

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, 2010

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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 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, 2010, which collectively comprise the State’s basic financial statements and have issued our report thereon dated December 17, 2010. 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	-	-	67	18
Business-type activities	-	-	98	99
Component units	-	-	100	100
<u>Fund Statements</u>				
Governmental Funds	-	-	18	10
Enterprise Funds	-	-	98	100
Internal Service Funds	-	-	84	96
Fiduciary Funds	84	41	14	59

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 2010-1, 2010-2, 2010-3 and 2010-4 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 2010-5 and 2010-6 as described in the accompanying findings and responses to be significant deficiencies.

Compliance and Other Matters

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

The State's responses to the findings identified in our audit are included in the accompanying findings and 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 17, 2010



Baltimore, Maryland
December 17, 2010

MATERIAL WEAKNESSES

2010-01 FINANCIAL REPORTING – SOUTH CAROLINA ENTERPRISE INFORMATION SYSTEM

Condition

Control deficiencies, as described under the context section, were evident during the conversion process and subsequent operations of the South Carolina Enterprise Information System (SCEIS).

Context

The State continued the implementation of a new accounting system, SCEIS, during fiscal year 2010. We performed procedures at the Budget and Control Board, Department of Corrections, Department of Health and Human Services, Department of Revenue, and the Department of Social Services. Based on the tests performed we noted the following deficiencies during our testing with regards to the implementation and the operational use of the system at a State-Wide level.

Implementation

- Timely reconciliations were not performed between the ending balances on the agencies' legacy systems and the opening balances on SCEIS for the agencies' "go-live" date. As a result, a significant number of journal entries were necessary to correct errors from the system conversion.
- When reviewing the correcting journal entries, we noted that the SCEIS team posted several entries directly to the agencies' ledger. The entries did not provide documentation of a review and approval by a SCEIS supervisory staff or by an agency supervisory staff.

Operational Use

- Subsequent to the implementation of SCEIS, we noted several instances in which journal entries were required to be made to correct posting errors in SCEIS. The errors occurred because the agencies did not fully understand how to record transactions in SCEIS or processes were not established in SCEIS to record certain transactions. We noted that the SCEIS team posted journal entries directly into the agencies' ledger data. We found that the journal entries did not document a review and approval by SCEIS supervisory staff or by agency supervisory staff, increasing the chance that errors in these journal entries would go undetected.
- At several agencies we noted that agency staff responsible for preparing statewide closing packages were not well versed in SCEIS and could not generate reports to support the closing packages. As a result, the agencies in question did not effectively review the reported balances, or appropriately test the integrity of system reports they utilized for preparation of the closing packages.

Cause

During 2010, the State implemented a new, state-wide accounting system, SCEIS, as a replacement to legacy general ledger systems used by the agencies. The SCEIS team did not design and implement proper procedures and controls regarding the implementation and operational use of SCEIS. Additionally, agency-staff did not gain a sufficient understanding of the system from training provided by the SCEIS team regarding the implementation and operational use of SCEIS.

Effect

There was a lack of controls that would have assisted in the prevention and timely detection of errors.

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 additional procedures and controls be developed and implemented by the SCEIS team to ensure that the agencies' financial data reported to the Comptroller General's Office is accurate and complete. We also recommend that the SCEIS team develop and implement control procedures in conjunction with the agencies to ensure that all journal entries entered by the SCEIS team have a documented agency level review. Additionally, we recommend that the SCEIS team develop and implement control procedures in conjunction with the agencies to ensure that all agencies understand how to extract the financial data that they are reporting in their year-end closing packages, and are able to obtain and understand support necessary for balances reported to the Comptroller General's Office during the state-wide financial reporting process.

Response

See managements' response on page 14.

2010-02 FINANCIAL REPORTING – CAPITAL ASSETS

Condition

Internal controls over financial reporting were inadequate to detect an understatement of accumulated depreciation and depreciation expense for certain capital assets during fiscal year 2010 resulting in the need for a material adjustment.

Context

Twenty-four agencies elected to change the estimated useful lives of capital assets during fiscal year 2010. We noted that in cases where the previous useful life “expired-to-date” exceeded the new (shorter) useful life “expired-to-date” estimate that the SCEIS system did not calculate depreciation expense on the capital asset in fiscal year 2010.

Cause

During 2010, the State implemented a new, state-wide accounting system, SCEIS, as a replacement to legacy general ledger systems used by the agencies. The SCEIS team did not design and implement proper procedures and controls regarding the implementation and operational use of SCEIS, which resulted in misstatement caused by a significant change in the estimate related to capital asset useful lives.

Effect

The internal controls at SCEIS failed to detect and correct the SCEIS system reporting error during the asset system transfer, and a material adjustment was necessary as of June 30, 2010 to record the depreciation expense for the affected capital assets.

Criteria

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 the SCEIS team develop and implement procedures and controls to ensure that the reports used by the agencies to report capital assets and depreciation to the Comptroller General's Office during the State-wide financial reporting process are complete and accurate.

Response

See managements' response on page 15.

2010-03 FINANCIAL REPORTING – ACCOUNTS PAYABLE

Condition

Procedures and controls were inadequate to ensure proper cut-off of expenditures for financial reporting purposes.

Context

During our search for unrecorded liabilities, it was noted that several agencies failed to capture June 30, 2010 accounts payable amounts that should have been included in their closing packages. The agencies' internal controls failed to detect or prevent these errors as they were being entered into SCEIS. As a result the transactions were incorrectly recorded as a fiscal year 2011 expenditure.

Cause

The SCEIS system includes features that enables agencies to identify year-end accruals. It appears that either the SCEIS training did not fully explain this feature during training or agency personnel did not understand how to use this feature during the year-end close-out. Additionally, the SCEIS team did not design and implement proper procedures and controls regarding operational use of SCEIS, which led to a misstatement of a high volume of expenditure transactions, which related mostly to the American Recovery and Reinvestment Act that were recorded subsequent to June 30, 2010.

Effect

A material adjustment was necessary as of June 30, 2010 to correct the error, and properly capture the additional accounts payable and the related expenditures.

Criteria

Generally Accepted Accounting Practices (GAAP) require that transactions follow the principle of periodicity, which states that transactions must be recorded for the period in which they occur, and that the payable and expenditure transactions must be accounted for using proper period cutoff. SCEIS has the features to track all expenditures based on the fiscal year in which they relate. The SCEIS team did not design and implement proper procedures and controls regarding operational use of these features.

Recommendation

We have noted that SCEIS contains the features to code expenses/expenditures to the appropriate fiscal year, thus providing a complete listing of accounts payable at year end for financial reporting purposes. We recommend that the SCEIS team develop and implement state-wide control procedures and policies to ensure that all agencies utilize the SCEIS fiscal-year coding functionality for expenses/expenditures, and to review the SCEIS data at year-end to ensure comparability with the accounts payable amounts reported to the Comptroller General's Office for the State-wide financial reporting process.

Response

See managements' response on page 16.

2010-04 FINANCIAL REPORTING – DEPARTMENT OF EDUCATION

Condition

The Department of Education's (DOE) internal controls failed to detect a \$31.9 million error in the grants receivable amount reported in their fiscal year 2010 closing package.

Context

DOE incorrectly used a report from fiscal year 2008 to prepare their grants receivable closing package for fiscal year 2010.

Cause

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

Effect

A material adjustment was necessary as of June 30, 2010 to correct the 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 Closing Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office Closing Package forms that are accurate and prepared in accordance with instructions, complete, and timely." This requirement acts as a control over financial reporting for the State's financial statements.

Recommendation

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

Response

See managements' response on page 19.

SIGNIFICANT DEFICIENCIES

2010-05 FINANCIAL REPORTING – DEPARTMENT OF SOCIAL SERVICES

Condition

The Department of Social Services' (DSS) internal controls for the review and approval of the estimate of their allowance for uncollectible accounts failed to identify the use of an inappropriate estimate method resulting in a \$5.5 million error in the refunds receivable amount reported in the fiscal year 2010 closing package. The method used by DSS only considered the most favorable historical collection trends when estimating future collectability for current receivables.

Context

DSS calculated the estimate for their receivable closing package allowance for uncollectible accounts by analyzing historical collection trends for their receivables. Receivables were broken into segments using their fiscal years of initial recognition. Historical collection trends were also broken into segments using the collection activity for each year subsequent to the initial recognition of a given population of receivables.

DSS estimated their allowance for uncollectible accounts using the highest historical collection trend percentage noted for all years subsequent to the initial recognition of a given segment of receivables and using that percentage to calculate the expected collections for that segment of receivables for all future years before the remaining receivables would otherwise be written off under current DSS policy.

Cause

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

Effect

This methodology assumes a "best-case" scenario for all future collections by assuming that collections for subsequent future years would be comparable to the highest historical collection percentage, resulting in an understatement of the estimate for the allowance for uncollectible accounts receivable due to the balance being based on the least conservative historical data, and by contrast, the net accounts receivable being overstated on the fiscal year 2010 closing package.

Criteria

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

Recommendation

The improper methodology used in estimating the allowance for uncollectible accounts was developed by the agency, in response to a significant deficiency in internal control, noted in the 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 for the year ended June 30, 2009, as noted at 2009-02. While the methodology was changed in response to the prior year's recommendation, the methodology used in for the current fiscal year estimate did not meet the necessary requirements to be in accordance with GAAP. We recommend that DSS use an estimate methodology that utilizes historical trend data for their entire receivable balance, rather than focusing on those receivables that had the highest collection rates. In addition, we recommend DSS management perform a detailed review of the year end receivable closing package, and ensure that Department staff preparing and reviewing the closing package have adequate knowledge and training to ensure the allowance estimate conforms with GAAP.

Response

See managements' response on page 20.

2010-06 FINANCIAL REPORTING – STATE TREASURER'S OFFICE

Condition

The State Treasurer's Office's (STO) internal controls failed to detect or prevent errors reported in its accounts payable closing package for fiscal year 2010. The error resulted in a \$20.9 million understatement.

Context

STO's internal controls failed to detect or prevent the error during the preparation and review of their closing package submission.

Cause

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

Effect

An adjustment was necessary to correct the 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 Closing Package Procedures Manual states, "Each agency executive director and finance director are responsible for submitting to the Comptroller General's Office Closing Package forms that are accurate and prepared in accordance with instructions, complete, and timely." This requirement acts as a control over financial reporting for the State's financial statements.

Recommendation

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

Response

See managements' response on page 21.

SUMMARY OF PRIOR FINDINGS

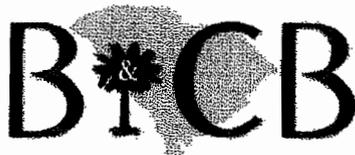
During the current engagement, we reviewed the status of corrective action taken on the findings in the prior report on compliance and internal control over financial reporting at the basic financial statement level, dated December 4, 2009 to determine if the conditions still existed. Based on our audit procedures, we determined that the State had not taken appropriate corrective action on the comment 2009-02 Financial Reporting – Department of Social Services. While action was taken by the Department of Social Services during fiscal year 2010 to address the finding, the action taken was not adequate to prevent an audit adjustment to the fiscal year 2010 refunds receivable closing package. Therefore, it has been included in the 2010 report as a significant deficiency at 2010-5 Financial Reporting – Department of Social Services. Based on our audit procedures, we determined that the State had taken adequate corrective action on the comments 2009-1 Financial Reporting – Department of Health and Human Services and 2009-3 Financial Reporting – Parole Probation and Pardon Services.

MANAGEMENTS' RESPONSES

NIKKI R. HALEY, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

Office of the Executive Director
Eleanor Kitzman
EXECUTIVE DIRECTOR

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HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE
COMMITTEE

DANIEL T. COOPER
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

March 28, 2011

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

Dear Rich:

Attached please find the Budget and Control Board's response concerning the findings outlined in the 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*.

Thank you for the opportunity to respond.

Sincerely,

Eleanor Kitzman

Attachments

2010-01 FINANCIAL REPORTING – SOUTH CAROLINA ENTERPRISE INFORMATION SYSTEM

Implementation:

- Effective July 1, 2009, SCEIS became the State's Book of Record (BOR) and SCEIS and STARS were reconciled by the SCEIS team. From that point forward, all transactions posted first to SCEIS (at a STARS level) and then to STARS. At the time of go-live, agencies were instructed to reconcile their legacy systems to STARS in order to load beginning balances into SCEIS. The SCEIS team had no access to agency legacy systems, and it was the responsibility of the agencies to ensure beginning balances loaded into SCEIS were reconciled to STARS.

Agencies were given the opportunity to submit entries to the SCEIS team to move balances (Budget, Revenue and Expenses) that were posted into SCEIS at the STARS level down to more detailed accounts per the agency requirements. They also submitted entries to load balances that did not exist in the STARS cash basis system (accounts receivable, off STARS cash, etc.). As part of the conversion process, the SCEIS team posted these entries through conversion interfaces. To avoid reconciling differences between SCEIS and STARS, agencies were instructed to ensure that these transactions did not cross funds or state funded programs. However, these pushdown entries contained many errors, which ultimately resulted in additional correcting journal entries. Because the SCEIS team's visibility into the source data used by agencies was limited to the data maintained at a statewide level, the SCEIS team was unable to reconcile back to the agencies' data and had to rely on the submitting agencies. Some of these errors resulted in reconciling issues between SCEIS and STARS. The errors were uncovered by the SCEIS team during the year end reconciliation process. This issue is a conversion issue and, therefore, will not be a problem going forward.

- In order to assist agencies promptly and to meet reconciliation deadlines, the SCEIS team posted entries directly to the agencies' ledger and did not to provide documentation of review by agency supervisory personnel at all times. As of July 10, 2010, the SCEIS finance team was instructed in writing that whenever possible, agencies are to prepare and post entries for their business areas. If the agency cannot post the entry, the SCEIS finance team will post entries but only upon written request and approval from the agency supervisory staff. A copy of this written approval, along with any other supporting documentation or notes, is then attached to the entry in the SCEIS system.

Operational Use:

- Entries were made by the SCEIS team after go-live dates to ensure that the operations of State government were not interrupted. These entries often had to be posted outside the normal work hours of agency finance staff and did not always include approval documentation. In addition, there were certain situations that required the SCEIS team to post transactions because they could not be completed by agency personnel. We are beginning to transition all such activity to the appropriate agency or central government authority. A sheet identifying the transactions and their transition status is attached. Until this transition is complete, all transactions posted by the SCEIS team will require agency and/or central government approval prior to posting.

- SCEIS offered both on-line training and classroom training to agency employees. Approximately 9,000 people participated in on-line training and 4,000 attended the classroom training. SCEIS also offered year-end reporting training to all agencies. Over 500 agency employees attended the year-end training. More than 2,000 hours of classroom training has been offered to state agencies to assist them with SCEIS operations. In addition, agency employees were matched to training based on their SCEIS user roles. Some agency employees did not attend training. In those cases, the agency directors had to sign documents granting those employees access to the system in the absence of their required training.

The SCEIS Team has offered refresher classes and allowed agencies who had previously implemented SCEIS to participate in classes being offered in preparation for other agencies' implementations. The training materials are all available on the SCEIS website. We will continue to offer training as the need arises and when significant changes have occurred.

Recommendation:

- The SCEIS team is responsible for the maintenance and operations of the SCEIS system. In its role, the SCEIS team cannot independently develop and implement controls and procedures to ensure that agencies' data reported to the Comptroller General's Office is accurate and complete. The SCEIS team will work with the Comptroller General and state agencies to identify the necessary controls and procedures and document each entity's responsibility in the development and implementation of those controls and procedures.
- The SCEIS team has implemented procedures that require agency or central state government review and approval of journal entries before they are posted.
- The SCEIS team will work directly with the Comptroller General to provide additional year-end agency training regarding the extraction of SCEIS data necessary to complete year-end closing packages.

2010-02 FINANCIAL REPORTING - CAPITAL ASSETS

Recommendation:

Prior to SCEIS go-live, agencies were provided an Asset Master Conversion Guide and template to load their fixed assets into SCEIS. "Original Useful Life in Years" was one of the fields included in the template. Agencies were instructed to enter the capital asset information from their legacy systems to include the useful life of those assets. There is a default useful life for each asset class. The error occurred because agencies did not properly complete the asset conversion template. Failure to enter the useful life resulted in the default values being invoked. Using the default values caused significant changes in the estimates related to capital asset useful lives. The SCEIS team had limited access to the agencies' legacy data, requiring individual agencies to verify the accuracy of the information provided. The SCEIS team did ensure that the fiscal year beginning balances were reconciled to prior year ending balances reported on agencies' closing packages.

These errors were related to conversion issues and will not be repeated in agencies that have implemented SCEIS. The SCEIS team has developed a new depreciation configuration to avoid this error for agencies that have not implemented SCEIS. In addition, the team is also working directly with the remaining agencies to assist them with validating their asset data prior to loading it into SCEIS.

2010-03 FINANCIAL REPORTING ACCOUNTS PAYABLE

The SCEIS team is responsible for the maintenance and operations of the SCEIS system. In its role, the SCEIS team cannot independently develop and implement controls and procedures to ensure that agencies' data reported to the Comptroller General's Office is accurate and complete. The SCEIS team will work with the Comptroller General and state agencies to identify the necessary controls and procedures and document each entity's responsibility in the development and implementation of those controls and procedures.

The SCEIS system has a transaction to capture all prior year expenditures by providing a selection, "Prior Year Payable," in a drop down box in the text field of the invoice screen. A report is also available to pull all prior year payables used in developing the accounts payable closing packages. This process was explained to agencies in the "year-end" training. There is functionality in SCEIS to be implemented in the future that will help identify unpaid goods receipts for Purchase Order related payments that represent accounts payable at year end. There is no standard functionality to identify accounts payable at year end for payments that are not Purchase Order related.

The SCEIS team and Comptroller General's Office will again conduct a year-end workshop for FY2010-2011 to ensure agencies understand how to gather data in SCEIS necessary to complete year-end closing packages. Closing packages prepared by the agencies are submitted directly to the Comptroller General's Office. It is the agencies' responsibility to ensure their accuracy. The SCEIS team will develop and implement reports that will provide the Comptroller General with data to validate agencies closing package data as appropriate.

**TRANSACTIONS BEING INPUT ON BEHALF OF AGENCIES
AS OF MARCH 2011**

FI Staff Person	FI Area	Transaction	Purpose of the transaction	Frequency	Agency Review/Approval Process	What is needed to turn this over to agency personnel?
Doug Cooper/ Sherry Ervin	Budgets	FB50	Record State Funds Cash Entries for adjustments to state appropriations for an agency (budget reductions, record supplemental appropriations, increase/decrease to total state funds for an agency)	As needed - when adjustments to an agencies state appropriation budget is required.	Cash reconciliations between SCEIS and STARS done in cooperation with the Comptroller General Office identify the need for these.	In the process of transitioning this to the CGO. Because the transactions are already posted in STARS, these transactions must post in SCEIS only. Agencies have no ability to post in SCEIS only.
Doug Cooper/ Treasury Team	Treasury	FB50	Post the BAI2 files for Electronic Bank Statement and clearing errors from posting the BAI file.	Daily	This is done in support of the State Treasurer's Office Bank Reconciliation.	These activities will be transferred to the STO Accounting team as we transition contingent checks to SCEIS.
Kay Riley/ Scott Dharte	AR	Z9	To post the refund of expenditure against the budget after receipt of the refund.	Currently: Twice monthly - However, please note, when activity is low or other process interfered, it has been less often than twice monthly.	Up through March 4, 2011, a spreadsheet and an e-mail was sent to the agencies that identified the JE's that were created, the JE # references individual billing/receipt documents for them to verify, and a detailed explanation of the reason for the JE which referenced the instructions we sent out in June 2010.	Effective March 7, 2011, this same process will remain in effect; however, approval will be requested from the agency prior to the JE into SCEIS. New system development will have to be done to change how refunds of expenditures post against the budget before this could be rolled out to the agencies. Based on the current system configuration, this must be a centralized function. However, it may transitioned to the CGO. We can look into preparing a JE file to send to the affected agencies for their review and upload; however, if a transfer is being posted to a budget line that is already negative, agencies cannot currently post in these situations, even if the transaction will increase the budget.
Scott Dharte	Conversion	FB50	Post beginning balances at the time of go-live.	At Go-Live	Agency provides a file that we enter into SCEIS.	Centralized function for conversion purposes.
Karant Mular/ Shirley Coyner	Projects	CJ88, CJBG, AS11_FMIM	Capitalization of WBS/Projects	Periodic for CIP and on demand for Final Assets	The agency is aware that the CIP settlement takes place at the end of every month.	These transactions are part of the month-end closing process that is being transitioned to the CGO.
Shirley Coyner/ Lacie Mabe	Assets	ABZON	Reclass expenditure	June 30 to assist agencies	Upon agency request and approval	The agency can now create the ABZON transaction in current year.
Shirley Coyner/ Jennifer Broughton	Travel Advance	FB60 Doc Type ZG	Post a travel advance credit memo and F-52 to clear the vendor side	Only required on travel advances where the employee owes money back to the agency	Agency request because they create the journal entry, but do not have access to the F-52 transactions to correct the vendor account. After entry, we notify the agency, so they can complete the F-04. (deposit)	The F-52 transaction should remain a centralized transaction as it is open to posting any debit or credit into the system. Because this involves settlement of travel advances the function will either be transitioned as is to the CG or require system modification to provide agencies capability to complete the transaction.
Jennifer Broughton/ Shirley Coyner/ Lacie Mabe	Inventory	MIRO, F-44	To correct Inventory POs/Clear vendor items	As needed when requested by agencies	The MIRO transaction is used when Inventory items were processed incorrectly. This process corrects the inventory items to be posted correctly. The F-44 transaction is used to clear the vendor item when a rejection was not processed automatically. This activity is only done based on agency request/approval	The MIRO transaction needs to be a centralized transaction as it does not currently work with workflow, unless system development is done. Agencies can do the F-44 transactions, but these 2 transactions are being done at the same time to ensure the total completion of the action.
Jennifer Broughton/ Shirley Coyner/ Lacie Mabe	AP	MR8M	Reversing documents when necessary for correcting entry, agency has contacted us or we have discussed reason for entry. CGs office is now completing most all FBRAs and agencies are completing reversals.	As needed	This activity is performed based upon the agency requests and approval	This transaction is done centrally when the agency is trying to post a transaction where the budget is negative. Even if the transaction is adding budget, the error code will not allow the agency to process. We can explore the options of rolling this out to agencies.
Susanne Reich	Conversion correction	FB50	Correcting entry will require bypass or changes to routine process. Often requires temporary derivation/table changes and controls to limit posting	Rare	Proposed entry submitted &/or approved by agency and attached to SAP document as backup.	This should remain a centralized transaction as it involves knowledge and understanding of configuration and rules within the system to make a correction, when rules may have changed, and the impact on the transaction. Some occasions require after hour input so as to not disrupt normal operations.
Susanne Reich	Cross BA JE reversal	FB08 (Z7 doc type)	Not in agency role, by design since it affects more than one BA	Exception	NEW JE should be prepared. Only reversed when original entry approved by CG, but would not pass STARS edits.	This transaction should be a centralized function since it crosses business areas.
Connie Reyes Jasmina Chhabra Sherry Ervin	FM	OFDM2	Delete earmarked funds (funds reservations) due to invalid master data	As needed	Agency initiates email requesting this action to be performed	This needs to remain a centralized function as configuration authorization is required.
Sherry Ervin	FM	FMBB	Inter-agency budget transfers for agencies with multiple BAs (ex.: D170)	As needed	Agency files a help ticket	SCEIS is currently working on an enhancement to allow agencies in such scenarios to post their own budget transfers.

**TRANSACTIONS BEING INPUT ON BEHALF OF AGENCIES
AS OF MARCH 2011**

FI Staff Person	FI Area	Transaction	Purpose of the transaction	Frequency	Agency Review/Approval Process	What is needed to turn this over to agency personnel?
SCEIS FI Team	FI/FM	FV50/FV60	Delete parked documents due to AVC errors even though budget is being returned	As needed	Agency files a help ticket	This is a currently a central function as the system will not allow an agency to post any transaction when the budget is negative, even if the transaction is adding budget. We can explore other options.
Parker Boulware Latoria Williams Karen Rumfelt Evelyn Causey Jennifer Broughton Shirley Coyner	Recons	FBRA	To reverse clearing documents	As needed	This activity is done based on agency requests/approval or if it is a document that was not reversed automatically on the inbound interface.	CG's office is now completing most FBRA's and agencies are completing reversals (FB08). Some agencies are even doing the FBRA. STO can also perform FBRA transactions on deposits as needed.



STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

Mick Zais
Superintendent

1429 Senate Street
Columbia, South Carolina 29201

January 26, 2011

Sue Moss
Audit Manager, CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Ms. Moss:

The audit finding for the FY 2009-2010 Comprehensive Annual Financial Report for the South Carolina Department of Education has been reviewed. The following response is offered for consideration:

2010-04 Financial Reporting – Department of Education

Recommendation

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

Response

The SCDE agrees with the finding and will strengthen its internal control procedures to ensure that the supporting documentation used to complete the Grants Receivables Closing package reflects accurate data. To strengthen the internal control procedures, the SCDE will add a level of review to ensure that the figures have been verified. With this additional review, we will have the added assurance that all figures submitted on the grants receivable closing package have been verified and reconcile to the supporting documentation provided by the preparer of the package.

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

Sincerely,

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

A. Len Richardson, Director
Office of Finance

DSS

Serving Children and Families

LINDA S. MARTIN
ACTING STATE DIRECTOR

NIKKI HALEY
GOVERNOR

January 28, 2011

Ms. Sue Moss, Audit Manager
SC Office of the State Auditor
1401 Main Street
Suite 1200
Columbia, SC 29201

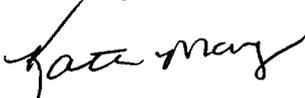
Dear Ms. Moss:

The following is the SC Department of Social Services (SCDSS's) response to Finding 2010-05 included in the State of South Carolina's Independent Auditor's Report on Internal Control Over Financial Reporting as of and for the fiscal year 2010:

The methodology used for calculating the Allowance for Uncollectible Accounts for fiscal year 2010 was based on using an Aging of Receivables type method, which when used correctly is considered to be in accordance with Generally Accepted Accounting Principles (GAAP). The Agency switched to this GAAP accepted Aging of Receivables methodology in part as a response to correct a prior year audit finding (2009-02). This methodology mentioned was used to calculate an estimate of what the Allowance for Uncollectible Accounts for fiscal year 2010 should be, but Financial Services originally decided to calculate it by using the highest collection percentages based on past historical data to estimate the future collectability for the current Accounts Receivables. This best case scenario was chosen, because at the time that the original closing package was submitted for fiscal year 2010, our Agency was in the process of negotiating with the SC Department of Revenue to use their GEAR Program to act similar to a collection agency for SCDSS in collecting past due Accounts Receivables. Hypothetically, we believed this would increase collection percentages on Accounts Receivable balances in the future. Also, based on ten years of historical data on past collection percentages, there appeared to be a general trend where it was taking our Agency a shorter period of time than in the past to reach the same collection percentages.

The management of Financial Services has already taken corrective action on this Finding 2010-05 by submitting a revised closing package to the Comptroller General for fiscal year 2010 that contains a revised estimate for the Allowance for Uncollectible Accounts. It is based on an Aging of Receivables methodology that uses the average collection percentages based on past historical data to estimate the future collectability for the current Accounts Receivables. Also, Financial Services instituted a policy that this will be the method the Agency will use to calculate the Allowance for Uncollectible Accounts in the future, and will ensure that the closing package including the section related to the Accounts Receivables and Allowance for Uncollectible Accounts is adequately reviewed and approved. Should you have any questions, please contact Scott Ludlam, Director of Financial Services at 898-3987.

Sincerely,



Katie C. Morgan
Chief of Staff

KCM/ch



THE HONORABLE CURTIS M. LOFTIS, JR.
State Treasurer

January 31, 2011

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

Mr. Gilbert:

We have reviewed the audit finding for the Fiscal Year 2009-2010 Comprehensive Annual Financial Report (CAFR) for the South Carolina Office of the State Treasurer (STO) and offer the following response for your audit finding.

Accounts Payable Closing Package:

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

Response: STO agrees with the finding. Our internal process and review only captured two of the three necessary items to be included in the package. We have worked to strengthen our internal control policies and procedures to ensure that all future Accounts Payables Closing Packages reflect accurate information.

I would like to thank you for your review and recommendation. The Office of the State Treasurer strives to ensure that all accounting information is reported in an accurate manner. If you have any questions or need additional information please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank A. Rainwater", is written over a horizontal line.

Frank A. Rainwater
Deputy State Treasurer

21 copies of this document were published at an estimated printing cost of \$1.81 each, and a total printing cost of \$38.01. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.