STATE OF SOUTH CAROLINA

INDEPENDENT AUDITORS’ REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

JUNE 30, 2003
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
BASIC FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have jointly audited the basic financial statements of the State of South Carolina as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003. We did not jointly audit the financial statements of certain component units and agencies of the State of South Carolina, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors, including KPMG LLP acting separately, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and agencies, is based solely on the reports of the other auditors.

<table>
<thead>
<tr>
<th></th>
<th>Percentage not jointly audited</th>
<th>Percentage audited by KPMG separately</th>
<th>Percentage audited by other auditors</th>
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<tr>
<td></td>
<td>Total</td>
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<tr>
<td></td>
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<td>Revenue</td>
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<td>Local Government Infrastructure</td>
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<td>Special Revenue Fund</td>
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<td>Education Assistance Authority</td>
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<tr>
<td>Other remaining fund information</td>
<td>94</td>
<td>88</td>
<td>10</td>
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</table>
The Honorable Mark Sanford, Governor
and
Members of the General Assembly
State of South Carolina

We conducted our audit in accordance with auditing standards generally accepted in the
United States of America and the standards applicable to financial audits contained in
Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of South Carolina’s
basic financial statements are free of material misstatement, we performed tests of its
compliance with certain provisions of laws, regulations, contracts, and grants, 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 an instance of noncompliance that is required to be reported under
Government Auditing Standards and which is described in finding 03-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of South Carolina’s
internal control over financial reporting in order to determine our auditing procedures for the
purpose of expressing our opinion on the financial statements and not to provide assurance on
the internal control over financial reporting. Our consideration of the internal control over
financial reporting would not necessarily disclose all matters in the internal control that might
be material weaknesses. A material weakness is a condition in which the design or operation
of one or more of the internal control components does not reduce to a relatively low level the
risk that misstatements in amounts that would be material in relation to the financial statements
being audited may occur and not be detected within a timely period by employees in the
normal course of performing their assigned functions. We noted no matters involving internal
control over financial reporting and its operation that we consider to be material weaknesses.

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

Columbia, South Carolina
December 19, 2003

KPMG LLP

Greenville, South Carolina
December 19, 2003
COMPLIANCE WITH LAWS AND REGULATIONS
03-1 Financial Reporting

Employment Security Commission

The Comptroller General’s Policies and Procedures Manual (STARS Manual) section 2.1.7.20 states that agencies with federal subfunds are required to perform monthly reconciliations between the State’s Comptroller General (CG) CSA 467CM report (Trial Balance by Subfund, Project and GLA) and the agency’s records for each project and phase code. The Employment Security Commission (ESC) did not perform monthly reconciliations for fiscal year 2003 as required. As a result, there is no process in place to detect and identify variances between ESC’s recorded amounts and the CG’s accounting records. A similar comment was included in our three prior reports.

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

See agency response at page 5.
SUMMARY OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings in the prior report on compliance and on internal control over financial reporting at the financial statement level, dated February 21, 2003 to determine if the conditions still existed. Based on our audit procedures we determined that adequate corrective action had been taken on each of the findings except for the Financial Reporting deficiency at the Employment Security Commission which we have repeated in finding 03-1 of this report.
MANAGEMENT’S RESPONSE
Mr. Thomas L. Wagner, Jr.
State Auditor
State Auditor's Office
1401 Main Street, Suite 1200
Columbia, South Carolina 29211

January 6, 2004

Dear Mr. Wagner:

As requested, the following is the response regarding the State of South Carolina's statewide joint audit of the general purpose financial statements, relating to the Fiscal Year 2002-2003 financial packages submitted by the Commission.

Reconciliation related finding: We concur with the recommendation for monthly reconciliation of Agency accounting records with the State's Comptroller General CSA467 CM Report.

The South Carolina Employment Security Commission's current procedures require that we reconcile the input of revenue and expenditures in STARS and the Agency accounting system (FARS) monthly. The South Carolina Employment Security Commission has also completed the reconciliation of receipts monthly, as required by STARS 2.1.7.20. This section also requires expenditures and cash balances be reconciled each month. We are reconciling to the 404 and 406 report each month, however due to the required federal program allocation in our FARS system, we have been unable to reconcile to the STARS 467 expenditures and cash balances. We are in the process of completing this reconciliation and plan to have it implemented by the year ending June 30, 2004. In addition, all Agency reconciliation procedures require that the preparer, as well as the reviewer, sign and date.

If there are any questions, or if additional information is needed, please contact me at (803) 737-2560 or e-mail bmartin@sces.org.

Sincerely,

Billy R. Martin
Assistant Finance Director

BRM:sc

The mission of the Department of Finance is to have professional accountants providing professional accounting through the sound fiscal management of the Agency's resources.
36 copies of this document were published at an estimated printing cost of $1.29 each, and a total printing cost of $46.44. The FY 2003-04 Appropriation Act requires that this information on printing costs be added to the document.