of funds. Performance of monthly bank reconciliations helps management identify unrecorded transactions, input errors, unauthorized transactions, etc.

We recommend PPP develop and implement procedures to ensure that monthly reconciliations are performed on all composite and other bank accounts. The procedures should require formal reconciliations that are performed shortly after month end. The reconciliation should identify and explain reconciling differences. It should also document who prepared the reconciliation, date it was prepared, name of the person who reviewed the reconciliation and the date it was reviewed.

## **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 internal control over financial reporting at the basic financial statement level, dated November 12, 2008 to determine if the conditions still existed. Based on our audit procedures, we determined that the State has taken adequate corrective action on the identified deficiencies. Therefore, the 2008-01 Financial Reporting – Department of Revenue comment has not been repeated in this report.

## **MANAGEMENTS' RESPONSES**



State of South Carolina  
Department of Health and Human Services

Mark Sanford  
Governor

Emma Forkner  
Director

January 12, 2010

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

Dear Mr. Gilbert:

We have reviewed the audit finding for the Fiscal Year 2008-2009 Comprehensive Annual Financial Report (CAFR) for the South Carolina Department of Health and Human Services (DHHS), and offer the following response for your consideration.

Accounts Payable Closing Package:

Recommendations: DHHS should develop and implement control procedures to ensure that it uses the appropriate accounting information to prepare its closing packages. Staff responsible for reviewing the completed package should have sufficient knowledge and training to enable them to review the propriety of the supporting documentation and to detect errors in a timely manner.

Response: DHHS agrees with the finding and will strengthen its internal control policies and procedures to ensure that the report used to complete the Medicaid Payables portion of the Accounts Payable Closing package reflects accurate data.

I would like to thank you for the professional manner in which your staff performed this review. If you have any questions or need additional information please let me know.

Sincerely,

A handwritten signature in black ink that reads "Emma Forkner".

Emma Forkner  
Director

EF/wbh

# DSS

*Serving Children and Families*

KATHLEEN M. HAYES, PH.D.  
STATE DIRECTOR

MARK SANFORD  
GOVERNOR

January 28, 2010

Office of the State Auditor  
1401 Main Street  
Suite 1200  
Columbia SC 29201

Attention: Sue Moss, Audit Manager

Dear Ms. Moss:

As requested in your email dated January 4, 2010 the South Carolina Department of Social Services is responding as follows to the finding on the State's Comprehensive Annual Financial Report for State Fiscal Year 2009. The Department concurs with the finding as stated. The Department is currently taking steps to modify the CHIP sub-system to produce reports that will provide the Agency with an accounts receivable aging analysis. The Department will then use the data to determine collectibility of SNAP claims due to the Agency. We will report the collectibility data, in accordance with CG guidelines, in our State Fiscal Year 2010 Refunds Receivable and Related Accounts Summary Form - Governmental Funds closing package.

The Agency is taking steps to ensure that staff preparing the closing package is trained properly to make the collectibility determination with the new information provided by CHIP.

Should you have any questions, please contact Scott A. Ludlam, Director, Financial Services at 898-3987.

Sincerely,



**Wendell Price, Senior Deputy State Director  
Administration and Program Support**

WP:sl

State of South Carolina  
**Department of Probation, Parole and Pardon Services**

MARK SANFORD  
Governor



SAMUEL B. GLOVER  
Director

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January 15, 2010

Office of the State Auditor  
Attn: Richard Gilbert, Jr., CPA  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

This letter is in response to the audit finding related to the State of SC CAFR.

2009-03 Financial Reporting-Probation, Parole and Pardon Services:

We concur with your findings. It is the Department's policy and practice to perform timely reconciliations as noted in the Report of Internal Controls. All of the composite accounts related to SCDPPPS have been closed by the State Treasurer. If the accounts are reopened at a later date, the agency will develop and implement revised procedures to ensure that the monthly reconciliations are performed on all composite and other bank accounts shortly after month end. The reconciliation will identify and explain reconciling differences and information related to the preparer, date prepared along with the reviewer and date reviewed.

The South Carolina Department of Probation, Parole, and Pardon Services appreciates your advice and assistance. It is our commitment to continue to be good stewards of taxpayers' dollars while ensuring that our financial reporting is accurate and timely.

Sincerely,

A handwritten signature in black ink, appearing to read "Kera E. Thomas".

Kera E. Thomas  
Deputy Director for Administrative Services

cc: Samuel Glover, Director  
Cheryl Mack Thompson, Director of Fiscal and Materials Management

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