

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, 2019

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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 Henry D. McMaster, Governor
Members of the State Fiscal Accountability Authority
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, 2019, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated November 14, 2019. 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. The financial statements of the Connector 2000 Association, Inc., South Carolina Research Authority, InvestSC Inc. and South Carolina Medical Malpractice Liability Joint Underwriting Association, 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 Connector 2000 Association, Inc., South Carolina Research Authority, InvestSC Inc. and South Carolina Medical Malpractice Liability Joint Underwriting Association. Our report includes a reference to other auditors 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 deferred outflows and total revenues as described in our report on the State's financial statements and as presented in the following table. 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.

The Honorable Henry D. McMaster, Governor
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	<u>Percentage Audited by CliftonLarsonAllen LLP Separately</u>		<u>Percentage Audited by Other Auditors</u>	
	<u>Total Assets and Deferred Outflows of Resources</u>	<u>Total Revenue</u>	<u>Total Assets and Deferred Outflows of Resources</u>	<u>Total Revenue</u>
<u>Government-wide</u>				
Governmental activities	2%	11%	58%	10%
Business-type activities	-	-	84%	92%
Component units	-	-	100%	99%
<u>Fund Statements</u>				
Governmental Funds	-	-	20%	10%
Enterprise Funds	-	-	84%	92%
Internal Service Funds	38%	89%	52%	7%
Fiduciary Funds	75%	29%	24%	70%
Discretely Presented Component Units	-	-	100%	99%

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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying finding as item 2019-001 that we consider to be 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 Honorable Henry D. McMaster, Governor
Members of the State Fiscal Accountability Authority
and Members of the General Assembly
State of South Carolina

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 State'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 State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Columbia, South Carolina
November 14, 2019



Baltimore, Maryland
November 14, 2019

MATERIAL WEAKNESS

2019-001 MATERIAL WEAKNESS IN 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 misstatements during the preparation of the State’s Comprehensive Annual Financial Report (CAFR) and in the supporting accounting records, requiring the Comptroller General’s Office (CGO) to post adjustments to the State’s CAFR.

Context

The CGO is responsible for compilation of the CAFR from reporting packages and audited financial statements submitted from State agencies. There were several misstatements in the compilation of the CAFR which were not detected or corrected by the CGO supervisory staff during the review process and as a result, audit adjustments were recorded.

Cause

These errors were not detected during CGO supervisory staff review.

Effect

Amounts included in the financial statements were inaccurate and as a result material audit adjustments were required.

Criteria

Statements on Auditing Standards (AU-C 200.14) requires that Management acknowledge and understand that they have responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Recommendation

We recommend the CGO review its procedures over recording adjustments related to reporting packages and other audited financial statements for inclusion in the statewide CAFR and make changes to strengthen its review procedures.

Response

See management’s response on page 6.

MANAGEMENT'S RESPONSE



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Office of Comptroller General

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RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

WILLIAM E. GUNN
CHIEF OF STAFF

December 18, 2019

Mr. George L. Kennedy III, CPA
State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Kennedy:

Our Financial Reporting team normally consists of five people who from August through November each year concentrate on compiling the state's CAFR and providing accounting reports and audit documentation. Prior to the start of the FY 2019 CAFR audit, our team lost two of its highly experienced members who between them had over 23 years of combined Financial Reporting team experience. One of the two was hired from us by another state agency and the other one moved out-of-state with her husband when he received a job transfer with his employer.

Coupled with the substantial experience and impressive accounting skills that these two possessed, they also provided some supervision for the lesser experienced members of the Financial Reporting team. Because of the critical timing of their turnover and the necessity for us to promptly fill their vacated positions, we reassigned personnel in other areas of our agency to the Financial Reporting team. We reassigned them in spite of their limited experience and the increased supervision and review we realized it would require. While the remaining experienced members of the team provided as much supervision and review as time permitted, it would have been better had more been provided.

We are in the process of addressing the need to increase the experience level of our Financial Reporting team. Even in the best of times, finding suitable replacements for the two vacated positions would be challenging and progress would be slow because of the unique accounting skills necessary to effectively function in these positions, and the pool of qualified candidates is extremely limited. Yet we intend to be back to full staffing by the FY 2020 audit. Furthermore, we have strengthened our documentation and simplified our workpapers in the areas that experienced audit adjustments in FY 2019.

Sincerely,


Richard Eckstrom
Comptroller General