



State of South Carolina

Office of the Governor

NIKKI R. HALEY
GOVERNOR

1205 PENDLETON STREET
COLUMBIA 29201

April 27, 2012

Chairman Hugh K. Leatherman, Sr.
111 Gressette Building
Columbia, South Carolina 29201

Chairman W. Brian White
525 Blatt Building
Columbia, South Carolina 29201

Dear Chairmen Leatherman and White,

The Department of Social Services (DSS) serves as the lead state agency for a variety of federally-supported programs that require a state match or have Maintenance of Effort provisions. Federal reporting requirements obligate DSS to provide information to the federal government not only regarding the agency's own expenditures, but also those of South Carolina's counties and elementary, secondary, and post-secondary education institutions.

It is current practice for DSS to record other entities' spending on DSS' own books as "non-cash expenditures" within the agency's operating budget. This not only forces DSS to request additional Other Funds authority for spending that occurs elsewhere – it also has the effect of double-counting all such spending within the state's overall budget. This approach distorts the state's financial statements by artificially inflating the state's total expenditures and creates an additional compliance burden that offers no value to South Carolina's citizens.

The State Budget Division has prepared the enclosed summary of this issue, which recommends the establishment of a non-budgeted subfund in order to rationalize our accounting and reporting practices with respect to this matter. I endorse this recommendation and hope to work with you, your staff, and the Comptroller General to identify any similar situations that may be resolved accordingly.

My very best,

Handwritten signature of Nikki R. Haley in black ink.

Nikki R. Haley

Handwritten signature of Les Boles in black ink, with "for" written below it.

for.

NRH/cs

Enclosure

cc: Richard Eckstrom, Comptroller General
Les Boles, Director, State Budget Division

NIKKI HALEY, CHAIRMAN
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



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CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

MARCIA S. ADAMS
EXECUTIVE DIRECTOR

Department of Social Services Accounting for Certified Non-Cash Expenditures from Counties and Other State Agencies

The Federal grants awarded to The Department of Social Services require a state match/ Maintenance of Effort (MOE) in order to receive federal funds. DSS's current accounting practice is to budget and record county and other agency revenue and expenditures as "non-cash expenditures" in its operating budget in order to meet federal reporting standards. This results in DSS having to continually request additional spending authority to record the non-cash expenditures even though the expenditures occurred in another agency. This practice double counts the expenditures on a statewide basis and artificially inflates the agency's operating budget by the expenditures incurred by the counties and other state agencies

For example, the federal TANF block grant requires a state match /Maintenance of Effort (MOE) in order to receive the federal funds. DSS as the lead state agency reports quarterly to the US Department of Health and Human Services, Administration for Children and Families the state's expenditures that qualify as MOE. In filing the required federal report, DSS reports the agency's general fund expenditures as well as general fund expenditures incurred by the Colleges, Universities and Technical Colleges; and the Department of Education/school districts. The expenditures incurred by these other state agencies are recorded as "certified non-cash expenditures" on DSS's books.

The preferred method for reporting the non-cash expenditures is for DSS to record that activity in a non-budgeted subfund **rather** than an operating budget subfund which requires other funds spending authorization from the General Assembly in the Annual Appropriation Act. This methodology produces the accounting information needed to meet federal reporting requirements and more accurately reflects the agency's true operating budget. Statewide leaders still have access to this information on an annual basis since these subfund expenditures are reflected in the agency's Revenue Statement Schedule III which is part of the Governor's Executive budget submission known as the "detail budget". In addition, the State's Enterprise Information System (SCEIS) will provide comprehensive up-to-date reporting for both budgeted and non-budgeted activity. Reports from SCEIS can be generated anytime during the fiscal year.

SOLUTION:

The State Budget Division will work with DSS and the Comptroller General's Office to create the non-budgeted subfund outlined above and to properly adjust the agency operating budget for FY 2011-12 and FY 2012-13. The result will be an overall reduction of approximately \$71 million in the agency's FY 2012-13 "other funds" spending authorization contained in the Appropriation Act. The State Budget Division will notify the House Ways and Means Committee and Senate Finance Committee of the adjustments made with the creation of the non-budgeted "certified non-cash expenditure" subfund.