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, 2008
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Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable Mark Sanford, Governor

and

Members of the General Assembly

State of South Carolina

Columbia, South Carolina

We have jointly audited the accompanying 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, 2008, which collectively comprise the State’s basic financial statements and have issued our report thereon dated November 12, 2008. We did not jointly audit the financial statements of certain agencies and component units of the State of South Carolina, which represent the indicated percent of total assets and total revenues as presented in the table below. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it related to the amounts included for those agencies and component units, is based solely on the reports of the other auditors.

<table>
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<th>Percentage audited by other auditors</th>
<th>Total Assets</th>
<th>Total Revenue</th>
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<tbody>
<tr>
<td><strong>Government-wide</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental activities</td>
<td>61</td>
<td>18</td>
</tr>
<tr>
<td>Business-type activities</td>
<td>98</td>
<td>100</td>
</tr>
<tr>
<td>Component units</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Fund Statements</strong></td>
<td></td>
<td></td>
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<tr>
<td>Governmental Funds</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td>Enterprise Funds</td>
<td>98</td>
<td>100</td>
</tr>
<tr>
<td>Internal Service Funds</td>
<td>75</td>
<td>93</td>
</tr>
<tr>
<td>Fiduciary Funds</td>
<td>98</td>
<td>100</td>
</tr>
</tbody>
</table>
We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of South Carolina’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity’s internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiency 2008-01, as described in the accompanying schedule of findings and responses, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The State’s response to the finding identified in our audit is included in the accompanying schedule of finding and responses. We did not audit the State’s responses and, accordingly, we express no opinion on it.

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

Columbia, South Carolina
November 12, 2008

Clifton T. Anderson, LLP

Baltimore, Maryland
November 12, 2008
During the course of our audit, we noted several errors in the tax revenue closing package submitted by the Department of Revenue (DOR). The errors were related to the calculation of amounts reported on the taxes receivable summary form submitted as part of the closing package for individual income tax, corporate tax, sales tax, and other taxes. The tax revenue closing package is used by the Comptroller General’s Office to record taxes receivable to the State’s accounting system. Upon our notification of the errors, DOR submitted a revised closing package. The audit procedures applied to the revised closing package detected additional errors that required DOR to submit an amended revised closing package. The errors resulted in audit adjustments that, if not made, would have resulted in a material misstatement in the State’s financial statements. The revisions were required because DOR’s review procedures failed to identify and correct key calculation errors.

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

We recommend the Comptroller General’s Office and DOR establish additional procedures and controls to verify that the appropriate review of the closing package is conducted in accordance with policy outlined in Section 1.7 of the procedure’s manual referenced above.
MANAGEMENTS' RESPONSES
Memorandum

RE:  Internal Controls Report Management Response

Date:  December 17, 2008

From:  D. John Taylor, CPA, Chief Financial Officer

The Department of Revenue acknowledges the errors made on the Closing Package for FY07/08 and regrets that these errors occurred. Revisions to the closing package spreadsheets and additional reviews of the package by another accounting analyst prior to final review hopefully will prevent any errors of this nature in the future.

This past year’s closing package was unusual in that the methodology for the uncollectible allowance was changed. The errors that occurred were related to this change and the changes that were made to the supporting spreadsheets’ calculations. Historically, the Department has used a method of calculating the allowance for uncollectible accounts that was based on assumptions that all receivables over two years, and that a relationship existed between bankruptcy and nulla bona accounts to future uncollectible. With the implementation of the Department’s Data Warehouse, a detailed analysis of the payment history of all receivables was conducted and a detailed aging of accounts was done to compute the new receivables uncollectible rates. However, when these rates were used to break the accounts into the tax groupings for the closing packages, an error was made in which percentage to use for one tax area. Additionally, another error was made by not replacing a value in the spreadsheet that computed the current versus non-current calculation. When these errors were brought to the Department’s attention, the closing package was amended. However, in correcting these amounts, the accounting analyst that prepares the closing package overlooked an adjustment that was needed in another area due to these changes. This was brought to our attention by the auditor and the correct amounts were reported. At the meeting with the auditor we were assured that none of the errors were material.

Again, the agency regrets the errors and has put into place changes in both the supporting spreadsheets and the review process to ensure the amounts reported in the future will be correct. The Allowance methodology being used now is much more accurate than the previous method and the agency, now that the errors have been corrected, plans to use this new allowance method for future reporting periods.
December 18, 2008

Clifton Gunderson LLP
9515 Deereco Road
Timonium Corporate Center Suite 500
Timonium, Maryland 21093

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

We are providing this letter in response to the finding identified in the Independent
Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance with Government
Auditing Standards dated November 12, 2008.

We agree with the Department of Revenue’s response to its acknowledged errors
contained in the tax revenues closing package it submitted for the fiscal year ended June 30,
2008.

The Comptroller General’s Office will continue to require all agencies that submit closing
packages to follow the procedures stated in Section 1.7, Summary of Agency Responsibilities
on pages 21 through 24 of the GAAP Closing Package Procedures Manual. Agencies are
required to perform preparation and review procedures to ensure that accurate, complete, and
timely closing packages are submitted to our office for incorporation into the State’s CAFR.

Sincerely,

Richard Eckstrom
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