

THOMAS L. WAGNER, JR., CPA

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

YEAR ENDED JUNE 30, 2003



**Elliott Davis, LLC**  
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Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
State of South Carolina  
Office of the State Auditor  
Columbia, South Carolina

We have reviewed the system of quality control for the accounting and auditing practice of The State of South Carolina Office of the State Auditor (The Agency) in effect for the year ended June 30, 2003, and have issued our report thereon dated September 18, 2003. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

*Finding* - We noted that post-issuance reviews, had not been performed throughout the year as required by the Agency's monitoring policy. On AUP engagements reviewed, we noted some reports that omitted certain language suggested by generally accepted accounting principles. However, none of the missing information was of such significance to make the AUP reports misleading.

*Finding* - On the Agency's only single audit engagement we noted that the disclosure on the Schedule of Findings and Questioned Costs was not consistent with the Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. In addition, on the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB circular A-133 and on the Supplementary Schedule of Expenditures of Federal Awards, the Auditee's financial statements were not identified as "basic".

*Recommendation* - The Agency should comply with its monitoring policy of post-issuance reviews of engagement reports and work papers throughout the year. The Agency should consider implementing a policy of pre-issuance review of all reports by a manager or director not otherwise associated with the engagement.

*Elliott Davis, LLC*

Elliott Davis, LLC  
September 18, 2003



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We have reviewed the system of quality control for the accounting and auditing practice of The State of South Carolina Office of the State Auditor (The Agency) in effect for the year ended June 30, 2003. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of The State of South Carolina Office of the State Auditor in effect for the year ended June 30, 2003, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

*Elliott Davis, LLC*

Elliott Davis, LLC  
September 18, 2003

State of South Carolina



Office of the State Auditor

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September 24, 2003

State Auditor's Response to Letter of Comments

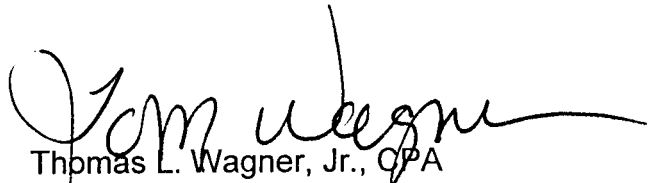
**Post-Issuance Reviews** – Effective August 19, 2003, the responsibility for ensuring post-issuance reviews was reassigned to the respective directors. The directors will ensure that the post-issuance reviews are periodically performed in accordance with the State Auditor's Office Policy and Procedures Manual.

**Omission of Certain Language Suggested by Generally Accepted Accounting Principles** – The State Auditor's Office managers have been instructed to use the current Agreed-Upon Procedures (AUP) engagement report template when preparing the AUP reports. The AUP report template includes current reporting language recommended by the AICPA.

**Schedule of Findings and Questioned Costs Disclosure** – The summary of auditors' results on the Schedule of Findings and Questioned Costs disclosed that internal controls over financial reporting included reportable conditions. The question was answered incorrectly and should have indicated that there were no internal control reportable conditions.

**Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Supplementary Schedule of Expenditures of Federal Awards did not identify the financial statements as "basic"** – The fiscal year 2003 A-133 reports will identify the financial statements as "basic financial statements".

Yours very truly,

  
Thomas L. Wagner, Jr., CPA  
State Auditor