AlixPartners

State Treasury Forensic Accounting Review

Final Report

January 15, 2025

Submitted by AlixPartners LLP

Contents

I. Executive Summary

Scope

In the State of South Carolina (the "State") 2022 Annual Comprehensive Financial Report (the "ACFR") that was released on November 29, 2022, the State disclosed a restatement which decreased reported cash by a total of $3.5 billion. As a result, the Subcommittee of the Senate Finance Committee conducted a public hearing over the facts surrounding the restatement. Additional hearings in 2024 followed related to a particular component of the restatement, the $1,852,455,573 balance in Fund 30350993 (while this balance rounds to $1.9 billion, it is more commonly referred to as the "$1.8 Billion").

As part of the Appropriations Act of 2024, the South Carolina General Assembly included Proviso 93.19 (the "Proviso").[1] Among other things, the Proviso requires the Department of Administration ("Admin") to engage an independent forensic accounting firm to conduct a forensic accounting review of all cash and investments held in the State Treasury. Admin was directed to determine the scope of review necessary for the requirements of the Proviso to be met by the engaged firm.

Admin, with input from the State Auditor's Office ("OSA") and the South Carolina Attorney General's Office, established a Scope of Work for the Forensic Accounting Review[2] consisting of four parts:[3]

1. An analysis of all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled funds managed by the relevant State agencies within the South Carolina Enterprise Information System ("SCEIS") to the Statewide Accounting and Reporting System ("STARS") and, to the extent possible as determined by the Contractor, to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State.

[1] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.

[2] In accordance with requirements set forth in AMENDMENT #1 of the Request for Proposal, we performed our work in accordance with the AICPA's Statement on Standards for Forensic Services (SSFS No. 1). The Forensic Accounting Review covered the period 2014-2023. As discussed in *Determination of an Anchor Year*, and due to limits in document retention, we narrowed our period of review to cover the period between fiscal years 2015 and 2023.

[3] Request for Proposal.

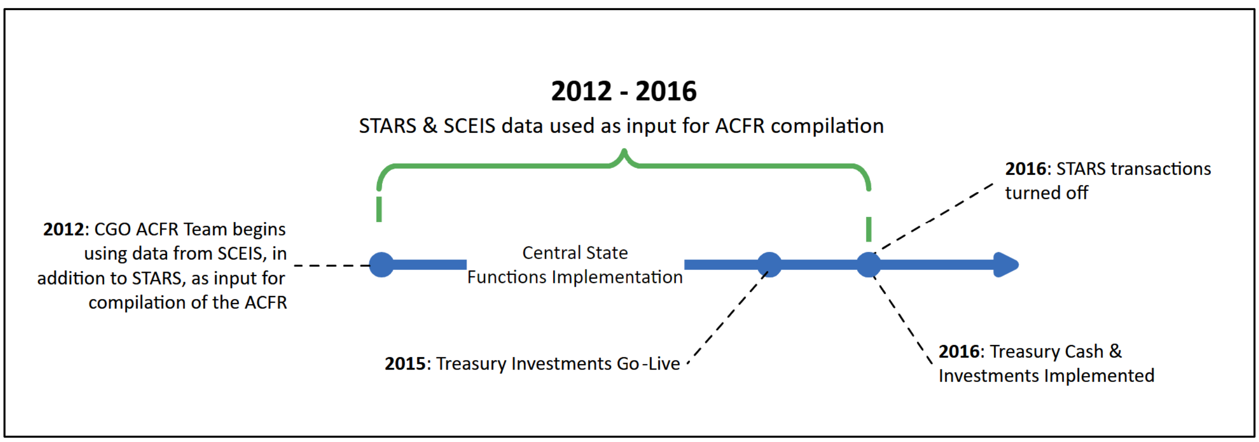
2. An investigation of the $1.8 Billion and a confirmation of the accuracy and impact of the $3.5 billion restatement made in the 2022 ACFR.

3. A determination of accuracy within the SCEIS general ledger accounts for cash and investments as well as a review of the amounts of cash and investments reported in various of the State's historical ACFRs to determine if the amounts of cash and investments recorded in ACFRs were fairly stated and categorized in the appropriate funds.

4. A list of findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future to include any presentations of such findings and recommendations to relevant parties, including the Governor, General Assembly, and other State or federal agencies.

Background

The State's conversion from its legacy accounting system, STARS, to its replacement, SCEIS, began in 2007 and took several years to complete. This conversion occurred in multiple phases with cash held in the State Treasury ("Treasury Cash") and Investments ("Treasury Investments") representing some of the last elements to convert in 2017. The following chart illustrates an overview of the conversion timeline from 2012 to 2016.



The conversion process was further complicated by the 'bank conversion' (which occurred from 2015 to 2017) during which four general ledger cash accounts in STARS (to which the transactions of multiple bank accounts were recorded, and were therefore not reconciled to bank accounts individually) were replaced by bank-specific general ledger accounts (which would be reconciled to bank accounts individually which is a more typical and better controlled practice). We determined the $1.8 Billion and the related portion of the 2022 Prior Period Adjustment ("PPA") stem from this conversion. The corresponding offset to the $1.8 Billion cash balance was initially recorded in a "Conversion Account" but was later moved to and now resides in the liability account 2400600002 (Due to Other Funds- Equity in Pooled Cash). This is the account that has prompted the question of "who owns the $1.8 Billion?".

$1.8 Billion - Background

The $1.8 Billion represents the net cash balance of thousands of journal entries, the ultimate intent of which were to allow the State Treasurer's Office ("STO") to balance the bank general ledger accounts in the SCEIS system to the cash balances maintained in individual banks. The $1.8 Billion is the result of two phases of the STO's bank conversion. During the first phase ("Phase 1"), the STO, working with SCEIS staff, recorded entries in SCEIS to Funds 30350992 and 30350993 to make the balances in SCEIS agree with the balances in the individual bank accounts. The second phase ("Phase 2") was intended to net the historical bank transactions from STARS (which had been transferred over to SCEIS) against these entries recorded to Funds 30350992 and 30350993 such that, at the end of the bank conversion, the sum of the cash balance in those funds would be zero. However, the STO's conversion did not go as intended and Fund 30350993 ultimately accumulated (and still reflects) the $1.8 Billion cash balance.[4]

The $1.8 Billion therefore represents an amalgamation of journal entries that allowed the STO to reconcile SCEIS to the individual bank accounts over which it has custody. However, as we will discuss below, approximately $1.6 billion of the $1.8 Billion is the result of incorrect journal entries recorded during Phase 2 of the bank conversion process and the remaining approximately $200 million is already included in the reported bank balances of the STO. In other words, the $1.6 billion is <u>not</u> actual cash (i.e., it cannot be spent nor appropriated) and the remaining approximately $200 million does <u>not</u> represent cash that is excess or incremental to the funds custodied by the STO. The approximately $200 million is included in the cash balance reported by the STO and belongs to the General Fund.

[4] The balance in Fund 30350992 was transferred to Fund 30350993 prior to the completion of the STO's bank conversion.

$1.8 Billion – Determination of an Anchor Year

In order to understand the origins of the $1.8 Billion, we sought to identify an 'anchor' ACFR (i.e., the most recent ACFR not affected by the conversion process that resulted in the $1.8 Billion).[5] We selected the fiscal year 2015 ACFR under the assumption that it was not misstated beyond the appropriations-related error disclosed in the fiscal year 2022 ACFR because:[6]

(1) Neither Fund 30350992 nor 30350993, from which the $1.8 Billion was derived, carried a cash balance in fiscal year 2015.

(2) The STO used STARS as the source of record for cash and investments in fiscal year 2015.

To test whether we could rely on the fiscal year 2015 ACFR as our anchor year, we replicated the process by which the fiscal year 2015 ACFR was compiled from SCEIS using the ACFR classification logic from fiscal year 2016. This confirmed that SCEIS was the source of record for the fiscal year 2015 ACFR.

We then confirmed that the combined bank balance per the Financial Management System ("FMS"), the 2015 STARS cash balance, and the 2015 STO Closing Package, which reconciled accounts as of June 30, 2015, all agreed within an insignificant difference.[7]

Having confirmed that the fiscal year 2015 STARS balance reconciled to the combined bank balance, we attempted to reconcile STARS to SCEIS, which we had confirmed was the source of record for the fiscal year 2015 ACFR.

We reconciled the two systems within a variance of $7.7 million after accounting for (1) certain 'topside' entries (i.e., topside entries, in general, relate to adjustments made directly to financial statement line items rather than being recorded as journal entries in the general ledger; in the State's case, these represent entries to adjust certain ACFR financial statement line items that were not recorded to SCEIS) and (2) the fiscal year-end balance for an agency which was part of the ACFR General Fund in STARS known as Agency '000'. This confirmed that (1) the 2015 ACFR

[5] Due to limitations in the retention of banking records, a reconciliation of banking data to the general ledger could not be performed for fiscal year 2014.

[6] All fiscal years in the scope of our review were impacted by the appropriations-related error disclosed in the fiscal year 2022 ACFR.

[7] The STO provides bank and investment account data to the Comptroller General's Office for ACFR preparation in a closing package/file. The data is reconciled to third party financial institutions and to SCEIS bank and investment general ledger accounts. Differences were less than $200,000.

was not affected by the $1.8 Billion (i.e. 2015 was an appropriate anchor year); and (2) the fiscal year-end 2015 balance of Agency ‘000’ was excluded from the STARS to SCEIS conversion. As we will discuss, we believe this omission contributed to the $1.8 Billion.

$1.8 Billion - History

The $1.8 Billion originated in Funds 30350992 and 30350993, neither of which had been historically included in the ACFR. Fund 30350992 (which was originally used to record transfers between banks and the STO’s investment custodian) and 30350993 (which was originally used to record transfers between banks) were both repurposed to record adjustments to SCEIS to balance to the bank statements. Today, the entirety of the $1.8 Billion is reflected in Fund 30350993.[8]

The Comptroller General’s Office (“CGO”) and the STO were both aware of the (what we now know to be an incorrect) decision to exclude Fund 30350993 from the ACFR in fiscal year 2016 and the years thereafter. In fiscal year 2016, when the CGO informed the STO that Fund 30350993 would be excluded from the ACFR, STO responded by explaining to the CGO how Fund 30350993 would be used, stating that “we at STO will need to consider [include] the activity in this fund to balance the system to the BANK.” In other words, Fund 30350993 contained entries made by the STO to adjust for any differences between the State’s accounting system and the bank balance such that the two would match.

The STO, working with SCEIS staff, began to adjust SCEIS (the State’s accounting system) to align to the bank in fiscal year 2015 as part of Phase 1. However, it was not until fiscal year 2016 that either fund started accumulating a cash balance.[9] By the end of fiscal year 2016, Funds 30350992 and 30350993 had cash (and corresponding conversion) balances of $1.56 billion and $17.2 billion, respectively.[10] The STO did not investigate the underlying cause of the differences between the State’s accounting system and the bank. Instead, they held broader theories that any variances would “wash” upon completion of the conversion such that the total cash balance in Funds 30350992 and 30509933 would net to zero. We understand a former STO employee was more focused on ensuring SCEIS balanced to the bank accounts rather than understanding the reason for any imbalance. The STO should have investigated these variances, given the bank

[8] The balance in Fund 30350992 was transferred to Fund 30350993 in fiscal year 2017.

[9] Under their original uses, neither fund carried a cash balance as transfers between banks would net to zero.

[10] The first entries which increased the fund balance of 30350992 and 30350993 were recorded on 10/31/2015 (in fiscal year 2016). Confirmed via SCEIS query of Fund 30350992 and 30350993.

conversion impacted more than one fiscal year. Additionally, the CGO should have been more involved in the STO's conversion process to determine its impact on the ACFR reported amounts.

In fiscal year 2017, the STO's efforts were focused on Phase 2 of the conversion during which any remaining cash balances from the State's legacy accounting system were cleared against the entries recorded in Phase 1. Consistent with its goal of completing the conversion, the STO transferred the balance in Fund 30350992 of $1.56 billion to Fund 30350993 on June 27, 2017, with the understanding that "all conversion activity within 30350992 represented bank conversion activity with [Bank of New York Mellon]. Inasmuch as all other banking conversion activity resides within 30350993..."[11, 12] However, contrary to the STO's expectations, when the conversion was effectively completed at the end of fiscal year 2017, a cash balance of $1.56 billion remained in Fund 30350993 and the same amount as a credit in account 9999999999 (the "Conversion Account").[13]

Recognizing the inconsistency of the remaining balance with their expectations for the conversion, a former STO employee proposed writing off the $1.56 billion balance in the Conversion Account under Fund 30350993 as a PPA to the ACFR General Fund.[14] Under this proposal, the cash portion of Fund 30350993 would remain, as the STO needed that balance to tie back to the bank account balances. The former STO employee was informed by the CGO and a representative from CliftonLarsonAllen LLP ("CLA"), the State's external auditors, that neither would accept that decision. Instead, the STO ultimately transferred the $1.56 billion balance in the Conversion Account under Fund 30350993 to a liability account in the same Fund with the explanation that the balance originated from the balance in Fund 30350992. However, no effort was made at that time to determine to whom the resulting liability was owed. As we will describe later, while the balance that originated in Fund 30350992 is numerically similar to the Conversion Account balance remaining in Fund 30350993 as of fiscal year-end 2017, this is merely coincidental as the latter contained certain incorrect entries which, if corrected, eliminates any similarity.

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[11] Bank of New York Mellon ("BONYM"). Confirmed via SCEIS query of Fund 30350993.

[12] Confirmed via SCEIS query within the Display note "Reason for AJE" annotated by a former STO employee.

[13] The Conversion Account was the offsetting account to which all entries that comprise the $1.8 Billon were recorded.

[14] A former STO employee explained that despite the file proposing the PPA to Fund 30350993, he communicated to CliftonLarsonAllen that the PPA should be recorded to the General Fund.

After this decision, additional entries were recorded to Fund 30350993 between 2018 and 2021.[15] Most of the increase occurred in fiscal year 2018, during which a $324 million entry was recorded which increased the balance within Fund 30350993 to $1.8 Billion. This entry is among the entries which we have determined were incorrect as discussed below.

To Whom Does the $1.8 Billion Belong?

We determined that approximately $1.6 billion of the $1.8 Billion did not represent real cash. It is attributed to balances in certain ACFR-Only business areas ("ACFR BAs") that were incorrectly recorded to Fund 30350993 during Phase 2 of the bank conversion. These balances represent a summation of adjustments previously recorded by the CGO during the ACFR preparation process, and as such, the failure to recognize what these accounts represented had the unintended consequence of artificially inflating the balance in Fund 30350993. These entries were the primary reason that the Conversion Account did not net to zero upon completion of the conversion as intended.

The CGO has confirmed via tests (which we have verified), that reversing the $1.6 Billion ACFR BA entries leaves an approximately $245 million net cash balance with an offsetting liability under Fund 30350993. The $245 million is the only portion of the $1.8 Billion that was ever investable/spendable cash and is, and has been, included in the bank balances reported by the STO. It should be noted that upon reversing the $1.6B entries that the bank balances in SCEIS remain the same and continue to reconcile to the bank statements. As we will discuss in this Report, we believe the CGO should record these reversal entries as proposed.

As mentioned above, during our determination of our anchor year, we identified an agency which belonged to the ACFR General Fund in STARS known as Agency '000' which does not appear to (but should) have been converted from STARS to SCEIS. The balance of this agency, which represents a portion of the ACFR General Fund, was approximately $234 million at the end of fiscal year 2015. This balance therefore accounts for the majority of this $245 million that was ever investable/spendable cash. As this balance is already captured in the bank accounts over which the STO has custody, an adjustment to the general ledger is required such that it is properly reflected within the ACFR. We have not determined the origin of the remaining $11 million; as

[15] Five entries totaling ($197,647), which were not a focus of our investigation, were recorded to this fund between 2019 and 2021.

such, less than 1% of the $1.8 Billion could not be fully identified. However, given that no agency has made claim to this money over a period of several years, we agree with the CGO that the full $245 million should be recorded to the ACFR General Fund. Again, this does not represent cash that is excess or incremental to the funds custodied by the STO.

2022 Restatement

Through our analysis and testing, we confirmed that the cumulative net amount of the PPA (i.e., $3.5 billion) recorded in the fiscal year 2022 ACFR is accurate. We do not, however, believe that the allocation of the PPA across certain years prior to 2022 as reflected in the Statistical Tables is accurate. This conclusion is based on what we deem to be an unsupportable methodology employed by the CGO to quantify those adjustments for fiscal years 2012 through 2017, as well as a 2024 analysis performed by the CGO for fiscal year 2016 which yielded a different result than what was reflected in the Statistical Tables.

The traceability of the PPA in the 2022 ACFR was further complicated by two topside entries recorded by the CGO. After recording the PPA entries to correct for the overstatement of cash, the CGO circulated a draft version of the ACFR to the auditors reporting a cash balance of zero in the General Fund. This presentation was intended to comply with Governmental Accounting Standards Board ("GASB") standards when a fund's cash balance is negative. However, in response to a potentially misinterpreted comment from the State Auditor, the CGO then recorded two topside entries which reclassified $3.7 billion from the investments line item to the cash line item of the ACFR General Fund resulting in a reported ACFR General Fund cash balance of $3.0 billion.[16] This treatment of a negative cash position in the 2022 ACFR is inconsistent with the State's presentation in the fiscal year 2023 ACFR, in which the General Fund reported a zero balance in lieu of a negative cash balance (consistent with GASB). Other than the acknowledgement that GASB precludes the presentation of a negative cash balance, we have not received satisfactory explanation or adequate documentation to support the amount of these topside entries.

[16] The cash balance of the ACFR General Fund was approximately negative $700 million prior to these topside entries.

Tie out of Cash and Investments

Parts 1 and 3 of our Scope of Work required that we (1) corroborate Treasury Cash and Treasury Investments with external sources; and (2) assess the accuracy of the cash and investments balances in SCEIS and, by extension, the reported cash and investments balances in the State's historical ACFRs. We relied on a workpaper which the CGO referred to as the 'Crosswalk' to perform both tasks. The Crosswalk provides a detail breakdown of statewide cash and investments by fund as reported in the ACFR.[17] For each Crosswalk provided for fiscal years 2016 through 2023, we (1) independently traced the cash and investment balances by fund to the relevant ACFR exhibits and (2) independently generated the SCEIS data underlying the Crosswalk.[18]

We also conducted a historical analysis that identified any changes in the categorization or placement of cash and investments in the ACFR (i.e., the Fund under which they were reported). All changes identified were adequately explained by the CGO.

Consistent with part 1 of our Scope of Work, we reconciled (within minor variances generally attributable to timing differences) third-party bank records gathered from the STO to the portion of the Crosswalk related to cash held in the Treasury (except as noted below).

To confirm the investments held by the STO, we compared the fair market value per the SCEIS NVEST reports (which we understand are pulled from a direct feed from the STO's investment custodian) to a portion of the Crosswalk pertaining to Treasury Investments. During this tie-out, we noted some differences in various funds that upon review of documents provided were understood to be items related to non-Treasury investment categories.

To address part 3 of our scope of work, we also independently selected a sample of cash and investments reported by Audited Financial Statement ("AFS") entities[19], which are also reported in the ACFR, which we reconciled to the Crosswalk files.[20]

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[17] Please refer *ACFR Compilation Process – Crosswalk File Overview* section for more details on how the Crosswalk files were built.

[18] A Crosswalk file did not exist for fiscal year 2015, so we created our own. See discussion of Anchor Year in this Report.

[19] AFS agencies have their financial audit performed by a third-party accounting firm that then provides audited financial statements to the CGO.

[20] To reconcile the sample of AFS cash and investment balances per the AFS audited financial statements with the Crosswalk files for fiscal years 2017 through 2019, we used a summation file created by the CGO to agree the higher education cash and investment balances per the AFS entities with the Crosswalk within differences less than $1 million. The higher education cash and investment balances for these years averaged approximately $2 billion and $1 billion, respectively.

Conversely, we could not reconcile the State Treasurer's 'Composite Reservoir' Accounts ("CRA") to the Crosswalk.[21] The CGO explained that because certain AFS entities have balances in the CRA that are not reported in SCEIS, SCEIS cannot be reconciled to the CRA balance reported by the STO. While this was a limitation and we have recommended that the recording of CRA activity be standardized, we do not believe this is indicative of any error. While we could not independently reperform the CGO's process, the current process by which the CGO compiles this information from the STO, the AFS entities and SCEIS, albeit cumbersome, appears to adequately quantify these balances as reported in the ACFR.

Furthermore, the CGO's documentation was insufficient to allow us to independently corroborate the 'CGO Adjustment' components of the Crosswalk. While these amounts do not represent Treasury Cash and Treasury Investments, they are included in the cash and investments balances reported in the ACFR. Given these limitations, we could not fully assess the accuracy of the cash and investments balances in SCEIS and, by extension, the ACFRs.

Auditor Involvement

While we were not specifically tasked with assessing or opining on the State's audit function, we identified certain documents that establish the auditors' involvement in relevant events in the history of the $1.8 Billion (in addition to their involvement in the topside entries recorded to the 2022 ACFR discussed above).[22]

We observed a series of analyses that the STO and CGO shared with the auditors as part of the fiscal year 2016 audit, which we believe were intended to show how the STO's conversion (which was still underway) would ultimately resolve itself the following year. Contrary to our understanding of the expectations of the conversion, none of these analyses shared with the auditors indicated that the conversion would result in a zero balance in the Conversion Account upon completion. On November 22, 2016, the CGO shared a version of this analysis with the auditors which reflected a "$366.8 million…unconsumed conversion balance." On December 6, 2016, an updated version of this analysis was shared with the auditors reflecting a revised balance of $388 thousand. However, this balance was the result of the CGO and STO removing certain

[21] Please refer to *ACFR Compilation Process – Assessing the Accuracy of Crosswalk Files* section for a comprehensive explanation of cash tie-out.

[22] Unless otherwise noted, reference to 'Auditors' shall constitute both OSA and CLA.

'reconciling items' which included, among other items, the $1.56 billion balance that originated from Fund 30350992.[23] The auditors could not articulate why the $1.56 billion balance that originated in Fund 30350992, as a reconciling item, would have prevented the Conversion Account from reaching a zero balance at the end of the conversion.

As part of its fiscal year 2017 audit, when the conversion had been completed, the auditors similarly attributed the $1.56 billion balance as of fiscal year end 2017 in Fund 30350993 to the balance that originated in Fund 30350992 without an apparent understanding of how the balances were related, other than they coincidentally were similar.[24]

In addition to these apparent instances of insufficient documentation, we identified, through conversations with various stakeholders, opportunities to reevaluate both the reporting structure of the OSA (i.e., to the State Fiscal Accountability Authority of which the Comptroller General and State Treasurer are members) and the joint (i.e., 50/50 split) auditor relationship between OSA and CLA.

[23] We found no information that indicated how CLA got comfortable with this analysis.

[24] We did not identify any explanation within the fiscal year 2017 audit workpapers that described why the balance which originated in Fund 30350992 related to BONY would not have netted to zero, and we are not aware of any further work performed on the ending balance.

II. Recommendations

We have recommended that the State implement remedial measures to address certain root causes that contributed to the issues we were asked to investigate and mitigate the likelihood of reoccurrence. We have categorized our recommendations with brief summaries below. For further detail and context on each recommendation, please refer to the corresponding page number of this Report.

We recommend that compliance with all recommendations herein be assessed and overseen by an independent third party that is retained by, and reports to, the State.

#	Recommendation	Relevant Party(ies)	Page Number
1	Hire an independent third party (e.g., independent compliance consultant) to assess and oversee compliance with all recommendations in this report.	The State of South Carolina	55

We identified certain opportunities for the State to reevaluate OSA's reporting structure and for OSA to reevaluate its relationship with CLA. These recommendations seek to enhance the OSA's independence, credibility, and its ability to efficiently conduct its audits.

#	Recommendation	Relevant Party(ies)	Page Number
2	Evaluate the sufficiency of the joint audit structure between OSA and the State's external audit firm, CLA, to ensure it is operating as intended. Consider changes as needed.	OSA	65
3	To ensure that there is no appearance of an impairment of independence, the reporting structure of the OSA should be revised such that it no longer reports to the Comptroller General or the State Treasurer.	The State of South Carolina	66

We also observed a lack of cooperation between the STO and CGO. Accordingly, we have made certain recommendations to foster communication between the two agencies.

#	Recommendation	Relevant Party(ies)	Page Number
4	Develop comprehensive policies and procedures outlining the roles and responsibilities of the STO which must require that the STO report (and independently confirm, as needed) cash and investments in its custody by agency and fund at least annually.	STO	37
5	Develop comprehensive policies and procedures outlining the roles and responsibilities of the CGO which must require that the CGO reconcile cash and investments by agency and fund in SCEIS, the accounting system of record, to the information provided by the STO and AFS agencies.	CGO	37
6	Consider changes to the CGO's and STO's duties and structure to enable better cooperation between the two agencies.	The State of South Carolina	55
7	Provide training and related documentation to the STO that explains where cash and investments in the STO Treasury show up in the ACFR and how negative cash can occur. Documentation should be sufficient to allow the STO to independently quantify the ACFR General Fund cash balance using information to which it already has access.	CGO	55

Throughout our investigation, we identified opportunities for the CGO to improve its capabilities, processes and documentation. These recommendations seek to address those shortfalls.

#	Recommendation	Relevant Party(ies)	Page Number
8	Establish a checklist for determining when the ACFR can be publicly released. The ACFR should not be released until all necessary steps and audit procedures have been completed to ensure the quality and accuracy of the reported information. ACFR release date should not place undue pressure such that less work is performed, or issues are insufficiently resolved in order to achieve an unrealistic deadline.	CGO	39
9	The CGO should assess the need to hire additional CGO staff and/or outside assistance to prepare the ACFR and better distribute workloads.	CGO	40
10	Establish a formalized process by which appropriations as recorded in SCEIS are reconciled to the amounts reported in the AFS entities' financial statements and the corresponding legislative documents.	CGO	48
11	Implement a standardized procedure for tracking and documenting errors, corrected and uncorrected, to ensure they are identified, analyzed, and corrected (if needed). Procedure should establish requirements for elevation to appropriate levels within the CGO and to the auditors.	CGO	52
12	Revise the existing entry policy to enumerate the specific situations under which late entries (i.e., topside entries) are permitted. The policy must also be amended to set the minimum level of documentation required for all entries, including topside entries.	CGO	53

#	Recommendation	Relevant Party(ies)	Page Number
13	Establish a process by which non-standard adjustments to cash and investments reported by AFS entities are identified and evaluated.	CGO	61
14	Establish a minimum standard for all accounting and financial reporting workpapers such that an external party can both understand and reperform the process. Documentation should include information sufficient to understand the purpose of the workpaper and the source of the information.	CGO	61
15	Establish requirements for the level of quality review required for all ACFR-related workpapers and how such review is documented.	CGO	62
16	Establish a policy outlining the situations in which the CGO is permitted to adjust information it receives from various agencies and a process by which such adjustments must be communicated to the affected agencies.	CGO	63

Through our review of the fiscal year 2022 ACFR, we identified multiple ways in which the ACFR compilation process could be improved. These improvements include the disclosures in the ACFR, the presentation of the statistical tables, and the way in which the $1.8 Billion should have been recorded. These recommendations are intended to ensure that the CGO evaluates the 2022 ACFR (and relevant portions of prior ACFRs), takes necessary corrective actions, and develops policies to ensure compliance going forward.

#	Recommendation	Relevant Party(ies)	Page Number
17	The CGO should record two sets of entries to SCEIS to properly reflect the $1.8 billion cash balance: (1) reverse the $1.6 billion incorrectly-converted ACFR Business Area balances as proposed by the CGO; and (2) record an entry to SCEIS for $245 million as a debit to account 2400600002 (Due to Other Funds – Equity in Pooled Cash) in Fund 30350993 and a credit to account 7000001000 (Prior Period Adj – CAFR) (i.e., the restatement account) within the ACFR General Fund.	CGO	45
18	Consider whether to clarify Note 15 of the fiscal year 2022 ACFR including, but not limited to, whether to specifically identify and quantify the relevant components.	CGO	46
19	Evaluate the accuracy of the amounts in the statistical tables as reflected in the fiscal year 2022 ACFR. If materially inaccurate, determine if revisions necessitate changes in presentation and/or disclosure prior to issuing the fiscal year 2024 ACFR.	CGO	51
20	Establish a policy or procedure that outlines the CGO's position on accounting for negative cash (with relevant Generally Accepted Accounting Principles ("GAAP")/GASB citations) and the related accounting and disclosure requirements to ensure compliance and consistency in application.	CGO	54
21	Assess all prior topside entries or other adjustments and disclosures related to offsets of negative cash balances to ensure compliance with relevant accounting standards.	CGO	64

We identified certain instances in which SCEIS could be better utilized or improved. These recommendations are intended to ensure SCEIS best supports the functions of the CGO and STO.

#	Recommendation	Relevant Party(ies)	Page Number
22	Eliminate any workarounds to the standard entry workflow. Reevaluate permissions in SAP for all STO staff.	CGO and SCEIS	41
23	Evaluate the current configuration of SCEIS including, but not limited to, the configuration of the cash in the budgetary General Fund to determine whether changes are warranted.	CGO, STO, and SCEIS	45
24	Ensure that all agencies including the STO are using SCEIS for tracking cash in all CRAs. This will improve the efficiency and accuracy when developing the yearly ACFR.	CGO, STO, and SCEIS	58
25	Establish a mechanism by which the CGO is notified of any changes to the State's entity structure to ensure that all relevant AFS entities are captured in the State's ACFR.	CGO	60

III. Background

The South Carolina General Assembly included Proviso 93.19 as part of the Appropriations Act of 2024.[25] Among other things, the Proviso requires Admin to engage an independent forensic accounting firm to conduct a forensic accounting review of all Treasury Cash and Treasury Investments. Admin was directed to determine the scope of review necessary for the requirements of the Proviso to be met by the engaged firm.

Specifically, the Proviso stated,

> "[T]he Department of Administration must engage an independent forensic accounting firm, experienced in forensic accounting, to conduct a forensic accounting review of all cash and investments held in the State Treasury. The scope of the review, as determined by the Department of Administration, must include, but not be limited to, all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled fund managed by the relevant State agencies within SCEIS to STARS and, to the extent possible as determined by the engaged accounting firm to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State. In addition to the foregoing, the review must include findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future. A final report from the accounting firm must be submitted by the Department of Administration to the Governor, President of the Senate, Chairman of the Senate Finance Committee, Speaker of the House of Representatives, and Chairman of the House Ways and Means Committee by December 31, 2024, and an interim report submitted by September 30, 2024, the Department of Administration may in its sole discretion elect to extend the completion date of the review if necessary."[26]

The Proviso mandated that "The Office of State Treasurer, the Office of Comptroller General, the Office of State Auditor, and all other agencies of the State … designated by the Department of

[25] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.
[26] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.

Administration"[27] must cooperate with Admin and the independent forensic accounting firm for purposes of this engagement.

Through a Request for Proposals, Admin, with input from the State Auditor's Office and the South Carolina Attorney General's Office, established a Scope of Work for the Forensic Accounting Review[28] consisting of four parts:[29]

1. An analysis of all cash and investments held in the State Treasury and the reconciliation and balancing of all such cash and investments with any unreconciled funds managed by the relevant State agencies within SCEIS to STARS and, to the extent possible as determined by the Contractor, to such external statements and records of financial institutions, investment firms, trustees, or any other third-party holding cash and investments on behalf of the State of South Carolina (the "State").
2. An investigation of the $1.8 Billion in SCEIS Fund 30350993 and a confirmation of the accuracy and impact of the $3.5 billion restatement made in the 2022 ACFR.
3. A determination of accuracy within the SCEIS general ledger accounts for cash and investments as well as a review of the amounts of cash and investments reported in various of the State's historical ACFRs to determine if the amounts of cash and investments recorded in those ACFRs were fairly stated and categorized in the appropriate funds.
4. A list of findings and recommendations for any corrective entries and actions necessary, along with recommendations for procedures and controls to be implemented in the future to include any presentations of such findings and recommendations to relevant parties, including the Governor, General Assembly, and other State or federal agencies.

[27] Statutes At Large General and Permanent Laws-2024, Section 93-D500-Department of Administration, p. 512.

[28] In accordance with requirements set forth in AMENDMENT #1 of the Request for Proposal, we performed our work in accordance with the AICPA's Statement on Standards for Forensic Services (SSFS No. 1). On 12/13/2024, Admin extended the completion date of the review to 1/15/2025.

[29] Request for Proposal.

South Carolina Code of Laws Section 11-7-20 assigns responsibility for the preparation of the State's Basic Financial Statements to the Comptroller General and requires the Financial Statements be audited or cause to be audited by the State Auditor's Office. [30]

The OSA serves as the independent audit function of the state. The OSA contracts external auditors to perform annual audits of AFS agencies and to assist with the audit of the statewide ACFR. The OSA and the external audit firm it has retained, CLA, issue a joint opinion on the statewide ACFR in the Independent Auditor's Report.[31]

The CGO, through its Central State Financial Reporting Department ("ACFR preparation team")[32] began preparing an ACFR in 1988.[33] The CGO began recording entries to the new accounting system that was being developed called SCEIS in 2009. The State used SCEIS as the source of record, at least in part, as early as 2012, with full implementation completed by 2017.[34]

SCEIS is an enterprise resource management system capable of double entry accrual accounting transactions at three 'levels': account, fund, and business area.

- The account level, like most accounting systems, provides the classification for managerial evaluation of the operations of the State. The numbering of the General Ledger Accounts provides general guidance as to the financial statement reporting.
- The fund level, which exists primarily for legal accounting and reporting purposes, is required by GAAP for governmental entities. SCEIS maintains more than 2,800 funds and each fund is a self-balancing set of accounts such that the sum of all accounts across a given fund should net to zero.[35]
- The business area level is maintained by the CGO within SCEIS which correspond to the various State agencies for reporting purposes. The business area field identifies each organizational unit and fund. The business areas ultimately roll-up to nine ACFR BAs

[30] Comprehensive Annual Financial Report by the State of South Carolina CGO, June 2019.

[31] The State currently contracts CLA to conduct a joint audit of the ACFR.

[32] Beginning in 2021, in accordance with GASB Standard No. 98, South Carolina changed the title of its annual financial reports to the ACFR, switching from its historic title of CAFR. Unless referring to a specific title/document, all references to 'CAFR' have been replaced with 'ACFR'.

[33] Comprehensive Annual Financial Report by the State of South Carolina CGO, June 2019.

[34] Amendment One to RFP, p. 4.

[35] Confirmed via SCEIS query of fund key.

within SCEIS to assist in compiling the ACFR.[36] The ACFR BAs are unrelated to day-to-day accounting activity and their only purpose is for use by the ACFR preparation team to assemble the ACFR.

The ACFR breaks down cash and investments by fund as required by GASB 34.[37] The most relevant fund to the State's ACFR is the General Fund. The term, General Fund, holds a different meaning depending on the perspective of the party involved and the context in which it is being discussed. Legislators and State agencies often define the General Fund strictly in budgetary terms, referring only to appropriations authorized by the Annual Appropriations Act. The STO maintains seven State fund portfolios which hold the State's cash and investments, one of which is designated as the General Fund Portfolio. In contrast the CGO uses the GASB definition, which considers the General Fund the primary governmental fund that accounts for all financial resources not required to be reported in another fund. The General Fund in the ACFR consists of balances from funds beginning with 1, 2, 3, 4, 5, 6, 9 and HRPAY in SCEIS. The GASB definition of General Fund used by the CGO in the ACFR is not synonymous with either the General Fund defined strictly in budgetary terms nor the General Fund Portfolio as defined by the STO. The GASB definition of General Fund ("ACFR General Fund") is the one we will use in this Report except as otherwise noted.

IV. Document Collection and Review Process

a. Overview

We worked with relevant personnel at the STO, CGO, OSA, and Admin to understand responsibilities, reporting lines, and any information regarding prior investigative work. To guide our efforts, we developed a workplan to outline and prioritize our tasks and then executed it accordingly.

Our primary source of information supporting this engagement consisted of Admin-facilitated requests directed to the CGO, STO, OSA, and the SCEIS team. We submitted 175 requests and received more than 23,000 documents in response. In addition to these documents, we

[36] ACFR BA's include: A000 (General Governmental), H000 (Education), J000 (Health-Environment), L000 (Social Services), N000 (Admin of Justice), P000 (Resources-Econ Dev), U000 (Transportation), V000 (Debt Service), and X000 (Intergovernmental).

[37] GASB 34 states, "Each of the fund statements should report separate columns for the general fund and for other major governmental and enterprise funds."

supplemented our understanding with documents and information that we pulled from certain additional sources, namely electronically stored information and system data. Subject to the limitations noted at the end of this report, the combination of these sources, along with interviews and discussions, has provided a robust collection of insights for our review, which we have outlined below.

b. Documents from the Working Group

Prior to Admin's engagement with AlixPartners, the Governor established the Working Group comprised of employees from the STO, the CGO, the OSA, the Attorney General's Office, the Governor's Office and Admin to study the $1.8 Billion in question as well as the 2022 restatement and gather information and documentation related to the issue. The Working Group gathered information such as bank statements, information related to certain entries, cash and other year-end closing packages, and legacy system information. The Working Group also performed various analyses of this information. Admin created a data platform to allow direct access to thousands of entries related to the funds in question. Admin provided us access to the data in the platform and we leveraged this information for analysis. Additionally, we have participated in several Working Group meetings to better understand the State's financial processes.

c. Electronically Stored Information

As part of our historical review, we obtained documents with the help of Admin primarily from two sources:

1. Documents (emails, attachments and standalone files) collected by Admin directly from the State's servers for 15 employees (current and former); and
2. Emails extracted from archive files collected by Admin for the aforementioned individuals.

Through these sources, we collected and processed over 1.1 million documents spanning from 2015 through as recently as December 16, 2024, which we reduced to approximately 210,000 using search terms.[38] Of those, we focused our attention on the documents that coincided with key events in the conversion (i.e., 2015-2018) while also running targeted searches over the remaining

[38] The data range for documentation expanded iteratively as needed.

universe of documents. Through this two-pronged approach, we reviewed in detail approximately 11,000 documents.

In addition to these documents, we relied on two other sources for discrete sets of documents:

1. King & Spalding, the firm engaged by the SC Attorney General to represent the State in matters related to this subject, provided certain documents for our review that were identified during its investigation.
2. Admin provided file indices of certain shared folders maintained by the CGO, from which we requested certain potentially relevant documents not otherwise received.

d. System Data

We performed certain procedures to understand the State's information-technology systems and architecture, collect and prepare relevant data for processing, documents, and information, and develop analyses in response to the RFP requirements. We also performed various technical tasks along the way to support our ability to rely on the system data. In doing so, we worked closely with the Admin Technology team who set up a Microsoft Azure Cloud Analytics environment for our sole use. This included data storage in a Data Lake / Delta Lake (collectively, the "Data Lake") and data analysis performed in Microsoft Azure Synapse. Details for these procedures are described herein.

i. Legacy ERP Systems (STARS/FMS/IMS)

STARS was the State's accounting system for 30+ years, running on an IBM mainframe architecture.[39] Two versions of the STARS system ran concurrently, one for the CGO ("STARS-CGO") and the other for the STO ("STARS-STO"). Both STARS systems were synchronized through data transfer programs and staff who conducted a variety of financial reconciliations.

The STO, responsible for Treasury Cash and Treasury Investments, separately managed and operated the Financial Management System ("FMS") and the Investment Management System ("IMS"), respectively. The STO had staff responsible for cash reconciliations from STARS-STO to FMS and investment reconciliations from STARS-STO to IMS.

[39] Amendment One to RFP, p. 5.

The Admin Technology Team collaborated with a retired STARS data engineer to convert legacy general ledger data from the STARS mainframe to the Azure Data Lake for our use. The team successfully migrated key data tables covering agencies, funds, general ledger accounts, general ledger line items, sub-funds and cash control files. We also collected fiscal year-end reconciliation reports that tied-out cash and investments between STARS/FMS/IMS.

ii. Current ERP System (SCEIS)

SCEIS fully replaced STARS by fiscal year-end 2017. SCEIS runs on the SAP ERP 6.0 platform with 15+ modules performing key operational and reporting processes including those covering:[40]

Financial Accounting (FI): SAP FI module is a core component of SAP ERP systems. It is designed to record, collect, and process financial transactions in real-time. The FI module includes functionalities for managing the General Ledger, Accounts Receivable, Accounts Payable, and Asset Accounting. It ensures compliance with various accounting standards and helps generate financial statements such as balance sheets and profit and loss statements.

SAP Public Sector Management - Funds Management ("PSM-FM"): module is designed for managing budgets and funds in public sector organizations. It helps in planning, budgeting, and monitoring funds to ensure that expenditures do not exceed the allocated budget. Key functionalities include budget control, fund allocation, and financial reporting, which are essential for maintaining fiscal discipline and transparency.

SAP Business Warehouse ("BW"): Data warehousing tool that collects, stores, and manages data from various sources, making it available for analysis and reporting.

SAP Business Objects (informally referred to as "BOBJ"): A suite of business intelligence tools that allow users to create reports, perform data analysis, and visualize data, helping them make informed decisions.

The Admin Technology team set up SCEIS application access for relevant members of our team. The front-end SCEIS application was utilized by our team to run various cash and investment reports and research specific entries and supporting documents in the system.

[40] Amendment One to RFP, p. 4.

Further, we requested supplemental general ledger data tables to be extracted from SCEIS to be used for tracing and reconciling cash and investments. These included general ledger accounts, line-item details, line-item totals, accounting documents, business areas, GAAP fund codes and SAP user information.

The Admin Technology team set up BW application access for relevant members of our team. This tool is an add-in module to Excel which directly interfaces with SCEIS to run reports and write data into Excel workbooks. Specific reports such as the RF428 ("ACFR G/L Detail Report") were reviewed and tested to understand how the CGO extracted general ledger data to prepare historical ACFRs prior to 2020.

In addition, the Admin Technology team set up BOBJ application access for relevant members of our team with permissions granted to a copy of the CGO's ACFR Cash BOBJ Reports for fiscal years 2020 through 2023. These reports were reviewed and tested to understand how the CGO extracted general ledger data to prepare the ACFR for those years.

e. Banking Data

We relied on banking data to validate Treasury Cash in SCEIS (and the corresponding ACFRs), as it provides a point-in-time source of truth from an independent third party. We met with the STO early in the project, formally requesting all available banking data from 2014 through 2023.[41]

We leveraged documents provided by the STO to develop a summary report known as the "Bank Data Availability Matrix". This report listed all known banks, bank account numbers and corresponding SCEIS General Ledger Account numbers color-coded by calendar year to indicate whether bank data exists for that period.

The matrix was shared with the STO highlighting the years for which data was missing which, due to standard seven-year bank retention policies, primarily related to 2015 and earlier. In response, the STO searched their historical data records and located most of the missing fiscal year end bank statements dating back to 2015. In aggregate, we collected banking data in the form of monthly statements from fiscal year 2017 through fiscal year 2023. The STO also provided fiscal year-end statements from fiscal 2015 through fiscal year 2016 either as standalone files or included as pages

[41] Banking data was generally unavailable for fiscal year 2014 due to record retention policies at the State and the banking institutions.

in the closing packages. For fiscal year 2014, we received one bank statement from Palmetto State Bank.

The STO delivered banking data provided in three formats:

(1) **BAI2 daily files** were provided for the larger bank General Deposit Accounts such as Wells Fargo and Bank of America. BAI2 files represent a standardized format banks use to report account balance and transaction information to their clients.

(2) **CSV transaction text files** were provided for smaller banks like First National Holly Hill, which did not leverage BAI2 technology for data transfer. The data in the csv files only recorded transaction details and did not contain balance information.

(3) **PDF Statements** were provided to cover the historical periods between 2015 and 2016 when the above transaction data was unavailable.

The BAI2 (1) and CSV (2) banking data above was provided in raw form, meaning that the files needed to be processed into the Data Lake so they could be used for SCEIS data validation. Our team programmed custom data parsing routines that extracted financial transaction information such as bank account, transaction date, description, amount, starting balance and ending balance where available. Since the PDF statements (3) were mostly in image format and only covered a handful of early periods, we chose not to OCR and process into the Azure Data Lake. Instead, we manually extracted specific fiscal month/year-end balances by bank as available for various analyses.

V. $1.8 Billion Existing in Fund 30350993

a. Determination of an Anchor Year

To understand the origin of the $1.8 Billion, we sought to identify an ‘anchor’ ACFR (i.e., the most recent ACFR not affected by the $1.8 Billion).[42] We selected the fiscal year 2015 ACFR under the assumption that it was not misstated beyond the appropriations-related error disclosed in the fiscal year 2022 ACFR because:[43]

(1) Neither Fund 30350992 nor 30350993, from which the $1.8 Billion was derived, carried a cash balance in fiscal year 2015.

(2) Although the ACFR was prepared using data from SCEIS, the STO tracked cash and investments in STARS in fiscal year 2015.[44]

To test whether we could rely on the fiscal year 2015 ACFR as our anchor, we replicated the process by which the fiscal year 2015 ACFR was compiled from SCEIS using the ACFR classification logic from fiscal year 2016, including any topside entries recorded.[45] This confirmed that SCEIS was the source of record for the fiscal year 2015 ACFR.

We then sought to confirm whether the fiscal year 2015 cash balance per STARS, which was the STO’s source of record at that time, reconciled to the combined bank balance. We confirmed that the combined bank balance per FMS and the 2015 STO Closing Package both reconcile to the corresponding STARS balance within an insignificant difference.[46]

Having confirmed that the fiscal year 2015 STARS cash balance reconciled to the combined bank balance, we attempted to reconcile STARS to SCEIS, which was the source of record for the fiscal year 2015 ACFR. We first adjusted the SCEIS balance to reflect certain topside entries recorded in the ACFR in the CGO’s workpapers.[47]

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[42] Due to limitations in the retention of banking records, a reconciliation of banking data to the general ledger could not be performed fiscal year 2014. Only one bank statement was provided for Palmetto State Bank covering July 2014 – December 2014.

[43] All years in the scope of our review were impacted by the appropriations-related error disclosed in the fiscal year 2022 ACFR.

[44] STARS was the State’s legacy accounting system and was fully replaced by SCEIS in fiscal year 2017. The bank conversion occurred in multiple phases with Treasury Cash and Investments being one of the last parts to convert starting in 2015 and completing in 2017.

[45] The detail logic was not maintained prior to fiscal year 2016.

[46] Differences were less than $200,000.

[47] The entries were limited to topside entries recorded to ACFR General Fund cash, which consisted of two entries: one for $203 million (which appears to be the balance of agency in Z90 in STARS) and another for $48 million.

We learned that the 2015 STARS to SCEIS reconciliation was performed by the STO with a cutoff bank statement date of June 30, 2015, and therefore did not capture any cash activity for transactions recorded in SCEIS after June 30, 2015, that related to fiscal year 2015 (e.g., checks issued on or before June 30, but not cashed until after June 30). As a result, the CGO determined, and we confirmed, that the fiscal year 2015 STARS balance reconciled by the STO did not reflect the final cash balance for STARS as of fiscal year-end 2015. We therefore relied on a more recent version of the STARS CSA404 Report (which was generally used as the source of the STARS balance for the STO's reconciliations) run as of fiscal year 2015 which indicated that the total statewide cash balance per STARS had decreased by $262 million since the date the STO's 2015 Closing Package was issued. We corrected the STARS cash balance in our analysis to reflect these updates.

After these updates, a variance of $227 million remained between the STARS and SCEIS balances. It was not until we added the balance of Agency '000' that we were able to reconcile the cash balances in the two systems within a variance of $7.7 million. This seemingly confirms that the fiscal year 2015 balance of Agency '000' was not converted from STARS to SCEIS.[48] See table below for a summary of this reconciliation:

[48] The 2015 STARS to SCEIS Reconciliation indicates that Agency '000' in STARS did not exist in SCEIS. We have found no evidence to the contrary.

SCEIS FY 2015 Cash Balances			
[A]	*[B]*	*[C]*	*[D]=[A]+[B]+[C]*
SCEIS FY 2015 Cash Balance	**FY 2015 ACFR Topside Adjustments**	**FY 2015 CSA404 Balance (Agency 000)**	**FY 2015 SCEIS Calculated Total Balance**
$ 9,524,935,693	$ 251,002,961	$ 234,465,654	$ 10,010,404,308

STARS FY 2015 Cash Balances		
[E]	*[F]*	*[G]=[E]+[F]*
STARS FY 2015 Cash Ending Balance (FM12 Total)	**STARS FY 2015 CSA 404 Ending Balance Net Change**	**FY 2015 STARS Calculated Total Balance**
$ 10,264,296,243	$ (261,655,694)	$ 10,002,640,550

[H]=[D]-[G]
Difference (SCEIS to STARS)
$ 7,763,758

This analysis confirmed that (1) the 2015 ACFR was not affected by the $1.8 Billion; and (2) the fiscal year 2015 STARS Agency '000' balance (without which the STO could not reconcile to the bank) was excluded from the STARS to SCEIS conversion. As we will discuss in *$1.8 Billion Existing in Fund 30350993 – Unconverted STARS Agency*, we believe that the omission of Agency '000' contributed to the $1.8 Billion. To be clear, this was an omission in SCEIS only. The cash from this agency was reflected by the STO in STARS in alignment with the bank balance.[49]

b. Background

The $1.8 Billion is the result of conversion entries posted to two funds during the STO's investment and bank conversions: 30350992 and 30350993. Fund 30350992 was originally used to account for transfers between banks and the STO's investment custodian, Bank of New York Mellon ("BONY"). Fund 30350993 was originally used by the STO to record inter-bank transfers. Starting in 2016, however, the STO began to use both funds to record adjustments in SCEIS as necessary to balance to the bank accounts.[50]

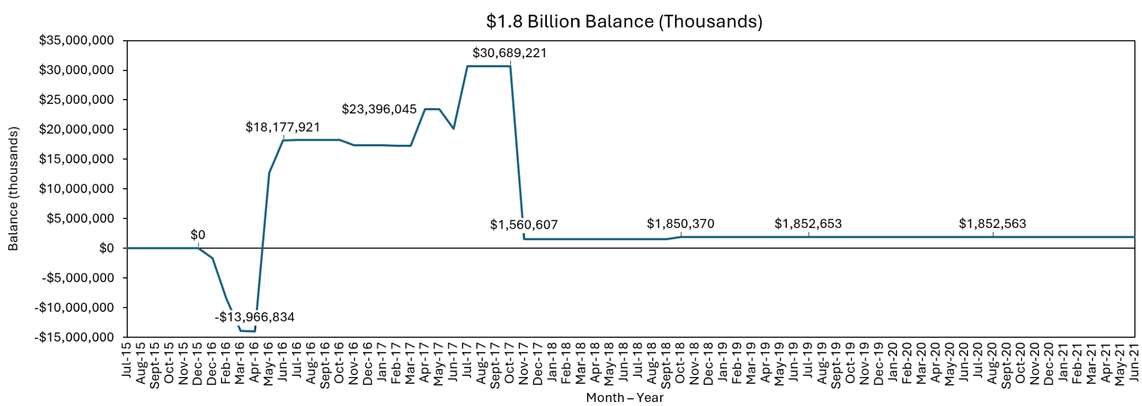
[49] The STARS system was active until transactions were turned off in 2016.

[50] The first entries which increased the fund balance of 30350992 and 30350993 were recorded on 10/31/2015. Confirmed via SCEIS query of Fund 30350992 and 30350993.

On June 27, 2017, the STO transferred the balance in Fund 30350992 of approximately $1.56 billion ("$1.56 billion") to Fund 30350993.[51] By the end of fiscal year 2017, when the STO's bank conversion was substantially complete, Fund 30350993 reflected a balance of $ 1.56 billion.[52] An additional entry was recorded which added $324 million to this fund on October 26, 2018, thus increasing the balance of the fund to approximately today's balance of $1.8 Billion.[53]

To understand how and why this balance accumulated to this level requires an understanding of the history of the State's conversion from STARS to SCEIS, and the STO's investment and bank conversions.

The $1.8 Billion accumulated over six years, comprising more than 7,000 lines of entries (which increased and decreased the balance) reflecting an absolute value of more than $350 billion of entries.[54] We therefore have summarized the relevant events and facts that we deemed most important to understand how this balance came to be. The following chart illustrates the changes in the balance of the $1.8 Billion over the six-year period.



[51] Confirmed via SCEIS query of Fund 30350993.

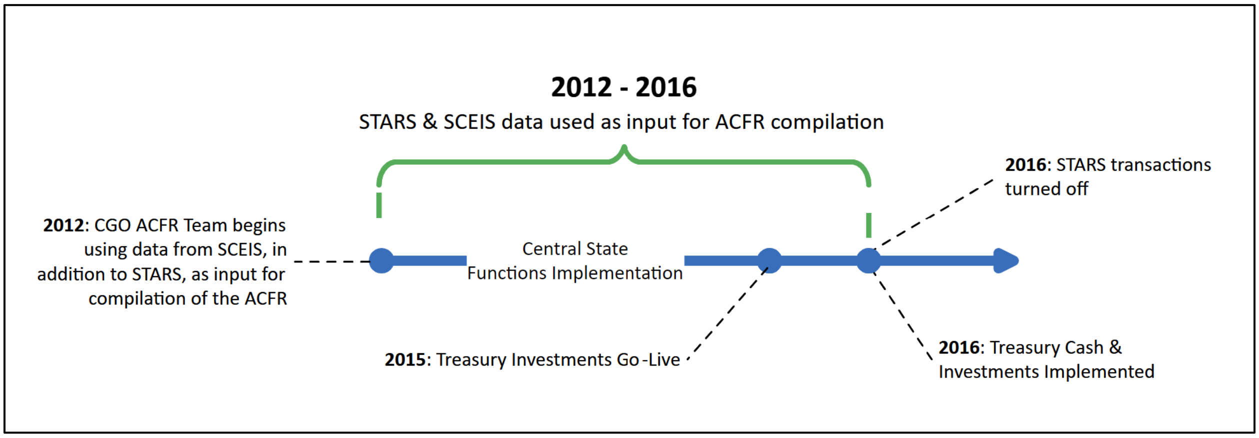
[52] While the balance in Fund 30350993 at the end of fiscal year 2017 is similar to the balance transferred from Fund 30350992, as we will discuss in the *ACFR Business Area ("BA") Entries* section, the similarity is coincidental, arising from errors which if rectified, would eliminate the resemblance.

[53] Confirmed via SCEIS query of Fund 30350993. Five additional entries totaling ($197,647), which were not a focus of our investigation, were recorded to this fund between 2019 and 2021.

[54] Confirmed via SCEIS query of Fund 30350993. The $350 billion represents the total absolute value of the debits and credits which, when summed, result in the $1.8 Billion balance. This excludes bank to bank transfers as they do not impact the cash balance.

c. STARS to SCEIS Conversion

The State began a system conversion in 2007, transitioning from its legacy system, STARS, to its new ERP system, SCEIS.[55] The phased conversion lasted ten years with the conversion of cash and investments within the STO culminating in 2017.[56] The following chart illustrates an overview of the conversion timeline from 2012 to 2016.



Despite having cash held by multiple banking institutions, the legacy STARS system had only four general ledger cash accounts: 1030, 1040, 1060, and 1061 (collectively, the "Legacy Cash Accounts") to track all cash activity. As each agency's balances were converted from STARS to SCEIS, the Legacy Cash Account balances were converted into similarly-numbered ten-digit accounts in SCEIS: 1000030000, 1000040000, 1000060000, and 1000061000.[57]

We understand from a former STO employee that the cash balance in STARS historically had not been reconciled on an individual bank basis; rather, it was reconciled in aggregate (i.e., the sum of the four Legacy Cash Accounts was reconciled to the sum of the bank balances). STARS was reconciled to a Financial Management System referred to as FMS, which was reconciled to the banks (in aggregate) daily.

STARS transactions included a 'Reference' field, which was also transferred from STARS to SCEIS. This field, which was manually populated by the STARS user, should have reflected a ledger code to identify the corresponding bank account to which the transaction related. However,

[55] 2022 ACFR, p. 147.

[56] 2022 ACFR, p. 147.

[57] As we'll discuss in the *Bank Conversion* section, the transactions in these ten-digit accounts were subsequently transferred to bank-specific ten-digit general ledger accounts.

this field was not consistently populated and was also subject to human error since there was no bank account level reconciliation as a backstop.

As a result, certain STARS cash entries could not be tied to the bank account to which the underlying transaction related. Furthermore, STARS did not record transactions (i.e., transfers) between banks as they would not have impacted the aggregate cash balance.

While the Legacy Cash Accounts in STARS only contained bank transactions, within SCEIS, the 1000030000, 1000040000, 1000060000, and 1000061000 accounts (which contained the converted Legacy Cash Account transactions) were also used to record transactions related to appropriations, often referred to in the State as "dummy cash" or "not real cash". As we will discuss below, this complicated the bank conversion process and contributed to the $1.8 Billion.[58]

d. Investment Conversion

The STO began the integration of the legacy IMS into SCEIS in 2015. General ledger accounts were created within SCEIS to load the associated balances from IMS with the final conversion impacts completed in the spring of fiscal year 2017.

As part of the conversion process, IMS was reconciled to BONY, and any reconciling differences were recorded to Fund 30350992. The differences resulted from "adjusting BONYM general deposit accounts to actual." Fund 30350992 was used in a similar manner to Fund 30350993 but was specific to investments and served to eliminate the discrepancies between the balances in SCEIS and IMS.[59] Following the investment conversion, a balance of $1.56 billion remained in Fund 30350992.[60] In fiscal year 2017, this balance of $1.56 billion was moved by the STO via a single entry to Fund 30350993.[61] We understand from a former STO employee that this movement was intended to group similar entries together and had no impact on the ACFR as both funds were excluded from the ACFR process.

e. Bank Conversion

The STO, working with SCEIS staff, began its bank conversion in 2015, starting with the smallest (and least complex) banks. The bank conversion consisted of two phases, generally split between

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[58] See *$1.8 Billion Adjustment* for further detail.

[59] Fund 30350992 and Fund 30350993 recorded adjusting entries to eliminate reconciling differences during the conversion as detailed in the *Bank Conversion* section of the report.

[60] Confirmed via SCEIS query.

[61] Confirmed via SCEIS query. The conversion to Fund 30350993 consolidated three separate entries into one $1.5 billion entry.

fiscal years 2016 and 2017. Phase 1 focused on identifying legacy cash transactions that could be linked (via the ledger code in the Reference field) to a specific bank and adjusting SCEIS for any unreconciled differences. Phase 2 primarily cleared the remaining legacy cash transactions that could not be linked to a specific bank.

During the early portion of Phase 1, throughout 2015, the STO, working with SCEIS staff, did not encounter any major obstacles or issues in identifying the relevant transactions. Within SCEIS, new ten-digit general ledger accounts were set up for each bank account, such that each bank had a dedicated account to which all its transactions were recorded. We understand from a former STO employee that this would allow the STO to reconcile at a bank account level, which was not possible in STARS.

As Legacy Cash Account transactions were identified in SCEIS, they were reclassified in SCEIS from the Legacy Cash Account to the corresponding bank-specific general ledger account (maintaining their original agency and fund designation). These conversion entries were generally grouped by year, starting with 2010 and continuing through the year prior to each bank's 'go-live' date. For the calendar year in which each bank-specific general ledger account went live in SCEIS, transaction-specific entries were then recorded for any transaction that occurred up to the go-live date in SCEIS.

When the STO, working with SCEIS staff, started to convert the mid-size banks in early 2016, it began to identify reconciling differences between the balances in the bank-specific general ledger accounts (that could be identified from the Legacy Cash Accounts in SCEIS) and FMS. Generally, any differences between SCEIS and FMS were resolved via an adjusting entry recorded to the bank-specific general ledger account under Fund 30350993 with an offset to the Conversion Account also under Fund 30350993.

The differences were not investigated as it was expected they would resolve themselves (i.e., net out) upon completion of the conversion. Various theories for said differences included:

1. The difference represented transactions that could not be identified due to a missing ledger code. At least one former STO employee believed these transactions related to 'interfund' transactions.
2. Since bank-to-bank transfers were not recorded in STARS, SCEIS would not reconcile to FMS (which did reflect bank-to-bank transfers).

3. When legacy agencies were retired or subsumed by another agency, detailed care was not taken to maintain the historical bank records of the predecessor agency.
4. Bank-specific general ledger bank accounts were generally established within SCEIS prior to the official “go-live” date for the bank account. During this interim period, activity recorded within these accounts was not subject to monitoring or oversight. When these general ledger accounts were reconciled to the bank (i.e., the ‘go-live’ date), we understand from a former STO employee that no investigation was undertaken to confirm the accuracy or validity of those transactions.

As one former employee of the STO explained, Fund 30350993 was necessary “to balance the system to the BANK, but the activity within [this fund] is AGENCY / FUND agnostic and not attributable to any specific agency.”[62] It is unclear why no one from the CGO or STO objected to Fund 30350993 being excluded from the ACFR when representatives from both agencies were aware that the STO would need to include the cash entries within Fund 30350993 to reconcile to the bank. What is clear, however, is that the responsibilities for reporting and reconciling cash and investments at an agency and fund level need to be clearly delineated between the STO and CGO. We therefore recommend that policies and procedures be created to document these responsibilities.

#	Recommendation	Relevant Party(ies)
4	Develop comprehensive policies and procedures outlining the roles and responsibilities of the STO which must require that the STO report (and independently confirm, as needed) cash and investments in its custody by agency and fund at least annually.	STO
5	Develop comprehensive policies and procedures outlining the roles and responsibilities of the CGO which must require that the CGO reconcile cash and investments by agency and fund in SCEIS, the accounting system of record, to the information provided by the STO and AFS agencies.	CGO

[62] Fund 30350993 was necessary to reconcile to bank statements but the money within Fund 30350993 was not assigned to specific government agencies.

Based on these explanations and contemporaneous documents we reviewed, we understand that the STO intended for both the Conversion Account (and the offsetting sum of the cash balances under Fund 30350993) to net to zero. This understanding is further supported by communications and analyses shared with the auditors when the CGO was finalizing the fiscal year 2016 ACFR.

In November of 2016 (prior to the ACFR being released), CLA asked the CGO (and by extension, the STO) to analyze the balances in the Conversion Account in Fund 30350993 compared to the Legacy Cash Account balances in SCEIS. After receiving clarification from the CGO, the STO revised its reconciliation, which initially reflected a $366 million "unconsumed conversion balance." In the two weeks following, the figures in the analysis evolved with the "unconsumed conversion balance" increasing to $1.145 billion and again to $1.423 billion.

Only after these increases did the CGO inquire how such variances could be explained. A former employee of the CGO asked the STO whether they had "ever determine[d] if the conversion of Fund 30350992 of [$1.56 billion]…related to cash at BONY, was coming over in STARS before the conversion?" He added that "that difference is [$316 thousand] when netted against the [unconsumed conversion balance]."[63] We understand that the CGO did not fully understand the $1.56 billion amount related to BONY or how it could have explained the unconsumed conversion balance. The CGO should have obtained a clearer understanding of why the reconciling items it had proposed would have prevented the Conversion Account from balancing to zero.

In response, the STO circulated a revised version of the analysis reflecting the suggestions of the CGO as 'reconciling items', which reduced the unconsumed conversion balance to negative $388,256.[64] The CGO shared this file with the auditors, who do not appear to have rejected the analysis.[65] Despite these variances, we understand that the STO had expected there to be a "wash between the 'legacy 1030' cash accounts and the Conversion GL by GAAP Fund," thereby resolving these variances upon the completion of the conversion. The auditors could also not

[63] A current CGO employee expressed that it was neither appropriate nor logical to have 'netted' these reconciling items against the unconsumed conversion balance.

[64] We assume the difference between ($388 thousand) and ($316 thousand) is the result of minor changes in balances from the time of the earlier email.

[65] We found no information that indicated how CLA got comfortable with this analysis.

articulate why the 'reconciling items' in the State's analysis would have prevented the Conversion Account from netting to zero upon completion of the conversion.

Notably, CGO staff discussed that they could not ultimately provide the level of analysis requested by the auditors due to the high-level nature with which the conversion was conducted. As the CGO staff explained, the STO could not predict whether the conversion would unfold as intended "until the conversion [was] complete." Ultimately, the fiscal year 2016 ACFR was issued with the auditors' unmodified opinion on December 12, 2016.[66]

We understand that the former Comptroller General ("CG"), Mr. Eckstrom, insisted that the ACFR be issued in time to be considered for the Certificate of Achievement for Excellence in Financial Reporting (COA) from the Government Finance Officers Association (GFOA). However, the former CG often demanded that his team exceed the timing requirements of the GFOA, aiming to be the first state to issue its ACFR.[67] The CGO staff commented that these deadlines often placed unnecessary pressure on the team. It is unclear whether these deadlines influenced the State's analyses in this instance. Nonetheless, the CGO would benefit from establishing requirements that would mitigate any undue pressure going forward.

#	Recommendation	Relevant Party(ies)
8	Establish a checklist for determining when the ACFR can be publicly released. The ACFR should not be released until all necessary steps and audit procedures have been completed to ensure the quality and accuracy of the reported information. ACFR release date should not place undue pressure such that less work is performed, or issues are insufficiently resolved in order to achieve an unrealistic deadline.	CGO

We learned that the CGO was often understaffed, understanding that they believed they did the best they could with the limited resources they had. We therefore recommend that the CGO

[66] 2016 ACFR, p. 18-20.

[67] The deadline to submit an ACFR to the GFOA for COA is six months after the end of the fiscal year (i.e., December 31). South Carolina issued 2015-2021 ACFRs on the following dates: 2015, 11/25/2015; 2016, 12/12/2016; 2017, 11/17/2017; 2018, 11/15/2018; 2019, 11/14/2019; 2020, 11/13/2020; and 2021, 11/12/2021.

supplement its team with internal and/or outside assistance to ensure sufficient resources are available for the ACFR preparation.

#	Recommendation	Relevant Party(ies)
9	The CGO should assess the need to hire additional CGO staff and/or outside assistance to prepare the ACFR and better distribute workloads.	CGO

During Phase 2 of the conversion, which largely occurred in 2017, the STO, working with SCEIS staff, cleared all remaining balances in the Legacy Cash Accounts in SCEIS (which were recorded to various funds and business areas/agencies) to the Conversion Account under Fund 30350993. This phase culminated with an entry posted on November 7, 2017 (for fiscal year 2017), known informally as the "Big Fix entry", which moved more than $29 billion of Legacy Cash Account balances in SCEIS "to [clean] up the legacy accounts 1030 /1040 / 1060 / 1061 such that now all cash [would be recorded] either in a bank[-specific] general ledger [account] or in the splitter account."[68,69]

These Phase 2 entries had two primary effects: (1) they cleared all balances in the Legacy Cash Accounts in SCEIS (including any appropriations-related activity which we will discuss); and (2) generated a 'splitter' entry that, in the aggregate, reduced Fund 30350993 to a balance of $1.56 billion which was generally consistent with the STO's fiscal year 2016 analysis (i.e., that the $1.56 balance attributable to BONY would remain).[70]

During our investigation, we identified an email in which a member of the STO and CGO acknowledged, during the conversion process, a method by which the standard entry approval workflow in SCEIS could be circumvented.[71] We understand that the CGO is aware of this

[68] The splitter is a Cash Due To/From general ledger account. SCEIS has been configured to balance transactions so that they balance by fund and business area. If an entry is recorded to more than one fund or business area the splitter is automatically 'invoked' by the system. In other words, when the amounts recorded in an entry do not balance by fund or business area as entered, SCEIS then *automatically* generates new lines in the entry to balance the document.

[69] The STO, SCEIS staff, and the CGO were involved in posting the "Big Fix entry."

[70] Confirmed via SCEIS query.

[71] Two adjusting entries were posted "to effect the clean-up and adjustment to bank recon[ciliation]" for expenditure accounts utilizing T-Code FB50, which allowed the employees to bypass the standard approval workflow process.

apparent loophole. This workaround must be eliminated to ensure that that CGO exercises proper oversight of the entries posted by the STO.

#	Recommendation	Relevant Party(ies)
22	Eliminate any workarounds to the standard entry workflow. Reevaluate permissions in SAP for all STO staff.	CGO and SCEIS

f. Reclassification of the $1.56 Billion Conversion Account to a Liability

In March 2018, consistent with the STO's belief the Conversion Account should have had a zero balance at the end of the conversion, the STO explained it had "determined that the balance of the Conversion general ledger within 30350993 [should be] written off as a prior period adjustment in order to complete the conversion process as all of this activity took place in years 2016 and prior."[72] The STO shared its workpaper with the CGO with the proposed PPA entry.[73] The CGO reviewed the workpaper and suggested, "[i]nstead of putting it [to prior period adjustment], possibly put it to another account."

We learned from a former STO employee of a meeting during this time, which was apparently attended by a CLA Partner (and possibly an OSA representative), two STO employees, and a CGO employee during which the STO proposed that the PPA be recorded to the ACFR General Fund, to which the CLA Partner responded that he would not issue the ACFR with a PPA. Following the meeting, the CGO instructed the STO to transfer the balance to the liability account 2400040001 (Due to Other Funds – Equity in Pooled Cash).

Before following these instructions, the STO then offered a counter-proposal to allocate "the BONY amount [i.e., the $1.56 billion] to the M2M [mark to market] offset account, and then the $500k to the liability account." The CGO disagreed, advising the STO to record the entire $1.56 billion balance to the liability account. The STO responded by saying, "If you believe its [sic] easier to explain to the auditors, we can us[e] the "24" account and I'll re-word my w/p explanations to match" and attached a revised workpaper reflecting the feedback from the CGO.

[72] The proposed adjusted entry reflected a $1.5 billion debit to the Conversion Account and $1.5 billion credit to 7000003000 (Prior Period adjustment account) under Fund 30350993.

[73] The proposed entry debited $1.56 billion to the Conversion Account and credited $1.56 billion to the PPA account.

The entry was ultimately recorded to 2400600002 (Due to Other Funds – Equity in Pooled Cash) on March 5, 2018.[74] Despite reclassifying the Conversion Account balance to an account called 'Due to Other Funds – Equity in Pooled Cash', neither the STO nor the CGO made any subsequent attempts to identify to whom such funds were owed until fiscal year 2022.

g. 2018 $324 Million Entry to the Liability Account

Despite the STO having previously indicated the conversion was complete, and after the balance in the Conversion Account was transferred to the liability account, CGO staff reached out to the STO in October 2018, shortly before the fiscal year 2018 ACFR was issued by asking, "[w]ere you able to compare the last year conversion balance with what you actually converted?" Later, the CGO provided a list of ACFR BA balances totaling approximately $324 million "that need[ed] to be washed through the Conversion Account." This entry was recorded directly against liability account 240060002 under Fund 30350993, increasing the balance in the liability account to approximately $1.8 Billion.

Neither the STO nor the CGO has taken ownership over this entry, although the entry was posted by an STO employee. A current CGO employee drafted a memo in March 2024 that explains that the entry was requested by the STO. The memo explains, that during the STO's cash conversion from STARS to SCEIS, the STO could not convert funds held in a certain general ledger account because they did not have access. It then explained how the STO requested that the CGO (who had control over those accounts) move those funds to a general ledger account that the STO had access to so they could include the funds in the accounts they did not have access to in the conversion. Despite this recounting, we identified other information which suggests that the request was made by the CGO, potentially undermining the credibility of the March 2024 memo.

Regardless of who initiated the entry, the CGO has concluded that this entry and any other conversion of ACFR Business Area (e.g., A000) balances was incorrect.[75]

h. ACFR Business Area ("BA") Entries

As discussed in the *Background* section of this report, the CGO maintains business areas within SCEIS which correspond to the various State agencies for reporting purposes. The business areas

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[74] Confirmed via SCEIS query. The CGO subsequently requested that the STO record the entry to account 2400600002.

[75] See *ACFR Business Area (BA) Entries* section for further discussion.

ultimately roll-up to nine ACFR BAs within SCEIS to assist in compiling the ACFR.[76] We understand the ACFR BAs are unrelated to day-to-day accounting activity and do not equate to cash in a bank. During Phase 2 of the bank conversion $1.6 billion of ACFR BA balances was incorrectly transferred to the Conversion Account, which had the effect of turning non-cash balances within Legacy Cash accounts in SCEIS into 'real cash' by transferring those balances into 'real cash' general ledger accounts.

The effect of these entries was a net credit (i.e., decrease) to the cash balance within the ACFR BAs of $1.6 billion and a net debit (i.e., increase) to the cash balance under Fund 30350993 of $1.6 billion. These entries created a *negative* $1.6 billion ACFR BA cash balance (which was included in the ACFR) and a *positive* $1.6 billion cash balance in Fund 30350993 (which, up until fiscal year 2022, was excluded from the ACFR).

The CGO determined that the entries should not have been made and, through test-only (i.e., not formally recorded) SCEIS entries, has ascertained that reversing these entries does not impact the STO's ability to reconcile SCEIS to the bank.[77] The bank balances in SCEIS remained unchanged as a result of these test entries. The result of these reversals leaves a $245 million net cash (and corresponding liability) balance in Fund 30350993.

We ran an independent test of the reversal entries in conjunction with the SCEIS and Admin IT Teams and confirmed that the resulting balance of the liability account under Fund 30350993 was $245 million. We conducted a reconciliation of the bank account balances both before and after reversing the entries and confirmed that the balances of the bank-specific general ledger accounts impacted by the bank conversion did not change.

GL Account	YTD Beg Bal	MTD Activity	YTD End Bal
2400600002 Due to Other Funds - Equity in Pooled Cash	1,852,455,573.29-	1,607,450,621.28	245,004,952.01-

As we will discuss in *2022 Restatement - $1.8 Billion Adjustment,* these reversals do not change the PPA of $3.5 billion and would not require further restatement action; rather, they assist in

[76] ACFR BAs include: A000 (General Governmental), H000 (Education), J000 (Health-Environment), L000 (Social Services), N000 (Admin of Justice), P000 (Resources-Econ Dev), U000 (Transportation), V000 (Debt Service), and X000 (Intergovernmental).

[77] By reversing these transactions, while the split between Fund 30350993 and ACFR BAs changes, the aggregate bank balance remains unchanged.

identifying how the $1.8 Billion should be recorded (and would have simplified the restatement process had the CGO come to this realization in fiscal year 2022).[78]

i. Unconverted STARS Agency

As discussed in *$1.8 Billion Existing in Fund 30350993 – Determination of Anchor Year*, the STARS Agency '000' was part of the ACFR General Fund and was necessary to include the cash balance for the STO to reconcile to the aggregate bank balance. Based on our analysis, we have confirmed that the fiscal year 2015 balance in this agency of $234 million was not converted from STARS to SCEIS.

As a result, the balances in the Legacy Cash Accounts in SCEIS did not reflect this amount, which meant that no corresponding offset existed for the entries that would have been recorded to Fund 30350993 to reflect this balance during Phase 1 of the bank conversion.

As this agency was part of the ACFR General Fund in STARS, the $234 million attributable to this agency in Fund 30350993 also belongs to the ACFR General Fund. While we could not identify the root cause of the remaining balance of $11 million ($245 million less $234 million), we similarly believe it belongs to the ACFR General Fund as no agency has made claim to it during our review period and through the date of this Report. While the $245 million is the only portion of the $1.8 Billion that was ever spendable/investable, it is included in the funds over which the STO has custody and is therefore <u>not</u> available to allocate or appropriate. The $245 million is included in the bank balances reported by the STO, which the STO would have invested. An adjustment to the general ledger is required such that it is properly reflected within the ACFR.

To completely resolve the issue of the $1.8 Billion, the CGO must make certain entries to SCEIS such that the $245 million is included in the State's reported cash balance in the ACFR General Fund and that the corresponding liability is removed.

[78] In fiscal year 2023, a $1.8 Billion topside entry was required to increase (i.e., debit) cash, which offsets the negative $1.6 billion ACFR BA cash balance resulting in a net increase to cash $245 million. A balance of $245 million would remain in Fund 30350993 (which would need to be added to cash) after reversing the $1.6 billion ACFR BA cash entries. Thus, both methods arrive at the same net increase of $245 million that must be manually added to cash (so long as Fund 30350993 is excluded from the ACFR).

#	Recommendation	Relevant Party(ies)
17	The CGO should record two sets of entries to SCEIS to properly reflect the $1.8 billion cash balance: (1) reverse the $1.6 billion incorrectly-converted ACFR Business Area balances as proposed by the CGO; and (2) record an entry to SCEIS for $245 million as a debit to account 2400600002 (Due to Other Funds – Equity in Pooled Cash) in Fund 30350993 and a credit to account 7000001000 (Prior Period Adj – CAFR) (i.e., the restatement account) within the ACFR General Fund.	CGO

Given that there is no business area in SCEIS for unclaimed General Fund cash, we understand how the balance of this agency could have been omitted from the STARS to SCEIS conversion. The original design of SCEIS was approved by Central State Finance agencies (i.e., the business owners) at the time the system was developed for initial implementation. We understand that certain users find the design to be cumbersome when attempting to confirm statewide General Fund cash. We therefore recommend that the CGO, the STO, and SCEIS reevaluate the configuration of unclaimed general fund cash in SCEIS.

#	Recommendation	Relevant Party(ies)
23	Evaluate the current configuration of SCEIS including, but not limited to, the configuration of the cash in the budgetary General Fund to determine whether changes are warranted.	CGO, STO, and SCEIS

VI. 2022 Restatement

a. Restatement Overview

Note 15 of the 2022 ACFR states that the State discovered in fiscal year 2022 that cash transfers out of the ACFR General Fund were erroneously excluded from the ACFR since 2012 related to appropriations to certain entities (namely higher education institutions) (referred to herein as the "Double-Counting of Appropriations").[79] Note 15 adds that "this mapping error impacted the ACFRs for fiscal years 2012 through 2021, overstating ACFR General Fund cash and fund equity in those ACFRs by a cumulative amount of $3.530 billion."[80] The $3.5 billion figure is not related entirely to the Double-Counting of Appropriations, but rather it is the net result of three primary categories of errors: (1) the Double-Counting of Appropriations, which had improperly overstated cash by $5.9 billion, (2) the cash balance in Fund 30350993, which improperly understated cash by the $1.8 Billion, and (3) a $517 million Department of Transportation-related adjustment which also had understated cash (the "DOT Adjustment").

Restatement Categories	2022 Restatement
Double Counting of Appropriations	$ (5,899,197,555)
Fund 30350993 Cash Balance	1,852,455,573
DOT Adjustment	516,909,503
2022 Restatement	**$ (3,529,832,480)**

As this level of detail was not disclosed, the CGO should consider whether that disclosure warrants additional clarification.

#	Recommendation	Relevant Party(ies)
18	Consider whether to clarify Note 15 of the fiscal year 2022 ACFR including, but not limited to, whether to specifically identify and quantify the relevant components.	CGO

[79] 2022 ACFR, p. 146-147.

[80] 2022 ACFR, p. 146-147. Mapping refers to the CGO process of identifying whether general ledger accounts should be included in the ACFR. Fund 10019000 was not "linked" correctly to be included within the ACFR.

b. Double-Counting of Appropriations Cash

Each year, State appropriations are authorized in the General Appropriations Act to allocate funds for government operations or programs for the fiscal year. Appropriations do not represent an actual transfer of cash; rather, they constitute the assignment of claims to the cash. Agencies may then request and expend cash up to the appropriated amount to fund their operations and fulfill their authorized responsibilities. The Executive Budget Office ("EBO") loads recurring appropriations into SCEIS on or before July 1. The amounts are loaded to Fund 10010000 (General Fund) for Reporting Entities and Fund 10019000 (AFS - General Fund) for AFS Entities.[81] The CGO will execute a corresponding cash entry within SCEIS that aligns with the appropriation amounts to ensure there are sufficient funds available to support the newly authorized spending.[82] Nonrecurring or supplemental appropriations are distributed by September 30 to the extent that there is sufficient surplus from the prior year's budget. The budgetary General Fund budget and cash can be adjusted during the fiscal year for reasons including, but not limited to: special legislation, interagency transfers, midyear budget cuts, lapses, and carry forwards.

The Double-Counting of Appropriations originated when SCEIS was first brought online in 2007 but did not impact the ACFR until 2012, the first year in which SCEIS was incorporated into the ACFR.[83] We understand the Double-Counting of Appropriations relates specifically to Fund 10019000 in SCEIS, which, until January 4, 2023, was mapped as a 999 GAAP code which designates that the fund is excluded from the ACFR. For ACFR compilation purposes, amounts for AFS entities are manually entered into SCEIS based on their audited financial statements. Consequently, the claim to cash from the perspective of the AFS entities was correctly included in the ACFR. However, the corresponding transfer-out from the ACFR General Fund was erroneously omitted from the ACFR, thus overstating or "Double-Counting" ACFR General Fund cash related to the appropriations to AFS entities.[84] The CGO determined that the aggregate impact of the Double-Counting of Appropriations was $6.9 billion, of which $5.9 billion relates to the

[81]Reporting entities do not have their financial audit performed by a third party accounting firm and therefore complete and submit detailed reporting packages to the CGO.

[82] For example, the CGO will debit general ledger account 1000030000 (General Fund Appropriation Cash) and credit account 7999999997 (General Fund Appropriation Cash Offset) to load General Fund Appropriation Cash into SCEIS for the authorized amount. A corresponding debit to 7999999997 and credit to 1000030000 will be posted to BA Z900 to offset the increase in cash so that statewide cash is not impacted.

[83] 2022 ACFR, p. 147.

[84] 2023 ACFR, p. 147.

prior period (i.e., 2021 and prior).[85] The CGO viewed the components of the $5.9 billion as: (1) $3.1 billion recorded in 2017 as part of the bank conversion;[86] and (2) $2.8 billion recorded between 2018 and 2021 in Fund 10019000.

We reconciled the activity in Fund 10019000 between 2012 and 2022 by comparing general ledger activity independently generated from SCEIS to the General Appropriation Act legislation (i.e., control documents) while also considering supplementary appropriations, transfers, allocations, carryforwards, and lapses. This reconciliation confirmed that the amounts recorded to Fund 10019000 matched the legislative appropriation activity. We performed this exercise because the CGO did not do so as part of its restatement work nor as part of any recurring check on the accuracy of the amounts in the general ledger. We therefore recommend that the CGO implement a process to do so on a recurring basis.

#	Recommendation	Relevant Party(ies)
10	Establish a formalized process by which appropriations as recorded in SCEIS are reconciled to the amounts reported in the AFS entities' financial statements and the corresponding legislative documents.	CGO

The $3.1 billion portion of this adjustment overlapped with the previously discussed $1.8 Billion. As a result, the CGO did not accurately separate the components of the Double-Counting of Appropriations from the $1.8 Billion adjustment in its workpapers. Had the CGO performed a detailed analysis to corroborate the appropriations amounts for each fiscal year, they likely would have identified this distinction. Nevertheless, despite this misunderstanding, and due to the overlapping offsetting nature of these adjustments, we did not identify any evidence that calls into question the total amount of the PPA of $3.5 billion.

[85] The approximately $1 billion difference is attributed to 2022 and since the ACFR had not yet been issued, it could be corrected and properly reflected in the 2022 ACFR.

[86] $2.5 billion of the $3.1 billion relates to appropriations recorded between 2009 and 2014. The remaining $600 million, which was confirmed via SCEIS query, represents the appropriations recorded in 2017 in Fund 10019000. See *$1.8 Billion Adjustment* for discussion of the 2015 and 2016 appropriations, which were not part of the $3.1 billion.

c. $1.8 Billion Adjustment

Another component of the restatement is the $1.8 Billion net cash balance recorded in Fund 30350993.[87] Similar to Fund 10019000, Fund 30350993 is a treasury fund in SCEIS that was mapped by the CGO as a GAAP Fund code 999 such that it was excluded from the ACFR.

As of 2022, the $1.8 Billion balance is composed of: (1) balances recorded related to 11 bank accounts (with a total balance of $31.0 billion); and (2) the 'splitter' balance in Fund 30350993 (with a balance of negative $29.1 billion).[88] We have confirmed that, in each instance, SCEIS cannot be reconciled to the bank statements for those 11 banks without including the cash in Fund 30350993.[89]

We also understand that the CGO could not reconcile cash in fiscal year 2022, in the aggregate, without the $1.8 Billion (i.e., the net balance in the bank general ledger accounts and the splitter). As discussed in *ACFR Business Area ("BA") Entries*, $1.6 billion of ACFR BA balances was incorrectly transferred to Fund 30350993, which resulted in a *negative* $1.6 billion ACFR BA cash balance (which was included in the ACFR thus suppressing the reported cash balance) and a *positive* $1.6 billion cash balance in Fund 30350993 (which, up until fiscal year 2022, was excluded from the ACFR).

Since issuing the fiscal year 2022 ACFR, the CGO has determined (and we agree) that those ACFR BA entries should not have been recorded as part of the conversion and, had they not been recorded, only $245 million would have remained in Fund 30350993.

However, the CGO did not come to this realization at the time of the restatement. Therefore, the full $1.8 billion adjustment was required to offset the *negative* $1.6 billion cash balance within the ACFR to arrive at a net balance of $245 million. Based on this understanding, we believe the $1.8 Billion is appropriately reflected in the 2022 PPA.[90]

d. DOT Adjustment

Between 2013 and 2017, the CGO recorded in the ACFR General Fund transfers to the DOT for appropriations yet to be drawn down by the DOT each year. The transactions were recorded to

[87] $1.8 Billion represents the net cash balance of Fund 30350993 within all cash general ledger accounts in SCEIS (i.e., accounts starting with '1').

[88] Confirmed via SCEIS query of Fund 30350993.

[89] Confirmed via SCEIS query of Fund 30350993.

[90] See *ACFR-Only Business Area Entries* section for discussion of ACFR BAs within the $1.8 Billion.

general ledger accounts 1100000000, 1100000007, and 1100000012 which reduced the cash balance in the ACFR General Fund. When a different CGO employee assumed responsibility for this process in 2018, they discontinued the process based on the understanding the appropriations represented only a claim to cash, rather than an actual transfer of cash, thereby making the entry unnecessary.

In response to a request from the OSA in 2022, the CGO reversed the accumulated transfer balance after determining those entries were duplicative of funds already accounted for within the ACFR General Fund. To effect this change, the CGO recorded a PPA of $517 million to increase the ACFR General Fund cash balance with an offset to the PPA account.[91] In subsequent periods, the CGO began recording any DOT unspent appropriations as an interfund payable from the ACFR General Fund.

We assessed the accuracy of the CGO's analysis underlying this adjustment by independently corroborating the inputs.[92] Based on this assessment, we believe the cumulative restatement amount of $516,909,502 is accurate. We also believe that the individual DOT-related adjustments recorded to the statistical tables are accurate.

e. Statistical Tables

Statistical tables present multi-year – often ten years or more - comparative data that extend beyond the annual basic financial statements.[93] Since comparative financial statements are not issued in the ACFR, the statistical tables, which are not audited, provide a more comprehensive view into the historical data that accompany the financial statements.

We reviewed the CGO's analysis that serves as the basis for the adjustments to the statistical tables related to the Double-Counting of Appropriations and the $1.8 Billion. We confirmed that this analysis ties to the CGO's supporting document (which includes the DOT Adjustment), which ties to the statistical tables.[94]

The CGO's analysis attempted to quantify the appropriations between 2012 and 2022 by pulling activity from account 1000030000 in Fund 10019000 for each year. The balances for years 2018

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[91] Confirmed via SCEIS query.

[92] External sources included SCEIS data, legislative appropriation documents, and DOT financial statements.

[93] GASB Codification of Governmental Account Standards Section 2800, "Statistical Section".

[94] This analysis quantifies the yearly adjustments for the $1.8 Billion and Double-Counting of Appropriations but does not include the DOT Adjustment.

through 2021 were appropriately applied directly to the statistical tables. Conversely, the amounts for 2012 to 2017 were adjusted using a percentage allocation methodology. Under this methodology, the relative size of the appropriation amounts for each year was calculated as a percentage of the total of the six years. Each of these percentages were then multiplied by $1.3 billion, which represents the $3.1 billion recorded in 2017 as part of the bank conversion[95] less the $1.8 Billion. The CGO has agreed with our assessment that this percentage-based allocation methodology does not represent best practice. At a minimum, since these represent cumulative balances, a more defensible approach would have been to restate the statistical tables based on the balance in the relevant accounts each year. We understand that the CGO has begun to reassess its allocation methodology which has resulted in at least one adjustment different than what had previously been presented.[96] We therefore recommend that the CGO reevaluate the accuracy of the statistical tables prior to the release of its next ACFR.

#	Recommendation	Relevant Party(ies)
19	Evaluate the accuracy of the amounts in the statistical tables as reflected in the fiscal year 2022 ACFR. If materially inaccurate, determine if revisions necessitate changes in presentation and/or disclosure prior to issuing the fiscal year 2024 ACFR.	CGO

During our review we identified certain adjustments, some of which the CGO had recorded, others they had elected not to record due to perceived ‘immateriality’. When we inquired about how materiality was evaluated, we learned that the CGO does not have a method of accumulating errors to allow it to properly evaluate materiality. We therefore recommend that the CGO establish this process so errors can be tracked and reevaluated as necessary.

[95] $2.5 billion relates to appropriations recorded between 2009 and 2014. The remaining ~$600 million represents the appropriations recorded in 2017 in Fund 10019000.

[96] The CGO has preliminarily concluded that cash was overstated by approximately $1.1 billion in 2016.

#	Recommendation	Relevant Party(ies)
11	Implement a standardized procedure for tracking and documenting errors, corrected and uncorrected, to ensure they are identified, analyzed, and corrected (if needed). Procedure should establish requirements for elevation to appropriate levels within the CGO and to the auditors.	CGO

f. 2022 Topside Entries Related to Cash Presentation

On November 3, 2022, CGO staff discussed with the OSA staff $5.02 billion of topside entries or 'late manual adjustments' that the CGO planned to record to the ACFR which was comprised of $4.1 billion of credits to investments (which represents the net of the $1.8 Billion and the Double-Counting of Appropriations adjustments of negative $5.9 billion) and $973 million[97] of credits to cash (which represents the current-period 2022 Double-Counting of Appropriations adjustment). The CGO sent an email (in an apparent response to a question from the OSA) explaining that it could "take cash down to zero and the offset to investments. However, we will not take cash negative." In clarifying its question, the OSA expressed a desire to "gain a deeper understanding of why we need to use investments."

The next day, the CGO recorded those entries of $4.1 billion and $973 million to credit (decrease) general ledger account 1000030000 (i.e., cash) with offsets to debit (increase) the PPA account and the General Government account, respectively.[98] The CGO additionally recorded the DOT adjustment of $516 million to credit (decrease) the PPA account and debit (increase) the CAFR – Due To/Due From account.[99] As expected, these entries resulted in an approximately $700 million negative cash balance within the ACFR General Fund.[100]

The CGO subsequently provided the auditors a draft of the ACFR reflecting a zero cash balance in the ACFR General Fund (with the $700 million deficit presumably being offset by a topside

[97] The $973 million represents 2022 appropriations recorded to Fund 10019000.

[98] Confirmed via SCEIS query. The Prior Period Adjustment is documented in Exhibit B-2 of the 2022 ACFR within "Fund balances at beginning of year, as restated".

[99] Confirmed via SCEIS query. The resulting balance within the PPA account is the $3.5 billion restatement amount.

[100] Excluding the topside entries of [$5.02 billion] and [-$1.28 billion] the balance for Cash and cash equivalents for the General Fund was [-$705 million]. We believe that the CGO recorded the PPA directly to the general ledger such that the exact amount of the topside entry could be determined to arrive at a zero cash balance.

entry adjustment). CLA and OSA provided comments in response, including a comment from OSA that "[g]eneral Fund Cash and cash equivalents shouldn't be $0." We understand that the OSA did not intend for the comment to be viewed as a directive but rather an informal question as they believed (incorrectly) that ACFR General Fund Cash had never been zero.[101] We further understand that the OSA's view is that there is no accounting standard that says cash cannot be zero, but also acknowledged that cash had not been zero in the ACFR General Fund in any prior year. We subsequently learned of an additional document in which the CGO recounted a conversation with OSA stating that OSA "want[ed] [the CGO] to fix [the ACFR General Fund balance] so cash won't be zero."

The CGO appears to have taken these comments as a directive, and provided a revised version of the ACFR to the auditors in response to the auditors' comments on November 17, 2022, reflecting a cash balance in the ACFR General Fund of approximately $3.0 billion. To effect this change, the CGO recorded two topside entries to the ACFR General Fund 'Cash' and 'Investments' line items. The first entry reclassified $5.02 billion from investments to cash while the second reclassified $1.28 billion from cash to investments resulting in a net increase of $3.7 billion to Cash and corresponding decrease to investments. The $5.02 billion topside entry negates the cash impact of the PPAs recorded to the general ledger (i.e., increasing cash by $5.02 billion), while the $1.28 billion entry reduced cash by that amount (and increases investments).

We understand from the CGO that these specific amounts could not be supported by contemporaneous documentation. Aside from the relationship of the dollar amount of these topside entries to the PPA, we have not identified any contemporaneous documentation to support the amount of these topside entries. We therefore recommend that the CGO institute a policy that dictates when topside entries can be used and mandates the minimum requirements for documentation for all entries (including topside entries).

#	Recommendation	Relevant Party(ies)
12	Revise the existing entry policy to enumerate the specific situations under which late entries (i.e., topside entries) are permitted. The policy must also be	CGO

[101] The fiscal year 2015 ACFR General Fund cash, before topside entries was [-$246 million].

#	Recommendation	Relevant Party(ies)
	amended to set the minimum level of documentation required for all entries, including topside entries.	

This is not the first instance in which the State reclassified amounts in lieu of presenting a negative cash balance. In fiscal year 2016, the State reported a cash balance of zero within the State Tobacco Settlement fund. However, rather than reclassifying the deficit from investments, $3.3 million (the amount by which cash was negative) was reclassified from accounts payable.[102]

Conversely, as discussed in *2023 Negative ACFR General Fund Cash Topside Entry*, the CGO recorded a topside entry in fiscal year 2023 to offset the amount by which ACFR General Fund Cash was negative, such that ACFR General Fund Cash was zero. The accounting basis of the CGO's decision to report a positive cash balance in the ACFR General Fund in fiscal year 2022 is unclear, given that ACFR General Fund cash was also negative (prior to any topside entries) in fiscal year 2023. We therefore recommend that the CGO establish a policy that governs how instances of negative cash are presented in the ACFR to ensure consistent application and conformity with relevant accounting standards.

#	Recommendation	Relevant Party(ies)
20	Establish a policy or procedure that outlines the CGO's position on accounting for negative cash (with relevant GAAP/GASB citations) and the related accounting and disclosure requirements to ensure compliance and consistency in application.	CGO

We understand that these topside entries are emblematic of the lack of communication and coordination between the STO and CGO. We therefore have made certain recommendations in an

[102] Description of topside entry states, "Reclass negative cash to accounts payable- negative cash was created when reclassing funds to match STO investment balances."

effort to improve this relationship and also to establish a mutual understanding as to how negative cash arises.

#	Recommendation	Relevant Party(ies)
1	Hire an independent third party (e.g., independent compliance consultant) to assess and oversee compliance with all recommendations in this report.	The State of South Carolina
6	Consider changes to the CGO's and STO's duties and structure to enable better cooperation between the two agencies.	The State of South Carolina
7	Provide training and related documentation to the STO that explains where cash and investments in the STO Treasury show up in the ACFR and how negative cash can occur. Documentation should be sufficient to allow the STO to independently quantify the ACFR General Fund cash balance using information to which it already has access.	CGO

VII. ACFR Compilation Process

a. Crosswalk File Overview

Parts 1 and 3 of our Scope of Work generally require that we:

1. Analyze and reconcile all Treasury Cash and Treasury Investments to external statements to the extent possible (Part 1)
2. Assess the accuracy of the cash and investments balances in SCEIS (Part 3)
3. Determine if the amounts of cash and investments reported in ACFRs were fairly stated and categorized in the appropriate funds (Part 3)

To accomplish these tasks, we analyzed the CGO's Crosswalk file, which is an Excel file that aggregates the State's cash and investment balances from SCEIS for each ACFR. Our analyses of the Crosswalk files therefore served to confirm whether: (1) cash and investments balances in SCEIS and, by extension, the ACFRs were accurate and appropriately categorized (2) the portion of Treasury Cash and Treasury Investments could be tied to an external source.

Although only the aggregated balances in the Crosswalk are tied to the ACFR, Crosswalk files are composed of certain categories that reflect the build-up of the cash and investment balances. We noted that the level of detail and the format of Crosswalk files varied over the years, in general, they contained similar content. For example, the 2019 Crosswalk contained the following categories: (1) STO Cash, (2) Investments, (3) Appropriations, (4) CGO Adjustments, (5) AFS Cash and (5) AFS Restricted Cash and Investments.

The amounts in the Crosswalk include all cash or investment balances, regardless of fund classification. However, funds with a GAAP Fund Code of 999 are also separately shown on the Crosswalk with an 'Exclude' designation to ensure they are excluded from the amounts reported in the ACFR.[103]

b. Assessing the Accuracy of Crosswalk Files

Before analyzing the Crosswalk files, we first sought confirmation that: (1) we could independently reperform the SCEIS query underlying the Crosswalk files and (2) the Crosswalk could be tied to the corresponding ACFR.

[103] We did not identify any funds beyond Fund 30350993 that remain improperly classified.

Analysis of the SCEIS query output generally resulted in insignificant variances, if any. We received sufficient explanations for any significant variances, which were generally attributable to either manual adjustments (i.e., reflected in the Crosswalk but not recorded to SCEIS) or entries posted after the date the SCEIS GL report underlying the Crosswalk was generated. In each instance, we were able to confirm the explanation provided and we therefore do not believe these variances are indicative of any error in the ACFRs. However, we believe these variances represent yet another example of how the CGO's workpapers could be better documented and more sufficiently reviewed.[104] Nonetheless, this exercise established that the data in SCEIS at the time of our investigation could be relied upon to assess the accuracy of said data contemporaneous to the respective ACFRs.

After verifying the reliability of SCEIS, we traced all cash and investments (i.e., not limited to Treasury Cash and Treasury Investments) balances (both restricted and unrestricted) per the Crosswalk to the corresponding ACFR exhibits.[105] We generally tied the Crosswalk files to the ACFR within variances that appeared attributable to rounding after including any topside entries.[106] We performed this exercise both in the aggregate and at the fund-level as reported in the ACFR. This reconciliation confirmed that any test or analysis of the SCEIS data would, by extension, represent an assessment of the data included in the corresponding ACFRs.

c. Tie-out of STO Cash to External Sources

Treasury Cash was generally comprised of two categories in the Crosswalk: STO Bank and CRAs.[107] We reconciled the 'STO Bank' component of the Crosswalk files to banking data either provided directly by the STO or bank statements extracted from contemporaneous STO closing packages, with only minor discrepancies which were generally attributable to timing differences. This reconciliation required that we include all funds, including those with a GAAP Fund Code of 999 (e.g., Fund 30350993).

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[104] Refer to recommendations 14 and 15.

[105] Relevant ACFR exhibits included B1, B3, B6, C1, D1, E1, E4, F1, F3, F5 and G1.

[106] Refer to 2023 Negative *ACFR General Fund Cash Topside Entry* section for further discussion.

[107] The Composite Reservoir Accounts were established by the STO to centralize the banking operations of agencies processing their own checks whose disbursements are not subject to a warrant by the Comptroller General. This allows State entities (agencies and universities) to issue checks against a pooled balance.

We were unable to perform the same reconciliation for the CRAs. The CGO explained that the AFS entities that have a CRA are not required to record the activity in SCEIS.[108] As a result, certain AFS entities record such activity to SCEIS while others do not. This inconsistency requires the CGO to compile, compare, deduplicate and aggregate CRA balances from AFS entities and SCEIS when building the ACFR. Documentation of this analysis performed by the CGO was not available for fiscal years prior to FY2022. For the fiscal years in which such documentation was available, while we could not independently reperform the analysis, we reviewed the documentation, which is part of the CGO's 'push-down' file[109], noting the process appears to be an improvement from prior years' documentation.

#	Recommendation	Relevant Party(ies)
24	Ensure that all agencies including the STO are using SCEIS for tracking cash in all CRAs. This will improve the efficiency and accuracy when developing the yearly ACFR.	CGO, STO, and SCEIS

d. Tie-out of STO Investments to External Sources

The 'Investments' component of the Crosswalk is comprised of Treasury Investments as well as investments held by AFS entities. For fiscal years 2016 through 2023, we tied the total fair market value of the State's investment securities per BONY, the State's investment custodian, to a variety of reports including the SCEIS "ZIMRQ300" and the IMS "TIM806" report, which present mark-to- market values and interest by fund and portfolio.[110]

Having confirmed that the investment fair market value from BONY, an external source, reconciled to SCEIS, we then compared the fair market value per the ZIMRQ300 and the TIM806 reports to the portion of the Crosswalk Treasury Investments[111]. Our tie-out involved isolating the investment portion of the Crosswalk and summarizing balances by individual GAAP fund code.

[108] Only certain AFS entities have a CRA.

[109] The 'push-down' is the name of a file developed by the CGO in fiscal years 2022 and 2023 to quantify the cash and investments balances reported in the ACFR.

[110] The ZIMRQ300 report did not exist until fiscal year 2016.

[111] From a risk/size/cost-benefit perspective we did not perform reconciliations for unclaimed property.

This generated a total investment value across all funds including AFS entities. We then leveraged either the ZIMRQ300 or TIM806 report to identify the portion of the balance that was Treasury Investments only. We then created an Excel pivot summary table that aggregated “Mark to Market”, “Purchased Accrued Interest” and “Cash Equivalents” per individual GAAP fund. We calculated a net fair market value for each individual GAAP fund by summing “Mark to Market” and “Purchased Accrued Interest” then subtracting “Cash Equivalents”. Next, we filtered out the ‘999’ individual GAAP fund codes as they represent AFS investments. As a final step, we compared the calculated net fair market values by individual GAAP fund code to the Crosswalk. The reconciliation of the Treasury investments to the crosswalk found some differences in various funds that upon further review of documents provided were understood to be related to non-Treasury investment categories.

e. Tie-out of AFS Cash and Investments

The cash and investments held by AFS entities are also reflected in the Crosswalk. AFS entities are not required to report all accounting activities within SCEIS and instead primarily use their own stand-alone accounting systems. Any activity posted to SCEIS by these entities is classified with a GAAP Fund code of 999 (i.e., to be excluded from the ACFR); rather, they separately submit their financial statements to the CGO for inclusion in the ACFR.

Annually, the CGO receives audited financial statements and cash and investment reconciliations from each AFS entity. Using these documents, the CGO prepares AFS workpapers, which serve as the basis for the cash and investment-related entries that the CGO records to SCEIS for each AFS entity.

We judgmentally selected a sample of at least ten AFS entities for each fiscal year from 2015 to 2023 from a list provided by the CGO. For each sample, we confirmed the cash and investment balances (restricted and unrestricted) per the AFS audited financial statements, the AFS workpapers, and the Crosswalk file all balances reconciled.[112]

[112] To reconcile the sample of AFS cash and investment balances per the AFS audited financial statements with the Crosswalk files for fiscal years 2017 through 2019, we used a summation file created by the CGO to agree the higher education cash and investment balances per the AFS entities with the Crosswalk within differences less than $1 million. The higher education cash and investment balances for these years averaged approximately $2 billion and $1 billion, respectively.

We assessed the completeness of the population from which we selected our samples by identifying changes to the population of AFS entities during our period of review.[113] We noted, per Note 15 of the 2018 ACFR, the State identified one AFS entity "which was previously not included in the reporting entity [and] should have been included in the State's General Fund."[114] We understand from the CGO that it had only learned of this entity by reading the newspaper and there is no formal mechanism by which the CGO is informed when new agencies or state-related entities are created.[115] We therefore recommend that a process be established to ensure that the CGO is informed of changes to the State's entity structure.

#	Recommendation	Relevant Party(ies)
25	Establish a mechanism by which the CGO is notified of any changes to the State's entity structure to ensure that all relevant AFS entities are captured in the State's ACFR.	CGO

Based on our sample testing, we did not identify any errors in the AFS-related balances of the Crosswalk file that would warrant a restatement. However, we noted multiple instances where the CGO deferred to the AFS entity and could not explain the accounting treatment or classifications applied by the AFS entity. We understand that the CGO deferred to the AFS entity, for example, when Francis Marion University included the financial statement line items "Assets held in trust by others" and "other assets" in its investment balance"[116] While Francis Marion is separately audited, and its treatment of these balances may be appropriate, the lack of understanding by the CGO highlights the need to ensure the CGO understands and evaluates how AFS entities record and classify cash and investments.[117]

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[113] We observed two AFS entities, South Carolina Research Authority and InvestSC, were added to the list of AFS entities in 2016 and 2018, respectively.

[114] 2018 ACFR, page 146.

[115] The State decided to report InvestSC as a discretely presented component unit in the ACFR because although it is a separate organization, the State of South Carolina's financial statements would not be complete without acknowledging InvestSC's financial position and activities.

[116] In at least 2019 and 2021, Francis Marion classified an interest in a permanent trust created by an estate, a charitable remainder trust, an annuity, ownership in various parcels of real estate and the cash surrender value of a life insurance policy as investments.

[117] In 2019 and 2021, these categories of assets totaled $2,756,255 and $5,288,721, respectively.

#	Recommendation	Relevant Party(ies)
13	Establish a process by which non-standard adjustments to cash and investments reported by AFS entities are identified and evaluated.	CGO

f. Appropriations

As discussed in *2022 Restatement – Double-Counting of Appropriations*, we independently confirmed the appropriations balances recorded in Fund 10019000 for fiscal years 2012 to 2022. We leveraged this work to confirm a portion of the 'Appropriations' column of the Crosswalk for fiscal years 2016 through 2023, noting no discrepancies.[118]

g. CGO Adjustments

We judgmentally selected the 2019 and 2020 Crosswalk files to attempt to corroborate the CGO Adjustments columns.[119] We attempted to validate and reconcile the balances in the supporting workbooks and agree them to the CGO Adjustments columns of the Crosswalk files.

These attempts were complicated by a lack of detail within the Crosswalk files and a lack of any formal documentation explaining how such balances were compiled and derived. The supporting workpapers that we identified which tied to the Crosswalk files were generally insufficient as to determining the source of the data, the purpose of individual reports within, or any adjustments made to generate the result. We therefore recommend that the CGO improve the process by which its workpapers are created and reviewed.[120]

#	Recommendation	Relevant Party(ies)
14	Establish a minimum standard for all accounting and financial reporting workpapers such that an external party can both understand and reperform the	CGO

[118] In 2016 accounts 1000030000, 1000040000, 1000060000, and 1000061000 within Fund 10019000 were classified to "Other" to offset the Conversion Account. See *Bank Conversion* for further detail.

[119] We understand that the 2016 through 2019 Crosswalk files were prepared in a similar manner by the same CGO employee. The 2020 through 2023 Crosswalk files were prepared by a different CGO employee using a slightly different approach. We therefore selected one file from each to review. No Crosswalk files were prepared prior to fiscal year 2016.

[120] The CGO did not accept our offer to review a more recent version of the Crosswalk (i.e. fiscal year 2022 or 2023). We therefore cannot comment on whether the documentation had improved since 2020.

#	Recommendation	Relevant Party(ies)
	process. Documentation should include information sufficient to understand the purpose of the workpaper and the source of the information.	
15	Establish requirements for the level of quality review required for all ACFR-related workpapers and how such review is documented.	CGO

h. Appropriateness of ACFR Fund Classification

To assess the appropriateness of the fund classification in the ACFR, we analyzed changes in the grouping of individual GAAP funds per the Crosswalk file for fiscal years 2015 through 2023.[121] A summary table was created to track how each individual fund key was categorized in the ACFR Funds (e.g., General Fund and Departmental Program Services) over time. In each instance, the CGO explained that they were comfortable with the classifications as presented and any changes were either attributable to GASB pronouncements or the changes were not ultimately reflected in the ACFR.

i. 2023 Negative ACFR General Fund Cash and Topside Entry

During the ACFR reconciliation process, we determined that certain topside entries (which the CGO refers to as "late manual adjustments") were made to the ACFR but not reflected in SCEIS. While we acknowledge that topside entries are not an uncommon practice, as we will discuss, we determined that the process governing these topside entries requires improvement.

The CGO recorded two topside entries impacting the ACFR General Fund in the fiscal year 2023 ACFR. The initial entry added the $1.8 Billion of cash within Fund 30350993 with a corresponding reduction to General Government Expense.[122] The other topside entry reclassified $474 million

[121] Due to the establishment of our 2015 anchor year, we did not perform this analysis for fiscal year 2014.

[122] As of fiscal year 2023, for Fund 30350993 was still mapped such that it was excluded from the ACFR, therefore necessitating a topside entry to include the $1.8 Billion in the ACFR.

from investments to cash to change the cash balance in the ACFR General Fund from a deficit/negative number to zero.[123]

In December 2023, the CGO explained to the auditors how the STO's rules and practices contributed to the negative cash scenario in 2023. The CGO explained that STO's General Fund Portfolio (which is part of the General Fund in the ACFR) purchases investments using cash pooled from entities that are not part of the General Fund as reported in the ACFR. These entities are not entitled to any earnings on the investments made using their funds.[124] However, they are also not liable for any losses incurred by the STO, thus retaining their claim to cash for any amounts 'used' by the ACFR General Fund.

#	Recommendation	Relevant Party(ies)
16	Establish a policy outlining the situations in which the CGO is permitted to adjust information it receives from various agencies and a process by which such adjustments must be communicated to the affected agencies.	CGO

As a result, the investment-related activities (e.g., the investment balance, unrealized gains and losses, and *the reduction of cash* reflecting the purchase of those investments) are reflected in the ACFR General Fund and the cash balance remains with the entity from which the ACFR General Fund used the cash to make the investment, causing the negative cash balance in the ACFR General Fund.

Per GASB 31, paragraph 14, "The equity position of each fund or component unit in an internal investment pool should be reported as assets in those funds and component units. Often, income from investments associated with one fund is assigned to another fund because of legal or

[123] As discussed in the *2022 Topside Entries Related to Cash Presentation* section, the General Fund, prior to any topside entry adjustments, had a negative cash balance in fiscal year 2022. However, unlike 2023, the 2022 topside entries increased cash in the General Fund to a balance to $3.0 billion (rather than a zero balance).

[124] In 2023, the CGO was provided with a written letter from the STO which stated that all earnings from investments of the general deposit funds shall become part of the General Fund of the State.

contractual provisions. In that situation, the accounting treatment should be based on the specific language of the legal or contractual provisions."[125]

Based on our review of the documents provided and the representations made to us, the CGO's treatment of cash used to purchase investments in the General Fund Portfolio appears consistent with the provisions of the General Fund Portfolio and therefore consistent with GASB 31. However, based on the disclosures in the ACFR, the manner in which the CGO records these transactions may not be evident to a reader of the ACFR.

#	Recommendation	Relevant Party(ies)
21	Assess all prior topside entries or other adjustments and disclosures related to offsets of negative cash balances to ensure compliance with relevant accounting standards.	CGO

[125] GASB 31—Certain Investments and External Investment Pools ¶ 14.

VIII. Auditor Involvement

As mentioned in our *Statement of Limitations*, we did not conduct a comprehensive review of the audit workpapers related to OSA's audits of the historical ACFRs. We have, however, made certain observations related to the audit function (from our review of documents and conversations with various witnesses).

We understand that the OSA conducts its audit "jointly" with CLA, an external auditor firm it has hired. In practice, both the OSA and CLA sign the audit opinion which attests to the accuracy of the ACFR. While it is not atypical for a state auditing function to supplement its audit resources and expertise with outside assistance, the concept of a joint audit is highly uncommon. In our review of the ACFRs of all 50 states, over the last 4 years, Pennsylvania was the only other state with this arrangement, with the state auditor also jointly opining on its ACFR with CLA.

The OSA expressed that this arrangement has not been consistently applied as intended. They explained that both CLA and OSA should be involved in either the preparation or review of every audit workpaper. In other words, if a representative of CLA prepared a workpaper, a member of the OSA should review it, and vice versa. The OSA explained that this does not always happen as it should.[126] This disconnect was further confirmed by a conversation with a representative from CLA, who contradicted the OSA's statement that CLA had historically led the audit process for cash and the 2022 restatement.

We understand that OSA believed that the 2022 restatement has strained the relationship between the two parties, with the two sides seemingly opposed to one another instead of one combined team. We believe an evaluation of this arrangement is warranted, given these developments.

#	Recommendation	Relevant Party(ies)
2	Evaluate the sufficiency of the joint audit structure between OSA and the State's external audit firm, CLA, to ensure it is operating as intended. Consider changes as needed.	OSA

[126] This viewpoint was not shared by CLA.

We understand that the OSA reports to a five-member committee known as the State Fiscal Accountability Authority of which the Comptroller General and State Treasurer are members. While we have not identified any evidence to suggest that the OSA has been subjected to any undue pressure from the STO or CGO, even the appearance of undue pressure threatens the perceptions of the State's audit function. The reporting structure of the OSA should therefore be revised such that the OSA no longer reports to a committee whose members include the CGO or STO.

#	Recommendation	Relevant Party(ies)
3	To ensure that there is no appearance of an impairment of independence, the reporting structure of the OSA should be revised such that it no longer reports to the Comptroller General or the State Treasurer.	The State of South Carolina

As discussed in the *2022 Topside Entries Related to Cash Presentation* section, the OSA commented on the ACFR General Fund cash presentation of a draft version of the fiscal year 2022 ACFR which the CGO literally interpreted (perhaps mistakenly). As a result, the CGO recorded two adjustments to the ACFR (topside entries) which changed the presentation of the ACFR General Fund cash position from zero to approximately $3 billion (with a corresponding reduction to investments). The CGO has been unable to provide contemporaneous documentation explaining the bases for these entries.

IX. Disclaimer - Important Information Regarding this Report

This forensic accounting analysis (this "Report") was prepared by AlixPartners, LLP ("AlixPartners") per the contract (the "Agreement") between AlixPartners and the South Carolina Department of Administration ("Admin") for the engagement of AlixPartners to provide forensic accounting services to Admin pursuant to Proviso 93.19 of the South Carolina Appropriations Act of 2024. This Report is subject to the publication and presentation provisions of Proviso 93.19 and the Agreement between AlixPartners and Admin.

This Report is provided to Admin, the Governor of South Carolina, the President of the Senate, the Chairman of the Senate Finance Committee, the Speaker of the House of Representatives, and the Chairman of the House Ways and Means Committee (the "Designated Recipients"). It is understood that this Report is to be used by the Designated Recipients in their respective roles in governing and/or administrating the affairs of the State.

The information contained in this Report is based upon financial and other data / information provided to AlixPartners by the State of South Carolina (the "State") in connection with the engagement. AlixPartners further relied on the assurance of the management and staff of the State that all information furnished by the State to AlixPartners was true and accurate in all material respects and the State is unaware of any facts that would make the information provided to AlixPartners incomplete or misleading. In preparing the Report, AlixPartners has assumed, without complete independent verification, the accuracy and completeness of all information available from the State or which was otherwise provided to AlixPartners.

This Report is subject to important limitations that are identified and discussed throughout the Report, and particularly in the section titled "Statement of Limitations" set out on page 68. This Report is subject to those risk factors, which must be reviewed and considered by the Designated Recipients.

AlixPartners' work in this matter involves forensic accounting and related analysis. Therefore, AlixPartners has not subjected the information provided to an audit or examination in accordance with generally accepted auditing standards or attestation standards or the standards of the Public Company Accounting Oversight Board.

The information in the Report reflects conditions and the views of AlixPartners as of the date this Report was submitted by AlixPartners.

In rendering its services under the Agreement, AlixPartners is not responsible for the Designated Recipients' underlying or future decisions. Additionally, outside of its use by the Designated Recipients as is understood by the parties to the Agreement, it is not contemplated that this Report will be relied upon or used for any other purpose and AlixPartners can have no and accepts no liability for any claimed loss whatsoever as a result of such use.

X. Statement of Limitations

The following is a list of known limitations we encountered during our work:

- While we received read-only access to the State's audit workpapers for fiscal years 2017 through 2023, we did not perform a detailed review of those documents as they were not directly within our Scope of Work. We therefore have limited observations thereon. In accordance with its document retention policies, the State did not retain its audit workpapers prior to 2017.
- Generally, due to limits in record retention, we received limited banking data prior to 2016, and received single-page bank statements for 2015.
- We could not directly reconcile banking data to SCEIS prior to fiscal year 2016, as that was the first year the STO reconciled SCEIS by bank account.
- Due to employee turnover, we did not have complete access to all employees with relevant firsthand knowledge of all relevant events.
- We could not determine the bases of certain transactions (e.g., entries recorded within and outside of SCEIS) due to the lack of available, contemporaneous documentation.
- We were not provided with comprehensive documentation for certain key processes, often because such documentation did not exist.
- We did not have subpoena power, nor did we place individuals under oath. Many of our interviews were conducted in group format (i.e., in the presence of management). Certain interviews were conducted in the presence of counsel engaged to represent the agencies in related matters.
- Due to scheduling and access, we interviewed certain key witnesses in the last month prior to submission.

admin
SOUTH CAROLINA
DEPARTMENT *of* ADMINISTRATION

Henry McMaster, *Governor*
Marcia S. Adams, *Executive Director*

OFFICE *of* THE EXECUTIVE DIRECTOR

Disclaimers of the State and the Working Group

The preceding final report was prepared by AlixPartners pursuant to an engagement with the South Carolina Department of Administration (Admin) after Admin developed and published a solicitation requesting proposals from independent firms for forensic accounting services.

As was set out in Admin's request for proposal, AlixPartners' work was:

> … performed under the direction of Admin, with guidance from the South Carolina Attorney General's Office (AG's Office) and outside counsel for the AG's Office. The work of [AlixPartners] in performing its forensic review is essential to the AG's Office rendering of legal advice to the State, and thus, the work of [AlixPartners] will be protected from disclosure to third-parties, including under FOIA, by the attorney-client privilege and the work product doctrine.

Additionally, Governor Henry McMaster created a "Working Group" including Admin and the AG's Office, among other agencies, to help determine the existence, purpose, and intended destination of the $1.8 Billion in SCEIS subfund 30350993. The efforts of the Working Group were guided by Admin and the AG's Office and leveraged by AlixPartners during the process through which AlixPartners produced the final report. All privileges resulting from attorney-client communications and the creation of attorney work product arising during this process belong to the State and can only be waived by the appropriate authorities of the State. The submission of the final report as required by the Proviso is in no way expressing the intention of the State, the Working Group, or any subdivision or agency of the State to waive any attorney-client privilege, work product protection, or any other available privilege or protection attached to the process. Neither the function or operation of the Working Group nor the publication or dissemination of this report should in any way be construed by any party as any form of waiver, admission, agreement, or acknowledgment with respect to any of the facts, conclusions, or findings contained in this Report for any purpose, including but not limited to any prior, pending, or future proceeding, litigation, or investigation of any kind.

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