RICHARD H. GILBERT, JR., CPA

STATE OF SOUTH CAROLINA
OFFICE OF THE STATE AUDITOR
QUALITY REVIEW REPORT

YEAR ENDED JUNE 30, 2006

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Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
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We have reviewed the system of quality control for the accounting and auditing practice of The State of South Carolina Office of State Auditor (The Agency) in effect for the year ended June 30, 2006. A system of quality control encompasses the agency's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements of Quality Control Standards issued by the American Institute of CPAs (AICPA). The agency is responsible for designing a system of quality control and complying with it to provide the agency reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the agency's compliance with its system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During our review, we read required representations from the agency, interviewed agency personnel and obtained an understanding of the nature of the agency's accounting and auditing practice, and the design of the agency's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with the agency's system of quality control. The engagements selected represented a reasonable cross-section of the agency's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others engagements performed under the *Government Auditing Standards*. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with agency management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for the agency's accounting and auditing practice. In addition, we tested compliance with the agency's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the agency's policies and procedures on selected engagements. Our review was based on selected tests therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation

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of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of The State of South Carolina Office of State Auditor in effect for the year ended June 30, 2006, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the agency with reasonable assurance of conforming with professional standards.

As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report.

Elliott Davis, LLC

ELLIOTT DAVIS, LLC
October 4, 2006

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We have reviewed the accounting and auditing practice of The State of South Carolina Office of the State Auditor (The Agency) for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matter described below was not considered to be of sufficient significance to affect the opinion expressed in that report.

Comment — On several AUP engagements reviewed some findings were reported orally to management only and other fundings were included in the written report to all specified parties. Professional standards require that all findings be included in the report to specified parties.

Recommendation — The agency should hold training courses on proper reporting of AUP findings.

Elliott Davis, LLC

ELLIOTT DAVIS, LLC
October 4, 2006

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State of South Carolina

Office of the State Auditor

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October 11, 2006

Office of the State Auditor's Response
to Letter of Comments

This letter represents our response to the report and letter of comments issued in connection with the review of the South Carolina Office of the State Auditor's accounting and auditing practice for the year ended June 30, 2006. The matter discussed herein was brought to the attention of senior management and other key staff on October 5, 2006 and was subsequently communicated by senior management to their assigned staff. In addition, the matter discussed in this letter will be given special emphasis in our monitoring procedures.

Reporting AUP Findings — All professional personnel were reminded of the importance of reporting all AUP findings to all specified parties to the engagement. The State Audit managers have been instructed to place emphasis on this during the review process.

We believe these actions are responsive to the finding of the review.

Sincerely,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

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