

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, 2013

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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, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 14, 2014. We conducted our joint audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors, including CliftonLarsonAllen LLP acting separately, who audited 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 described in our report on the State's financial statements and as presented in the following tables. The financial statements of the Unemployment Compensation Fund, State Ports Authority, Public Service Authority, Connector 2000 Association, Inc., and South Carolina Medical Malpractice Liability Joint Underwriting Association, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Unemployment Compensation Fund, State Ports Authority, Public Service Authority, Connector 2000 Association, Inc., and South Carolina Medical Malpractice Liability Joint Underwriting Association. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

| | Percentage Audited by CliftonLarsonAllen LLP Separately | | Percentage Audited by Other Auditors | |
|--------------------------|---|------------------|---|------------------|
| | Total Assets | Total Revenue | Total Assets | Total Revenue |
| Government-wide | | | | |
| Governmental activities | - | - | 64% | 18% |
| Business-type activities | - | - | 80% | 93% |
| Component units | - | - | 100% | 100% |

| | Percentage Audited by CliftonLarsonAllen LLP Separately | | Percentage Audited by Other Auditors | |
|---|---|------------------|---|------------------|
| | Total Assets | Total Revenue | Total Assets | Total Revenue |
| Fund Statements | | | | |
| Governmental Funds | - | - | 17% | 10% |
| Enterprise Funds | - | - | 80% | 93% |
| Internal Service Funds | - | - | 90% | 95% |
| Fiduciary Funds | 82% | 38% | 18% | 62% |
| Discretely Presented Component Units | - | - | 100% | 100% |

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, and 2013-006 as described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2013-007 as described in the accompanying schedule of findings to be a significant deficiency.

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 of South Carolina's Response to Findings

The State's responses to the findings identified in our audit are included in the section of this report titled "Management's Responses." The State's responses were not subjected to the auditing procedures applied in the joint audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Columbia, South Carolina
February 14, 2014



Baltimore, Maryland
February 14, 2014

MATERIAL WEAKNESSES

2013-001 FINANCIAL REPORTING – PREPARATION OF STATEWIDE ACCOUNTING RECORDS AND COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) – COMPTROLLER GENERAL'S OFFICE

Condition

Internal controls over financial reporting were inadequate to prevent or detect multiple misstatements during the preparation of the State's CAFR and the supporting accounting records, which required the Comptroller General's Office to post adjustments to the State's CAFR. Some of the individual misstatements were material.

Context

The Comptroller General's Office is responsible for the reporting of State financial accounting data in the CAFR. The Comptroller General's Office compiles the State's CAFR using the State agencies' financial data, and by recording statewide accounting adjustments to that data to properly reflect the State's overall financial position at year end. Errors occurred in the CAFR preparation process because Comptroller General's Office staff lacked sufficient experience and a full understanding of the State's accounting and reporting complexity. Comptroller General's Office supervisory staff did not detect the errors during the review process, and as a result, material misstatements were identified during the audit of the financial statements and footnotes.

Cause

The Comptroller General's Office staff did not accurately compile and report financial accounting data during preparation of the CAFR. In addition, there was lack of adequate review by the Comptroller General's Office supervisory staff, as errors were not detected during review. The majority of the Comptroller General's Office financial reporting staff was hired in late fiscal year 2013, and as such, the following contributed to the errors:

- The majority of the financial reporting staff did not have adequate experience using the financial accounting system to prevent and detect all errors.
- The majority of the financial reporting staff did not have adequate experience with the State to be aware of all material transactions that were required to be made in preparation of the CAFR, and the review by the Comptroller General's Office supervisory staff was not adequate to detect these errors.
- The financial reporting staff did not develop processes and procedures to ensure that it had captured all financial accounting data correctly.

Effect

Because of the financial reporting staff's inexperience and the deficiencies in its policies and procedures, material errors were not detected and required adjustments 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 State's financial accounting data is reported accurately in the CAFR in accordance with Section 1.6 of the procedures manual referenced above and the data compiled by the Comptroller General's Office staff is adequately reviewed by appropriate personnel. Additionally we recommend that additional procedures be established to ensure review of the financial information is performed timely at a supervisory level and that the review is adequate to detect and prevent errors in financial reporting.

Response

See management's response on page 15.

2013-002 FINANCIAL REPORTING – RECONCILIATION OF CASH AND CASH EQUIVALENTS – STATE TREASURER'S OFFICE

Condition

Internal controls over financial reporting were inadequate to prevent or detect misstatements of cash and cash equivalents in the reconciliation between the cash and investment reporting package submitted by the State Treasurer's Office (STO) and the cash and cash equivalents reported in the South Carolina Enterprise Information System (SCEIS), the State's book of record.

Context

The STO is authorized by law to account for the State's cash and cash equivalents on a system separate from SCEIS and prepares a year end reporting package summarizing the State's cash and cash equivalents. While, the STO's system interfaces with SCEIS, the STO does not reconcile the balances and transactions recorded in STARS or the financial data reported through reporting package to SCEIS. The amount of cash and cash equivalents reported by the STO differs from the amounts reported in SCEIS. The Comptroller General's Office uses SCEIS to compile the CAFR, and as such, the amounts should agree.

Cause

The STO has not developed procedures to perform reconciliations of their system to SCEIS either periodically or at year end.

Effect

Cash and cash equivalents reported in the State's CAFR differed from the cash and cash equivalent balances reported by the STO. However, because the difference was not material to the financial statements an audit adjustment was not recorded. Due to the volume of activity related to the State's cash and cash equivalents, it is probable that the magnitude of the difference in future years will have a material effect on the State's financial statements.

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. Internal control procedures affect the State's ability to ensure financial transactions are authorized and accurate. The preparation of reconciliations between ledgers and sub-ledgers is a key component of an entity's Internal Control Framework.

Recommendation

The STO is currently working with the SCEIS staff to replace its debt, investment and cash systems with SCEIS. Until such time, we recommend that additional procedures and controls be developed and implemented by the STO to ensure that the cash and cash equivalents transactions recorded in its system reconcile to the cash and cash equivalent balances recorded in SCEIS. At a minimum the STO should ensure that amounts reported annually to the Comptroller General's Office in its reporting package reconciles to the balances recorded in SCEIS.

Response

See management's response on page 16.

**2013-003 FINANCIAL REPORTING – REPORTING OF TUITION PREPAYMENT
ACCOUNTS PAYABLE – STATE TREASURER’S OFFICE**

Condition

The State Treasurer’s Office (STO) procedures and controls were inadequate to ensure proper reporting of tuition benefits payable on the agency’s accounts payable reporting package. As a result the State recorded a material adjustment.

Context

During the completion of the STO’s accounts payable reporting package, the agency excluded amounts related to tuition prepayment accounts payable. As a result, the tuition prepayment benefits accounts payable balance was understated.

Cause

The STO supervisory staff did not perform an adequate review of the accounts payable reporting package.

Effect

A material adjustment was recorded to correct the understatement and properly state the tuition prepayment accounts payable liability at June 30, 2013.

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 STO to ensure that the tuition benefits payable provided in reporting packages are reported accurately in accordance with Section 1.7 of the procedure’s manual referenced above.

Response

See management’s response on page 17.

2013-004 FINANCIAL REPORTING – REPORTING OF GRANT RECEIVABLES AND DEFERRED GRANT REVENUE – DEPARTMENT OF PUBLIC SAFETY

Condition

The Department of Public Safety (DPS) procedures and controls were inadequate to ensure proper reporting of grants receivable and deferred revenue balances on the agency's grant/contribution revenue reporting package.

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 at fiscal year-end. In order to properly determine the receivable or deferred revenue by grant award on the year-end reporting package, the underlying data coded into the general ledger for each grant award must be accurate. DPS's pass-through grants are not being recorded consistently within the general ledger and expenditures and receipts are recorded to incorrect sub-funds by the grant managers. The incorrect sub-funds are not reported as grant activity for Statewide financial reporting, and as a result, grant activity was omitted in the reporting package and the agency's grant receivable and deferred grant revenue balances were misstated.

Cause

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

Effect

An adjustment was recorded to correct the reporting package 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

DPS did follow the reporting package instructions correctly, however, because pass-through grants were being inconsistently recorded and incorrect sub-funds were used, the balances reported in the grants receivable and deferred revenue were misstated. We recommend that the agency develop and implement additional procedures and controls to ensure that the grant managers are accurately reporting grant activity to the correct sub-fund within the general ledger and that grant activity is accurately reported in the reporting package.

Response

See management's response on page 18.

2013-005 FINANCIAL REPORTING – REPORTING OF LOSS LIABILITIES AND CORRESPONDING REIMBURSEMENT FROM A THIRD PARTY – DEPARTMENT OF SOCIAL SERVICES

Condition

The Department of Social Services (DSS) procedures and controls were not adequate to ensure proper reporting of loss liabilities related to violations of grant regulations and their corresponding receivable of reimbursements from a third party on the agency's grant disallowance reporting package. As a result the State recorded material adjustments.

Context

The grant disallowance reporting package should include all liabilities related to violations of grant rules and regulations. DSS is in violation of a federal program requirement to develop and implement automated child support data processing and information retrieval system. As a result the Federal government has assessed significant financial penalties on DSS. The agency's grant disallowance reporting package did not include all loss liabilities payable, and as a result, loss liabilities resulting from violations of grant program rules and regulations were understated.

DSS entered into an agreement with a third-party vendor to develop the child support data processing and information retrieval system, however, because of numerous delays in the development of the program DSS terminated its contract with the third-party vendor and DSS entered into a settlement agreement with the third-party vendor that required the vendor to pay the federal imposed penalty payments on behalf of DSS. The agency did not record an account receivable for the specific amounts that were contractually required to be paid by third party vendor as part of the settlement, and as a result, the agency's refunds receivable balance was understated.

Cause

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

Effect

A material adjustment was recorded to correct the reporting package error.

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 DSS management develop and implement procedures to ensure that all financial transactions are accounted for and recorded in its general ledger in accordance with GAAP. We also recommend that additional procedures and controls be developed and implemented to ensure that the financial information provided in reporting packages is reported accurately in accordance with Section 1.7 of the procedure's manual referenced above.

Response

See management's response on page 19.

2013-006 FINANCIAL REPORTING – REPORTING OF REFUNDS AND REBATES RECEIVABLE**Condition**

Procedures and controls were inadequate to ensure proper reporting of refund receivable balances on the agency's rebate and refund receivable reporting packages for the following agencies:

- Department of Health and Human Services (DHHS)
- Department of Social Services (DSS)

Context

The agencies did not properly reconcile the refunds and rebates receivable balances reported in the year end reporting package to the balances reported in their accounting sub-ledgers. The reporting package submitted by DHHS did not contain all refund and rebates received during fiscal year 2014 that related to fiscal year 2013; the reporting package submitted by DSS contained mathematical errors in the reporting of gross refunds and rebates receivable, the calculation and reporting of the allowance for uncollectible receivables, and the reporting of the current and non-current allocation. As a result, refunds and rebates receivable were understated.

Cause

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

Effect

A material adjustment was recorded to correct the reporting package 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 refunds and rebates receivable provided in reporting packages are reported accurately in accordance with Section 1.7 of the procedure's manual referenced above.

Response

See management's responses on pages 19 and 20.

SIGNIFICANT DEFICIENCIES

2013-007 INTERNAL CONTROL MONITORING – SOUTH CAROLINA ENTERPRISE INFORMATION SYSTEM

Condition

The Budget and Control Board – Division of State Information Technology (DSIT) is responsible for managing SCEIS. The State does not have policies and procedures in place to ensure that transactions posted to SCEIS by DSIT personnel on behalf of State agencies are adequately reviewed by State agency personnel or DSIT personnel. Additionally, there are no policies and procedures relating to maintaining documentation of the transactions inside or outside of the system.

Context

DSIT personnel post journal entries to SCEIS on behalf of State agencies. The journal entries are recorded outside of the established internal control structure of SCEIS and there is no documentation maintained which demonstrates that the journal entry has been independently reviewed by either the DSIT or agency personnel nor is documentation retained to support the purpose and approval of the journal entry.

Cause

DSIT has not established Statewide-level policies and procedures with respect to the review and approval of transactions posted to SCEIS by DSIT personnel.

Effect

The ability to process transactions in this manner circumvents the State's internal control structure and could result in a misstatement to the State's financial statements as a result of error or fraud.

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. Internal control procedures affect the State's ability to ensure financial transactions are authorized and accurate and the financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Section 75.2 of the fiscal year 2012 – 2013 Appropriation Act states “It is the intent of the General Assembly that the State of South Carolina issue financial statements in conformance with Generally Accepted Accounting Principles (GAAP). To this end, the Comptroller General is directed, as the State Accounting Officer, to maintain a Statewide Accounting and Reporting System that will result in proper authorization and control of agency expenditures, including payroll transactions, and in the preparation and issuance of the official financial reports for the State of South Carolina. Under the oversight of the General Assembly, the Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with GAAP. The Comptroller General is also given full authority to conduct surveys, acquire consulting services, and implement new procedures required to implement fully changes required by GAAP.”

Recommendation

We recommend that the Comptroller General's Office utilize its authority established through Section 75.2 of the fiscal year 2012 - 2013 Appropriations Act to establish policies and procedures to ensure all transactions processed by DSIT personnel are reviewed and approved by agency personnel and all documentation of review and approval is maintained by agency and DSIT personnel.

Response

See management's response on page 15.

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 June 7, 2013 to determine if the conditions still existed. Based on our audit procedures, we determined that the State has not taken adequate corrective action on the identified deficiency 2012-01. Therefore, we have repeated the comment at finding 2013-01 in addition to current year specific findings. Comments 2012-02 through 2012-06 have not been repeated in this report.

MANAGEMENTS' RESPONSES



RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

State of South Carolina
Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

Telephone: (803) 734-2121
Fax: (803) 734-1765
E-Mail: cgoffice@cg.sc.gov

WILLIAM E. GUNN
CHIEF OF STAFF

April 11, 2014

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

Dear Mr. Gilbert:

As our agency has worked to build its financial reporting staff capable of meeting challenges presented by the State's ongoing integration of an Enterprise Information System (EIS), we have experienced significant improvements in the timeliness and quality of accounting and financial reporting from FY 11-12 to FY 12-13. When this EIS project is fully completed, we expect even more improvement in the quality and effectiveness of underlying procedures and controls. With increased staff experience and with CAFR compilation software being acquired to complete the EIS project, we expect more suitable CAFR compilation timelines to allow for more workflow review.

Sincerely,

A handwritten signature in black ink that reads "William E. Gunn".

William E. Gunn
Chief-of-Staff

WG/js



THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

April 15, 2014

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

Dear Mr. Gilbert:

The following is management's response to the 2013-002 financial reporting – reconciliation of cash and cash equivalents – State Treasurer's Office.

1. The State Treasurer has statutory responsibility to ensure that its banking systems balance to the cash balances on deposit in banking institutions.
2. The Comptroller General has statutory responsibility to ensure that the accounting records reflect the cash balances reported by the State Treasurer.
3. The finding confuses these roles since the State Treasurer's Office does not have the statutory or regulatory authority to change the accounting system or accounting procedures.
4. The State Treasurer is committed to the reporting integrity of the finances of the State and will assist in reconciling differences when it receives timely notice.
5. Such timely notice was not received until the draft recommendation report was received on April 4, 2014 despite the fact that the weakness had been identified as early as February of 2014.
6. The CAFR was published under the Comptroller General's direction without communication with the STO or resolution of whatever differences underlie the deficiency; accordingly, the finding is likely immaterial untimely and improper.

Please feel free to contact me should you have any questions regarding this matter.

Sincerely,

A handwritten signature in black ink that reads "Dinah M. Raven".

Dinah M. Raven
Deputy State Treasurer



THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

April 15, 2014

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

Dear Mr. Gilbert:

The following is management's response to the internal control recommendation 2013-003 financial reporting – reporting of tuition prepayment accounts payable – State Treasurer's Office.

For the fiscal year ended June 30, 2013, the accounts receivable closing package was sent timely on August 15, 2013 to the CG with the supporting core balance sheet data on both the accounts receivable and the accounts payable data attached to that closing package. The accounts payable cover report closing package was inadvertently not included.

The STO notes that the TPP closing package is not a part of the master closing package checklist maintained by the CG. The STO did not receive timely notice on the omission referenced in the finding nor was the STO contacted by the CG notifying that the closing package had not been received. The STO will work with the CG to promote reporting integrity and is putting extra controls in place to ensure that both closing packages are submitted timely in future years.

Please feel free to contact me should you have any questions regarding this matter.

Sincerely,

A handwritten signature in black ink that reads "Dinah M. Raven".

Dinah M. Raven
Deputy State Treasurer



South Carolina Department of Public Safety

April 11, 2014

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:

Financial Reporting- Reporting of Grant Receivables and Deferred Grant Revenue

This finding pertains to revenues posted to the SCEIS fund for subgrants to other state agencies. Per reporting package instructions, subgrants to other state agencies are not included. This causes any deferred revenues in this fund at year end to not be reported. SCDPS has been recording grant revenues and expenditures consistently according to our understanding of proper procedures. We will research this issue in an effort to clarify revenue posting procedures for this particular fund, and make necessary adjustments to ensure proper reporting in the future.

Sincerely,

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

DSS

Serving Children and Families

LILLIAN B. KOLLER, J.D.
STATE DIRECTOR

NIKKI R. HALEY
GOVERNOR

April 10, 2014

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

Dear Mr. Gilbert:

We wish to have the following responses and comments regarding the matters discussed in the draft 2013 Comprehensive Annual Financial Report -- Internal Controls, included in your final report.

Financial Reporting – Reporting of Loss Liabilities and Corresponding Reimbursement from a Third Party

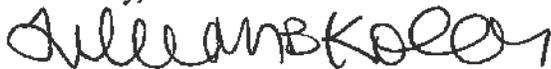
The Department had an agreement in place with a third party that provided payment of penalties due to delays in its Child Support System development. Lack of submission of the related loss liabilities closing package was due to a misunderstanding of the reporting requirements based on that contractual agreement. The penalty payments were submitted directly to US Department of Health and Human Services Administration for Children and Families by the contractor, thus no receivable was recorded in the agency records. However, a copy of each payment and supporting documentation was received by applicable agency staff to document that such payments had occurred. Through discussions with the Comptroller General's Office (CG), we have been apprised that even though a contractual agreement existed for these payments, there is still a potential financial risk to the agency, therefore the agency retains the liability. The CG received full compliance from DSS; an amended reporting package was submitted on October 24, 2013.

Financial Reporting – Reporting of Refunds and Rebates Receivable

Procedures have been implemented to ensure that CAFR requirements for Current Net Refund Receivables/Non-Current Net Refund Receivables are being properly applied. An amended closing package was sent to the CG on November 15, 2013.

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

Sincerely,



Lillian B. Koller, J.D.
State Director

LBK: br

April 10, 2014

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

Dear Mr. Gilbert:

We have reviewed the material weakness for the Fiscal Year 2013 SC Comprehensive Annual Financial Report for the South Carolina Department of Health & Human Services (DHHS), and offer the following response for your consideration.

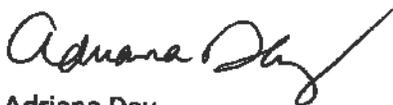
FINANCIAL REPORTING – REPORTING of REFUNDS AND REBATES RECEIVABLE

Recommendation: We recommend that additional procedures and controls be developed and implemented by the agencies to ensure that the refunds and rebates receivable provided in reporting packages are reported accurately in accordance with Section 1.7 of the procedure's manual referenced above.

Response: SCDHHS concurs with the recommendation and will implement enhancements to procedures and controls to ensure rebate receivables are reported accurately. Rebate Billing estimates related to any period of a prior year, regardless of when it was invoiced will be included in the year-end receivable amounts.

Should you have any questions, please contact Adriana Day at 803-898-0336.

Sincerely,



Adriana Day,
Deputy Director for Finance and Administration and CFO

8 copies of this document were published at an estimated printing cost of \$1.78 each, and a total printing cost of \$14.24. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.