

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, 2011

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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 Nikki R. Haley, 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, 2011, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 8, 2011. 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, or were audited solely by Clifton Gunderson LLP, 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 Clifton Gunderson Separately		Percentage Audited by Other Auditors	
	Total Assets	Total Revenue	Total Assets	Total Revenue
<u>Government-wide</u>				
Governmental activities	-	-	68	18
Business-type activities	-	-	98	100
Component units	-	-	100	100
<u>Fund Statements</u>				
Governmental Funds	-	-	20	9
Enterprise Funds	-	-	98	100
Internal Service Funds	-	-	88	94
Fiduciary Funds	84	50	15	50

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 material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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 deficiencies 2011-01, 2011-02, 2011-03, 2011-04, 2011-05 and 2011-06 as described in the accompanying findings and responses to be material weaknesses in internal control over financial reporting.

A significant deficiency is a deficiency or 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. We consider the deficiencies 2011-07, 2011-08 and 2011-09 as described in the accompanying findings and responses to be significant deficiencies in internal control over financial reporting.

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*.

State of South Carolina
December 8, 2011

The State's responses to the findings identified in our audit are included in the section of this report titled "Management's Responses." We did not audit the State's responses and, accordingly, we express no opinion on them.

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 8, 2011



Baltimore, Maryland
December 8, 2011

MATERIAL WEAKNESSES

**2011-01 FINANCIAL REPORTING – DEFERRED GRANT REVENUE – COMPTROLLER
GENERAL’S OFFICE**

Condition

Internal controls over financial reporting were inadequate to prevent or detect an understatement of deferred grant revenue at June 30, 2011, resulting in the need for a material adjustment.

Context

The Comptroller General’s Office provides guidance and instructions to State agencies for the purposes of reporting their financial accounting data to the Comptroller General’s Office for compilation and inclusion in the Comprehensive Annual Financial Report (CAFR). During fiscal year 2011, the Comptroller General’s Office updated the State Agencies’ instructions for certain accounting areas, including the reporting of deferred grant revenue. Errors occurred as a result of the change during the accumulation of certain financial data by the Comptroller General’s Office staff. The errors were not detected by the Comptroller General’s Office supervisory staff during the review process. As a result, no deferred grant revenue was captured in the financial reporting system used to prepare the CAFR for certain State agencies.

Cause

The Comptroller General’s Office staff did not accurately compile and record Grant Receivable and Deferred Grant Revenue data as reported by the State agencies. There was a lack of adequate review by the Comptroller General’s Office supervisory staff, as the error was not detected during review.

Effect

A material adjustment was necessary as of June 30, 2011 to correct the errors.

Criteria

Section 1.6, An Overview of the Year-End Reporting Process of the Comptroller General’s GAAP Reporting Package Procedures Manual, states, “The Comptroller General’s Office will use South Carolina Enterprise Information System (SCEIS) functionality to compile the statewide financial statements. Specifically, they will evaluate the completeness of SCEIS and identify and post entries necessary for GAAP compliance in SCEIS.” This policy acts as a control over financial reporting for the State’s financial statements.

Recommendation

We recommend that additional procedures and controls be developed and implemented to ensure that the deferred grant revenue provided in reporting packages by State agencies are reported accurately in accordance with Section 1.6 of the procedure's manual referenced above and the data compiled by the Comptroller General's Office staff is adequately reviewed by appropriate personnel.

Response

See management's response on page 16.

2011-02 FINANCIAL REPORTING – CAPITAL ASSETS – COMPTROLLER GENERAL'S OFFICE

Condition

Internal controls over financial reporting were inadequate to prevent or detect misstatements of capital assets and accumulated depreciation at June 30, 2011, resulting in the need for material adjustments.

Context

The Comptroller General's Office implemented new procedures for State agencies to report their year-end capital assets data. The State agencies were instructed by the Comptroller General's Reporting Package Procedures Manual, to indicate if capital assets and related accumulated depreciation were properly recorded in the SCEIS general ledger. If the agency answered "yes," the Comptroller General's Office staff would record the agency's balance into the CAFR as reported in the SCEIS general ledger. Upon receipt of the year-end accounting data from the agencies, staff of the Comptroller General's Office did not record capital assets and accumulated depreciation correctly, resulting in the following findings:

- Agencies submitted their reporting packages indicating "no," that capital assets and accumulated depreciation were not recorded correctly in SCEIS general ledger. The Comptroller General's Office staff recorded the amounts that were in SCEIS, and disregarded the information provided by the State agencies.
- During prior year, there were capital assets and accumulated depreciation that were properly recorded for financial statement purposes. The assets and related accumulated depreciation were recorded in the SCEIS subsidiary ledger during fiscal year 2011. The Comptroller General's Office financial reporting staff incorrectly recorded adjustments to the SCEIS fixed asset beginning balances when compiling the 2011 CAFR. Since these adjustments were already recorded in the SCEIS subsidiary ledger during fiscal year 2011 no journal entry was necessary. As a result, the Comptroller General's Office had to reverse the entry.
- In analyzing capital assets and related accumulate depreciation, the Comptroller General's Office performed work on a piecemeal basis and made numerous mistakes in their work paper compilation. These errors were not corrected during the review process which resulted in need to record additional journal entries to correct errors.

Cause

The Comptroller General's Office staff did not accurately compile and record capital asset data as reported by the State agencies. There was a lack of adequate review by the Comptroller General's Office supervisory staff, as the errors were not caught during review.

Effect

Material adjustments were necessary as of June 30, 2011 to correct the errors.

Criteria

Section 1.6, An Overview of the Year-End Reporting Process of the Comptroller General's GAAP Reporting Package Procedures Manual, states, "The Comptroller General's Office will use SCEIS functionality to compile the statewide financial statements. Specifically, they will evaluate the completeness of SCEIS and identify and post entries necessary for GAAP compliance in SCEIS." This policy acts as a control over financial reporting for the State's financial statements.

Recommendation

We recommend that additional procedures and controls be developed and implemented to ensure that the capital assets and accumulated depreciation provided in reporting packages by State agencies are reported accurately in accordance with Section 1.6 of the procedure's manual referenced above.

Response

See management's response on page 16.

2011-03 FINANCIAL REPORTING – NETTING OF GRANT RECEIVABLES AND DEFERRED GRANT REVENUE

Condition

Procedures and controls were inadequate to ensure proper reporting of receivables and deferred revenue balances on the grant/contribution revenue reporting packages for the following agencies:

- Department of Corrections
- Department of Health and Environmental Control
- Department of Juvenile Justice
- Department of Public Safety
- Department of Social Services
- Department of Vocational Rehabilitation
- State Law Enforcement Division

Context

Grant receivables and deferred revenue should be calculated at the individual grant award level in order to accurately capture the grant receivable and deferred grant revenue balances as of the fiscal year end. The above agencies reported their grant receivables and deferred revenue balances on their grant/contribution revenue reporting packages by netting the grant awards, resulting in an understatement of both grant receivables and deferred revenue balances.

Cause

There was a lack of adequate review by the agencies' supervisory staff.

Effect

A material adjustment was necessary as of June 30, 2011 to correct the errors.

Criteria

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 Reporting Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages 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.

Recommendation

We recommend that additional procedures and controls be developed and implemented to ensure that the grants receivable and deferred grant revenue balances reported in reporting packages are reported accurately in accordance with Section 1.7 of the procedure's manual referenced above, which included reporting the balances in accordance with GAAP.

Response

See managements' response on pages 17 – 28 and 31.

2011-04 FINANCIAL REPORTING – GRANT RECEIVABLES AND DEFERRED GRANT REVENUE – DEPARTMENT OF SOCIAL SERVICES

Condition

Department of Social Services' (DSS) internal controls failed to prevent or detect certain grant receipts and expenditures that were posted and reported to the incorrect grant awards or grant award year, resulting in a material adjustment to the grants receivable and deferred grant revenue balances reported in the agency's year end reporting package.

Context

DSS recorded certain grant receipts and expenditures to the incorrect grant awards or grant award years, which resulted in an overstatement of grants receivables and deferred revenue. DSS did not have sufficient knowledge of accrual accounting to properly understand the impact of the error.

Cause

There was a lack of adequate review by agency supervisory staff.

Effect

A material adjustment was necessary as of June 30, 2011 to correct the errors.

Criteria

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 Reporting Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages 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.

Recommendation

We recommend that additional procedures and controls be developed and implemented to ensure that the grants receivable and deferred grant revenue balances reported in reporting packages are reported accurately in accordance with Section 1.7 of the procedure's manual referenced above, which included reporting the balances in accordance with GAAP.

Additionally, we recommend that DSS management implement policies and procedures to ensure that DSS supervisory staff are properly trained in GAAP basis financial reporting and have adequate knowledge to report grant transactions in accordance with GAAP.

Response

See management's response on page 25.

2011-05 FINANCIAL REPORTING – REPORTING OF GRANT RECEIVABLES AND DEFERRED GRANT REVENUE

Condition

Procedures and controls were inadequate to ensure proper reporting of receivables and deferred revenue balances on the grant/contribution revenue reporting packages for the following agencies:

- Department of Education (DOE)
- State Law Enforcement Division (SLED)

Context

The agencies did not properly reconcile the grant receivable and deferred grant revenue balances reported in the year end reporting package to the balances recorded in their general ledger systems. The year end reporting package submitted by DOE did not contain all grants receivable balances included in the general ledger and the year end reporting package submitted by SLED did not contain all grants receivable and deferred grant revenue balances included in the general ledger. DOE and SLED management have established internal control processes to review year end reporting packages, prior to submitting to the Comptroller General's Office. Both review processes are not adequate nor thorough enough to catch errors in the preparation of the year end reporting package.

Cause

There was a lack of adequate review by agency supervisory staff.

Effect

A material adjustment was necessary as of June 30, 2011 to correct the errors.

Criteria

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 Reporting Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages 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.

Recommendation

We recommend that additional procedures and controls be developed and implemented by the agencies to ensure that the grants receivable balance reported in its closing package is accurate in accordance with Section 1.7 of the procedure's manual referenced above.

Response

See managements' response on pages 29 and 31.

2011-06 FINANCIAL REPORTING – ACCOUNTS PAYABLE

Condition

The internal controls of several state agencies were inadequate to ensure proper cut-off of expenditures and related accruals for financial reporting purposes. The agencies are as follows:

- Budget and Control Board
- Department of Education
- Department of Health and Environmental Control
- Department of Juvenile Justice
- Department of Vocational Rehabilitation
- Forestry Commission

Context

During our search for unrecorded liabilities, it was noted that the above agencies failed to capture June 30, 2011 accounts payable amounts that should have been included in their reporting packages. While recording invoices into the agencies' accounting system, the agencies did not record the invoices in the proper fiscal year for which the goods or services related.

Cause

There was a lack of adequate review by agencies' supervisory staff.

Effect

A material adjustment was necessary to properly record the expenditure in fiscal year 2011 and accrue the amounts in accounts payable at June 30, 2011.

Criteria

Internal control procedures affect an agency's ability to process financial transactions that are authorized and accurate. Section 1.12 of the Comptroller General's Reporting Package Procedures Manual establishes criteria and provides instructions for determining proper cut-off procedures for determining current fiscal year payables and expenditures. Section 1.7 of the Comptroller General's Reporting Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages 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.

Recommendation

We recommend additional procedures and controls be developed and implemented to ensure that the accounts payable balances reported by the State are accurate in accordance with Sections 1.2 and 1.7 of the procedure's manual referenced above. Additionally, we have noted that SCEIS contains the functionality to code expenses/expenditures to the appropriate fiscal year, but not all agencies are utilizing this functionality fully. We recommend that the agencies listed above develop and implement control procedures and policies to ensure that all accounts payable at year-end are captured correctly.

Response

See managements' response on pages 18, 21, 27, 29, 32 and 34.

SIGNIFICANT DEFICIENCIES

**2011-07 FINANCIAL REPORTING – REFUNDS AND REBATES RECEIVABLE –
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Condition

The Department of Health and Human Services' (DHHS) internal controls failed to prevent or detect an error in the refunds and rebates receivable balance reported in their fiscal year 2011 reporting package.

Context

The agency did not properly reconcile the refunds and rebates receivable balances reported in the year end reporting package to the balances recorded in their general ledger system. The year end reporting package submitted by DHHS did not contain all refund and rebate receivable balances included in the agency's general ledger. DHHS management has established a internal control process to review year end reporting packages, prior to submitting to the Comptroller General's Office. This review process is not adequate nor thorough enough to catch errors in the preparation of the year end reporting package.

Cause

There was a lack of adequate review by agencies' supervisory staff.

Effect

An adjustment was necessary as of June 30, 2011 to correct the understatement of the receivable balance.

Criteria

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 Reporting Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages 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.

Recommendation

We recommend that additional procedures and controls be developed and implemented by DHHS to ensure that the grants receivable balance reported in its closing package is accurate in accordance with Section 1.7 of the procedure's manual referenced above.

Response

See management's response on page 33.

2011-08 FINANCIAL REPORTING – ALLOWANCE FOR UNCOLLECTIBLE REFUNDS RECEIVABLE – DEPARTMENT OF HEALTH AND HUMAN SERVICES

Condition

The Department of Health and Human Services' (DHHS) internal controls for the review and approval of the estimate of its allowance for uncollectible accounts failed to identify the use of an inappropriate estimate method. The method used by DHHS did not take into account previous collection history or trend analysis.

Context

DHHS estimated its allowance for uncollectible refunds receivable by analyzing the amount of receivables written off during fiscal year 2011 as a percentage of the total balance at June 30, 2011. This methodology does not take into account historical collection data or trends that would affect the collectability of refunds receivable at year end.

Cause

There was a lack of adequate review by agency supervisory staff to ensure consideration for all historical collection trends.

Effect

A misstatement occurred, resulting in an overstatement of the net receivable balance.

Criteria

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 Reporting Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages 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.

Recommendation

We recommend that DHHS use an estimate methodology that utilizes multiple years of historical trend collection data for its receivable balances. In addition, we recommend DHHS management perform a detailed review of the year end receivable closing package, and ensure that DHHS staff preparing and reviewing the closing package have adequate knowledge and training to ensure the allowance estimate conforms with GAAP.

Response

See management's response on page 33.

2011-09 FINANCIAL REPORTING – SOUTH CAROLINA ENTERPRISE INFORMATION SYSTEM – BUDGET AND CONTROL BOARD – DIVISION OF STATE INFORMATION TECHNOLOGY

Condition

The Budget and Control Board – Division of State Information Technology (DSIT), which manages the South Carolina Enterprise Information System (SCEIS), does not properly monitor and evaluate permissions and segregations of duties within the software. Additionally, SCEIS does not have a tool integrated to assist in the evaluation of segregation of duties and sensitive access within SCEIS.

Context

The security structure within SCEIS is a complex system and is very difficult to review and manage through manual procedures. During our review of system access, we noted accesses granted to individuals that were not required for day-today operations.

Cause

There was a lack of established controls to review segregation of user duties and access rights.

Effect

Lack of review over user rights and duty segregation could lead to users posting transactions without approval, or that should not be allowed under the user's permissions, affecting financial reporting.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework states that control activities are a component of internal control. Control activities are policies and procedures established to ensure that management directives are carried out, and consist of two elements, a policy that establishes what should be done and the procedure that implements the policy. COSO Framework states that control activities must be in place for there to be adequate internal control procedures over financial reporting for the State's financial statements. Internal control procedures affect the State's ability to process financial transactions that are authorized and accurate.

Recommendation

We recommend that DSIT evaluate available tools including, *GRC* and *Approva*, to assist in the monitoring of SCEIS system access, and develop policies and procedures to consistently monitor user access and segregation of duties in SCEIS.

Response

See management's response on page 35.

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 December 17, 2010 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, comments 2010-01 through 2010-06 have not been repeated in this report.

MANAGEMENT'S RESPONSES



RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

State of South Carolina
Office of Comptroller General

1200 Senate Street
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Columbia, South Carolina 29201

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JAMES M. HOLLY
CHIEF OF STAFF

2011-01 Financial Reporting – Deferred Revenue – Comptroller General’s Office

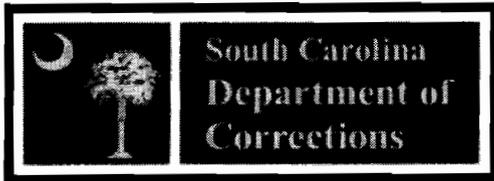
Our Office will implement procedures requiring our Financial Reporting staff to perform additional analysis of grants receivable and deferred revenue balances provided to us at year end by state agencies to ensure the accuracy of that information which we incorporate into the CAFR. Furthermore, our CAFR team will ensure adequate managerial review of that information.

2011-02 Financial Reporting – Capital Assets – Comptroller General’s Office

Our Office is implementing monthly reconciliations and analytical review procedures during fiscal year 2012 to reduce the volume of year end correcting adjustments needed to conform records of individual state agencies with centralized statewide records maintained through our Office. This monthly monitoring by our CAFR team will improve communication with the agencies to assist them in correcting errors throughout the year.

Furthermore, additional end of year analysis and review procedures will be implemented for our CAFR team members and reviewers to ensure the accuracy of capital asset information used to compile the CAFR. Our CAFR team is performing a reconciliation of fiscal year 2011 ending capital asset balances as a reliable starting for fiscal year 2012.

James M. Holly
Chief of Staff
2/2/12



NIKKI R. HALEY, Governor
WILLIAM R. BYARS, JR., Director

February 2, 2012

Mr. Richard H Gilbert, Interim State Auditor
South Carolina Office of the Sate Auditor
104 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

The South Carolina Department of Corrections respectfully submits the following corrective action for the internal control finding noted in the audit of the 2011 Comprehensive Annual Financial Report (CAFR).

2011-03 Financial Reporting—Netting of Grant Receivables and Deferred Grant Revenue

Recommendation:

We recommend that additional procedures and controls be developed and implemented to ensure that the grants receivable and deferred grant revenue balances reported in reporting packages are reported accurately in accordance with Section 1.7 of the procedure's manual referenced above, which included reporting the balances in accordance with GAAP.

Response:

The South Carolina Department of Corrections concurs with the finding. In October 2011, the agency hired an Accounting Manager that will prepare the grant/contribution revenue reporting package to ensure that all balances are reported correctly and prepared in accordance with Section 1.7 of the Comptroller General's Reporting Package procedure's manual. Additionally, the reporting package and reviewer checklist will be reviewed and signed by the Division of Financial Director prior to being submitted.

Thank you for the guidance provided. Should you have any questions or need additional information please contact Martha L. Roof, CPA, Deputy Director for Administration, at (803) 896-1744 or Roof.Martha@doc.sc.gov.

Sincerely,

William R. Byars, Jr.

WRB: MR:cks

P.O. Box 21787 - 4444 Broad River Road - Columbia, SC 29221-1787 - Telephone (803) 896-8555

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January 26, 2012

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

Dear Mr. Gilbert:

We have reviewed the two audit findings for the FY2011 Consolidated Annual Financial Report (CAFR) for the S.C. Department of Health and Environmental Control (DHEC). These findings were categorized as material weaknesses; which the agency disagrees with that categorization. We offer the following responses for your consideration.

2011-03 Financial Reporting – Netting of Grant Receivables and Deferred Grant Revenue

Recommendation: We recommend that additional procedures and controls be developed and implemented to ensure that the grants receivable and deferred grant revenue balances reported in reporting packages are reported accurately in accordance with Section 1.7 of the procedure's manual referenced above, which included reporting the balances in accordance with GAAP.

Response: The Department went live with the statewide financial system, SC Enterprise Information System (SCEIS) on August 2, 2010, which was during State Fiscal Year 2011, the period audited. When the closing package was prepared for FY11, the agency had to use the data from SCEIS instead of our previous financial system as done in the past. At the time the closing package was due, we spoke with one of the State Auditors asking for guidance about how to determine the deferred revenue by grant using SCEIS data. The auditor stated that was an internal issue and offered no guidance on how to do this. He referred us to the instructions that came with the package, which were not clear on the data extraction process. Since seven other large agencies were also cited in this finding, it appears that this was a wide-spread problem.

The cause for this finding was not the lack of adequate review by DHEC's supervisory staff, but rather a lack of guidance and knowledge on generating the needed data from the new financial system. We do not agree that this is a material weakness. We were able to meet with one of the State Auditors on site for the FY11 Statewide Single Audit, and she showed us how to get the data from SCEIS to prepare the closing package correctly for FY12. She

said better detailed instructions will be sent out this year when the closing packages are prepared for the FY12 closeout process.

2011-06 Financial Reporting – Accounts Payable

Recommendation: We recommend additional procedures and controls be developed and implemented to ensure that the accounts payable balances reported by the State are accurate in accordance with Sections .12 and 1.7 of the procedure's manual referenced above. Additionally, we have noted that SCEIS contains the functionality to code expenses/expenditures to the appropriate fiscal year, but not all agencies are utilizing this functionality fully. We recommend that the agencies listed above develop and implement control procedures and policies to ensure that all accounts payable at year-end are captured correctly.

Response: We have read and understand why findings were noted in the Accounts Payable closing package for internal controls; however, we respectfully disagree with the findings.

The sample invoices cited pertained to the Underground Storage Tank (UST) Program. These invoices are submitted by vendors contracted to perform maintenance and clean-up of underground storage tanks and their facilities. Vendors will note a time period for work performed on each invoice; however, it is not known when the actual work took place or if the work was completed to satisfaction upon submission. As a result, all contracted work is subject to final inspection by licensed inspectors of DHEC before payment can be issued. Both invoices cited did in fact cover work periods that included time in FY11, but neither was approved by UST until July 2011 (FY12).

Since DHEC Accounts Payable has no way of knowing when the work was actually completed and since payment cannot be made until all goods have been received, it was determined by past audits that worked performed would not be considered a liability of the agency until the final inspection was signed off on by the DHEC UST Program. This procedure is in place because there have been instances where the vendor was denied payment due to substandard work, and UST had to subsequently award the contract to a new vendor.

Based on this established review criteria, all invoices were in fact reviewed by supervisory staff and were recorded in the proper fiscal year.

For future closing packages DHEC Accounts Payable will change the criteria for review to be based on when the services are assumed to have been performed and received based on the vendors invoice submissions. In addition, DHEC Accounts Payable will prorate liabilities based on these same dates if services cross fiscal years. We will continue to fully utilize the functionality in SCEIS to code expenses/expenditures to the appropriate fiscal year.

We appreciate the thorough work of your auditors. If you have any questions, please do not hesitate to contact Ms. Nancy Edmunds, Director, Office of Internal Audits at 896-0649.

Sincerely,



R. Douglas Calvert
Chief of Staff

cc: C. Earl Hunter, Commissioner
Mary I. Fuhrman, CPA, CIA, Director, Bureau of Financial Management
Ronnie Belleggia, Assistant Director, Bureau of Financial Management
Mary B. Long, Director, Division of Accounts Payable & Records, BFM
Judy Kalbaugh, Director, Division of Cost Accounting & Cash Management, BFM
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South Carolina
DEPARTMENT OF
JUVENILE JUSTICE
Margaret H. Barber, Director

P.O. Box 21069
Columbia, SC 29221-1069

www.state.sc.us/djj



Nikki R. Haley
Governor
State of South Carolina

February 1, 2012

Mr. Richard H. Gilbert, Interim State Auditor
South Carolina Office of State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

The Department of Juvenile Justice is providing the following responses to the findings noted during the audit of the FY 2011 Comprehensive Annual Financial Report (CAFR). Specifically, these findings were noted during the review of internal controls portion of the audit.

2011-03 FINANCIAL REPORTING – NETTING OF GRANT RECEIVABLES AND DEFERRED GRANT REVENUE

Audit Finding: “Grant receivables and deferred revenue should be calculated at the individual grant award level in order to accurately capture the grant receivable and deferred grant revenue balances as of the fiscal year end. The above agencies reported their grant receivables and deferred revenue balances on their grant/contribution revenue reporting packages by netting the grant awards, resulting in an understatement of both grant receivables and deferred revenue balances.”

Agency Response: The finding is correct but unavoidable due to changes made by the CG in the reporting process. The Grant/Contribution revenue reporting package was changed for fiscal year 2011 to an automated form that required preparer to select a "yes/no" answer to begin the report.

The first question stated, "Are the receivables and/or deferred revenue recorded in SCEIS accurately?" You were only allowed to answer "yes" or "no". Since the amounts reported in SCEIS were correct, we selected "yes". Once this “yes” response was selected, the form took the preparer to Part I - Current and Non-Current Portion of Receivables. We discovered that the form would not allow us to proceed to Part 2 - Receivables and Deferred Balances Not in SCEIS because we had selected "yes" to the first question.

At this point we realized this package was different from the prior years and we sent an email to the Comptroller General’s Office notifying them that we did have deferred revenue but were

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unable to report it when following the instructions and flow of the automated form. We informed them that we had \$370,909 in deferred revenue that we were not able to include in these forms. The CG's Office responded that we were completing the form correctly and stated that they realized they had neglected to ask the additional question on the deferral.

It is our belief that had this reporting package been completed in the format of prior years, this finding would not have occurred. Before this new automated form, there was a worksheet that the preparer completed by individual grant that ended with two columns - Grants Receivable as of June 30 and Grants Deferred Revenue as of June 30. This calculated an ending balance for each individual grant as either a Receivable or Deferred Revenue. The preparer would then transfer the totals for each of these two columns to the Grants/Contribution reporting package form. This form had separate lines for Current Receivables and Deferred Revenues. The form used in prior year was completed by GAAP Fund Code, not by each federal fund like the automated forms for FY 11.

Corrective Action Taken: Taking into account the changes for FY11 reporting package, including the flaw in the automated form as noted above, as well as the response we received from the CG's Office when inquiring about the flaw, we do not feel that our procedures and internal controls were inadequate as noted in the finding, and furthermore, we do not believe that this is a finding reflective of the agency's efforts to properly report grant receivables and deferred revenue. We hope and expect that the automated format will be changed before the next closing package to allow us to report in what we and the auditors believe to be a more correct manner. We will document any communication with the CG's office in writing (hard copy or electronic) that deals with discrepancies we believe to have been created by the limitations of the electronic processing form(s).

2011-06 FINANCIAL REPORTING – ACCOUNTS PAYABLE

Audit Finding: "During our search for unrecorded liabilities, it was noted that the above agencies failed to capture June 30, 2011 accounts payable amounts that should have been included in their reporting packages. While recording invoices into the agencies' accounting system, the agencies did not record the invoices in the proper fiscal year for which the goods or services related."

Response: The finding is correct. Our agency did miss reporting one invoice in the amount of \$4,457.58 for FY 11. The invoice was received in August of 2011 (FY12), along with other invoices that were for services rendered in FY12. The payables associate processed all five payments together as presented by the approver of the invoice. It was annotated in the text field that this was a prior year payment. However, it was not mentioned in our year-end review process that we utilized to collect year-end payments processed.

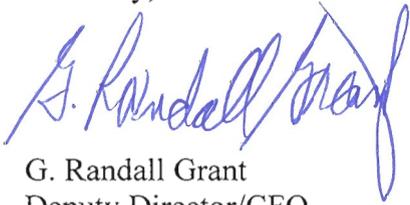
Corrective Action Taken: We are putting in place an additional year-end procedure to ensure that multiple month invoices will be split to ensure they post in the correct fiscal year. This

procedure should minimize or eliminate the chances of similar transactions being applied to the wrong fiscal year.

While we realize that this audit is being conducted on a state-wide basis and the materiality levels are as such, we do not believe that these findings are material on the agency level. Therefore, we would request that the State Auditor's Office not list individual agencies in their final report of findings as this gives the impression that the magnitude of the findings are material for each agency, which in the case of DJJ, we believe would not be accurate.

If you should have any questions or need additional information, please contact Steven Lake, Fiscal Affairs Administrator, at 803-896-5638.

Sincerely,



G. Randall Grant
Deputy Director/CFO
Administrative Services Division

cc: Margaret Barber, Director
Steven Lake, Fiscal Affairs Administrator



South Carolina Department of Public Safety

February 2, 2012

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

Mr. Gilbert:

Please see our response to the audit finding below:

2011-03 Financial Reporting- Netting of Grant Receivables and Deferred Grant Revenue

Reporting packages changed significantly for FY 2011. After thoroughly reviewing the instructions for the new Reporting Package, we believed we were preparing the package in accordance with the instructions. After reviewing the finding and discussing the issue with State Audit staff, management has received clarified instructions on the correct method for reporting Grant Receivables and Deferred Grant Revenues. We concur with the recommendation, and will ensure relevant staff members receive adequate instruction on how to properly complete and review the Reporting Package.

Sincerely,

Stephen B. Fulmer, CPA
SCDPS Director of Financial Information and Reporting



Serving Children and Families

LILLIAN B. KOLLER, J.D.
STATE DIRECTOR

NIKKI R. HALEY
GOVERNOR

January 27, 2012

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

Dear Mr. Gilbert:

The South Carolina Department of Social Services respectfully submits the following release for the 2011 Comprehensive Annual Financial Report (CAFR) Audit. We wish to have the following responses and comments regarding the matters discussed in the Accountant's Comments included in your final report.

CAFR Audit Finding 2011-03:

Procedures have been implemented to ensure receipts and expenditures are recorded accurately in SCEIS. Monthly /quarterly review and reconciliation of all grants will be performed to ensure that transactions are posted to the correct grant and grant year. Additionally, a reconciliation process has been established to insure grant receivables and deferred revenue balances are accurately carried from one state fiscal year the next. All reconciliations will be reviewed by supervisory staff. Additionally, master data in SCEIS has been set up such that rollover to the correct FFY for each grant occurs automatically. The yearend reporting package will be prepared in accordance with Section 1.7 of the Comptroller General Reporting Policies and Procedures Manual and grant receivable and deferred revenue balances will be stated by grant year.

CAFR Audit Finding 2011-04:

Procedures have been implemented to ensure receipts and expenditures are recorded accurately in SCEIS. Monthly /quarterly review and reconciliation of all grants will be performed to ensure that transactions are posted to the correct grant and grant year. Additionally, a reconciliation process has been established to insure grant receivables and deferred revenue balances are accurately carried from one state fiscal year the next. All reconciliations will be reviewed by supervisory staff. Additionally, master data in SCEIS has been set up such that rollover to the correct FFY for each grant occurs automatically. The yearend reporting package will be prepared in accordance with Section 1.7 of the Comptroller General Reporting Policies and Procedures Manual and grant receivable and deferred revenue balances will be stated by grant year. The agency is scheduling an internal refresher class for staff in the Cost Allocation unit of Finance, to review accrual accounting concepts.

Mr. Richard H. Gilbert, Jr., CPA
January 27, 2012
Page 2

If you have any questions regarding our management's responses, please contact William Bray, Chief of Fiscal and Governmental Affairs at 898-7225.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lillian B. Koller".

Lillian B. Koller, J.D.
State Director

LBK:blr



South Carolina Vocational Rehabilitation Department

*Enabling eligible South Carolinians with disabilities to prepare for,
achieve and maintain competitive employment.*

Barbara G. Hollis, Commissioner

January 26, 2012

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

Dear Mr. Gilbert:

We have reviewed the State Auditor's report of fiscal year 2011 CARF audit. We have attached our response to the audit.

Thank you for your assistance and if you have any questions or we can be of any further service please contact me at 803-896-6506 or by e-mail relam@scvrd.state.sc.us.

Sincerely,

Richard G. Elam
Assistant Commissioner

RE/re

PC: Rick Elam
Vicki Bowles
Maisy Babbitt



South Carolina Vocational Rehabilitation Department

Enabling eligible South Carolinians with disabilities to prepare for, achieve and maintain competitive employment.

Barbara G. Hollis, Commissioner

South Carolina Vocational Rehabilitation Department (H730)

July 1, 2010 – June 30, 2011

SC Report on Internal Controls - Response

2011-03 Financial Reporting – Netting of Grant Receivables and Deferred Grant Revenue Schedule of Federal Financial Assistance – We recommend that additional procedures and controls be developed and implemented to ensure that the grants receivable and deferred grant revenue balances reported in reporting packages are reported accurately in accordance with Section 1.7 of the procedure’s manual referenced above, which included reporting the balances in accordance with GAAP.

Response: We believe we have sufficient procedures and controls in place to ensure that the grants receivable and deferred revenue balances are reported accurately in accordance with Section 1.7 of the procedures manual. We followed the instructions provided by the Comptroller General’s office to prepare this closing package. Instructions required a separate Grants and Contribution Receivables and Deferred Revenue Summary Form for each fund, which we provided. However, after speaking with the auditors, we found that reporting by fund was a major cause of problems in tying closing package balances to the Schedule of Federal Financial Assistance. Also, instructions did not require a separation of individual grants by award year. We did not separate individual grants by award year, and we understand the netting of award years together could result in misstatement of grants receivable and deferred revenue. For future years, we will break out award years in the closing package.

2011-06 Financial Reporting – Accounts Payable - We recommend additional procedures and controls be developed and implemented to ensure that the accounts payables balances reported by the State are accurate in accordance with Sections .12 and 1.7 of the procedure’s manual referenced above. Additionally, we have noticed SCEIS contains the functionality to code expenses/expenditures to the appropriate fiscal year, but not all agencies are utilizing this functionality fully. We recommend that the agencies listed above develop the implement control procedures and policies to ensure that all accounts payable at year-end are captured correctly.

Response: We concur with the recommendation. New guidelines will be established for the fiscal year ending June 30, 2012. Training will be provided to the accounts payable staff to ensure that accurate account payable balances are being captured and reported in the Accounts Payable Closing Package.



STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

Mick Zais
Superintendent

1429 Senate Street
Columbia, South Carolina 29201

January 26, 2012

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

Dear Mr. Gilbert:

The findings that will be included in the report on internal controls as a result of the FY 2010-2011 Comprehensive Annual Financial Report (CAFR) for the South Carolina Department of Education have been reviewed. The following responses are offered for consideration:

2011-05 Financial Reporting – Reporting of Grant Receivables and Deferred Grant Revenue

Recommendation

We recommend that additional procedures and controls be developed and implemented by the agencies to ensure that the grants receivable balance reported in its closing package is accurate in accordance with Section 1.7 of the procedure's manual referenced above.

Response

The SCDE agrees with the finding. This error occurred because of an incorrect formula in the spreadsheet that was used to determine the figures for the closing package. When the error was discovered, a corrected Grants Receivable Closing Package was submitted. However, all balances in SCEIS were correct. To strengthen this internal control procedure, the SCDE will add an additional level of review to verify accuracy of spreadsheets used to complete the Grants Receivable Closing Package.

2011-06 Financial Reporting – Accounts Payable

Recommendation

We recommend that additional procedures and controls be developed and implemented to ensure that the accounts payable balances reported by the State are accurate in accordance with Sections 1.2 and 1.7 of the procedure's manual referenced above. Additionally, we have noted that SCEIS contains the functionality to code expenses/expenditures to the appropriate fiscal year, but not all agencies are utilizing this functionality fully. We recommend that the agencies listed above develop and implement control procedures and policies to ensure that all accounts payable at year-end are captured correctly.

Mr. Richard H. Gilbert, Interim State Auditor

Page 2

January 26, 2012

Response

The SCDE agrees with the finding but disagrees that it was a result of the lack of adequate review. Additionally, the recommendation infers that proper SCEIS functionality for coding expenses to the appropriate fiscal year is not being utilized by SCDE. The document(s) in question were marked as prior year payables in SCEIS and amounted to less than .02% of the total. The AP closing package was prepared based on the measurable information available at the time and submitted to the Comptroller General's Office (CG) by the due date of September 15, 2011. Reimbursement claims for FY 2011 continued to be received from school districts after the due date. In an effort to assist our customers (school districts), the CG was contacted to get permission to amend the package. All late claims were to be processed by September 28, 2011, so the amended package could be submitted by the end of the month. The unrecorded liabilities resulted from the processing of additional prior year claims after the submission of the closing package. To strengthen this internal control procedure, the SCDE will insure that the deadline for submission of prior year claims is firm. An unintended consequence of this firm deadline could result in the loss of federal funds to the state and school districts used for the education of children in South Carolina.

If you have any questions or need additional information, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Len Richardson", with a long horizontal line extending to the right.

A. Len Richardson, Director
Office of Finance

SOUTH CAROLINA LAW ENFORCEMENT DIVISION

NIKKI R. HALEY
Governor



MARK A. KEEL
Chief

February 2, 2012

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

Dear Mr. Gilbert:

Reference is made to the preliminary audit for the fiscal year ended June 30, 2011. Please see below the response to the auditor's comments for the audit period.

2011- 03 FINANCIAL REPORTING – NETTING OF GRANT RECEIVABLES AND DEFERRED GRANT REVENUE

The State Law Enforcement Division (SLED) concurs with the auditor's recommendation. Internal control procedures will be implemented by the Division to ensure figures reported on the Schedule of Federal Financial Assistance are by individual grant. The Division will add an additional reviewer to ensure the figures reported are reconciled to the general ledger.

2011- 05 FINANCIAL REPORTING – REPORTING OF GRANT RECEIVABLES AND DEFERRED GRANT REVENUE

SLED concurs with the auditor's recommendation. Internal control procedures will be implemented to ensure proper reports are utilized to prepare and reconcile the Grant Closeout Package. The Division will add an additional reviewer to ensure the figures reported are reconciled to the general ledger.

As always, we appreciate the expertise and professionalism exhibited by your staff.

Sincerely yours

Mark A. Keel
Chief





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(f) 803.798.8097
www.trees.sc.gov

Henry E. (Gene) Kodama, State Forester

January 26, 2012

Richard H. Gilbert, Jr., CPA
Interim State Auditor
1401 Main Street, Suite 1200
Columbia, S. C. 29201

Dear Mr. Gilbert:

This is in response to the attached finding on accounts payable internal controls for the Forestry Commission. The agency concurs with the finding concerning a payment not recorded as accounts payable but does not agree it represents a material weakness in internal controls.

The Commission has procedures in place to record payables and report them properly and prior audits have substantiated this. This finding relates to a landowner payment which was not recorded on the closing package. I do not feel this single error should be labeled as a material weakness in internal controls.

We will definitely review all policies and procedures for material weaknesses and look forward to working with you and your staff in the future.

Sincerely,

A handwritten signature in cursive script that reads "Larry D. Moody".

Larry D. Moody
Director of Administration

Our mission is to protect and develop the forest resources of South Carolina.



January 25, 2012

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

Dear Mr. Gilbert:

We have reviewed the audit findings for the Fiscal Year 2011 Reporting Packages for the South Carolina Department of Health and Human Services (DHHS), and offer the following response.

Refunds and Rebates Receivable (2011-07)

Recommendation: We recommend that additional procedures and controls be developed and implemented by DHHS to ensure that the grants receivable balance reported in its closing package is accurate in accordance with Section 1.7 of the procedure's manual.

Response: DHHS acknowledges the Reporting Package Procedure's Manual instructions. We try to adhere to the instructions provided where feasible. However, time constraints during this time as well as problems with receiving information did not allow for ample review. DHHS will develop additional procedures and controls to ensure accuracy.

Allowance for Uncollectible Refunds Receivable (2011-08)

Recommendation: We recommend that DHHS use an estimate methodology that utilizes multiple years of historical trend collection data for its receivable balances. In addition, we recommend DHHS management perform a detailed review of the year end receivable closing package, and ensure that DHHS staff preparing and reviewing the closing package have adequate knowledge and training to ensure the allowance estimate conforms with GAAP.

Response: Historically, the methodology utilized was derived by coming up with a percentage that was based on the year in review. DHHS will explore what historical data could be considered in determining the allowance for uncollectible and generate appropriate reports to monitor data and trends for annual reports.

Sincerely,

Kathryn L. Bass
Bureau Chief
Bureau of Fiscal Affairs

NIKKI BAILEY, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

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CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

MARCIA S. ADAMS
EXECUTIVE DIRECTOR

January 26, 2012

Mr. Rich Gilbert, Interim State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert,

We are responding to the finding from the test of internal controls for the Fiscal Year 2011 Comprehensive Annual Financial Report.

Condition

The internal controls of several state agencies were inadequate to ensure proper cut-off of expenditures and related accruals for financial reporting purposes. The agencies are as follows:

- Budget and Control Board
- Department of Education
- Department of Health and Environmental Control
- Department of Juvenile Justice
- Department of Vocational Rehabilitation
- Forestry Commission

Response

The Budget and Control Board had one instance of an invoice not identified as a prior year payable. The Board verified prior year payable amounts per Comptroller General's Office instructions utilizing the report they provided for completion of the Accounts Payable Reporting Package. As an added control, the Board verified expenditures over \$1,000 incurred during the July through September 2011 period not included in the Comptroller General's Office report to verify no prior year payables were miscoded. This one instance was due to a unique set of circumstances. During this time period, the vendor sold its business to a new owner, resulting in a block on this vendor for posting by the Comptroller General's Office. As a result, the Board was not able to successfully process the invoice for payment until September 19, 2011, after the due date of the Accounts Payable Reporting Package. We believe the Board has an adequate internal control structure in place to ensure proper cut-off of expenditures and related accruals for financial reporting purposes. We will implement additional procedures to closely follow invoices not entered in the financial system during the same time period for future fiscal years. We will establish a communication tool so that offices can advise us of outstanding invoices not yet processed.

Should you have any questions about our response, please contact Renee Herndon at 737-5906.

Sincerely,

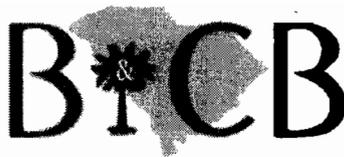
Renee Rochester, Finance Director
Office of Internal Operations
Budget and Control Board

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February 3, 2012

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

Dear Rich:

We have reviewed Finding 2011-09 in the State of South Carolina's Independent Auditors' Report on Internal Control Over Financial Reporting for the year ended June 30, 2011, and are including our response to your recommendation below.

RECOMMENDATION: We recommend that DSIT evaluate available tools including, *GRC* and *Approva*, to assist in the monitoring of SCEIS system access, and develop policies and procedures to consistently monitor user access and segregation of duties in SCEIS.

RESPONSE: We continuously strive to improve the SCEIS processes to ensure accurate and complete information is provided to the State on a timely basis. Due to budget constraints, SCEIS does not have an integrated tool to assist in the monitoring of system access; however, we have implemented certain manual control processes to assist the monitoring to the extent possible.

The applicable state agency is responsible for identifying the security roles and permissions required for their agency, ensuring that they do not have conflicting transactional roles. User roles are set up by the SCEIS team, as requested by the applicable agency. If transactional roles requested by an agency appear to be conflicting and are recognized by the SCEIS team, the SCEIS team brings the matter to the agency's attention for resolution. The SCEIS team will develop a policy to share with agencies that describes best practices in this area, but state agencies remain responsible for ensuring that their system users have proper separation of duties.

The system tool mentioned in the audit finding, the GRC module, has been evaluated by DSIT. Unfortunately due to funding limitations, this module has not been purchased and implemented. Our most recent price quote from SAP indicates that the cost to purchase the software is approximately \$170,000. This cost does not include any training and implementation costs. SCEIS has not been fully funded to maintain and operate the current system and has no funds available to purchase the GRC module.

Thank you for the opportunity to respond. If you have any questions or need additional information please do not hesitate to contact us.

Sincerely,

Marcia Adams

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