

**STATE OF SOUTH CAROLINA**

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

**JUNE 30, 2002**

## CONTENTS

### PAGE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1
<b>REPORTABLE CONDITIONS</b>	
02-1 Refund Receivables Department of Social Services	3
02-2 Financial Reporting Employment Security Commission	4
<b>SUMMARY OF PRIOR FINDINGS</b>	5
<b>MANAGEMENTS' RESPONSES</b>	6

State of South Carolina



Office of the State Auditor

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 financial statements of the State of South Carolina as of and for the year ended June 30, 2002, and have issued our report thereon dated February 21, 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.

	Percent not jointly audited		Percent audited by KPMG separately		Percent audited by other auditors	
	Total Assets	Total Revenue	Total Assets	Total Revenue	Total Assets	Total Revenue
<u>Government-wide</u>						
Governmental activities	67	8	1	1	66	7
Business-type activities	99	99	29	46	70	53
Discretely presented component units	100	100	-	-	100	100
<u>Fund statements</u>						
Local Government Infrastructure	100	100	-	-	100	100
Department of Transportation						
Special Revenue Fund	100	100	-	-	100	100
Higher Education	100	100	40	42	60	58
Unemployment Compensation	98	90	-	-	98	90
Housing Authority	100	100	-	-	100	100
Education Assistance Authority	100	100	-	-	100	100
Remaining fund information	94	86	7	59	87	27

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.

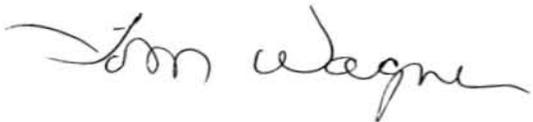
### Compliance

As part of obtaining reasonable assurance about whether the State of South Carolina's 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in findings 02-1 and 02-2.

### 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  
February 21, 2003



Greenville, South Carolina  
February 21, 2003

**REPORTABLE CONDITIONS**

## **02-1 Refund Receivables**

### **Department of Social Services**

We tested the fiscal year 2002 refund receivables closing package prepared by the Department of Social Services and noted the following:

1. The Department did not reconcile receivables reported in its general ledger (GAFRS) to the supporting client database (CHIPS). We noted that receivables reported in each system differed by \$2,918,458. An appropriate accounting system should produce amounts that are properly supported by subsidiary systems and underlying data. In our testwork, we determined that CHIPS produced an accurate receivable amount. Because the Department used CHIPS to prepare the closing package, gross receivables were properly reported.
2. The allowance for uncollectible refunds receivable was not determined using a sound methodology. The Department reported an allowance representing all receivables over three years old. Through our testwork, we determined that some of those receivables had collection activity. Further, we determined that a large number of accounts of less than three years were probably uncollectible because of a lack of collection activity.
3. The Department based its classification of current and non-current receivables on the probability of collection instead of the period of availability. Closing package instructions define current receivables as payments due the agency within the next fiscal year and non-current receivables as payments due the agency after the next fiscal year.

These errors occurred because the Agency's accounting department does not have control over the receivable and collection process and accounting personnel do not have an appropriate working knowledge of CHIPS. Responsibility for the receivable, payment plan, and collection of client payments resides with the Department's program staff. After discussing these issues with the accounting department staff, they submitted a revised closing package using a methodology that we determined to be reasonable.

We recommend that the Department assign responsibility for the receivables and subsequent collections to its accounting department and train its accounting staff in the use of CHIPS. This will enable the accounting department to exercise control over the information necessary for proper GAAP reporting. The accounting department should use GAFRS as its source for financial reporting. As such, refund receivables should be properly recorded in GAFRS and reconciled to the underlying data in CHIPS. Further, the accounting department should follow all closing package instructions and GAAP for reporting its refund receivables. The allowance for uncollectible receivables should be based on a sound methodology that is formally adopted in the Department's accounting procedures and consistently applied. The development of an accounts receivable aging report derived from client data in CHIPS would be helpful in preparing the closing package.

See agency response at page 7.

## **02-2 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. Through our discussion with Employment Security Commission (ESC) personnel, we determined that ESC did not perform monthly reconciliations for fiscal year 2002 as required. As a result, there is no process in place to detect and identify variances between ESC's books and the CG's accounting records. We noted no differences when we performed a reconciliation between the ESC's books and the CG's accounting records during the course of our audit. A similar comment was included in our two 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 8.

## **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 November 30, 2001 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 02-2 of this report.

**MANAGEMENTS' RESPONSES**

# DSS

## *Serving Children and Families*

KIM S. AYDLETTE, STATE DIRECTOR

April 8, 2003

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Wagner:

We have reviewed and are enclosing the response to your draft copy of the report resulting from your performance of GAAP procedures to the accounting records of our Department. With this enclosure, we are authorizing the release of this report, along with our response which is for the Fiscal Year ended June 30, 2002.

Sincerely,



Kim S. Aydlette

KSA/wmd  
Encs.

## **REFUND RECEIVABLES**

The Department agrees with the findings in the preparation of the agency's GAAP closing package for accounts receivables associated with the client database (CHIPS) and the agency's general ledger (GAFRS).

Those findings and corrective actions to be implemented are outlined below:

1. Reassign the CHIPS receivable and collection responsibilities from the agency's program division to its accounting division. Management agrees that these functions are more closely aligned and suited to the fiscal division, and steps will be taken to transfer the staff and responsibilities to the agency's Finance division. Additionally, proper training of affected staff will be provided, as well as the installation of policies and procedures of the process.
2. Develop sound methodology in preparing the GAAP accounts receivables closing package as it relates to allowance for uncollectible debt and classification between current and non-current. Management agrees that it should have sound bases in preparing the closing package. Initial requests to develop automated aging reports derived from CHIPS have been made. Until this occurs, thorough analyses will be made to ensure the closing package is presented properly.
3. Adopt formal policies and procedures for the accounts receivable and collection functions. Management agrees with the recommendation and will install and/or modify current establishment and collection policies for accounts receivables.
4. Follow all closing package instructions and GAAP for reporting its refund receivables. Management concurs, and will provide adequate training to all affected staff who prepare or assist in the preparation of the accounts receivable GAAP closing package.



www.sces.org

COMMISSIONERS  
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Post Office Box 995  
Columbia, South Carolina 29202

April 7, 2003

Mr. Thomas L. Wagner, Jr.  
State Auditor  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29211

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 2001-2002 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, 2003. 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](mailto:bmartin@sces.org).

Sincerely,

Billy R. Martin  
Assistant Finance Director

BRM:sc

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to a New Career!

*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.*

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