

**Report on the Investigation of the
FY2022 Annual Comprehensive Financial Report Restatement**

Constitutional Subcommittee
of the Senate Finance Committee

Senator Lawrence K. “Larry” Grooms, *Chairman*

Senator J. Thomas McElveen, III

Senator Mike Fanning

Senator Stephen L. Goldfinch

Senator Tom Young, Jr.

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Subcommittee Report & Recommendations

The Constitutional Subcommittee of the Senate Finance Committee convened on four occasions to investigate the FY2022 Annual Comprehensive Financial Report (ACFR) \$3.5 billion restatement:^{1&2} February 9th, 2023, February 16th, 2023, February 23rd, 2023, and March 7th, 2023. The Subcommittee consists of Chairman Lawrence K. “Larry” Grooms, Senator J. Thomas McElveen, III, Senator Mike Fanning, Senator Stephen L. Goldfinch, and Senator Tom Young, Jr.

February 9th, 2023

Comptroller General Richard Eckstrom appeared before the Subcommittee to present Fiscal Year 2023-2024 budget requests for his office. After stating he had no requests, he notified the Subcommittee of the ACFR restatement. He stated that the ACFR overstated the amount of cash the State had in its General Fund for the past 10 years, attributing it to a “mapping error” in the State’s conversion to the South Carolina Enterprise Information System (SCEIS) beginning in 2007.³ However, subcommittee members found that his timeline of events leading to the restatement was unclear, and he could not adequately and succinctly explain exactly what happened. Therefore, the Subcommittee carried over his testimony.

February 16th, 2023

The Subcommittee called General Eckstrom back for questioning under oath. Members found that he was still incapable of coherently articulating the reason for the \$3.5 billion restatement, despite knowing the Subcommittee wanted a succinct explanation and having a week to prepare, and that he either would not, or categorically, could not answer very direct and specific questions. Only when he called for aid from his staff were questions more clearly answered.

General Eckstrom’s staff reported that the restatement stems from a mistake in how State agencies with Audited Financial Statements (AFS) were classified in SCEIS, causing the ACFR to omit transfers of funds out from these agencies. The reported restatement is a result of the Office of the Comptroller General’s failure to incorporate a recurring solution to a \$1.3 billion conversion adjustment⁴ that occurred in 2017 when SCEIS became fully implemented. The Office of the Comptroller General believed the error that required the 2017 adjustment had been corrected, but because of a lack of oversight, the overstatement of general funds grew to a purported \$3.5 billion in 2022.

February 23rd, 2023

The subcommittee heard from the Office of the State Treasurer (STO), the Department of Administration (DOA), the Office of the State Auditor (OSA), and CliftonLarsonAllen LLP

¹ The Annual Comprehensive Financial Report (ACFR) is a detailed and thorough report of the financial activity of the State using financial statements provided by State entities in compliance with Governmental Accounting Standards Board (GASB) principles. It is also used by credit rating agencies to judge the State’s financial health.

² A restatement is a revision of previous financial statements to correct an error.

³ In this case, a “mapping error” refers to how certain accounts were classified in the South Carolina Enterprise Information system in 2007 when the State was transitioning from the legacy information system, STARS. Each account had to be classified appropriately to correctly reflect financial activity in the ACFR.

⁴ Until 2017, the Office of the Comptroller General used STARS and SCEIS conjunctively to compile the ACFR. 2017 was the first year SCEIS was fully used, and as a result, entries were made into SCEIS to update the records.

(CLA), an independent accounting firm contracted by the State to aid in audits. Testimony under oath from Treasurer Curtis Loftis and DOA Director Marcia Adams confirmed that the preparation, compilation, completion, and accuracy of the State’s ACFR is solely the responsibility of the Comptroller General. Remi Omisore, Principal Auditor of CliftonLarsonAllen LLP testified under oath that a restatement in the amount of \$3.5 billion is uncommon, and likely connected to a staffing shortage in the Office of the Comptroller General. The State Auditor, George Kennedy, reported under oath that the internal controls in the Office of the Comptroller General were insufficient to detect errors. Both Mr. Kennedy and Mr. Omisore noted that weakness in internal controls was a recurring concern in their audits of the Office over the last 10 years. The State Auditor informed the Comptroller General of these concerns in 2012, 2013, 2014, 2015, 2016, 2017, 2019, 2020, 2021, and 2022.

March 7th, 2023

The Subcommittee requested that General Eckstrom appear before the subcommittee to respond under oath to the testimony provided on February 23rd. After having almost two weeks to prepare clear testimony and rebuttal, subcommittee members found that he continued to testify circuitously and avoided answering questions directly, continued to rely upon his staff for explanations, and deflected blame on to other offices and officers of the State. He testified that the OSA is responsible for both the accuracy of the ACFR and fund reconciliation, contrary not only to prior testimony from the STO, DOA, and OSA, but also to his own testimony on February 9th and 16th. He testified that he was “surprised” that the auditors felt his “internal controls were consistently weak,” despite being informed of those weaknesses over the vast majority of the last ten years in the form of Internal Controls Reports,⁵ which also contained his responses to those weaknesses. He later testified that the 2007 DOA “SCEIS team” was responsible for the original misclassification of AFS agencies, even though DOA Director Adams unequivocally testified that only General Eckstrom’s office had access to account classification. When asked if there were any other Offices of the State better suited to prepare the ACFR, and General Eckstrom responded no.

Among other notably troubling testimony was when General Eckstrom was directly asked whether he had hired a lawyer. He was evasive and explicitly denied having done so despite clear evidence in the possession of the Subcommittee. The Subcommittee read to General Eckstrom an email from an attorney dated that same day, notifying Senate staff that General Eckstrom had hired him. When given an opportunity to clarify, General Eckstrom insisted that the attorney was hired only for communication assistance.

March 9th, 2023

In a written response to General Eckstrom’s testimony from March 7th, State Auditor George Kennedy and Remi Omisore of CliftonLarsonAllen LLP stated that cash reconciliations are the duty of the CGO to provide a control in the compilation of the ACFR. They also noted that performing the duties of the Comptroller General would inhibit their capacity to be objective and

⁵ Each fiscal year, the State Auditor in conjunction with an independent auditing firm audits the ACFR and communicates any deficiencies in internal controls in the Reports. A deficiency is classified as either a “material weakness” or a “significant deficiency,” with the former being more severe.

independent in their audits. They also reported not having the system access necessary to perform cash reconciliations.

The auditors agreed in part that the CGO doesn't have a responsibility for reconciling cash. However, they stated that General Eckstrom could have specified the two types of cash reconciliations necessary for the successful compilation of the ACFR: reconciliation to the banks, and reconciliation to the ACFR itself. Reconciliations to the banks are managed by the STO, and reconciliations to the ACFR are managed by the CGO. However, a reconciliation to the ACFR is achieved through collaboration between the CGO and STO.

The State Auditor also supplied the Subcommittee with Internal Control Reports dating from 2012 to 2022. "Reconciliation of cash and cash equivalents" was noted as a "material weakness" in auditing the CGO in 2013, 2014, 2015, 2017, and 2022. In 2012 it was reported as a "significant deficiency." In auditing the STO, "reconciliation of cash and cash equivalents" was reported as a "material weakness" in 2013 and 2015, and as a "significant deficiency" in 2017. "Reconciliations of cash and cash equivalents" wasn't reported as a deficiency or a weakness in audits of the STO once SCEIS was fully implemented in 2017.

March 13th, 2023

The STO submitted a written response to General Eckstrom's testimony regarding reconciliations of cash on March 7th. The STO indicated that it is not aware of requests from the CGO to perform reconciliations differently. They also affirmed that "reconciliation of cash and cash equivalents" was reported as deficient by the SAO in 2013 and between 2015 and 2017, but that it was related to the legacy conversion from STARS to SCEIS and hasn't been featured in Internal Control Reports since then.

Information Requests

During the investigation, the Subcommittee sent letters to General Eckstrom requesting correspondence surrounding the \$3.5 billion restatement. The responses provided by General Eckstrom were either incomplete or not related to the request at all.

In response to the letter sent on February 17th, 2023, requesting correspondence related to the restatement itself, he replied by furnishing emails dated between October 2022 and January 2023. Based on prior testimony from General Eckstrom, it was the belief of the Subcommittee that there was additional correspondence prior to October 2022 and after January 2023. Subsequently, an additional letter was sent requesting correspondence before October 2022 and until February 2023 on February 24th. To date, General Eckstrom has not responded to that request.

On March 9th, the Subcommittee sent General Eckstrom a letter requesting all correspondence to the STO or any other agency showing that the CGO communicated its needs and expectations as to closing packages and reconciliations necessary to prepare an accurate ACFR. Further, the Subcommittee asked for any correspondence from the CGO to the STO indicating that the STO's reconciliation methods and packages were inadequate or insufficient for the CGO to successfully compile the ACFR. On March 13th, General Eckstrom responded that he was "unable to locate" any pertinent correspondence dating back ten years and the information he provided was unrelated to the Subcommittee's request.

Also in his March 13th response, the CGO provided a 2014 email between General Eckstrom and Mr. Rich Gilbert, the State’s Interim auditor at that time. In the email Mr. Gilbert cites proviso 96.2, in which the General Assembly directs the Comptroller General “as the State Accounting Officer, to maintain a Statewide Accounting and Reporting System that will result in proper authorization and control of agency expenditures... and in the preparation and issuance of the official financial reports for the State of South Carolina. [T]he Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with GAAP. The Comptroller General is also given full authority to conduct surveys, acquire consulting services, and implement new procedures required to implement fully changes required by GAAP”. This proviso has been in place since FY2004.

Recommendations

Given the findings of this investigation, the Subcommittee makes the following recommendations:

Whereas, the Comptroller General of the State is statutorily charged with implementing appropriate accounting procedures to consolidate accounts, in connection with lump sum agencies, as necessary for proper accounting and for financial reporting in accordance with Generally Accepted Accounting Principles;⁶ for establishing rules and regulations for the uniform reimbursement, remittance, and transfers of funds to the general fund of the State as required by law;⁷ and for the oversight, operation, and implementation of The South Carolina Enterprise Information System Oversight Committee;⁸ and,

Whereas, the Comptroller General provides a detailed report of the State’s spending in the Annual Comprehensive Financial Report, which is used by investors and rating agencies to judge the financial health of the State and is certified by the Comptroller General’s signature as true and accurate⁹; and,

Whereas, it is undisputed that Comptroller General Eckstrom, over the span of ten years, overstated the General Fund of this State by a purported three billion five hundred thirty million and no/100ths (\$3,530,000,000.00) dollars in previous Annual Comprehensive Financial Reports;¹⁰ and,

Whereas, in Note 15 of the FY2022 Annual Comprehensive Financial Report, released in December 2022, General Eckstrom provided a restatement explaining the three billion five hundred thirty million and no/100ths (\$3,530,000,000.00) dollars overstatement, describing it to

⁶ S. C. Code of Laws §11-3-175.

⁷ Ibid., §11-3-185.

⁸ Ibid., §11-53-10.

⁹ Gen. Richard Eckstrom, testimony, 9 Feb. 2023 & 16 Feb. 2023.

¹⁰ Gen. Richard Eckstrom, testimony, 9 Feb. 2023 & 16 Feb. 2023; Katherine Kip, testimony, 16 Feb. 2023; Treas. Curtis Loftis, testimony, 23 Feb. 2023; Dir. Marcia Adams, testimony 23 Feb 2023; George Kennedy, testimony, 23 Feb. 2023; Remi Omisore, testimony, 23 Feb. 2023.

be a result of a “mapping error,” having origins in the State’s conversion to the South Carolina Enterprise Information System¹¹; and,

Whereas, General Eckstrom addressed the restatement on January 17th, 2023, before the Constitutional Subcommittee of the House Ways & Means Committee; and,

Whereas, General Eckstrom addressed the restatement on February 9th, 2023, during a budget hearing of the Constitutional Subcommittee of the Senate Finance Committee testifying that he notified rating agencies of the overstatement;¹² that the rating agencies are only concerned with numbers “ten times bigger”;¹³ that he described the issue of the restatement as “troubling times,” but denied needing neither additional staff nor funding from the State when asked directly;¹⁴ and,

Whereas, on the same afternoon, Senate Finance Committee Chairman Harvey Peeler charged the Constitutional Subcommittee with investigating the restatement further; and,

Whereas, the Constitutional Subcommittee reconvened on February 16th, 2023, to again hear from General Eckstrom, whose sworn testimony that day was described by Subcommittee members as “confusing”, “obfuscated”, “bizarre”, “concealed”, “nonchalant”, “cavalier”, “evasive”, and “incoherent”;¹⁵ that subcommittee members found him incapable of answering any questions posited with confidence of certainty¹⁶; that General Eckstrom did not take responsibility for a decade long error wholly under his statutory purview;¹⁷ that at the request of the Subcommittee, General Eckstrom provided a timeline of events leading to the restatement which contradicted his verbal testimony that he “knew of a problem” Summer 2022;¹⁸ that General Eckstrom demonstrated conclusively he knew of the issue at least as early as October 2022, but did not inform appropriate State leaders until December 2022;¹⁹ that the Chairman of the Senate Finance Committee was not directly informed of the restatement prior to the February 9th budget hearing;²⁰ that the Subcommittee determined General Eckstrom to be “detached from the severity” of the restatement, and “deflecting blame” onto other offices and officers of the State²¹; and,

Whereas, on February 17th, 2023, the Subcommittee sent General Eckstrom a letter requesting correspondence related to the Fiscal Year 2022 Annual Comprehensive Financial Report and the three billion five hundred thirty million and no/100ths (\$3,530,000,000.00) dollars restatement²²;

¹¹ Pgs. 146-147, Note 15, State of South Carolina Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022.

¹² Gen. Richard Eckstrom, testimony, 9 Feb. 2023.

¹³ Ibid.

¹⁴ Gen. Richard Eckstrom, testimony, 9 Feb. 2023.

¹⁵ Ibid.

¹⁶ Comments from Finance Constitutional Subcommittee members, 20 Feb. 2023.

¹⁷ Gen. Richard Eckstrom, testimony, 16 Feb. 2023.

¹⁸ Office of the Comptroller General. “Timeline of Events Addressing ACFR Cash Restatement.” Provided to subcommittee 16 Feb. 2023; Gen. Richard Eckstrom, testimony, 16 Feb. 2023.

¹⁹ Office of the Comptroller General. “Timeline of Events Addressing ACFR Cash Restatement.” Provided to subcommittee 16 Feb. 2023

²⁰ Ibid.

²¹ Comments from Finance Constitutional Subcommittee Members, 20 Feb. 2023.

²² Sen. Larry Grooms, letter to Gen. Richard Eckstrom, 17 Feb. 2023. TS

that the Office of the Comptroller General replied to that request on February 17th, 2023, and furnished related emails dated between October 2022 and January 2023; and,

Whereas, in email correspondence submitted to the subcommittee, staff of the Office of the Comptroller General reported that deadlines to complete the Annual Comprehensive Financial Report impeded the capacity to properly perform an analysis of the document;²³ that there was confusion over the dollar amount to report in the restatement;²⁴ that there was a five hundred and five million and no/100ths dollars (\$505,000,000.00) “cash issue” for the South Carolina Department of Transportation, which was not mentioned in Note 15 of the Annual Comprehensive Financial Report, nor presented as testimony until March 7th;²⁵ that General Eckstrom referred to the restatement error as a “long standing riddle”;²⁶ that there was discussion between General Eckstrom and staff regarding disclosing the restatement to the Electronic Municipal Market Access division of the Municipal Securities Rulemaking Board;²⁷ and that Moody’s Analytics had serious questions and concerns related to the restatement, despite General Eckstrom’s testimony to the contrary.²⁸

Whereas, it was the belief of the Subcommittee based on testimony provided on February 9th, 2023, and February 16th, 2023, that there was correspondence in addition to what was provided by the Office of the Comptroller General on February 17th, 2023; that on February 24th, 2023, the Subcommittee sent a letter to General Eckstrom requesting further correspondence dated before October 2022 and until February 2023 correlating with the Fiscal Year 2022 Annual Comprehensive Financial Report and the three billion five hundred thirty million and no/100ths (\$3,530,000,000.00) dollars restatement,²⁹ and that General Eckstrom has yet as of the date of this report to respond to this request; and,

Whereas, the Constitutional Subcommittee reconvened on February 23rd, 2023, to hear testimony from the Office of the State Treasurer, the Department of Administration, the Office of the State Auditor, and CliftonLarsonAllen, LLP; and,

Whereas, on February 23rd, 2023, State Treasurer Curtis Loftis testified under oath that the preparation and responsibilities of the Annual Comprehensive Financial Report lies entirely within the Office of the Comptroller General; that the Office imposed tight, artificial deadlines in

²³ Starkey, Gunn, & Eckstrom, email correspondence. 10 Oct. 2022. Exhibit 12 of Comptroller General Correspondence Log; Starkey & Stigamier, email correspondence. 3 Nov. 2022. Exhibit 17 of Comptroller General Correspondence Log.

²⁴ Eckstrom, Kip, Starkey & Johnson, email correspondence. 27 Oct. 2022, 29 Oct. 2022, 31 Oct. 2022, 14 Nov. 2022, 15 Nov. 2022, 16 Nov. 2022. Exhibits 8, 11, 14, & 34 of Comptroller General Correspondence Log.

²⁵ Kip, Starkey, & Torbert, email correspondence. 25 Oct. 2022. Exhibit 25 of the Comptroller General Correspondence Log; Stigamier & Starkey, email correspondence. 3 Nov. 2022. Exhibit 17 of the Comptroller General Correspondence Log; Starkey & Eckstrom, email correspondence. 15 Dec. 2022. Exhibit 13 of the Comptroller General Correspondence Log.

²⁶ Eckstrom, Kip, Starkey, & Johnson, email correspondence. 27 Oct. 2022. Exhibit 11 of Comptroller General Correspondence Log.

²⁷ Eckstrom, Starkey, & Gunn, email correspondence. 17 Nov. 2022. Exhibit 3 of Comptroller General Correspondence Log.

²⁸ Eckstrom, Loftis, & Hampton, email correspondence. 12 Dec. 2022. Exhibit 6 & Exhibit 15 of Comptroller General Correspondence Log; Gen. Richard Eckstrom, testimony, 9 Feb. 2023; 16 Feb. 2023.

²⁹ Sen. Larry Grooms, letter to Gen. Richard Eckstrom, 24 Feb. 2023. TS.

compiling the report in pursuit of unjustified accolades from professional associations; that the Office of the State Treasurer provides to the Office of the Comptroller General information in the form of closing packages for report compilation, and that the Office of the Comptroller General is responsible for specifying what information it needs in those packages³⁰; and,

Whereas, on February 23rd, 2023, Director Marcia Adams of the Department of Administration testified under oath that the restatement error is a result of misclassifying Audited Financial Statement agencies within the South Carolina Enterprise Information System;³¹ that this misclassification caused an exclusion of these agencies' transactions in the Annual Comprehensive Financial Report;³² that the Office of the Comptroller General is responsible for the proper classification of agencies within the South Carolina Enterprise Information System;³³ that the Office of the Comptroller General notified the Department of Administration on December 5th, 2022, of the error, and further requested the formation of a multi-agency working group between the Office of the Comptroller General, the Office of the State Treasurer, and staff of the South Carolina Enterprise Information System; that on January 6th, 2023, the Office of the Comptroller General identified a solution to prevent future restatements, which included properly reclassifying accounts in the South Carolina Enterprise Information System, as well as performing routine cash reconciliations;³⁴ and,

Whereas, on February 23rd, 2023, State Auditor George Kennedy and Remi Omisore of CliftonLarsonAllen LLP testified under oath jointly, noting the disclosure of material weaknesses in their audits of the Office of the Comptroller General over the past ten years, citing weak internal controls as thematic³⁵; that, in their audits of the Office, the lack of an appropriately robust quality control process in Annual Comprehensive Financial Report compilation was repeatedly noted, and that the lack of quality assurances processes inhibits the ability of the Office to adequately review the document for accuracy and consistency³⁶; that there has been a recurring need to perform reconciliations of the State's pooled cash and investment so as to provide an appropriate control in supporting the allocation of cash and investments presented in the Annual Comprehensive Financial Report³⁷; and,

Whereas, on February 23rd, 2023, State Auditor George Kennedy also testified that had the Office of the Comptroller General regularly performed cash reconciliations, and had more staff members to ensure proper financial reporting, the error would have likely been prevented³⁸; and,

³⁰ Treas. Curtis Loftis, testimony, 23 Feb. 2023.

³¹ Dir. Marcia Adams, testimony, 23 Feb. 2023.

³² Ibid.

³³ Ibid.

³⁴ Dir. Marcia Adams, testimony, 23 Feb. 2023.

³⁵ George Kennedy, testimony, 23 Feb. 2023; Remi Omisore, testimony, 23 Feb. 2023.

³⁶ Pgs. 10-11, Office of the State Auditor with CliftonLarsonAllen. "Report to Governance on the Audit of the State of South Carolina: For the year ended June 30, 2022". Provided to SFAA 31 Jan. 2023. Provided to subcommittee 15 Feb. 2023.

³⁷ George Kennedy, testimony, 23 Feb. 2023; Remi Omisore, testimony, 23 Feb. 2023.

³⁸ Ibid.

Whereas, on March 7th, 2023, the Constitutional Subcommittee reconvened to provide General Eckstrom an opportunity to respond to testimony provided under oath from February 23rd, 2023; and,

Whereas, on March 7th, 2023, General Eckstrom’s testimony under oath was perceived as oblique by subcommittee members, and he continued to be incapable of answering questions directly;³⁹ that General Eckstrom testified that the Office of the State Auditor and CliftonLarsonAllen LLP shared responsibility for the Annual Comprehensive Financial Report, which contradicted prior testimony from the Office of the State Treasurer, the Department of Administration, the Office of the State Auditor, and CliftonLarsonAllen LLP, who all affirmed that the responsibility of the Annual Comprehensive Financial Report belongs exclusively to the Comptroller General;⁴⁰ that General Eckstrom continued to deny responsibility for the original account misclassifications in the South Carolina Enterprise Information System, which not only contradicts prior testimony heard from the State Treasurer’s Office and the Department of Administration, but also his agency’s website that affirms his responsibility as “chief fiscal watchdog” to “properly” classify accounts and their transactions;⁴¹ and,

Whereas, on March 7th, 2023, General Eckstrom testified under oath that he was “surprised” that the State Auditor testified that his office had “weak internal controls” over the course of ten years,⁴² when in fact he had been informed annually of those weaknesses in the form of “Independent Auditors’ Reports”,⁴³ and provided written responses acknowledging and addressing each of them to the Office of the State Auditor and CliftonLarsonAllen LLP;⁴⁴ that the Office of State Treasurer was responsible for reconciling funds to the Annual Comprehensive Financial Report even though the State Treasurer previously testified having neither the authority nor the ability to do so;⁴⁵ that General Eckstrom testified that he was responsible for subjecting his staff to strict deadlines, and speculated the error would have been intercepted sooner had he allotted them more time;⁴⁶ that General Eckstrom, only when asked directly by subcommittee members, testified that there was a separate error in reporting the amount of funds for the South Carolina Department of Transportation, and that this separate error “netted out” the restatement amount to three billion five hundred thirty million and no/100ths (\$3,530,000,000.00) dollars;⁴⁷

Whereas, the Subcommittee members described the testimony General Eckstrom provided under oath on March 7th, 2023, as “confusing”, “unreliable”, “inaccurate”, “deceptive”, and “opaque”;⁴⁸ that General Eckstrom admitted the restatement amount exceeded three billion five hundred thirty

³⁹ Gen. Richard Eckstrom, testimony, 7 Mar. 2023.

⁴⁰ Gen. Richard Eckstrom, testimony, 7 Mar. 2023. Treas. Curtis Loftis, Dir. Marcia Adams, George Kennedy & Remi Omisore, testimony, 23 Feb. 2023.

⁴¹ Gen. Richard Eckstrom, testimony, 7 Mar. 2023.; South Carolina Comptroller General. <https://cg.sc.gov>

⁴² Gen. Richard Eckstrom, testimony, 7 Mar. 2023.

⁴³ Office of the State Auditor with CliftonLarsonAllen. “Summary of Comments from Reports on Internal Control for Fiscal Years 2012 to 2022”. 27 Feb. 2023.

⁴⁴ Ibid.

⁴⁵ Gen. Richard Eckstrom, testimony, 7 Mar. 2023; Treas. Curtis Loftis, testimony, 23 Feb. 2023

⁴⁶ Gen. Richard Eckstrom, testimony, 7 Mar. 2023.

⁴⁷ Ibid.

⁴⁸ Comments from Finance Constitutional Subcommittee Members, 8 Mar. 2023.

million and no/100ths (\$3,530,000,000.00) dollars, inconsistent with not only the amount reported in the Fiscal Year 2022 Annual Comprehensive Financial Report, but also his own testimony on February 9th and February 16th;⁴⁹ that General Eckstrom absolutely denied having hired a lawyer, and when confronted with documentary proof of having done so, he testified under oath that it was for “communication” purposes only;⁵⁰ and,

Whereas, on March 9th, 2023, State Auditor George Kennedy provided the Subcommittee a written response to the testimony of General Eckstrom on March 7th, stating that cash reconciliations are the duty of the Office of the Comptroller General to provide a control in the compilation of the Annual Comprehensive Financial Report;⁵¹ that the duties General Eckstrom stated were the responsibilities of the Office of the State Auditor were instead the responsibilities of the Office of the Comptroller General;⁵² that performing the duties of the Office of the Comptroller General would inhibit the auditors’ capacity to be objective and independent in their audits;⁵³ that they do not have the system access necessary in the South Carolina Enterprise Information System;⁵⁴ and,

Whereas, State Auditor George Kennedy stated in his written response on March 9th, 2023, to the testimony General Eckstrom provided under oath on March 7th, 2023, that the Office of the State Treasurer manages cash reconciliations to the bank and the Office of the Comptroller General manages cash reconciliations to the Annual Comprehensive Financial Report itself;⁵⁵ that both types of reconciliations are necessary for the successful compilation of an accurate Annual Comprehensive Financial Report and that a full reconciliation is only achieved through collaboration between the Office of the Comptroller General and the Office of the State Treasurer;⁵⁶ and,

Whereas, on March 13th, 2023, the Office of the State Treasurer submitted a written response to the testimony General Eckstrom provided under oath on March 7th, 2023, indicating that the Office of the State Treasurer was not aware of any requests from the Office of the Comptroller General to perform reconciliations differently;⁵⁷ that reconciliations of cash and cash equivalents on behalf of the Office of the State Treasurer were found to be material weaknesses in 2013 and 2015, and as a significant deficiency in 2017, but that the material weaknesses and the significant deficiency was related to the transition from the legacy accounting system to the South Carolina Enterprise Information System, and was not found as a deficiency in audits after 2017 when the South Carolina Enterprise Information System was fully implemented;⁵⁸ and,

⁴⁹ Gen. Richard Eckstrom, testimony, 7 Mar. 2023.

⁵⁰ Ibid.

⁵¹ George Kennedy and CliftonLarsonAllen LLP – Baltimore. “Response of the Auditors to the testimony of the Comptroller General regarding the performance of cash reconciliations”, 9 Mar. 2023.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Ibid.

⁵⁷ State Treasurer’s Office. “Response to March 7th Testimony”, 13 Mar. 2023.

⁵⁸ State Treasurer’s Office. “Response to March 7th Testimony”, 13 Mar. 2023.

Whereas, on March 9th, 2023, in view of the testimony General Eckstrom provided the Subcommittee that the State Treasurer was responsible for reconciling funds to the Annual Comprehensive Financial Report, the Subcommittee sent a letter to General Eckstrom requesting that he supply correspondence with the Office of the State Treasurer or any other agency of the State delineating their needs and expectations concerning necessary closing packages and reconciliations to prepare an accurate Annual Comprehensive Financial Report;⁵⁹ that he also provide correspondence that communicated the manner in which the Office of the State Treasurer reconciled cash was insufficient or inadequate for the Office of the Comptroller General to successfully compile the Annual Comprehensive Financial Report;⁶⁰ and,

Whereas, on March 13th, 2023, General Eckstrom provided a written response to the March 9th request of the Subcommittee, stating that he was “unable to locate” any associated correspondence dating back ten years;⁶¹ that the Subcommittee found the information General Eckstrom provided was either unrelated to the actual request, or was information previously received in the form of testimony⁶²; and,

Whereas, General Eckstrom supplied the Subcommittee in his written response on March 13th, 2023, with an email from 2014 between himself and Mr. Rich Gilbert, South Carolina Interim State Auditor for that year;⁶³ and,

Whereas, in the 2014 email Mr. Gilbert cited proviso 96.2 of the Fiscal Year 2014 Appropriations Act, in which the General Assembly directs the Comptroller General “as the State Accounting Officer, to maintain a Statewide Accounting and Reporting System that will result in proper authorization and control of agency expenditures... and in the preparation and issuance of the official financial reports for the State of South Carolina”;⁶⁴ and,

Whereas, per Proviso 96.2 of the Fiscal Year 2014 Appropriations Act, “The Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with Generally Accepted Accounting Principles;⁶⁵ that “the Comptroller General is also given full authority to conduct surveys, acquire consulting services, and implement new procedures required to implement fully changes required by Generally Accepted Accounting Principles”;⁶⁶ and,

⁵⁹ Sen. Larry Grooms, letter to Gen. Richard Eckstrom, 9 Mar. 2023. TS.

⁶⁰ Ibid.

⁶¹ Gen. Richard Eckstrom, letter to Sen. Larry Grooms, 13 Mar. 2023. TS

⁶² Comments from Finance Constitutional Subcommittee Members, 14 Mar. 2023.

⁶³ Gilbert & Eckstrom, email correspondence. 11 Jun. 2014.

⁶⁴ Proviso 96.2 of FY14 Appropriations Act (House Bill 3710). Ratified 19 Jun. 2013.

⁶⁵ Ibid.

⁶⁶ Ibid.

Whereas, Proviso 96.2 has been placed in the Appropriations Act each fiscal year since 2014,⁶⁷ and can be found in the most recent Appropriations Act as Proviso 97.2.⁶⁸

Therefore, in view of the above, it is the collective opinion of the Subcommittee that:

1. Comptroller General Richard Eckstrom has repeatedly demonstrated his inability to perform statutory duties of the office to which he was elected;
2. That Comptroller General Richard Eckstrom should be relieved of his duties of his office;
3. That the General Assembly begin proceedings to remove Comptroller General Richard Eckstrom from office “for willful neglect of duty or other reasonable cause, which shall not be sufficient ground of impeachment” pursuant to Title XV Section 3 of the Constitution of the State of South Carolina;
4. That the responsibilities of the Office of the Comptroller General be transferred to other appropriate offices of the State;
5. That the Senate Finance Committee recommend which offices of the State receive those responsibilities;
6. That the General Assembly advance an amendment to the Constitution of the State of South Carolina, to remove the Comptroller General as an elected office.

⁶⁷ Proviso 96.2 of FY15 Appropriations Act (House Bill 4702); Proviso 97.2 of FY16 Appropriations Act (House Bill 3701); Proviso 97.2 of FY17 Appropriations Act (House Bill 5001) Proviso 97.2 of FY18 Appropriations Act (House Bill 5001); Proviso 97.2 of FY19 Appropriations Act (House Bill 4950); Proviso 97.2 of FY20 Appropriations Act (House Bill 4000); Proviso 97.2 of FY21 Appropriations Act (House Bill 5201); Proviso 97.2 of FY22 Appropriations Act (House Bill 4100).

⁶⁸ Proviso 97.2 of FY23 Appropriations Act (House Bill 5150).

Appendices

NOTE 15: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands):

	7/1/2021 Fund Equity as Previously Reported	Implementation of GASB 87	Error Correction	7/1/2021 Fund Equity as Restated
Primary Government				
Governmental Funds:				
General Fund	\$ 10,630,392	\$ —	\$ (3,529,832)	\$ 7,100,560
Departmental Program Services	430,303	—	—	430,303
Local Government Infrastructure	2,218,756	—	—	2,218,756
Department of Transportation Special Revenue	1,468,825	—	—	1,468,825
Other Nonmajor Governmental Funds	1,100,026	—	—	1,100,026
Total Governmental Funds	15,848,302	—	(3,529,832)	12,318,470
Internal Service Funds	890,312	—	—	890,312
Government-wide:				
Capital assets	19,233,103	(979)	—	19,232,124
Leased assets	—	116,253	—	116,253
Net deferred outflows and inflows	1,220,929	—	—	1,220,929
Long-term liabilities	(10,214,975)	(110,921)	—	(10,325,896)
Total Government-wide	10,239,057	4,353	—	10,243,410
Total Governmental Activities	26,977,671	4,353	(3,529,832)	23,452,192
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	1,286,665	—	—	1,286,665
Second Injury Fund	65,384	—	—	65,384
Other nonmajor enterprise funds	207,806	—	—	207,806
Total Business-type Activities - Enterprise Funds	1,559,855	—	—	1,559,855
Total Primary Government	\$ 28,537,526	\$ 4,353	\$ (3,529,832)	\$ 25,012,047
Fiduciary Funds				
Pension and Other Post-Employment Trust	41,622,719	—	—	41,622,719
Investment Trust Local Government				
Investment Pool	8,801,003	—	—	8,801,003
Private Purpose Trust	5,568,134	—	—	5,568,134
Custodial Funds	68,051	—	—	68,051
Total Fiduciary Funds	56,059,907	—	—	56,059,907
Component Units				
Public Service Authority	\$ 2,070,108	\$ —	\$ —	\$ 2,070,108
MUSC	138,912	8,351	—	147,263
USC	699,765	—	—	699,765
Clemson University	1,308,470	(280)	—	1,308,190
State Ports Authority	715,511	131	—	715,642
Housing Authority	503,711	(17)	—	503,694
Lottery Commission	884	(55)	—	829
Nonmajor component units	1,052,867	25,788	—	1,078,655
Total Component Units	\$ 6,490,228	\$ 33,918	\$ —	\$ 6,524,146

During the fiscal year ended June 30, 2022, the State implemented GASB 87. This resulted in a change in accounting principle which resulted in the restatements of beginning fund equity detailed above.

The State also discovered during fiscal year 2022 that certain transfers-out from the General Fund previously had been incompletely mapped for ACFR compilation purposes. This ACFR mapping error arose from internal reporting issues

associated with the State converting to an enterprise resource planning (ERP) software system which began in 2007. The conversion occurred in multiple phases over a ten-year span with Treasury Cash and Investments being one of the final systems to convert in 2017.

From 2007 through 2011, the State concurrently operated its aging legacy systems and the new ERP system that was being developed in phases. During those five years the ACFR continued to be sourced from the State's legacy systems. Beginning in 2012, the ERP system was sufficiently established to begin using it as a primary source for ACFR reporting. However, the mapping error made in 2007 was then incorporated into the State's ACFR reporting in 2012. The error resulted in the ACFR failing to capture certain cash transfers-out from the General Fund, primarily those transfers to the State's component units.

The State's reporting entity includes the primary government and its component units. The primary government includes all funds, departments, and agencies. The component units are legally separate entities for which the State is accountable for purposes of financial reporting.

The State's ERP system is the source of most of the financial information for the ACFR, although the financial information for component units is compiled into the ACFR from their separately audited financial statements. These audited financial statements are derived from stand-alone accounting systems operated by each component unit.

State appropriations are distributed annually from the General Fund to primary government agencies and to the component units as directed by the annual Appropriations Act. Within the State's ERP system General Fund cash is reduced for each of these transfers-out and increased at the individual agency level for the corresponding transfers-in. The appropriations received by the component units have been properly recorded in their own accounting systems as cash transfers-in from the State General Fund.

For ACFR compilation purposes, since the transactions for the component units come not from the ERP system, but from the component unit's own separately audited financial statements derived from their own accounting systems, these General Fund cash transfers-in from the ERP system were correctly excluded from the ACFR mapping. However, the corresponding cash transfers-out in the ERP system should have been mapped to the ACFR since those cash reductions of State funds are not captured in the component unit's individual financial statements. Yet they were erroneously not mapped.

Until being discovered in 2022, this mapping error impacted the ACFRs for fiscal years 2012 through 2021, overstating General Fund cash and fund equity in those ACFRs by a cumulative amount of \$3.530 billion, which necessitated the restatements of beginning fund equity reflected above.

This mapping error impacted the ACFRs only. It had no impact on the State's actual cash or on the State's annual appropriation and budgeting process. Furthermore, the general ledger remained correct throughout.

Timeline for Events Addressing ACFR Cash Restatement

10/17/2022 – A problem with the reporting of cash in the ACFR was conclusively determined to exist by Katherine Kip and relayed to David Starkey. There had been prior discussions of difficulties encountered in connection with ACFR cash reporting, but they went back and forth with no conclusive determination of a problem.

10/18/2022 – Conference Call – Alerted CG to the problem’s existence, while staff continued its work to determine the origin and magnitude of the problem.

Richard Eckstrom, Comptroller General

Eddie Gunn, Chief of Staff, Comptroller General

David Starkey, Deputy Constitutional Officer, CG

Katherine Kip, Accounting/ Fiscal Manager II, CG

10/20/2022 – Met to discuss the problem with Kathy Johnson and Michael Moore, CG statewide Accounting Division team, to obtain their insights into understanding the problem. Assigned them to assist in verifying its cause and magnitude, which at that date remained unknown.

Richard Eckstrom

Eddie Gunn

David Starkey

Katherine Kip

James Torbert, Accounting/ Fiscal Manager II, CG

Kathy Johnson, Deputy Constitutional Officer, CG

Michael Moore, Accounting/ Fiscal Manager II, CG

10/24/2022 – Met via conference call to discuss status and results of staff verification work. This appears to be the date that the mapping error was definitively determined to be the cause of the ACFR cash reporting problem.

David Starkey

Katherine Kip

James Torbert

Kathy Johnson

Michael Moore

10/24/2022 – David Starkey and Katherine Kip informed the CG of the believed origin of the problem and of its expected dollar impact on previous years' ACFRs. Katherine Kip requested additional time before submitting workpapers to auditors (original due date was 10/27/2022). CG directed staff to logically organize their cash workpapers to turn them over to the Auditors without undue delay for their testing.

Section	Title	Staff Responsibility	Estimated Submission to Auditors	Notes
3.01	Cash and Investments (Agencies)	Katherine	8/5/2022	
3.20	Fund Classification	Katherine	9/2/2022	
3.20	Fund Classification	Katherine	10/21/2022	
ST04-1	Cash and Investments	Katherine	10/7/2022	
	Eliminations	Katherine/James	9/2/2022	
	Lookback	Katherine/James	around 10/15	dependant on EIP, SAF, DOT AFS sta
Note 4	Deposits and Investments	Katherine	10/27/2022	
Note 14	Fund Balance	Katherine	10/27/2022	

* - All dates are for reporting packages. Once AFS are received between 10/1/2021 - 10/15/2021, that information will be updated and resubmitted.

10/26/2022 – Had Conference Call to review the status of the organizing effort of CGO cash workpapers for the auditors and to make preparations to meet with them on 10/27/2022.

David Starkey

Katherine Kip

James Torbert

10/27/2022 – Met with the State Auditor's Office and the External Auditors to inform them of the problem we had discovered and extension from original due date of 10/27/2022.

Richard Eckstrom

Eddie Gunn

David Starkey

Katherine Kip

Kathy Johnson

George Kennedy, State Auditor

Sue Moss, State Auditor's Office Manager

Vicky Funk, State Auditor's Office Audit Manager

Remi Omisore, Partner, Clifton Larson Allen

Justin Measley, Manager, Clifton Larson Allen

10/27/2022 – 11/29/2022 – During this period the CGO assisted the auditors, as needed, to understand our workpapers documenting the ACFR cash reporting problem and we crafted the cash restatement portion of Note 15.

- Final Workpapers provided to auditors on 11/8/2022

The screenshot shows a SharePoint document library for 'CAFR Documents > 2022 > Restatement-1000030000'. The library contains several files, with the first one highlighted by a red box:

Name	Modified	Modified By
Cash and Investments Tie Down proposed adjustments and reconciliations to s...	November 8, 2022	Kip, Katherine
Cash and Investments Tie Down proposed adjustments and reconciliations to s...	November 4, 2022	Kip, Katherine
Cash and Investments Tie Down proposed adjustments and reconciliations to s...	October 26, 2022	Kip, Katherine
LGIP complete listing.xlsx	November 8, 2022	Kip, Katherine
Note 4 - 2022 Deposit and Investment sto cash adjustments.xlsx	November 4, 2022	Kip, Katherine
Note 4 - AFS Cash & Investments Support.pdf	October 26, 2022	Kip, Katherine
Note 4 - AFS Cash & Investments Support.xlsx	October 28, 2022	Kip, Katherine
Prior Period adjustment of 1030 year by year.xlsx	November 2, 2022	Kip, Katherine
PUSHDOWN TO GL RECONCILIATION with new Inv.xlsx	November 4, 2022	Kip, Katherine
PUSHDOWN TO GL RECONCILIATION.xlsx	October 26, 2022	Kip, Katherine
Step 1 GL to Pushdown Reconciliation.mp4	October 28, 2022	Kip, Katherine
Step 2 GL mapping of treasury accounting_investment purchases and investme...	October 26, 2022	Kip, Katherine
Step 3 GL mapping of unknown entities.mp4	October 26, 2022	Kip, Katherine

11/16/2022 – Held Cash Tie-Out Discussion with Auditors (Online)

David Starkey

Katherine Kip

Remi Omisore

Justin Measley

Thomas Putman, Staff Auditor, Clifton Larson Allen

Layla Ballard-Sholly, State Auditor's Office Staff

11/17/2022 – Met to discuss Audit Finalization and Audit Report Date (Online) – Discussed the date of the audit and the cash restatement wording.

Richard Eckstrom

David Starkey

George Kennedy

Remi Omisore

11/17/2022 – Met to discuss Cash Note in ACFR (Online) – Worked with the auditors on the wording of the cash note (Notes 4 and 19), which had the reconciliation of cash in the bank to the ACFR.

David Starkey

Katherine Kip

George Kennedy

Remi Omisore

11/22/2022 -Final Cash and Investment tie out to Face of Financial Statement Provided to Auditors

The screenshot shows a SharePoint library view for a folder named 'Note 4 and Note 19 cash and investment backup'. The view displays a table of files with columns for Name, Modified, and Modified By. The files listed are:

Name	Modified	Modified By
Note 4 - 2022 Deposit and Investment note 4 (1).xlsx	November 16, 2022	Kip, Katherine
Note 4 - 2022 Deposit and Investment note 4 (2).xlsx	November 15, 2022	Kip, Katherine
Note 4 - 2022 Deposit and Investment note 4 v2.xlsx	November 22, 2022	Kip, Katherine
Note 4 - 2022 Deposit and Investment note 4.xlsx	November 1, 2022	Kip, Katherine
Note 4 - 2022 Tie Back to Face of Financial Statement.xlsx	November 22, 2022	Kip, Katherine

12/2/2022 – Meeting with the State Auditor – The express purpose of the meetings beginning on December 5 was to provide background the SC Enterprise Information System (SCEIS) and to alert elected officials and Senior Staff from several agencies regarding the significant re-statement found in

Note 15 of the ACFR. This would allow for a detailed overview of the system and why this condition happened over a period of years.

Richard Eckstrom

Eddie Gunn

George Kennedy

12/5/2022 – Meeting with the Department of Administration – The express purpose of the meetings beginning on December 5 was to provide background the SC Enterprise Information System (SCEIS) and to alert elected officials and Senior Staff from several agencies regarding the significant re-statement found in Note 15 of the ACFR. This would allow for a detailed overview of the system and why this condition happened over a period of years.

Richard Eckstrom

Eddie Gunn

Marcia Adams, Executive Director Department of Administration (phone)

Paul Koch, Chief of Staff Department of Administration

Nick Brunson, SCEIS Management

12/6/2022 – Meeting with JBRC – The express purpose of the meetings beginning on December 5 was to provide background the SC Enterprise Information System (SCEIS) and to alert elected officials and Senior Staff from several agencies regarding the significant re-statement found in Note 15 of the ACFR. This would allow for a detailed overview of the system and why this condition happened over a period of years.

Richard Eckstrom

Rick Harmon, Director of Research

12/6/2022 – Meeting with Revenue & Fiscal Affairs Office – The express purpose of the meetings beginning on December 5 was to provide background the SC Enterprise Information System (SCEIS) and to alert elected officials and Senior Staff from several agencies regarding the significant re-statement found in Note 15 of the ACFR. This would allow for a detailed overview of the system and why this condition happened over a period of years.

Richard Eckstrom

Eddie Gunn

Frank Rainwater, Executive Director

12/7/2022 – Meeting with House Ways & Means Committee – The express purpose of the meetings beginning on December 5 was to provide background the SC Enterprise Information System (SCEIS) and to alert elected officials and Senior Staff from several agencies regarding the significant re-statement found in Note 15 of the ACFR. This would allow for a detailed overview of the system and why this condition happened over a period of years.

Richard Eckstrom

Eddie Gunn

Rep. Bruce Bannister, Chair of Ways & Means Committee

Daniel Boan, Chief of Staff

12/7/2022 – Meeting with Governor’s Office – The express purpose of the meetings beginning on December 5 was to provide background the SC Enterprise Information System (SCEIS) and to alert elected officials and Senior Staff from several agencies regarding the significant re-statement found in Note 15 of the ACFR. This would allow for a detailed overview of the system and why this condition happened over a period of years.

Richard Eckstrom

Eddie Gunn

Mark Plowden, Deputy Chief of Staff

Sym Singh, Legislative Liaison

12/9/2022 – Had telephone discussion with State Treasurer (to inform of the issue and of my intent to brief the Rating Agencies)

Richard Eckstrom

Curtis Loftis, State Treasurer

12/9/2022 – Via telephone discussed the Cash Restatement with our credit analysts at Standard & Poor’s and emailed them the State’s June 30, 2022 ACFR. They indicated that they appreciated my call to inform them.

Richard Eckstrom

Rob Marker, Primary Credit Analyst, S&P

Sussan Corson, Secondary Analyst, S&P

Nora Wittstruck, Secondary Contact, S&P

12/12/2022 – Via telephone discussed the Cash Restatement with our lead credit analyst at Moody's and emailed him the State's June 30, 2022 ACFR. He seemed appreciative of my call informing him and of my answering his questions.

Richard Eckstrom

Ted Hampton, Lead Analyst, Moody's

12/12/2022 – Via telephone discussed the Cash Restatement with our primary credit analyst at Fitch Ratings and emailed him the State's June 30, 2022 ACFR. He thanked me for my call informing him.

Richard Eckstrom

Michael D'Arcy, Primary Analyst, Fitch Ratings

12/14/2022 – Meeting with the State Treasurer's Office – Informed them of the issue, the solution, and procedures for the following years to prevent any future restatements of cash and investments.

Richard Eckstrom

Eddie Gunn

David Starkey

James Torbert

Curtis Loftis

Clarissa Adams, Chief of Staff, State Treasurer

George Kennedy, State Auditor

Remi Omisore, Partner, Clifton Larson Allen (by telephone)

Senior staff of the STO & of the State Auditor

1/6/2023, 1/13/2023, & 2/3/2023 – Meetings of the ACFR Work Group to discuss automating solutions for the cash confirmation and cash reconciliation processes and to work to resolve the underlying causes that necessitated the ACFR restatement.

From Department of Administration

Marcia Adams, Chair ACFR Working Group

Paul Koch

Nick Brunson, SCEIS Management

Stephan Littlejohn, SCEIS Staff

From CGO

Richard Eckstrom

Eddie Gunn

David Starkey

Kathy Johnson

Katherine Kip

Michael Moore

James Torbert

From STO

Clarissa Adams

Other staff

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Constitutional Subcommittee

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February 17, 2023

The Honorable Richard Eckstrom
Comptroller General of South Carolina
305 Wade Hampton Office Building
Columbia, S.C. 29201

Dear General Eckstrom:

Thank you for your recent presentation to the Senate Finance Constitutional Subcommittee. As you are aware, it is our duty to the people of South Carolina to hold all our agencies and offices accountable. Therefore, this subcommittee will continue to investigate the circumstances in connection with the errors made in reporting the State's ACFR by the Comptroller General's Office.

Please allow this letter to serve as notice that your office is hereby advised of your obligation to preserve, maintain, prevent spoliation of, and to not destroy any documentation or materials which relates or may relate to the error in the ACFR reporting. Such documents or materials whether paper, electronic or otherwise stored, may include, but are not limited to all documents, communications, and correspondence concerning the internal investigation of the misreporting; internal audits dating back 20 years; records kept in the ordinary course of business concerning ACFR reporting; personnel files for all persons involved in the misreporting and subsequent correction; communications and correspondence with bond-rating agencies concerning the misreporting; documents received from third-party auditors regarding the misreporting; meeting minutes and reports concerning the misreporting; any documentation used in the creation of a timeline of events pertaining to the misreporting; any documentation or communication with the Department of Administration, the State Auditor, and the State Treasurer regarding the misreporting, the creation of a SCEIS team, or any other working groups related to any ACFR reporting; any and all other materials which may relate to the ACFR reporting error. Your office's obligation to preserve the above listed materials is extended to your duty to notify all persons or entities whose conduct may lead to the intended or unintended destruction or deletion of materials.

This subcommittee appreciates your anticipated full cooperation in ensuring that all documentation related to this error is preserved.

Very truly yours,

A handwritten signature in cursive script that reads "Larry Grooms".

Senator Larry Grooms
Chairman, Constitutional Subcommittee of the Senate Finance Committee

Senate Finance Committee
Constitutional Subcommittee

cc: The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Henry McMaster, Governor of South Carolina

Condensed CG Correspondence Record Sheet
 *Unabridged version available upon request

Exhibit	Date	Subject	From	To	Quote	Summary/Other Comments
12	10/10/2022	Lander University	Starkey	Eckstrom, Gunn	"I think trying to shave off 2 more days in a major new GASB year was a bit too much. Maybe in another 5 years or so when the rest of the reporting crew is up to full speed...I'll keep plugging away and trying for that goal"	Email is originally a FWD between Lander and Starkey to Eckstrom and Gunn. Starkey comments on how behind he is on compiling the ACFR, and requests to work from home. Also mentions that trying to "shave off time" was a bit much considering how little staff is working on the ACFR and the office's long term issues with reconciling funds.
			Eckstrom	Starkey, Gunn	"Sounds like a good plan...Are any of them running into problems?"	
			Starkey	Eckstrom, Gunn	"We've got close over the last number of years, but there always has been some issues we have not been able to reconcile."	
25	10/25/2022	Reconciliation-update	Kip	Starkey, Torbert	"I've retooled the reconciliation to take into account that we will need to do the FMV adjustment for the AFS agencies (they didn't do it, the \$505M adjustment for DOT, and the LGIP clear out so that we didn't double count...I found MORE appropriations for DOT that needed to be taken into consideration (it was hiding and had been wiped to zero but I found it)..."	Mention of the \$5B understated funds for DOT. Kip starts to try to reconcile funds.
11	10/27/2022	This morning's meeting	Eckstrom	Kip, Starkey, Johnson	"Y'all did an outstanding job of presenting the information, and even more fantastic job in solving our long standing riddle...It'll affect the ACFR in lots of places. I'll be glad to work on the narrative in our Restatement note."	Draft referenced is one Eckstrom produced in Exhibit 10 (noting the \$3.5B restatement and not \$4B). Eckstrom calls the restatement a "long standing riddle." Points to Eckstrom only being able to do a "macro level review."
			Kip	Eckstrom, Starkey, Johnson	"You too did a good job of presenting and stated well the issues."	
	10/28/2022		Starkey	Eckstrom, Kip, Johnson	"We should be able to get you a full draft by COB Monday...If we could get your comments back...we will turn it around and get it to the auditors..."	
			Eckstrom	Starkey	"Obviously my review will have to be at a macro level."	
34	10/29/2022	RESTATEMENT NOTE-DRAFT	Eckstrom	Johnson	"We need to logically and understandably explain how this \$4.3 bln misstatement occurred in a way the rating agencies and other readers will be able to comprehend...rather than referring to converting to a new accounting system, let's consider referring to the state's conversion to a new statewide computer system...this was an initial mapping error in compiling the ACFR, and not an error within the central accounting system...We should guard against our explanation sounding too defensive or off-putting, because for whatever reason it occurred it ended up falling into our lap to own...Thanks...this is probably going to be our most important note in the ACFR this year."	Eckstrom discusses how to explain the restatement to readers. Eckstrom notes that the restatement is \$4.3B. Eckstrom notes that, for "whatever reason," the ACFR problem "fell into their lap."

Condensed CG Correspondence Record Sheet
 *Unabridged version available upon request

Exhibit	Date	Subject	From	To	Quote	Summary/Other Comments
14	10/31/2022	Note 15 - Re: Error "Correction"	Eckstrom	Starkey, Johnson, Kip, Torbert, Gunn	"The 'current' version is what David sent me on Sat. The 'Alternative is a take-off on the 'Current' with input from Kathy...I'm concerned about including enough information in the note so the rating agencies will begin to understand how this happened...Please read it and let me know if anything in it is wrong, confusing, misleading, incomplete, unnecessary, etc...I plan on doing a quick, top-down review once a somewhat complete draft of the ACFR is available."	Current is a very short explanation not including any numbers. Alternate includes an explanation, and reports that there was a misstatement of \$4.398B. Eckstrom only doing a "quick, top-down review" of a "somewhat complete draft."
17	11/3/2022	B-3	Stigamier	Starkey	"Should I reprint the individual changes or will we do that again when these analytics are complete?"	Starkey mentions that they have a tight deadline , and that they might get written up. Not given enough time to do a "proper analytical review." States that the restatement will outshine any other issue. Also mention of the SCDOT cash issue, which is not included in the \$3.5B restatement.
			Starkey	Stigamier	"We'll do it when they're all complete...Michael just found a material correction, so we'll have to put that through on the top level."	
			Stigamier	Starkey	"10-4."	
			Starkey	Stigamier	"I'm not mad about it. When we are given the tight deadline that we were given with major GASB implementation and then had so much blow up in our faces this year (major GASB 87 issues at the DCUs and obviously cash), we could not get the ACFR together quick enough to do a proper analytical review on it...We'll probably still get written up for it, but it's just the way things will be this year and cash is going to far outshine any other issue this year, too."	
			Stigamier	Starkey	"Yeah, I told him, at least it was this year with the other issues."	
Starkey	Stigamier	"Same with SCDOT cash issue too."				
8	11/14/2022	Note 15 - 11/14	Eckstrom	Starkey, Johnson, Kip	"Let's all take a look at the attached narrative one final time...and then provide it to the auditors later tomorrow to replace the original narrative they got from us."	More Note 15 revisions. Eckstrom starts to "feel better" about being able to explain what happened. Explanation almost mirrors what is in the ACFR, but reports 3.552B , and includes a variation on the paragraph explaining the component units.
	11/15/2022		Eckstrom	Starkey, Johnson, Kip, Torbert, Gunn	"I'm starting to feel better that we'll be able to explain to readers of Note 15 what happened and why...please give me your feedback first thing tomorrow"	
	11/16/2023		Johnson	Eckstrom, Starkey, Kip, Torbert,	"I like the additional information related to the length and multiple phases of the system conversion."	
			Kip	Eckstrom, Starkey, Johnson, Torbert	"This is excellent, I think it captures exactly what happened."	
3	11/17/2022	Continuing Disclosure	Eckstrom	Starkey, Gunn	"See my highlights and comment boxes on the attached file. While MSRB's guidance doesn't appear to require us to disclose the restatement with EMMA, we'd be on the side of angel's if we did. Let's discuss with the auditors."	Attachment describes what a continuing disclosure is. Eckstrom has notes on the attachment arguing why the restatement wouldn't be classified as a continuing disclosure. MSRB (Municipal Securities Rulemaking Board) is charged with protecting public and personal interests, municipal entities, and municipal securities investors. EMMA (Electronic Municipal Market Access) is operated by MSRB, and is the body that handles publishing continuing disclosures for public viewing.
	Starkey	Eckstrom, Gunn	"The issuance will likely be within 10 days from now. Are you thinking about an additional disclosure on top of ACFR in that case?"			
	Eckstrom	Starkey, Gunn	"Not if we can issue the ACFR within 10 days."			

Condensed CG Correspondence Record Sheet
 *Unabridged version available upon request

Exhibit	Date	Subject	From	To	Quote	Summary/Other Comments
6	12/12/2022	State of SC FY22 ACFR (credit ratings)	Eckstrom	Hampton (Moody's), Loftis	"Thank you for the time you spent discussing the ACFR-level fund balance with me."	Discussion with Moody's. Hampton asks for an explanation for why the cash impact was bigger in some years. Eckstrom responded that it depended on the rate of revenue.
			Hampton (Moody's)	Eckstrom	"...it does seem as though the variance between the restated fund balance numbers and the prior numbers is most significant in the last four years...Can you explain why the impact appears to have been so much bigger in some years than in others?"	
			Eckstrom	Hampton (Moody's)	"The amount of change in any year depended largely on the growth of revenues the state was experiencing in those individual years. As state government's rate of revenue growth fluctuated each year, our component units saw (higher institutions) saw the level of annual state appropriations fluctuate also....As you can see, our revenues can be volatile, which is why the GA maintains healthy reserves and often adjusts its planned spending as collection patterns fluctuate up and down."	
15	12/14/2022	ACFR Restatement (Moody's)	Macdonald	Eckstrom, Adams, Kelly, Starkey, Morris	"The questions I have received from Ted at Moody's are below."	Moody's ask questions re: restatement. E-mail includes answers from the CGO. Questions Moody's had mirrored subcommittee concerns (What makes the state confident that there are no other irregularities? What safeguards will be in place in the future? Is the description of the omitted items contained correct? Is our understanding of the timeline correct?) Eckstrom quote in response to question #4 "Since we began using SCEIS as support for our ACFR in 2012, we had never been able to fully reconcile bank statement cash to cash in the ACFR"
			Eckstrom	Starkey	"If you agree with the changes/additions I made, please copy and email our below responses to Robert (Macdonald). I'd like him to receive them from you because I don't wish to get into an ongoing dialogue with Robert."	
	12/16/2022		Starkey	Eckstrom	"I just read over it and it looks good to me."	
			Eckstrom	Starkey	"Please send our responses to Robert, and ask him to please copy me so we'll know how he uses the information we've provided for him to incorporate into his response to Moody's. I don't wish to take any position that's inconsistent with anything he'll say."	
			Starkey	Eckstrom	"Done. Have a great weekend!"	
13	12/15/2022	Restatements by Entities	Starkey	Eckstrom	"As requested..." Higher Education 2012-2021 - \$2.6B PEBA 2016-2021 - \$0.5B SCDOT & STIB - \$0.6B + (\$0.5B) = \$0.1B Ports Authority \$0.3B = \$3.5B	A summary of the amount needed to be restated. No context surrounding e-mail. Includes SCDOT "credit." Without SCDOT "credit," the amount to be restated from lump sum agencies is \$4B.

Eckstrom, Richard

From: Eckstrom, Richard
Sent: Thursday, November 17, 2022 2:40 PM
To: Starkey, David
Cc: Gunn, Eddie
Subject: RE: CONTINUING DISCLOSURE

Not if we can issue the ACFR within 10 days.

From: Starkey, David [REDACTED]
Sent: Thursday, November 17, 2022 2:38 PM
To: Eckstrom, Richard [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: RE: CONTINUING DISCLOSURE

OK and will do. The issuance will likely be within 10 days from now. Are you thinking about an additional disclosure on top of the ACFR in that case?

From: Eckstrom, Richard [REDACTED]
Sent: Thursday, November 17, 2022 2:36 PM
To: Starkey, David [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: CONTINUING DISCLOSURE

See my highlights and comment boxes on the attached file. While MSRB's guidance doesn't appear to require us to disclose our restatement with EMMA, we'd be on the side of angel's if we did. Let's discuss with auditors.

Eckstrom, Richard

From: Eckstrom, Richard
Sent: Thursday, November 17, 2022 2:36 PM
To: Starkey, David
Cc: Gunn, Eddie
Subject: CONTINUING DISCLOSURE
Attachments: EMMA CONTINUING DISCLOSURE GUIDANCE.docx

See my highlights and comment boxes on the attached file. While MSRB's guidance doesn't appear to require us to disclose our restatement with EMMA, we'd be on the side of angel's if we did. Let's discuss with auditors.

What is Continuing Disclosure?

Continuing disclosure consists of important information about municipal bonds that arises after the initial issuance. This information generally reflects the financial health or operating condition of the state or local government as it changes over time, or the occurrence of specific events that can have an impact on key features of the bonds.

Commented [ER1]: The restatement doesn't impair the State's financial health and the underlying mapping error has never impacted any financial information the State uses in making operating decisions.

SEC Rule 15c2-12

U.S. Securities and Exchange Commission (SEC) Rule 15c2-12 requires dealers, when underwriting certain types of municipal securities, to ensure that the state or local government issuing the bonds enters into an agreement to provide certain information to the Municipal Securities Rulemaking Board (MSRB) about the securities on an ongoing basis. These disclosures are made available to investors and the public on the MSRB's Electronic Municipal Market Access (EMMA®) website.

Why Are Continuing Disclosures Useful?

Continuing disclosures are intended to assist investors in determining the suitability of a bond, as well as potential risks associated with the credit of the state or local government.

Each bond issue has its own unique set of continuing disclosures. The financial information and operating data, which is prepared by the state or local government that issued the bond, generally reflects the evolving financial or operating condition of the state or local government.

Disclosures also include notice of specific events occurring after a bond's issuance.

Commented [ER2]: The mapping error and resulting restatement, while cumulatively significant, wouldn't have had any practical impact on the State's credit risk, as liquidity (cash on hand) has remained high and net position has remained robust throughout.

that can have an impact on any of the following:

- The ability of a state or local government to pay investors amounts owed on the bonds;
- The value of the bonds if they are bought or sold prior to maturity; or
- The timing of repayment of principal.

By looking at continuing disclosures, investors can compare annual financial information about a particular bond from year to year, or between two similar securities. They can also read event notices to learn about actions or events that can affect a particular bond.

Commented [ER3]: The conditions described in the first and third bullets of this section haven't been impacted in any way by the mapping error and resulting restatement. Therefore, the potential is remote that our restatement will have any impact on the market value of our outstanding bonds (second bullet).

What are the Types of Continuing Disclosures?

Some continuing disclosures provide updated financial or operating information about the state or local government that issued the bond, such as:

- Annual financial information
- Audited financial statements
- Notice of failure to provide annual financial information on or before the date agreed to by the state or local government

Other continuing disclosures provide notification of specific events that may have an effect on repayment of a bond, such as:

- Principal and interest payment delinquencies
- Non-payment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties

Commented [ER4]: The State's ability to repay bondholders hasn't been impacted by the mapping error, and none of the specific types of continuing disclosures listed in this section apply to the mapping error and resulting restatement.

Eckstrom, Richard

From: Eckstrom, Richard
Sent: Monday, December 12, 2022 3:36 PM
To: [REDACTED] Ted Hampton, Moody's Analytics
Cc: Loftis, Curtis
Subject: STATE OF SOUTH CAROLINA -- FY22 ACFR
Attachments: ACFR-FY2022.pdf

Thank you for the time you spent just now discussing the ACFR-level fund balance restatement with me. I've attached the state's FY22 ACFR and I look forward to answering any follow-up question you may have.

Richard Eckstrom
[REDACTED]

Moody's Investors Service

7 World Trade Center
250 Greenwich Street
New York, NY 10007
www.moodys.com

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From: Eckstrom, Richard [REDACTED]
Sent: Monday, December 12, 2022 3:36 PM
To: Hampton, Ted <[REDACTED]>
Cc: Loftis, Curtis [REDACTED]
Subject: STATE OF SOUTH CAROLINA -- FY22 ACFR

This email originated from outside of Moody's

Do not click links or open attachments unless you recognize the sender and know the content is safe.

Thank you for the time you spent just now discussing the ACFR-level fund balance restatement with me. I've attached the state's FY22 ACFR and I look forward to answering any follow-up question you may have.

Richard Eckstrom
[REDACTED]

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Mon 12/12/2022 7:17 PM email to Ted Hampton, Moody's in response to his request:

The amount of change in any year depended largely on the growth of revenues the state was experiencing in those individual years. As state government's rate of revenue growth fluctuated each year, our component units (SC's higher education institutions) saw the level of annual state appropriations to them fluctuate also.

To demonstrate, I'll refer to the budgetary accounting reports I prepare annually in connection with closing the budgetary books and I'll compare those yearend budgetary results each year to fluctuations you've noted in Table 3 of the Statistical Section of our 2022 ACFR.

- 2013 will be the baseline in this analysis; the General Fund experienced robust revenue growth that year although it was slowing as the year progressed
- 2014- General Fund revenue growth slowed to 2.5% for the year
- 2015- GF revenues grew by 7.3% although there were signs the economy again might be slowing
- 2016- the GF revenue growth rate slowed to 4.5% for the year with signs it was continuing to slow
- 2017- the GF revenue growth rate slowed to 4.3% for the year
- 2018- GF revenues grew by an encouraging 7.1% and state support for higher education increased
- 2019- GF revenues grew by 8.6% and levels of state spending increased across-the-board, including for higher education
- 2020 and 2021 were both COVID years in which the state received significant federal COVID revenues, some of which it distributed to higher education to support their need to spend on deferred maintenance

As you can see, our revenues can be volatile, which is why the General Assembly maintains healthy reserves and often adjusts its planned spending as collection patterns fluctuate up and down. I hope this is helpful.

Richard Eckstrom

From: Hampton, Ted [REDACTED]
Sent: Monday, December 12, 2022 5:14 PM
To: Eckstrom, Richard [REDACTED]
Subject: [External] RE: STATE OF SOUTH CAROLINA -- FY22 ACFR

Thanks for this, Richard.

One quick question, if I may: Comparing the historical fund balance information contained in the Statistical Section in the '22 ACFR with the information from the prior year's report, it does seem as though the variance between the restated fund balance numbers and the prior numbers is most significant in the last four years. Revisions to fund balances were comparatively small for fiscal years 2013 through 2015 and then increased.

Can you explain why the impact appears to have been so much bigger in some years than in others?

Additionally, if you would please share the prior correspondence you have had with the agencies.

Please let me know if you have any questions or would like to discuss.

Thank you,

Robert



Robert E. Macdonald, CPA, CGFO | Director Debt Management Division
South Carolina Office of State Treasurer
1200 Senate Street, Suite 214
Columbia, SC 29201



Eckstrom, Richard

From: Eckstrom, Richard
Sent: Tuesday, November 15, 2022 6:52 PM
To: Starkey, David; Kip, Katherine; Johnson, Kathy; Torbert, James
Cc: Gunn, Eddie
Subject: NOTE 15
Attachments: 2022 RESTATEMENT NOTE 15 _NOV 15_2022.docx

Good meeting this afternoon and good changes by Katherine.

I'm starting to feel better that we'll be able to explain to readers of Note 15 what happened and why. What do you think of the attached????

Please give me your feedback first thing tomorrow and we'll get the auditors something then. Thanks!

Note 15 – Fund Equity Reclassifications and Restatements

During the fiscal year ended June 30, 2022, the State implemented GASB 87. This resulted in a change in accounting principle which resulted in the restatements of beginning fund equity detailed above.

The State also discovered during fiscal year 2022 that certain transfers-out from the General Fund previously had been incompletely mapped for ACFR compilation purposes. This ACFR mapping error arose from internal reporting issues associated with the State converting to an enterprise resource planning (ERP) software system which began in 2007. The conversion occurred in multiple phases over a ten-year span with Treasury Cash and Investments being one of the final systems to convert in 2017.

From 2007 through 2011, the State concurrently operated its aging legacy systems and the new ERP system that was being developed in phases. During those five years the ACFR continued to be sourced from the State's legacy systems. Beginning in 2012, the ERP system was sufficiently established to begin using it as a primary source for ACFR reporting. However, the mapping error made in 2007, was then incorporated into the State's ACFR reporting in 2012. The error resulted in the ACFR failing to capture certain cash transfers-out from the General Fund, primarily those transfers to the State's component units.

The State's reporting entity includes the primary government and its component units. The primary government includes all funds, departments, and agencies. The component units are legally separate entities for which the State is accountable for purposes of financial reporting.

The State's ERP system is the source of most of the financial information for the ACFR, although the financial information for component units is compiled into the ACFR from their separately audited financial statements. These audited financial statements are derived from stand-alone accounting systems operated by each component unit.

State appropriations are distributed annually from the General Fund to primary government agencies and to the component units as directed by the annual Appropriations Act. Within the State's ERP system General Fund cash is reduced for each of these transfers-out and increased at the individual agency level for the corresponding transfers-in. The appropriations received by the component units have been properly recorded in their own accounting systems as cash transfers-in from the State General Fund.

For ACFR compilation purposes, since the transactions for the component units come not from the ERP system, but from the component unit's own separately audited financial statements derived from their own accounting systems, these General Fund cash transfers-in from the ERP system were correctly excluded from the ACFR mapping. However, the corresponding cash transfers-out in the ERP system *should* have been mapped to the ACFR since those cash reductions of State funds are not captured in the component unit's individual financial statements. Yet they were erroneously not mapped.

Until being discovered in 2022, this mapping error impacted the ACFRs for fiscal years 2012 through 2021, overstating General Fund cash and fund equity in those ACFRs by a cumulative amount of \$3.530 billion, which necessitated the restatements of beginning fund equity reflected above.

This mapping error impacted the ACFRs *only*. It had no impact on the State's actual cash or on the State's annual appropriation and budgeting process. Furthermore, the general ledger remained correct throughout.

Eckstrom, Richard

From: Eckstrom, Richard
Sent: Monday, November 14, 2022 4:20 PM
To: Starkey, David
Cc: Johnson, Kathy; Kip, Katherine
Subject: NOTE 15
Attachments: 2022 RESTATEMENT NOTE 15 _NOV 14_2022.docx

Let's all take a look at the attached narrative for Note 15 one final time, discuss tomorrow morning whether to modify it (if any of you think we should), and then provide it to the auditors later tomorrow to replace the original narrative they got from us. Thanks!

Note 15 – Fund Equity Reclassifications and Restatements

During the year ended June 30, 2022, the State implemented GASB 87. This resulted in a change in accounting principle which resulted in the restatements of beginning fund equity detailed above.

The State also discovered during fiscal year 2022 that certain transfers-out from the General Fund had been incompletely mapped for ACFR compilation purposes. This ACFR mapping error arose from internal reporting issues associated with converting to a new State-wide enterprise resource planning (ERP) software system which began in 2007. The conversion occurred in multiple phases over a ten-year span with Treasury Cash and Investments being one of the final systems converted in 2017.

From 2007 through 2011, the State concurrently operated its legacy systems and the new ERP system that was being developed in phases. During those five years the ACFR continued to be sourced from the State's aging legacy systems. Beginning in 2012, the ERP system was sufficiently established to begin using it as a source for ACFR reporting. However, an error was made at that time in mapping the new ERP system to the ACFR, which resulted in failing to capture certain cash transfers-out from the General Fund, primarily transfers to component units.

The State's reporting entity includes the primary government and its component units. The primary government includes all funds, departments, and agencies. The component units are legally separate entities for which the State is accountable for purposes of financial reporting.

The State's ERP system is the source of most of the financial information for the ACFR, although the financial information for component units and certain agencies is compiled into the ACFR from their separately audited financial statements. These audited financial statements are derived from stand-alone accounting systems operated by each component unit.

The component units receive annual State appropriations which they properly record in their accounting systems as cash transfers-in from the General Fund. For ACFR compilation purposes, the information on these cash transfers-in is obtained from each component unit's separately audited financial statements. Since this information is obtained from the audited financial statements of the component units rather than from the State's ERP system where it also exists, the corresponding transfers-out from the General Fund were erroneously not mapped to the ACFR within the new ERP reporting system in 2012, although those transfers-out should have been.

Until being discovered in 2022, this mapping error impacted the ACFRs for fiscal years 2012 through 2021, overstating General Fund cash and fund equity in those ACFRs by a cumulative amount of \$3.552 billion, which necessitated the restatement of beginning fund equity that is reflected above.

This mapping error impacted the ACFRs only. It had no impact on the State's actual cash or on its annual appropriation and budgeting process, and the general ledger remained correct throughout.

Eckstrom, Richard

From: Starkey, David
Sent: Wednesday, November 16, 2022 9:52 AM
To: Kip, Katherine; Eckstrom, Richard; Johnson, Kathy; Torbert, James
Cc: Gunn, Eddie
Subject: RE: NOTE 15

Small correction to this: the restatement amount should be \$3.530 billion and not \$3.552 billion.

From: Kip, Katherine [REDACTED]
Sent: Tuesday, November 15, 2022 10:44 PM
To: Eckstrom, Richard [REDACTED]; Johnson, Kathy [REDACTED]; Starkey, David [REDACTED]; Torbert, James [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: Re: NOTE 15

This is excellent, I think it captures exactly what happened.

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From: Eckstrom, Richard [REDACTED]
Sent: Tuesday, November 15, 2022 10:38:45 PM
To: Johnson, Kathy [REDACTED]; Starkey, David [REDACTED]; Kip, Katherine [REDACTED]; Torbert, James [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: Re: NOTE 15

Tremendous improvement, Kathy. Thanks so much!

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From: Johnson, Kathy [REDACTED]
Sent: Tuesday, November 15, 2022 9:07:20 PM
To: Eckstrom, Richard [REDACTED]; Starkey, David [REDACTED]; Kip, Katherine [REDACTED]; Torbert, James [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: RE: NOTE 15

I like the additional information related to the length and multiple phases of the system conversion.

I've attached here a slightly modified version of the note for review...

From: Eckstrom, Richard [REDACTED]
Sent: Tuesday, November 15, 2022 6:52 PM
To: Starkey, David [REDACTED]; Kip, Katherine [REDACTED]; Johnson, Kathy [REDACTED]; Torbert, James [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: NOTE 15

Good meeting this afternoon and good changes by Katherine.

I'm starting to feel better that we'll be able to explain to readers of Note 15 what happened and why. What do you think of the attached???

Please give me your feedback first thing tomorrow and we'll get the auditors something then. Thanks!

Eckstrom, Richard

From: Kip, Katherine
Sent: Thursday, October 27, 2022 7:52 PM
To: Eckstrom, Richard; Starkey, David; Johnson, Kathy
Subject: Re: This morning's meeting.

Thank you, your calm support and leadership was very critical to this process. You too did a good job of presenting and stated well the issues.

Katherine

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From: Eckstrom, Richard [REDACTED]
Sent: Thursday, October 27, 2022 7:49:55 PM
To: Kip, Katherine [REDACTED]; Starkey, David [REDACTED]; Johnson, Kathy [REDACTED]
Subject: This morning's meeting.

Just landed in NJ and have had time on my flight here to slow down and think about our meeting. Y'all did an outstanding job of presenting the information, and an even more fantastic job in solving our long-standing riddle. Thank you very much for all the great reasoning and hard work you've devoted to this! Tremendous teamwork and analytical skill!!!

Let's pow-wow early next week to take stock of where we are on this. It'll affect the ACFR in lots of places. I'll be glad to work on the narrative in our Restatement note. Some of that narrative can probably also be used in the MD&A.

I'm bouncing around in an Uber on a short drive to Rutgers. NJ's roads are worse than SC's!!!

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NOTE 15: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands):

	7/1/2021 Fund Equity as Previously Reported	Implementation of GASB 87	Adjustments	7/1/2021 Fund Equity as Restated
Primary Government				
Governmental Funds:				
General Fund	\$ 10,630,392	\$ —	\$ (4,397,742)	\$ 6,232,650
Departmental Program Services	430,303	—	—	430,303
Local Government Infrastructure	2,218,756	—	—	2,218,756
Department of Transportation Special Revenue	1,468,825	—	—	1,468,825
Other Nonmajor Governmental Funds	1,100,026	—	—	1,100,026
Total Governmental Funds	15,848,302	—	(4,397,742)	11,450,560
Internal Service Funds	890,312	—	—	890,312
Government-wide:				
Capital assets	19,233,103	(979)	—	19,232,124
Leased assets	—	116,253	—	116,253
Net deferred outflows and inflows	1,220,929	—	—	1,220,929
Long-term liabilities	(10,214,975)	(110,921)	—	(10,325,896)
Total Government-wide	10,239,057	4,353	—	10,243,410
Total Governmental Activities	26,977,671	4,353	(4,397,742)	22,584,282
Business-type Activities - Enterprise Funds:				
Unemployment Compensation Fund	1,286,665	—	—	1,286,665
Second Injury Fund	65,384	—	—	65,384
Other nonmajor enterprise funds	207,806	—	—	207,806
Total Business-type Activities - Enterprise Funds ...	1,559,855	—	—	1,559,855
Fiduciary Funds:				
Pension and Other Post-Employment Trust	32,948,166	—	—	32,948,166
Investment Trust Local Government	8,432,150	—	—	8,432,150
Private Purpose Trust	4,364,461	—	—	4,364,461
Custodial Funds	66,456	—	—	66,456
Total Fiduciary Funds	45,811,233	—	—	45,811,233
Total Primary Government	\$ 74,348,759	\$ 4,353	\$ (4,397,742)	\$ 69,955,370
Component Units				
Public Service Authority	\$ 2,070,108	\$ —	\$ —	\$ 2,070,108
MUSC	138,912	8,351	—	147,263
USC	699,765	—	—	699,765
Clemson University	1,308,470	(280)	—	1,308,190
State Ports Authority	715,511	131	—	715,642
Housing Authority	503,711	(17)	—	503,694
Lottery Commission	884	(55)	—	829
Nonmajor component units	1,052,867	25,788	—	1,078,655
Total Component Units	\$ 6,490,228	\$ 33,918	\$ —	\$ 6,524,146

During the year ended June 30, 2022, the State implemented GASB 87. This resulted in a change in accounting principle which resulted in the restatements of July 1, 2021 fund equity detailed above. Furthermore, an accounting system error was discovered during the current fiscal year that double-counted cash balances in certain areas of the General Fund. While no cash was found to be missing, it artificially inflated the General Fund's overall cash balance. This system error began when the State converted to its current accounting system in fiscal year 2012. It should be noted that this error would not have affected or skewed any budgeting or financial decisions from when the error started to present.

Regards,
David

From: Eckstrom, Richard [REDACTED]
Sent: Friday, October 28, 2022 2:20 PM
To: Starkey, David [REDACTED]; Kip, Katherine [REDACTED]; Johnson, Kathy [REDACTED]
Subject: Re: This morning's meeting.

Perfect!

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From: Starkey, David [REDACTED]
Sent: Friday, October 28, 2022 6:50:42 AM
To: Eckstrom, Richard [REDACTED]; Kip, Katherine [REDACTED]; Johnson, Kathy [REDACTED]
Subject: RE: This morning's meeting.

Your kind words are appreciated; thank you! I look forward to having everything crystal clear in future audits and ACFR compilations.

I plan on having the draft finalized (with possibly the cash note still outstanding depending on where Katherine is on getting the auditors through the voluminous and thorough cash reconciliation workpapers) on Monday.

From: Eckstrom, Richard [REDACTED]
Sent: Thursday, October 27, 2022 7:50 PM
To: Kip, Katherine [REDACTED]; Starkey, David [REDACTED]; Johnson, Kathy [REDACTED]
Subject: This morning's meeting.

Just landed in NJ and have had time on my flight here to slow down and think about our meeting. Y'all did an outstanding job of presenting the information, and an even more fantastic job in solving our long-standing riddle. Thank you very much for all the great reasoning and hard work you've devoted to this! Tremendous teamwork and analytical skill!!

Let's pow-wow early next week to take stock of where we are on this. It'll affect the ACFR in lots of places. I'll be glad to work on the narrative in our Restatement note. Some of that narrative can probably also be used in the MD&A.

I'm bouncing around in an Uber on a short drive to Rutgers. NJ's roads are worse than SC's!!!

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Eckstrom, Richard

From: Eckstrom, Richard
Sent: Saturday, October 29, 2022 11:54 AM
To: Starkey, David
Subject: Re: This morning's meeting.

Thanks. I'll review what you'll have Monday.

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From: Starkey, David [REDACTED]
Sent: Saturday, October 29, 2022 7:44:54 AM
To: Eckstrom, Richard <[REDACTED]>
Subject: RE: This morning's meeting.

In the meantime, here is a draft of the restatement note for your review.

From: Starkey, David
Sent: Saturday, October 29, 2022 6:20 AM
To: Eckstrom, Richard [REDACTED]
Subject: RE: This morning's meeting.

Understood. If I can get it to you earlier in a messier form, would you prefer that?

From: Eckstrom, Richard [REDACTED]
Sent: Friday, October 28, 2022 11:08 PM
To: Starkey, David [REDACTED]
Subject: Re: This morning's meeting.

Thanks, David. Obviously my review will have to be at a macro level.

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From: Starkey, David [REDACTED]
Sent: Friday, October 28, 2022 5:10:46 PM
To: Eckstrom, Richard [REDACTED]; Kip, Katherine [REDACTED]
Cc: Johnson, Kathy [REDACTED]
Subject: RE: This morning's meeting.

Mr. Eckstrom,

To give you an update on where we stand, we should be able to get you a full draft by COB Monday. It will assume we can put through the entire prior years' restatement on the FY 2022 ACFR. There might be some outstanding rounding issues that we will keep working through on Tuesday, but those small issues will not affect your review. If we could get your comments back by 1 PM on Tuesday, we will turn it around and get it to the auditors as we projected by COB Tuesday.

If this is not satisfactory, please let me know. I plan on working tomorrow and of course will be around all of Monday and Tuesday.

To: Starkey, David [redacted]
Cc: Gunn, Eddie [redacted]
Subject: Re: [External] Lander University

Sounds like a good plan to convert commuting hours into productive hours. Hopefully you'll be able to supervise the crew from home. Are any of them running into problems?

Hope you can sleep better tonight. It's the pits to not be able to fall asleep and rest.

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From: Starkey, David [redacted]
Sent: Monday, October 10, 2022 7:24:42 PM
To: Eckstrom, Richard [redacted]
Cc: Gunn, Eddie [redacted]
Subject: RE: [External] Lander University

You're welcome.

I texted Eddie this, but would you mind if I work from home a few more times this week? With the craziness of Lander over the weekend, I'm really behind. I'm trying to gain a few more hours on commute time and I haven't slept well or long enough over the past week and a half. I'm not feeling the best now and trying not to get sick.

I think trying to shave off 2 more days in a major new GASB year was a bit too much. Maybe in about another 5 years or so when the rest of the Reporting crew is up to full speed (can fully put the ACFR together themselves too). I'll keep plugging away in trying for that goal, but something in my schedule has to give to have a chance to achieve it.

From: Eckstrom, Richard [redacted]
Sent: Monday, October 10, 2022 7:18 PM
To: Starkey, David [redacted]
Cc: Gunn, Eddie [redacted]
Subject: Re: [External] Lander University

It's a shame you had to spend all that time. My guess is that they don't care how much time you had to spend. But I sure appreciate your sacrifice.

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From: Starkey, David [redacted]
Sent: Monday, October 10, 2022 2:28:59 PM
To: Eckstrom, Richard [redacted]
Cc: Gunn, Eddie [redacted]
Subject: FW: [External] Lander University

FYI – I should send them a bill for how much I had to help them through this.

From: Traci Talley [redacted]
Sent: Monday, October 10, 2022 2:19 PM
To: Starkey, David [redacted]
Cc: Lois Eustace, CPA [redacted] Joseph Greenthal [redacted]
Subject: RE: [External] Lander University

Eckstrom, Richard

From: Eckstrom, Richard
Sent: Monday, October 10, 2022 8:45 PM
To: Starkey, David
Cc: Gunn, Eddie
Subject: Re: [External] Lander University

Totally understand!

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From: Starkey, David [REDACTED]
Sent: Monday, October 10, 2022 8:43:42 PM
To: Eckstrom, Richard [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: RE: [External] Lander University

I just reviewed it, so we should be good there. I'm trying to keep on the more complex items. The hope is in a few more years I can get staff to do more of the grunt work I need to do now.

From: Eckstrom, Richard [REDACTED]
Sent: Monday, October 10, 2022 8:42 PM
To: Starkey, David [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: Re: [External] Lander University

If it was the Medicaid accrual we got written-up for a few years back please have someone do a high level review of his documentation, especially since he's just getting ACFR experience for the first time this year. Michael might be available b/c tomorrow we'll close-out September's revenue.

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From: Starkey, David [REDACTED]
Sent: Monday, October 10, 2022 8:30:07 PM
To: Eckstrom, Richard [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: RE: [External] Lander University

Thank you and I will.

So far, Katherine is getting through cash. She is working hard on trying to reconcile all of the State's cash. We've got close over the last number of years, but there always has been some issues we have not been able to reconcile. Luckily, they've always been immaterial since 2014. Mostly timing differences between AFS' and what the STO has on its books. Kelly & Linda are working on the note updates (especially AR, the DCU note, and other areas within the notes). James just finished up the Medicaid accrual. I will touch base with him tomorrow on his next tasks. There's plenty of areas within notes and RSI where we can use his help.

From: Eckstrom, Richard [REDACTED]
Sent: Monday, October 10, 2022 8:20 PM

Eckstrom, Richard

From: Starkey, David
Sent: Thursday, December 15, 2022 1:48 PM
To: Eckstrom, Richard
Subject: Restatements by Entities

As requested

Higher Education – 2012 – 2021 = \$2.6 billion

PEBA – 2016 – 2021 = \$0.5 billion

SCDOT & SCTIB = \$0.6 billion + (\$0.5) billion = \$0.1 billion

Ports Authority = \$0.3 billion

Total = \$3.5 billion



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Eckstrom, Richard

From: Starkey, David
Sent: Monday, December 12, 2022 7:28 AM
To: Eckstrom, Richard
Cc: Gunn, Eddie
Subject: RE: DISCUSSION WITH S&P
Attachments: 001-304-CAFR-FY2022.pdf

As requested. Great to hear about the conversations. Just let me know when you want us to post. Kevin has it ready to roll.

From: Eckstrom, Richard [REDACTED]
Sent: Friday, December 9, 2022 5:18 PM
To: Starkey, David [REDACTED]
Cc: Gunn, Eddie [REDACTED]
Subject: DISCUSSION WITH S&P

Eddie and I just finished what seemed like a very productive conference call with S&P (with 3 of them on the call). I think they understood my explanation of what happened, and they asked good questions.

I told them we intend to put the ACFR online early next week. Meanwhile, if you can provide me a complete pdf (including the auditors' opinion) I'd like to email it to each of them on Monday.

I've also contacted both Moody's and Fitch and waiting for them to confirm when they have time to speak with me.

By the way, I had a good phone conversation with the Treasurer yesterday evening. I believe he's wanting to do whatever is necessary to coordinate a fix for any current cash management/cash accounting disconnect we have, and he seemed pretty supportive of working together with us and SCEIS to make it happen.

Have a good weekend. There'll be brighter days ahead, maybe!

Richard

Eckstrom, Richard

From: Eckstrom, Richard
Sent: Monday, October 31, 2022 4:30 PM
To: Starkey, David; Johnson, Kathy; Kip, Katherine; Torbert, James
Cc: Gunn, Eddie
Subject: NOTE 15 RE: ERROR CORRECTION
Attachments: FY2022 ACFR Restatement Note 15.docx

Thank you David and Kathy for your very helpful input on this note. The "Current" version is what David sent me on Saturday. The "Alternative" is a take-off on the "Current" with input from Kathy. I believe we're required to explain not just what happened but also how it happened, so the "Alternate" is a bit longer than the "Current."

At this point I'm concerned about including enough information in the note so the rating agencies will be able to begin to understand how this happened. I expect there'll be some follow-up verbal explaining from me to them sometime after they read the note. Please read it carefully and let me know if anything in it is wrong, confusing, misleading, incomplete, unnecessary, etc.

Thanks for everyone's hard work on this thorny issue and on the ACFR as a whole. I plan on doing a quick, top-down review once a somewhat complete draft of the ACFR is available.

You all are wonderful!!

Richard

Note 15 – Current

Furthermore, an accounting system error was discovered during the current fiscal year that double-counted cash balances in certain areas of the General Fund. While no cash was found to be missing, it artificially inflated the General Fund's overall cash balance. This system error began when the State converted to its current accounting system in fiscal year 2012. It should be noted that this error would not have affected or skewed any budgeting or financial decisions from when the error started to present.

Note 15 – Alternative

Furthermore, the State discovered during fiscal year 2022 that in converting to a new enterprise reporting system in fiscal year 2012 certain appropriation transfers out of the General Fund had been incompletely mapped for ACFR compilation purposes, as described below. Until being discovered, this mapping error impacted the ACFRs for fiscal years 2012 through 2021.

The error related to the General Fund's transfers of appropriations to the State's discretely presented component units (DCUs). The DCUs are incorporated into the State's ACFR using information from their separately audited financial statements produced from information from their own separate accounting systems. The DCU financial statements correctly classified these appropriation transfers as revenue and cash. However, when the State's new enterprise reporting system was configured in 2012 the account mapping that was done for compiling the ACFR failed to include the corresponding decreases of General Fund cash for the DCU appropriation transfers.

While this mapping error impacted the ACFR only, in the ACFRs for fiscal year 2012 through 2021 it resulted in a cumulative overstatement of \$4.398 billion in General Fund cash and fund equity during that period. Notably, it had absolutely no impact on the State's actual cash, and the State's central accounting records remained correct throughout.

From: Macdonald, Robert [REDACTED]
 Sent: Wednesday, December 14, 2022 5:22 PM
 To: Eckstrom, Richard [REDACTED]
 Cc: Adams, Clarissa [REDACTED]; Kelly, Shelly [REDACTED]; Starkey, David [REDACTED]
 Morris, Tonia [REDACTED]
 Subject: FW: [External] ACFR Restatement

General Eckstrom,

The questions I have received from Ted at Moody's are listed below.

1. What makes state officials confident that there are no other accounting (or software-driven reporting) irregularities associated with creation of the SCEIS, given its apparently flawed development process? All other areas of the ACFR have been compiled and audited without issue for the past ten years. Because we've encountered no other areas of concern in compiling the ACFR during that time, there is no indication that other coding issues exist. On an ongoing basis, we've encountered no problems with the accounting system that reliably produces the state's general ledger. The sole problem we've encountered and that we've finally solved was with the coding in 2007 done by IT project personnel in mapping certain cash transactions from the general ledger to the ACFR. This was a problem that we isolated in 2022 for which we've created a temporary solution until the incorrect coding is permanently corrected.
2. What safeguards are, or will be, in place to ensure that the state doesn't encounter this sort of problem in the future? This was not an operating or an accounting problem. It was limited to a year-end report writing problem caused by an IT coding error made in 2007 during replacement of the state's aging legacy accounting system and converting to an enterprise-wide business management system.
3. Is the description of the omitted items contained in the first paragraph of this e-mail essentially correct? Can you add any additional information related to these omitted items (such as, were they only related to higher education)? The description of the coding problem and its effect on the ACFR is accurate. The restatement related solely to cash transfers from the General Fund to state entities that are separately audited and therefore are compiled into the ACFR using balances obtained from each of those entity's separately audited financial statements. Seventy-four percent of the \$3.5 billion restatement disclosed in the 2022 ACFR resulted from incorrectly mapped cash transfers between the General Fund and the state's colleges and universities, and twenty-six percent resulted from cash transfers to lump-sum entities and other component units besides colleges and universities that are separately audited and compiled into the ACFR using balances obtained from their separately audited financial statements.
4. Is our understanding of the timeline (discussed in the second paragraph of this email) essentially correct, and can you add any additional specificity on how this evolved, from the time the problem was created in the new coding until the time it was finally identified? Since we began using SCEIS as support for our ACFR in 2012, we had never been able to fully reconcile bank statement cash to cash in the ACFR, which we had mistakenly understood to be cash per books. In FY 2022 we ultimately discovered that an IT coding error had been made in 2007 in mapping certain cash activity from the SCEIS general ledger being developed to the ACFR. However, we had continued using our old legacy accounting system until 2012 to prepare our CAFRs. During FY 2022 we discovered the coding error by analyzing all 2021 cash transaction that had posted in the general ledger, which we then attempted to trace into the 2021 ACFR. In that process we determined that certain cash transfers-out from the General Fund, while properly recorded in the general ledger, had not been assigned a code to properly map them to the ACFR. We also analyzed prior years to determine the impact of this coding error on each of the ACFRs we produced since using SCEIS for our ACFR preparation. That's how the necessary restatement amount was determined. Having made this discovery in 2022, we were able to completely reconcile cash for the FY2022 ACFR. Going forward, we are planning a collaborative approach involving the Comptroller General's Office, the State Treasurers Office, and the Department of Administration (to provide SCEIS/IT support) to correct the coding error between the general ledger and the ACFR that will facilitate a complete cash reconciliation process for assuring that cash is properly stated in future ACFRs.

I believe these are somewhat time sensitive, so as soon as your team can provide responses back to me it would be most appreciated.

Eckstrom, Richard

From: Eckstrom, Richard
Sent: Friday, December 16, 2022 5:43 PM
To: Starkey, David
Subject: Re: [External] ACFR Restatement

Thank you! You too!

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From: Starkey, David [REDACTED]
Sent: Friday, December 16, 2022 5:33:24 PM
To: Eckstrom, Richard [REDACTED]
Subject: RE: [External] ACFR Restatement

Done. Have a great weekend!

From: Eckstrom, Richard [REDACTED]
Sent: Friday, December 16, 2022 4:08 PM
To: Starkey, David [REDACTED]
Subject: FW: [External] ACFR Restatement

Great. Please send our responses to Robert, and ask him to please copy me so we'll know how he uses the information we've provided him for him to incorporate into his response to Moody's. I don't want to take any position that's inconsistent with anything he'll say.

From: Starkey, David [REDACTED]
Sent: Friday, December 16, 2022 3:58 PM
To: Eckstrom, Richard [REDACTED]
Subject: Re: [External] ACFR Restatement

I just read it over and it looks good to me. Thanks!

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From: Eckstrom, Richard [REDACTED]
Sent: Friday, December 16, 2022 3:50:27 PM
To: Starkey, David [REDACTED]
Subject: FW: [External] ACFR Restatement

David,

Thanks for your very helpful input. If you agree with the changes/additions I made, please copy and email our below responses to Robert. I'd like him to receive them from you because I don't wish to get into an ongoing dialogue with Robert. Please also provide him my prior emails to the rating agencies that he requested.

If you disagree or have questions with my suggested responses (in red), please give me a call.

Thanks!

Stigamier, Kelly

From: Starkey, David
Sent: Thursday, November 3, 2022 2:27 PM
To: Stigamier, Kelly
Subject: RE: B-3

Same with SCDOT cash issue too.

From: Stigamier, Kelly [REDACTED]
Sent: Thursday, November 3, 2022 2:27 PM
To: Starkey, David [REDACTED]
Subject: RE: B-3

Yeah, I told him, at least it was this year with the other issues.

From: Starkey, David [REDACTED]
Sent: Thursday, November 3, 2022 2:25 PM
To: Stigamier, Kelly [REDACTED]
Subject: RE: B-3

I'm not mad about it. When we are given the tight deadline we were given with a major GASB implementation and then had so much blow up in our faces this year (major GASB 87 issues at the DCUs and obviously cash), we could not get the ACFR together quick enough to do a proper analytical review on it. That type of thing doesn't come out until you see stuff like that today. Luckily, we caught it first and he's letting them know now. We'll probably still be written up for it, but it's just the way things will be this year and cash is going to far outshine any other issue this year too.

From: Stigamier, Kelly [REDACTED]
Sent: Thursday, November 3, 2022 2:19 PM
To: Starkey, David [REDACTED]
Subject: RE: B-3

10-4. I hate that for Michael, he explained it to me and banged his head against the wall.

From: Starkey, David [REDACTED]
Sent: Thursday, November 3, 2022 2:17 PM
To: Stigamier, Kelly [REDACTED]
Subject: RE: B-3

We'll do it when they're all complete. I'll adjust the billions/millions in the MD&A and there was a asset reclass within the State Accident Fund too (no net change) as well. Lastly, Michael just found a material correction, so we'll have to put that through on the top level. Thanks!

From: Stigamier, Kelly [REDACTED]
Sent: Thursday, November 3, 2022 2:14 PM
To: Starkey, David [REDACTED]
Subject: B-3

Should I reprint the individual pages or will we do that again when these analytics are complete?

Torbert, James

From: Kip, Katherine
Sent: Tuesday, October 25, 2022 4:26 PM
To: Starkey, David
Cc: Torbert, James
Subject: Reconciliation-update

David,

I've retooled the reconciliation to take into account that we will need to do the FMV adjustment for the AFS agencies (they didn't do it), the \$505MM adj for DOT, and the LGIP clear out so that we don't double count. In the end, I found MORE appropriations for DOT that needed to be taken into consideration (it was hiding and had been wiped to zero but I found it) to balance to their STO cash number without a huge "timing" adjustment". I know you said no pivot charts-I literally don't know how to work with this much data quickly without them; I tried to follow that directive in my supporting workpapers.

1. I believe the appropriations and the conversion in orange are one in the same.

We will need to make the following adjustments:

Double counting of LGIP cash at Techs	(41,365,245.95)
Additional FMV write-down adjustment	(399,062,231.40)
Tobacco Settlement Revenue Cash booked twice	(5,195,699.00)
DOT Adj-GL 1100000012	505,160,496.03
Appropriations? Where to Push down the offset	(3,742,946,706)
Conversion	(1,277,788,171.63)

2. The \$399MM is spread amongst the following categories. All but a few million relate to AFS statements NOT carrying the loss on their side. It is a loss.

1 Governmental Activities	2 Proprietary Funds	3 Fiduciary Funds	4 (
128,636,861.60	76,133,297.94	96,141,842.52	

3. In the end we had a net negative timing adjustment of \$247.8MM from the statements to the STO. The largest contributors are:
 I have documented all except the SCTIB and SCRHI.

CAFR Fund Type (3)	Timing Differences Between AFS
1.C Local Government Infrastructure (G-04 SCTIB Infrastructure Bank)	(68,738,247.82)
3.A.6 South Carolina Retiree Health Insurance Trust Fund	(91,371,659.96)
4.g2 Coastal Carolina University	(60,495,390.20)
4.g4 Francis Marion University	37,548,925.36
1.D Department of Transportation	111,683,811.02

4. James is working on double checking my work and assembling a reviewer/auditor friendly file. I have started the new process for note 4 and made a first pass at balancing it to my work.
5. Here is a link to the file:

T:\CAFR\FY22\Notes Backup\Note 04 - Cash and Investments\Cash and Investments Tie Down.xlsm

6. I got this reconciliation down to \$45K variance of which I believe \$55K is related to the fund I told you about that was "unmapped" being that it was a previous AFS fund that now no one know who it belongs to. If you like we can move that to the general fund. Hashanah.



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Johnson, Kathy

From: Richard Eckstrom [REDACTED]
Sent: Saturday, October 29, 2022 3:07 PM
To: Johnson, Kathy
Subject: [External] RESTATEMENT NOTE - DRAFT
Attachments: 91C582E0-6325-47A9-B48F-C32AD05D18BF.Page 147 - Note 15.pdf

Hi Kathy,

David has drafted this ACFR note explaining our correction. It needs some careful re-thinking. We need to logically and understandably explain how the \$4.3 bln misstatement occurred in a way the rating agencies and other readers will be able to comprehend. That's where we need your superior communication talents!

Here are a couple of ideas to try to weave into our explanation:

- rather than referring to converting to a new accounting system, let's consider referring to the state's conversion to a new statewide computer system (or something similar, which doesn't create the impression that it was an accounting error).
- this was an initial mapping error in compiling the ACFR, and not an error within the state's central accounting system. The state's general ledger account activity and balances were not impacted. The error occurred in the process of combining certain account activity and balances of the state's component units, which use their own separate accounting systems outside the state's primary system, with the account activity and balances of state agencies that are accounted for within central state government.

We should guard against our explanation sounding too defensive or off-putting, because for whatever reason it occurred it ended up falling into our lap to own.

These are just my thoughts. If you have other ideas to use to explain the error please use them.

Thanks... this is probably going to be our most important note in the ACFR this year. Your input will be invaluable!!

Richard

Sent from my iPhone
Richard Eckstrom

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
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MEMBERS
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TOM YOUNG



JESSICA WIGINGTON
ANALYST
803-212-6651

February 24, 2023

The Honorable Richard Eckstrom
Comptroller General of South Carolina
305 Wade Hampton Office Building
Columbia, S.C., 29201

Dear General Eckstrom:

Please allow this letter to serve as confirmation and receipt of certain correspondence made within your office dating back to the beginning of October 2022.

Based upon testimony given under oath on February 16, 2023, this subcommittee is under the impression that this was not a full production of correspondence relating to the ACFR and any errors contained within the ACFR. Therefore, in the spirit of cooperation and public service, this subcommittee requests that your office make a supplemental production of all correspondence pertaining to the ACFR, not just information related to the ACFR error. Additionally, please include correspondence dating back to January 1, 2023, up to the date of this letter regarding the ACFR and any correspondence made by your office in preparation of hearings and proceedings held by the General Assembly.

Your preparation and cooperation are very important to our work and duty to the citizens of South Carolina.

Very truly yours,

A handwritten signature in black ink that reads "Larry Grooms".

Senator Larry Grooms
Chairman, Constitutional Subcommittee of the Senate Finance
Committee

cc: The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Henry McMaster, Governor of South Carolina

2022-001 Material Weakness in Financial Reporting – Preparation of Statewide Accounting Records and Annual Comprehensive Financial Report (ACFR) and Audit Adjustments – Comptroller General’s Office

Condition

Internal controls over financial reporting were inadequate to prevent or detect material misstatements during the preparation of the State’s Annual Comprehensive Financial Report (ACFR) and in the supporting accounting records, requiring the Comptroller General’s Office (CGO) to post audit adjustments to the State’s ACFR and restate previously reported balances.

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

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.

Effect

Amounts, as well as disclosures, included in the financial statements were inaccurate and, as a result, audit adjustments and revisions to the ACFR were required. A prior period adjustment was required to correct an error to previously reported balances.

Cause

These errors were not detected during CGO supervisory staff review.

Repeat Finding

Yes, see finding 2021-001 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

Recommendation

We recommend the CGO review its current processes and procedures over (1) identifying and recording adjustments related to reporting packages and other audited financial statements for inclusion in the statewide ACFR and (2) internal review of the ACFR in its entirety in order to strengthen its review procedures.

Views of responsible officials and planned corrective actions

See management’s response on page 14.

2022-002 Material Weakness in Reporting for Statewide Cash and Investment Balances and Prior Period Adjustments – Comptroller General’s Office

Condition

In connection with the State converting its legacy accounting system to the South Carolina Enterprise Information System (SCEIS), a series of related cash accounts in the new general ledger was not properly coded to the State’s Annual Comprehensive Financial Report (ACFR) which is prepared annually. As a result, before the omission was discovered by the Comptroller General’s Office (CGO) during the current year, material activity had been omitted from prior year ACFRs.

Criteria

The CGO develops policies and procedures over financial reporting to ensure the accuracy of the ACFR. Among these is the use of SCEIS functionality to compile the State’s financial statements, including evaluating the completeness of SCEIS information, and identifying and posting adjusting journal entries necessary for the information to comply with generally accepted accounting principles.

Additionally, a critical component of the financial reporting process is the submission by agencies of reporting packages to the CGO to support the amounts that are included within SCEIS. Section 1.0 of the Comptroller General’s Reporting Policies and Procedures Manual states that all reporting package balances must be consistent with balances within SCEIS.

Effect

The cumulative activity in the general ledger accounts improperly omitted from the General Fund’s cash and investment balances that were being reported in the ACFRs resulted in necessary material adjustments to the General Fund’s beginning fund balance in the current year’s ACFR.

Cause

During the multi-year conversion of the State’s legacy system to SCEIS, a series of general ledger accounts had been created but unwittingly not coded to be included within the ACFR. Subsequent post-conversion reviews and reconciliations of activity between SCEIS and the ACFR did not effectively detect the omission of certain activity in these accounts until the current year.

Repeat Finding

No.

Recommendation

We recommend that the State implement procedures to identify, research, and appropriately code all accounts within the State’s reporting entity. Among the procedures and controls that should be instituted is a reconciliation of the State’s pooled cash and investments to cash and investment ownership by individual fund. After seeking potential programming assistance from IT personnel, this reconciliation should be performed quarterly through a collaborative effort of the CGO and the State Treasurer’s Office. Differences noted, if any, should be researched and corrected.

We also recommend that the CGO update its cash and investment reporting package instructions to other agencies and coordinate with them to ensure the information they report in their reporting packages is complete and accurate. Agency reporting packages should include all information needed to be reconciled to SCEIS by fund and general ledger account.

Views of responsible officials and planned corrective actions

See management’s response on page 14.

Summary of Comments from Reports on Internal Control for Fiscal Years 2012 to 2022

In conjunction with our audit of the State's financial statements, we issue a report on internal control over financial reporting, compliance, and other matters. This report is designed to bring to the attention of management and governance any deficiencies in internal control that we identified during our audits. Management is responsible for determining the best course of action to address the issue, and we request a response by management, which is included in the section *Managements' Responses* near the end of each year's report.

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. Deficiencies fall into one of two categories:

A **material weakness** is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement in the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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.

The characterization of a deficiency as a material weakness or significant deficiency is a matter of auditor judgment and is based on the circumstances surrounding the weakness. Deficiencies are often the result of errors or inaccuracies identified by the auditor in information prepared by management and provided to the auditor. Simply stated, the auditor identifying an error or inaccuracy in management-prepared information during an audit is almost always due to a weakness in internal controls.

Since fiscal year 2012, the annual reports on internal control have contained an over-arching deficiency regarding the preparation of statewide accounting records and the preparation of the Annual Comprehensive Financial Report (ACFR). Three specific recommendations have been regularly discussed with management, but not made a specific part of the written recommendation:

1. The need to perform a reconciliation of the State's pooled cash and investments as held by the State Treasurer's Office to the ownership of cash and investments by fund as accounted for by the Comptroller General's Office. This reconciliation is important because it serves as a control to support the allocation of cash and investments by funds as presented in the ACFR.
2. A re-work of Note 4 to the ACFR (or its equivalent) to more clearly support the presentation of cash and investments on the face of the financial statements.
3. A more robust quality control process surrounding the ACFR preparation. Specifically, we have discussed that the Comptroller General's Office should designate at least one high-level staff member who is not involved in the details of ACFR preparation, but who possesses the skills, knowledge and experience to perform a thoughtful and objective review of the completed document to assure that ACFR information is accurate, internally consistent, and appropriately supported by documentation used by or accumulated by staff to support the ACFR preparation process.

For the full text of each deficiency, please refer to the following comments in the report on internal control for the respective fiscal year: **2012-001, 2013-001, 2014-001, 2015-001, 2016-001, 2017-001, 2019-001, 2020-001, 2021-001, 2022-001.**

Additional control deficiencies related to cash and investments reported from 2012 to 2022 and directed to the Comptroller General's Office include the following:

2014. A material weakness in internal controls over financial reporting related to the reconciliation of cash and cash equivalents. We recommended that additional procedures and controls be developed and implemented to ensure that the cash and equivalents reported in SCEIS and the ACFR are reported accurately and in compliance with applicable accounting standards. *See deficiency 2014-002.*

2022. A material weakness in internal control related to the restatement of General Fund cash balances. Our recommendation includes 1) identifying, researching and appropriately coding all accounts within the State's reporting entity; 2) instituting a reconciliation of the State's pooled cash and investments to cash and investment ownership by individual fund (as discussed previously); and 3) updating cash and investment reporting package instructions to other agencies to ensure the information they report is complete and accurate. *See deficiency 2022-002.*

Additionally, the following control deficiencies related to cash and investments were directed to the State Treasurer's Office:

2012: A significant deficiency in financial reporting related to the reconciliation of cash and cash equivalents. We recommended that additional procedures and controls be developed and implemented to ensure that the cash and equivalents provided in the cash reporting package are reported accurately. *See deficiency 2012-005.*

2013: A material weakness in financial reporting related to the reconciliation of cash and cash equivalents provided in the reporting package are reported accurately. We recommended that additional procedures and controls be developed and implemented to ensure that the cash and equivalents reported in STARS and on the cash reporting package are reconciled to SCEIS. *See deficiency 2013-002.*

2015: A material weakness in internal controls over financial reporting related to the reconciliation of cash and cash equivalents. We recommended that additional procedures and controls be developed and implemented to ensure that the cash and equivalents reported in STARS and on the cash reporting package are reconciled to SCEIS on a regular basis to ensure that the State's cash and cash equivalents are reported accurately and in compliance with applicable accounting standards. *See deficiency 2015-002.*

2016: A material weakness in financial reporting related to SCEIS implementation of cash and investments. We recommended that the STO fully complete SCEIS implementation and review its policies and procedures related to reconciliation and review of year-end cash and investment balances. *See deficiency 2016-002.*

2017: A significant deficiency in financial reporting related to SCEIS implementation of cash and investments. We recommended that the SCEIS implementation-related entries be completed in order to verify that all activity is reconciled and appropriately adjusted. *See deficiency 2017-002.*

For fiscal year 2018, there were no control deficiencies identified for any agency. During the 2018 audit, the Comptroller General Office's ACFR preparation team was fully staffed and making what we viewed then as significant progress in improving internal controls surrounding the ACFR preparation process. At least two key members of the ACFR preparation team separated from the Comptroller General's Office prior to the start of the fiscal year 2019 audit.

To assist with locating the deficiencies referenced above, we added highlighting to the deficiency title in the individual reports on internal control attached. Managements' responses are included in each report and are located near the end of the document in a section titled "Managements' Responses", which we also highlighted.

Partial Testimony of Comptroller General Richard Eckstrom
Senate Finance Constitutional Subcommittee - March 7, 2023

(Approximately 1 hour and 2 minutes into testimony:)

SENATOR GOLDFINCH: “Mr. Chairman, I think I have one more question, and then I know that the Senator from Aiken has been waiting. General, have you hired an attorney?”

GENERAL ECKSTROM: “Have uh... have not.”

SENATOR GOLDFINCH: “You haven’t hired an attorney for this issue?”

GENERAL ECKSTROM: “No, I’ve hired a communications person.”

SENATOR GOLDFINCH: “An outside communications person? Who’s that?”

GENERAL ECKSTROM: “Rob... uh... Godfrey.”

SENATOR GOLDFINCH: “Rob Godfrey? Okay. Should we be communicating with Rob or straight to you if we have further questions after this committee?”

GENERAL ECKSTROM: “Uh... with me.”

SENATOR GOLDFINCH: “Okay. Thank you.”

...

(Approximately 1 hour and 31 minutes into testimony:)

SENATOR GOLDFINCH: “My next question, I think my final question, Mr. Chairman. I didn’t write down the second name you said earlier of the guy doing your comms. Did you say, who did you say, Rob who?”

General Eckstrom: “Godfrey.”

SENATOR GOLDFINCH: “Okay. So I’m a little confused because I’ve got an email here from Robert Bolchoz that is dated today that says ‘Mr. Eckstrom has personally engaged me to assist with the production of documents and emails. As you know there is a resolution referencing impeachment. I will be providing him with legal counsel in regard to that.’ Did you mean Robert Bolchoz?”

GENERAL ECKSTROM: “We’ve not discussed legal services at all.”

SENATOR GOLDFINCH: “You’re saying Mr. Bolchoz is lying?”

GENERAL ECKSTROM: “Well, I’m not saying that. Um... You know... um... [unintelligible].”

SENATOR GOLDFINCH: “Well, did you hire Mr. Bolchoz as your lawyer or not? That’s all I’m asking.”

GENERAL ECKSTROM: “Not as my lawyer, not as my lawyer. I’ve hired him and Mr. Godfrey, they work together. Um...”

SENATOR GOLDFINCH: “Well you didn’t tell me about Mr. Bolchoz earlier. I asked you if he was your lawyer.”

GENERAL ECKSTROM: “He’s not my lawyer.”

SENATOR GOLDFINCH: "Okay, so he says 'I will be providing him with legal counsel.' You're saying that's not right?"

GENERAL ECKSTROM: "I hope he won't have to."

SENATOR GOLDFINCH: "Mr. Eckstrom, have you hired Mr. Bolchoz or not? Have you signed an engagement letter with Mr. Bolchoz?"

GENERAL ECKSTROM: "I have. To provide communication consulting advice."

SENATOR GOLDFINCH: "Not legal advice?"

GENERAL ECKSTROM: "I mean, uh, if it comes to that, I would use him. But I, I mean I've not broken any laws."

SENATOR GOLDFINCH: "Okay, I'm not asking you if you've broken any laws. I asked you if you hired a lawyer. And your answer was no, you hired a comms director. But now I find that you have hired a lawyer. You're just saying you haven't broken any laws so hopefully I don't need a lawyer."

GENERAL ECKSTROM: "No, Mr. Bolchoz does communications consulting. If you look at his ad in the Yellow Pages..."

SENATOR GOLDFINCH: "He's also a lawyer, right?..."

GENERAL ECKSTROM: [Unintelligible]

SENATOR GOLDFINCH: "...He's a very good lawyer, by the way. I know him, he does great work. Citadel guy. Upstanding guy. Great work. But he's a lawyer."

GENERAL ECKSTROM: [Unintelligible]

SENATOR GOLDFINCH: "I asked you earlier if you hired a lawyer. And you said no."

GENERAL ECKSTROM: "Um, okay. I mean I, I did not hire a lawyer to give legal advice. I hired a lawyer to give me... I mean I hired a person to give me communications consulting advice."

SENATOR GOLDFINCH: "Thank you, Mr. Eckstrom."

...

(Approximately 1 hour and 35 minutes into testimony:)

SENATOR GOLDFINCH: "I just have a motion, Mr. Chairman."

CHAIRMAN GROOMS: "The Senator is recognized."

SENATOR GOLDFINCH: "I would move, considering that colloquy we just had, I'd move that we include this email from Robert Bolchoz in the record."

CHAIRMAN GROOMS: "Motion has been made. I'll second the motion. Any discussion to the motion? Hearing none, all those in favor, say aye. [The ayes were taken.] Those opposed? The ayes have it. It will be included in the record. With that, I've got no further questions. Any other questions by the committee? Motion for adjournment? [Motion was made.] Motion we now adjourn. All those in favor say aye. [Ayes were taken.] Those opposed? The ayes have it."

(The subcommittee adjourned.)

From: [Quentin Hawkins](#)
To: [Jessica Wington](#); [Catherine Hart](#)
Subject: Fwd: Following Up
Date: Tuesday, March 7, 2023 11:33:47 AM

Let's talk.

Sent from my iPhone

Begin forwarded message:

From: Robert Bolchoz [REDACTED]
Date: March 7, 2023 at 11:29:34 AM EST
To: Quentin Hawkins [REDACTED]
Subject: Following Up

Quentin, thanks for circling back in regard to a potential meeting in reference to the Comptroller General matter.

I agree that it makes sense for us to wait until after this afternoons hearing to decide whether a meeting of some type would be productive.

Mr. Eckstrom has personally engaged me to assist with the production of the documents and emails that have been requested by various parties and to help ensure that media inquiries are promptly and appropriately handled. In addition, as you are aware, there is a resolution referencing impeachment which is pending in the House. I will also be providing him with legal counsel in regard to that should it become necessary

As I have not been retained by the State and will not be paid from state funds, my contract constitutes a privileged communication between me and my client.

If you have any other questions for me, I am at your disposal. You can reach me at [REDACTED]

ROBERT BOLCHOZ
ATTORNEY AT LAW
[REDACTED]
PO BOX 6989
COLUMBIA, SC 29260
WWW.BOLCHOZ.COM

THIS INFORMATION IS INTENDED ONLY FOR THE USE OF THE ADDRESSEE AND MAY CONTAIN INFORMATION THAT IS LEGALLY PRIVILEGED AND CONFIDENTIAL. IF YOU RECEIVE THIS COMMUNICATION IN ERROR, PLEASE NOTIFY ME IMMEDIATELY AT ROBERT@BOLCHOZ.COM OR 803.790.7474.

Response of the Auditors to the testimony of the Comptroller General regarding the performance of cash reconciliations

In the Comptroller General's testimony before the Senate Constitutional Sub-Committee on March 7, 2023, he spoke extensively about cash reconciliations. We are responding to the following points:

The auditors should have performed a cash reconciliation

The Comptroller General indicated that the auditors should have performed a cash reconciliation. We disagree, and believe that cash reconciliation is a duty of auditee management for the following reasons:

- It serves as a control for the information presented in the Annual Comprehensive Financial Report (ACFR)
- It is useful in identifying adjustments to be posted to the general ledger
- It provides information for the financial statement note disclosures

To maintain independence and objectivity, the auditor should not perform duties that are the responsibility of auditee management. In short, the auditor cannot design and implement controls, prepare and post adjustments or create disclosures and then objectively audit the same documentation.

Additionally, auditors have limited access to systems, which is a safeguard to independence. While auditors may be able to view information, they cannot manipulate information. The reconciliation of the pool of cash to the ownership of cash could not be accomplished with the limited access auditors have to systems. Rather the auditors' role is to objectively test the reconciliation to assure it properly supports the information presented in the ACFR.

The CGO does not have responsibility for reconciling cash

In his testimony, the Comptroller General stated that his office does not have responsibility for cash reconciliations. We agree in part, but believe he could have more clearly acknowledged that two types of cash reconciliations are necessary: a reconciliation to bank accounts and a reconciliation to information presented in the ACFR.

The reconciliation of cash to bank accounts is the responsibility of the State Treasurer's Office. However, the reconciliation of the pool of cash as managed by the State Treasurer's Office to the information presented in the ACFR is the responsibility of the Comptroller General's Office, which prepares the ACFR. This reconciliation, however, is only accomplished by collaborating with the State Treasurer's Office.

Response to March 7th Testimony – Office of the State Treasurer

- Has STO ever received a CG request for reconciling to be done a different way?
 - We're not aware of a request from the Comptroller General's Office to perform the reconciliation of custodied funds in a different manner. The State Treasurer's Office provides closing package information as requested by the CG. It is important to note, the CG has access to the same information in SCEIS as the STO.

- Have there been repeated findings after 2013?
 - Yes, we had similar findings to FY13 for FYs 15, 16 and 17, but all were related to the legacy conversion from STARS to SCEIS. Note there were no findings after FY 16-17. The findings, or legacy conversion, had nothing to do with bank cash balances.

- Would the rating agencies impact our rating or have concerns with the removal of a State Officer?
 - To note, we can't speak for the rating agencies. As long as it's a planned, transparent process and the duties and functions are still performed, then we do not have reason to believe there will be a negative impact.

Senate Finance Committee
Constitutional Subcommittee

LARRY GROOMS
CHAIRMAN

MEMBERS
THOMAS MCELVEEN
MIKE FANNING
STEPHEN GOLDFINCH
TOM YOUNG



JESSICA WIGINGTON
ANALYST
803-212-6651

March 9, 2023

The Honorable Richard Eckstrom
Comptroller General of South Carolina
305 Wade Hampton Office Building
Columbia, S.C., 29201

Dear General Eckstrom:

Thank you for attending the Senate Finance Constitutional Subcommittee hearing on March 7, 2023. We appreciate your participation and patience as we continue to investigate the ACFR reporting error.

It is undisputed that the ACFR reporting process necessitates that the State Treasurer's Office provides your ACFR team with closing packages and reconciliations. The State Treasurer testified that his office reconciles cash "back to the banks" and that this is a common and standard practice. Based upon your testimony, this method of reconciliation was not useful to your office's efforts in completing the ACFR. Also, in the "2022 ACFR Cash and Investments Prior Period Adjustment", which you provided our subcommittee on February 9th, you noted the State Treasurer's Office reports were not in a format which the ACFR Team could use to comply with Generally Accepted Accounting Principles beginning in 2011. Therefore, by Monday, March 13, 2023, please provide this subcommittee with all correspondence to the State Treasurer's Office or any other agency showing that your office communicated its needs and expectations in regard to closing packages and reconciliations. Additionally, please provide all correspondence to the State Treasurer's Office indicating that their abovementioned methods were inadequate and or insufficient for your team to successfully complete the ACFR. If no such correspondence exists, please confirm that absence in writing.

Should you have any questions or concerns with the above request, please let me know. Your preparation and cooperation are very important to our work and duty to the citizens of South Carolina.

Very truly yours,

A handwritten signature in black ink that reads "Larry Grooms".

Senator Larry Grooms
Chairman, Constitutional Subcommittee of the Senate Finance
Committee

cc: The Honorable Harvey Peeler, Senate Finance Chairman
The Honorable Bruce Bannister, House Ways & Means Chairman
The Honorable Henry McMaster, Governor of South Carolina



State of South Carolina
Office of Comptroller General

1200 Senate Street
305 Wade Hampton Office Building
Columbia, South Carolina 29201

Telephone: (803) 734-2121
Fax: (803) 734-1765
E-Mail: cgooffice@cg.sc.gov

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL

WILLIAM E. GUNN
CHIEF OF STAFF

March 13, 2023

The Honorable Larry Grooms, Chairman
The Honorable Thomas McElveen
The Honorable Mike Fanning
The Honorable Stephen Goldfinch
The Honorable Tom Young

Dear Senator Grooms,

I have spent considerable time personally attempting to locate documents going back a decade, which would be responsive to your request. I have been unable to locate those documents so far. I will continue to search for them.

However, I wanted to provide you and the subcommittee with background information in good faith, and in the interest of cooperation and collaboration. The subcommittee and the people of South Carolina deserve it.

The background information includes pages from reports issued by the Auditors that serve to support my contention that shortcomings existed in the reconciliation process. Those shortcomings should be, have been and continue to be addressed by our agency and by the Treasurer's Office putting the State on a stronger fiscal footing going forward.

According to your letter, the subcommittee has asked for any communication between the ACFR team and the State Treasurer's Office which would indicate the ACFR team's need for the STO to reconcile cash and investments to amounts recorded in SCEIS. SCEIS became the State's "book of record" in 2012. The ACFR teams' need was communicated during many meetings between the ACFR team, the STO's cash management staff, and the Auditors. One such meeting being planned at that time is referred to in an attached email dated June 11, 2014, from Interim State Auditor Rich Gilbert.

Background

During the many years the State operated on STARS, the STO's cash management staff reconciled its internal Treasury Cash and Investments subsystem "to the bank." But it also provided the ACFR team with reports at year end that cross-walked its subsystem balances to STARS to enable the team to break out cash by fund in compiling the ACFR.

SCEIS ultimately became the State's official "book of record" in 2012. However, in 2012 STO's legacy Cash and Investments subsystem remained on STARS and was not configured to

SCEIS because STO was in the process of developing an upgraded Treasury Cash and Investments subsystem. Once that upgraded subsystem became fully operational in 2017, STARS was finally shut down.

While STARS and SCEIS were running somewhat parallel during this five-year development period, STO accounted for Treasury cash and investments on STARS but also recorded certain components of its cash and investments activity on SCEIS. Consequently, during this development period staff from the Internal Operations Division of the Budget and Control Board (succeeded by Department of Administration staff) were assigned to routinely reconcile differences between cash activity being recorded in STARS and cash activity being recorded in SCEIS.

SCEIS was used for the first time to prepare the State's ACFR in 2012. The previous two-step cash reconciliation process described above that had been developed for STARS was no longer useful because of differences between account configurations of STARS and SCEIS and because of differences between the STO's legacy Cash and Investments subsystem and the new Treasury Cash and Investments subsystem it was developing. In 2012, STO's cash management staff, the ACFR team, and the auditors all collaborated for several months to compile this first SCEIS-based ACFR, and determining the proper allocation of cash by fund was the most difficult and labor-intensive aspect of that compilation. This extensive process resulted in the 2012 ACFR being issued in June 2013, which was six months later than the ACFR traditionally would have been issued.

Until 2017 when the new Treasury Cash and Investments subsystem was completed and the STO converted the balances and activity of cash and investments from STARS to SCEIS, the ACFR team and the auditors encountered similar difficulties each year reconciling STO's cash and investments activity to SCEIS and determining the proper allocation of cash by fund for the ACFR. The auditors repeatedly cited significant and material internal control deficiencies in the STO's lack of properly reconciling cash and investments to SCEIS.

Auditor Findings on STO's Lack of Proper Reconciliations to SCEIS

- The Auditors included a Significant Deficiency finding (2012-05) in the FY2012 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING that said *"the STO did not properly reconcile the cash and investment balances reported in the year end reporting package to the bank activity at June 30, 2012. The year end reporting package submitted by the STO did not contain all cash and investments held by the State, because the STO did not properly reconcile their accounts."* The Auditors recommend that STO develop additional procedures and controls to ensure that cash and cash equivalents provided in the cash and investments reporting package is reported accurately to the ACFR team.
- The Auditors included a similar Material Weakness finding (2013-002) in the FY2013 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING that said *"the STO has not developed procedures to perform reconciliations of their system to SCEIS either periodically or at year end."* They recommended that *"at a minimum the STO should ensure that amounts reported annually to the Comptroller General's Office in its reporting package reconciles to the balanced recorded in SCEIS."*

- The Auditors repeated a similar Material Weakness finding (2015-002) in the FY2015 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING that said *"the STO does not reconcile the amounts and transactions recorded in STARS or in their submitted reporting package to SCEIS."* Their finding indicated that the auditors were required to make audit adjustments in 2015, emphasizing that *"due to the volume of activity relating to the State's cash and cash equivalents, it is probable that the magnitude of the difference in future years will have a material effect on the State's financial statements."*
- The Auditors included a Material Weakness finding (2016-002) in the FY2016 AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING and a Significant Deficiency finding (2017-002) in the FY2017 Report. Both findings related to *STO's conversion to SCEIS and to STO's incomplete reconciliation of activity related to cash and investments which it had recorded in SCEIS during the conversion.* They recommended that *"the STO complete its conversion entries related to cash and investment in order to verify that all activity be reconciled and appropriately adjusted."* The STO's responded that *"the limited conversion entries remaining to be performed will not impact cash, cash equivalents nor investment balances as noted within the CAFR."* In hindsight, this response obviously was not an accurate assessment.

These findings, as photocopied from annual AUDITORS' REPORTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING, are included with this letter. Also included is an email to me dated June 11, 2014, from Interim State Auditor Rich Gilbert in which he discusses the STO's lack of performing cash reconciliations to SCEIS. I am also including my March 9, 2012, letter to Senator David Thomas in which I provided information he requested on the SCEIS project.

Please know that I am happy to answer any questions you might have of these or any other matters.

Sincerely,



Richard Eckstrom

Eckstrom, Richard

From: Gilbert, Rich
Sent: Wednesday, June 11, 2014 12:01 PM
To: Eckstrom, Richard
Cc: Starkey, David; Gunn, Eddie; Early, Bill [REDACTED]; Kessler, Chris
Subject: [REDACTED]; Gentry, George; Moss, Sue
 RE: AUDITING STO CASH, INVESTMENTS AND DEBT

Mr. Eckstrom,

You are requesting that we audit the STO's detail accounting subsystems all the way to SCEIS. Last year we did audit the subsystems to SCEIS and we reported a material weakness because the reporting package did not reconcile to SCEIS.

As I understand it, the STO is providing you with the information that is requested in the reporting package. We audit the reporting package and we trace the data provided in the reporting package back to the STO subsystems. The breakdown seems to be there is no linkage between the reporting package and SCEIS. When STARS was the book of record the STO performed reconciliations between their subsystems and STARS. There is no such reconciliation performed now by the STO. Has your office considered modifying the reporting package requirements to include a reconciliation?

In my role as the external auditor I have a responsibility to report deficiencies. Since your office prepares the financial statements you are responsible for ensuring the financial statements are fairly presented. I believe Proviso 96.2 gives your office authority to issue accounting policy directives in order to comply with GAAP. However, I realize having the authority may not be enough in this case.

I want this issue resolved as much as you do and I would suggest your staff schedule a meeting with the STO staff and audit staff to discuss your concerns. It would be best for Chris Kessler to be involved since he is the manager on this segment and is most familiar with the issue therefore I will need some lead time to coordinate with him.

Rich THE MEETING OCCURED DURING WHICH THE NEED FOR STO TO RECONCILE CASH BALANCES TO SCEIS WAS COMMUNICATED BY THE ACFA TEAM AND THE AUDIT STAFF. NO COMMITMENT WAS GIVEN BY THE STO. AS A RESULT, THE AUDITORS CONTINUED TO CITE THE STO'S RECONCILIATION DEFICIENCIES IN SUBSEQUENT AUDITORS REPORTS ON INTERNAL CONTROLS OVER FINANCIAL REPORTING.

Rich,

In your upcoming audit of STO cash, investments and debt for this year's CAFR, it's essential that you audit the STO's detailed accounting subsystems all the way to SCEIS – the State's book-of-record – and not merely to STARS. As you know, the sole reason the State hasn't yet deactivated STARS is to accommodate STO staff pending the STO's conversion to SCEIS.

Until the State can deactivate STARS, we anticipate that the STO will keep posting its detailed accounting subsystems into STO STARS. STO STARS is a **variant** of the State's STARS-based accounting system that STO staff calls CG STARS, the State's central accounting book-of-record before state agencies went live on SCEIS two years ago.

As you're aware, the State continues to run STARS solely as a STO accommodation. As another STO accommodation, the Budget & Control Board's staff performs monthly reconciliations of STO STARS to CG STARS. As another STO accommodation, the

State's SCEIS team created a system interface to upload to SCEIS the cash, investment and debt entries that the STO posts to STARS.

Throughout State government, each agency that posts entries to the State's central accounting system is responsible for the timeliness, accuracy and completeness of the entries it posts. In this regard, it's always been, and remains to be, an individual agency responsibility to reconcile its accounting subsystems to the State's general ledger (which, again, is SCEIS and not STARS).

Here's the point of this email.

Last fiscal year, your audit fieldwork on STO cash, investments and debt treated **STO STARS** as if it were the State's book-of-record. Doing so simplified your STO fieldwork. But the subsequent request you then made of my Statewide Accounting and Financial Reporting staff to reconcile STARS to SCEIS (to enable you to tie your STO fieldwork to SCEIS) **significantly increased** their workload at an extremely critical time when all our resources instead should have been devoted to assembling the CAFR. Yet we undertook your request to accommodate your audit effort. *However, I lack the staff resources to accommodate a similar request from you this year.*

I understand entirely why you need the reconciliations. But they're a STO responsibility. Consequently, during your upcoming fieldwork it's essential that you work with STO staff to perform your audit work on their subsystems all the way to SCEIS – using STARS to whatever extent as may be necessary.

I very much appreciate your role in planning and overseeing the statewide audit. Please let me know if you have any questions.

Thanks,
Richard

Proviso 96.2 from FY2014 Appropriations Act

96.2. (CG: GAAP Implementation & Refinement) It is the intent of the General Assembly that the State of South Carolina issue financial statements in conformance with Generally Accepted Accounting Principles (GAAP). To this end, the Comptroller General is directed, as the State Accounting Officer, to maintain a Statewide Accounting and Reporting System that will result in proper authorization and control of agency expenditures, including payroll transactions, and in the preparation and issuance of the official financial reports for the State of South Carolina. Under the oversight of the General Assembly, the Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with GAAP. The Comptroller General is also given full authority to conduct surveys, acquire consulting services, and implement new procedures required to implement fully changes required by GAAP.

Proviso 97.2 from FY2023 Appropriations Act

97.2. (CG: GAAP Implementation & Refinement) It is the intent of the General Assembly that the State of South Carolina issue financial statements in conformance with Generally Accepted Accounting Principles (GAAP). To this end, the Comptroller General is directed, as the State Accounting Officer, to maintain an Enterprise Information System for State Government (SCEIS) that will result in proper authorization and control of agency expenditures, including payroll transactions, and in the preparation and issuance of the official financial reports for the State of South Carolina. Under the oversight of the General Assembly, the Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with GAAP. The Comptroller General is also given full authority to conduct surveys, acquire consulting services, and implement new procedures required to implement fully changes required by GAAP.



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June 30, 2021

Christopher P. Morrill

Executive Director/CEO

OFFICE OF THE COMPTROLLER GENERAL

Date	# of Filled FTES
1/1/1998	86.00
1/1/1999	80.00
1/1/2003	75.00
1/1/2005	66.00
1/1/2007	56.00
1/1/2010	45.99
1/1/2012	26.00
1/1/2017	28.00
1/1/2023	26.00

Note: Data prior to January 1, 2010, is from HRIS. Data from January 1, 2010, and after is from SCEIS. All data is based on information keyed by the CG's office into the system and accessed by DSHR on February 23, 2023.