

Office of the Comptroller General

Budget Summary

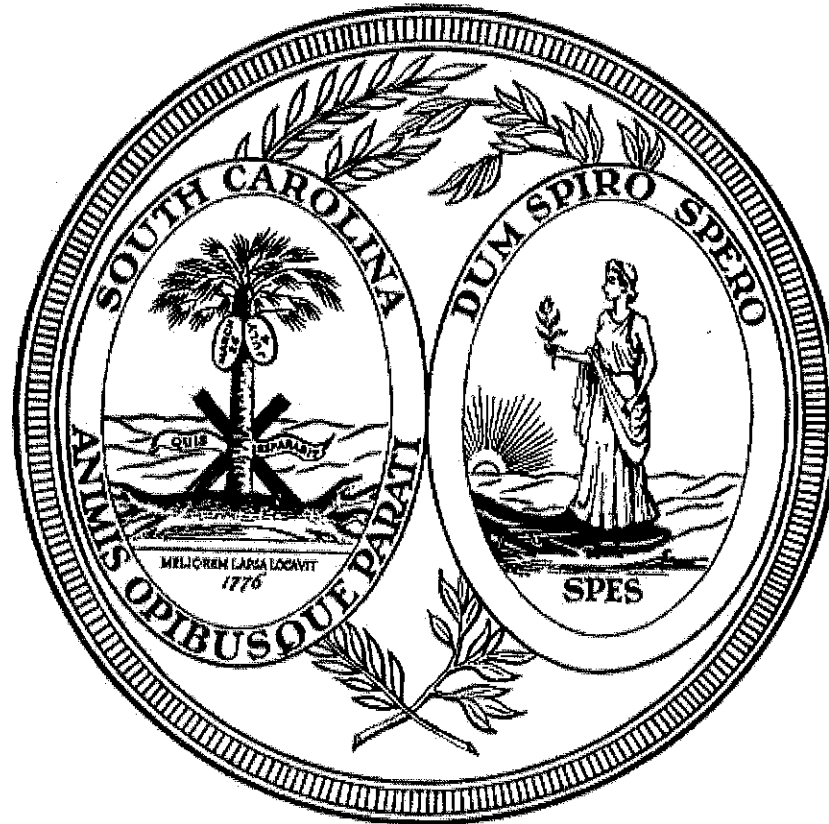
Budget Request:

- We are currently not requesting any additional funding for FY 2023-24.
- We are requesting that the following proviso be amended:
 - 118.1 (SR: Year End Cutoff), to roll-forward the date for closing the state's books for fiscal 2023-24

Agency Overview: The Comptroller General's Office (CGO) serves as a technical support agency for state government. In that capacity, we provide services that expand the "back office" capabilities of other state agencies. Specifically, the CGO is organized into four program areas (divisions) providing the support services described below:

- **Statewide Payroll/Accounts Payable:** We process the payrolls, vendor payments, and other disbursement requests for state agencies.
- **Statewide Accounting:** We provide centralized accounting services for state agencies.
- **Statewide Financial Reporting:** We produce the state's annual comprehensive financial report (ACFR) which is used by credit rating agencies, underwriters, bond holders, and other key stakeholders.
- **Administrative Services & Public Outreach/Other Services:** We efficiently manage the divisions, programs, and operations of the CGO and support other collaborative initiatives to assist in serving the public. We provide transparent and easily accessible financial information to the public and serve on inter-agency working groups to support internal and external state functions.

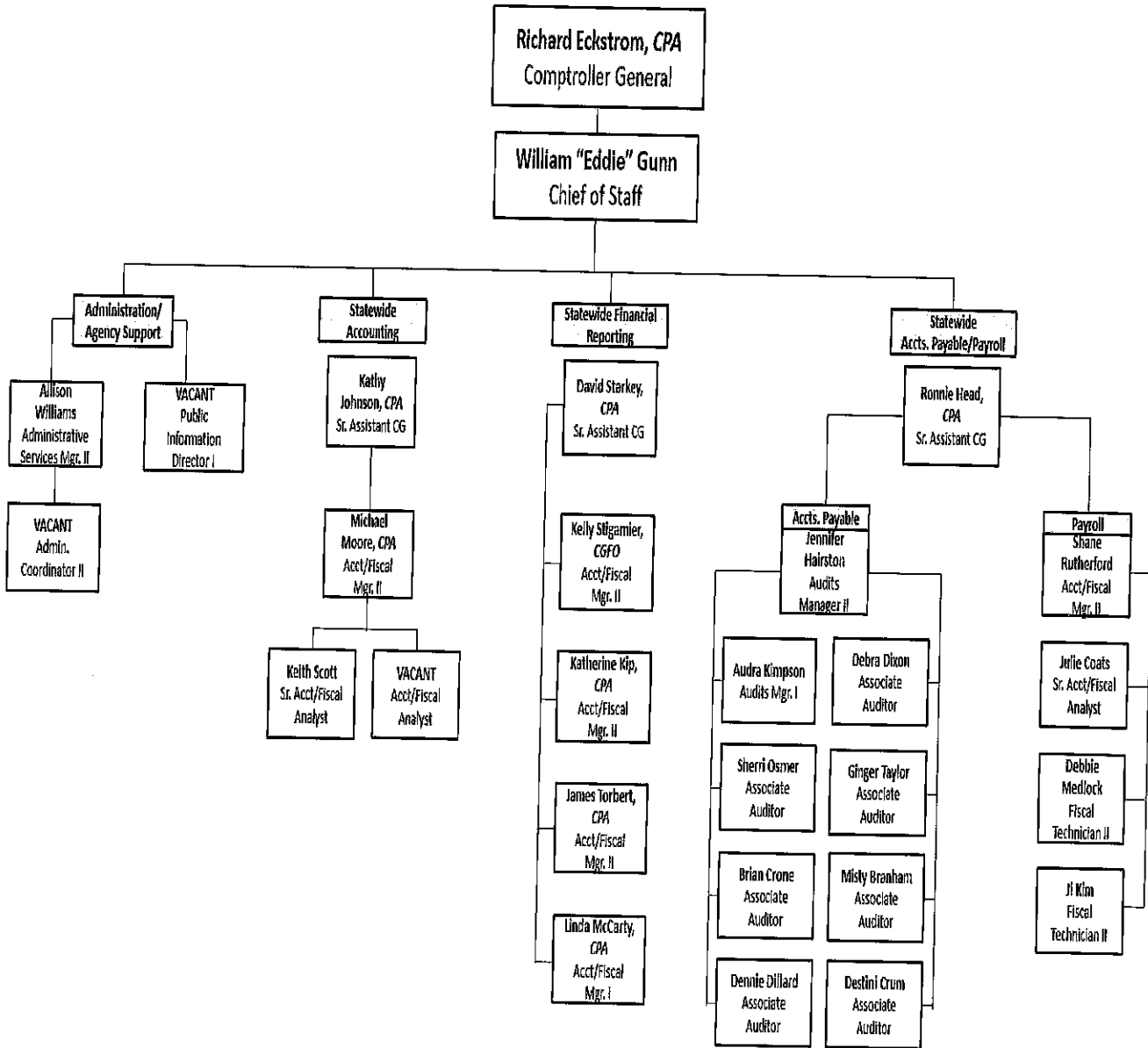
Office of the Comptroller General



House Ways and Means Constitutional
Subcommittee Budget Hearing

January 17, 2023

Office of the Comptroller General Organizational Chart



Office of Comptroller General

Carryforward Information

General Fund Carryforward for Fiscal Year 2022 \$264,076.60

Header	Additional Data								
Document	1000858653	Status	Posted	Document Year	2023				
Process	Carry Over	Total Sender	142,806,682.40	USD					
BCS Value Type	Budget	Total Receiver	142,806,682.40	USD					
Budget Category	Payment	Version	0	Sender Year	2022				
Document Type	CFGF	Document Date	08/17/2022	Receiver Year	2023				

Year	Periods									
Doc. Line	+/ -	Funds Ctr	Funded Program	F.Ar	Fund	Commt Item	Grant	Amount (USD)	Type	Text
000008	-	E1200000	8900.000000X000	00000	10010000	561000	NOT RELE	264,076.60	CFGF	10% General Fund Carry Forward
000066	+	E1200000	8900.000000X000	00000	10010000	561000	NOT RELE	264,076.60	CFGF	10% General Fund Carry Forward

Office of the Comptroller General

Agency Provisos & Provisos Related to Agency			
Proviso # FY 2022-23	Proviso Title	Proviso Language	Agency Recommended Action (keep, change, delete, add)
97.1	CG: Signature Authorization	The Comptroller General is hereby authorized to designate certain employees to approve, in his stead, disbursement documents authorizing payment, and the State Treasurer is hereby authorized to accept such approved disbursement documents when notified by the Comptroller General. This provision shall in no way relieve the Comptroller General of responsibility.	Keep
97.2	CG: GAAP Implementation & Refinement	It is the intent of the General Assembly that the State of South Carolina issue financial statements in conformance with Generally Accepted Accounting Principles (GAAP). To this end, the Comptroller General is directed, as the State Accounting Officer, to maintain an Enterprise Information System for State Government (SCEIS) that will result in proper authorization and control of agency expenditures, including payroll transactions, and in the preparation and issuance of the official financial reports for the State of South Carolina. Under the oversight of the General Assembly, the Comptroller General is given full power and authority to issue accounting policy directives to state agencies in order to comply with GAAP. The Comptroller General is also given full authority to conduct surveys, acquire consulting services, and implement new procedures required to implement fully changes required by GAAP.	Keep

Office of the Comptroller General

Agency Provisos & Provisos Related to Agency

Proviso # FY 2022-23	Proviso Title	Proviso Language	Agency Recommended Action (keep, change, delete, add)
117.1	GP: Revenues, Deposits Credited to General Fund	Each institution, department or agency, in remitting such income to the State Treasurer, shall attach with each such remittance a report or statement, showing in detail the sources itemized according to standard budget classification from which such income was derived, and shall, at the same time, forward a copy of such report or statement to the Comptroller General and the Executive Budget Office. In order to facilitate the immediate deposit of collections, refunds of such collections by state institutions where properly approved by the authorities of same, may be made in accordance with directions from the State Comptroller General and State Treasurer.	Keep
117.9	GP: Transfers of Appropriations	Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office and Comptroller General. No such transfer may exceed twenty percent of the program budget.	Keep
117.15	GP: Allowance for Residences & Compensation Restrictions	That salaries paid to officers and employees of the State, including its several boards, commissions, and institutions shall be in full for all services rendered, and no perquisites of office or of employment shall be allowed in addition thereto, but such perquisites, commodities, services or other benefits shall be charged for at the prevailing local value and without the purpose or effect of increasing the compensation of said officer or employee. The charge for these items may be payroll deducted at the discretion of the Comptroller General or the chief financial officer at each agency maintaining its own payroll system.	Keep
117.20	GP: Travel - Subsistence Expenses & Mileage	The Office of the Comptroller General is authorized to promulgate and publish rules and regulations governing travel and subsistence payments.	Keep

Office of the Comptroller General

Agency Provisos & Provisos Related to Agency

Proviso # FY 2022-23	Proviso Title	Proviso Language	Agency Recommended Action (keep, change, delete, add)
117.55	GP: Year-End Financial Statements - Penalties	Agencies, institutions, and other reporting entities required to submit annual audited financial statements for inclusion in the State's Annual Comprehensive Financial Report must submit final audited financial statements to the Comptroller General not later than October first for those with fiscal year-end June thirtieth. For institutions and reporting entities with fiscal year-ends other than June thirtieth, final audited financial statements must be submitted to the Comptroller General within 120 days of that fiscal year-end. The Comptroller General shall provide a written report of each agency, institution, or other reporting entity not in compliance with this provision to the State Fiscal Accountability Authority by November thirtieth.	Keep
117.78	GP: Commuting Costs	State government employees who use a permanently assigned agency or state owned vehicle to commute from their permanently assigned work location to and from the employee's home must reimburse the agency in which they are employed for commuting use in accordance with IRS regulations based on guidance from the Office of Comptroller General which must use the Cents per mile Rule, unless they are exempted from such reimbursement by applicable IRS regulations.	Keep
117.79	GP: Bank Account Transparency and Accountability	Each state agency, except state institutions of higher learning, which has composite reservoir bank accounts or any other accounts containing public funds which are not included in the Comptroller General's South Carolina Enterprise Information System shall prepare a report for each account disclosing every transaction of the account in the prior fiscal year.	Keep

Office of the Comptroller General

Agency Provisos & Provisos Related to Agency

Proviso # FY 2022-23	Proviso Title	Proviso Language	Agency Recommended Action (keep, change, delete, add)
1A.14	SDE-EIA: School Districts and Special Schools Flexibility	The Comptroller General must establish and maintain a website to contain the information required by this section from a school district that does not maintain its own internet website. The internet website must be organized so that the public can differentiate between the school districts and search for the information they are seeking.	Keep
25.3	TEC: Training of New & Expanding Industry - Payments of Prior Year Expenditures	The State Board for Technical and Comprehensive Education may reimburse business and industry for prior year training costs billed to the agency after fiscal year closing with the concurrence of the Comptroller General.	Keep
38.6	DSS: TANF Advance Funds	The Department of Social Services is authorized to advance sufficient funds during each fiscal year from the Temporary Assistance for Needy Families Assistance Payments general fund appropriations to the Temporary Assistance for Needy Families Assistance Payments federal account only for the purpose of allowing a sufficient cash flow in the federal account. Upon the advance of funds as provided herein, the Comptroller General is authorized to process the July voucher for the funding of benefit checks.	Keep
100.12	ADJ: National or State Guard State Active Duty	In the event of the activation of the South Carolina National Guard or State Guard to State Active Duty in response to a declared emergency or in response to an imminent or anticipated emergency, including support provided under Section 25-9-420 of the 1976 Code, the Emergency Management Assistance Compact, the State Treasurer and the Comptroller General are hereby authorized and directed to pay from the general fund of the State such funds as necessary, not to exceed \$1,500,000, to cover the actual costs incurred. Any funds reimbursed to the state shall be deposited in the state general fund, up to the amount of funds advanced to the Office of Adjutant General for these activities.	Keep

Constitutional Subcommittee Proviso Request Summary FY 2022-23

Proviso # in FY 22-23 Act	Renumbered FY 23-24 Proviso #	Proviso Title	Short Summary	Agency Recommended Action (keep, change, delete, add)
118.1		SR: Year End Cutoff	Year end deadline for agencies to submit input documents and electronic workflow supporting their fiscal year expenditures to the Office of the Comptroller General for processing.	Change (update the due date to reflect the new fiscal year)

Prior Period Adjustment for Cash and Investments in 2022 ACFR

Detailed Explanation for House Ways and Means Committee.
COMPTROLLER GENERAL'S OFFICE (CGO)

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2022 Detailed Explanation for House Ways and Means Committee.

1. Text of Restatement Note in the 2022 ACFR (Note 15-p.146)

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

From 2007 through 2011, the State concurrently operated its aging legacy systems and the new ERP system that was being developed in phases.¹ During those five years the ACFR continued to be sourced from the State's legacy systems. Beginning in 2012, the ERP system was sufficiently established to begin using it as a primary source for ACFR reporting. However, the mapping error made in 2007 was then incorporated into the State's ACFR reporting in 2012. The error resulted in the ACFR failing to capture certain cash transfers-out from the General Fund, primarily those transfers to the State's component units.

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

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

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

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

Until being discovered in 2022, this mapping error impacted the ACFRs for fiscal years 2012 through 2021, overstating General Fund cash and fund equity in those ACFRs by a cumulative amount of \$3.530 billion², which necessitated the restatements of beginning fund equity reflected above.

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

2. Background Information

- Audited Financial Statement (AFS) entities are "lump sum agencies," primarily colleges and universities that receive State appropriations
 - AFS entities are not on SCEIS and so are separately audited. The CGO consolidates them into the ACFR with information obtained from their separately audited financial statements.
 - The State's transfer of cash to AFS entities are recorded in SCEIS.
 - To correctly consolidate AFS entities into the ACFR, the CGO ignores all SCEIS activity and relies exclusively on their audited financial statements instead.
 - AFS entities participate in cash and investments managed by the State Treasurer's Office (STO).
- The ACFR is a consolidation of core state Agencies accounted for in SCEIS and AFS entities which are not accounted for in SCEIS.

¹ See detailed timeline in section 3.

² See chart in section 4 on following pages as it relates to years and derived sources.

- Cash and investments held by the State are sourced in multiple areas:
 - Pooled cash managed by the STO
 - Pooled investments managed by the STO
 - Agency cash and investments managed at an Agency level
 - Petty cash at an Agency level
 - Local Government Investment Pool managed by the STO
 - Cash and investments externally managed by AFS entities
 - Cash and investments managed by PEBA and the Employee Insurance Program
- The ACFR is prepared by the CGO and then audited by the State Auditor’s Office (SAO) and a national independent auditing firm.

3. The Restatement

a. Plain language explanation

The transfer-out activity of General Fund appropriations to AFS entities was erroneously not captured in the ACFR for fiscal years 2011 - 2021; thus, overinflating the General Fund as it was not being reduced for the fund drawdowns to AFS entities. However, the ACFR did correctly capture the AFS entities receiving the funds. **This omission only affected the ACFR. It had no impact on the State’s actual cash or on the State’s annual appropriation and budgeting process. Furthermore, the general ledger remained correct throughout.**

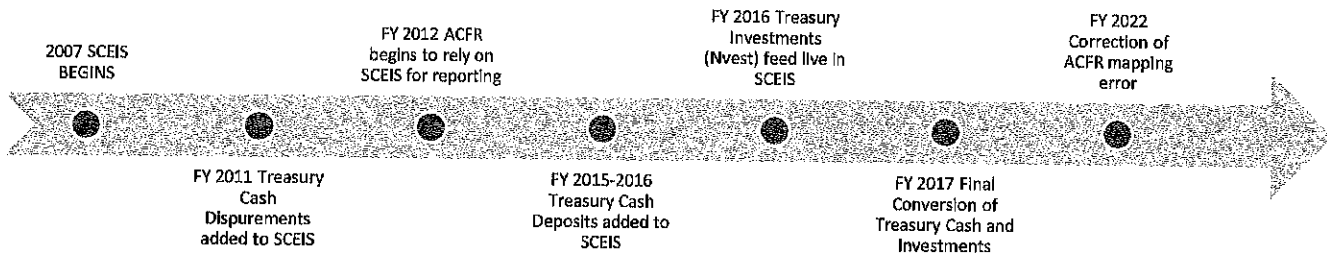
The omission arose during the State’s multi-year conversion from its various legacy accounting systems to a single enterprise resource planning software (ERP) system, otherwise referred to as SCEIS. In this conversion critical knowledge transfers were not made between parties as to certain cash transfers and the ACFR construction, resulting in a knowledge gap of how SCEIS was capturing appropriations transfers and a misclassification of related conversion entries. These items failed to appear on the ACFR as they were recorded in accounts that were understood at the time to be “off-ACFR” for consolidation purposes.

b. Analogy

A parent gives their child a \$5 monthly allowance. The child now has the \$5 allowance in their pocket, while the parent no longer has the \$5 in their possession. Within the household itself, \$5 is still contained, no more, no less. Using this scenario, the ACFR correctly captured the \$5 increase to the child but failed to capture the \$5 decrease to the parent; thus, the ACFR reported \$10 (parent-\$5, child \$5) rather than the correct \$5 (child \$5). Over the course of the year, under this incorrect accounting for the allowance, the payments are amplified so that it appears as if the parent has \$60 and the child has \$60, in reality, the child has \$60, and the parent has none.

c. Historical Roots of Problem

Prior to SCEIS, most state Agencies maintained their own, separate legacy accounting systems. In 2007, the State began converting all accounting systems into one ERP system, SCEIS. The conversion occurred in various phases spanning many years with one of the final phases being the cash conversion of the State’s Treasury and Investment Systems, which occurred in 2017. See timeline below for enhanced detail.



During this extended conversion period, the ACFR team and the STO dealt with tremendous structural accounting change compounded by changing personnel. Between 2011 and 2017, both the STO and the ACFR team were using multiple cash and investments systems to reconcile the general ledger to the ACFR. Reconciling Cash and Investments during this time was a very difficult process to complete and audit, as the reports generated by the STO had a different reporting focus³ than the reporting focus the ACFR team was required to use to comply with Generally Accepted Accounting Principles. Multiple

³ The STO reporting is focused on Bank balance, not fund balance. The STO has always been able to successfully tie balances to bank. The STO’s quality of control over cash and investments is not being questioned by this report.

meetings through the intervening years between the ACFR team, the auditors, and the STO did not resolve the issues. The ACFR team and the auditors eventually believed that reconciliation differences they were encountering were likely due to outstanding payments related to the legacy system conversion to SCEIS.

d. Diagnosis of Problem

During 2022, the ACFR team painstakingly examined every facet of the SCEIS to ACFR cross-over for cash as the explanation for the variance between source documentation ⁴ and the final ACFR cash and investment balances. In so doing, the ACFR team obtained reports from the STO's Treasury and Investment Accounting⁵ system and was able to translate those reports to a system wide cash reconciliation. For the first time, the ACFR team could see all the compiled cash and investments, by fund. As a result, the ACFR team realized the overstatement was structurally stemming from two issues:

1. Classification Error of Conversion Entry from fiscal year 2017 - Necessary entry made by the STO in 2017 to complete conversion was posted to an "off ACFR" account. This \$1.278 billion conversion entry to SCEIS was related to appropriations for years 2017 and prior.
2. Coding Error - General Fund drawdowns of \$2.25 billion since 2017 to lump sum agencies did not get captured in the ACFR.

4. Future

The ACFR team recommends the following changes:

1. Restructure the STO closing packages to report Cash and Investments by Entity rather than by bank
2. Restructure how AFS entities report their Cash and Investments so their STO-held cash and investments ties more closely and is easily reconciled from their audited financial statements to STO reporting package.
3. Change the ACFR coding on the specific fund to capture the reduction to the General Fund for appropriations transfers to AFS entities.

With these changes in place, the ACFR team believes that they will be able to successfully perform a system-wide compiled cash and investments reconciliation to provide a clear audit trail and true, correct numbers.

⁴ Source documentation-third party sources. See step 2 for full list.

⁵ Treasury and Investment Accounting is a unique accounting system that requires specialized knowledge.