

State Treasurer's Requests Regarding the CliftonLarsonAllen (CLA) FY13 SCRS/PEBA Audit Engagement Letter and Management Representation Letter

1. Limitation on Who May Use Our Services

2012 Engagement Letter

- 2012 engagement letter states the following: It is our understanding that the primary intent of engaging our services is for the benefit of the State Auditor and the Systems.

Proposed Change

- The engagement letter should state that CLA's understanding is that the primary intent of engaging their services is for the benefit of members of the system, the General Assembly, the people of South Carolina and all fiduciaries, including the B&C Board, the PEBA Board, and the RSIC Commission. Please see attached guidance from GASB regarding user community.

2. Investment Expense

Current Practice

- For FY 2012, SCRS's audited financial statements and notes did not include disclosure of approximately \$240 million in investment expense.
 - Only \$55 million in investment expense was reported on the line item titled "Investment Expense" in the audited Financial Statements published on November 17, 2012.
 - The total investment expense of \$296 million was disclosed in an unaudited section of the FY 2012 SCRS CAFR.

Proposed Change

- The audit should comply with auditing standards generally accepted in the United States of America as stipulated in the engagement letter.
 - Generally Accepted Auditing Standards (GAAS) require compliance with Generally Accepted Accounting Principles (GAAP).
 - GAAP (specifically GASB Statement 25) requires separate disclosure of known investment expense.
 - All investment fees, costs and expenses known to SCRS/SCIC/PEBA, whether incurred, paid by invoice, netted against fund balances or otherwise identifiable by a point in time sufficient for the total to be "dropped in" prior to completion of the FY13 Audit in the line item titled "Investment Expense" and included in the Statement of Changes in Net Assets.

3. Separate Letter from CLA to the State Auditor and the Systems' Management Regarding Recommendations for Improvements in the Accounting Procedures and Overall System of Internal Controls for SCRS/PEBA/RSIC

Current Practice

- CLA has stated that they did not write this letter in 2011 or 2012.

Proposed Change

- CLA should be required to write the letter as required on page 2 of the 2012 engagement letter as part of the FY13 audit.

4. Management Representations and Engagement Letter

Current Practice

- Only PEBA is required to sign a management representation letter.

Proposed Change

- Both the RSIC and PEBA should sign both the engagement and management representation letters that clearly define the responsibilities of each agency regarding the audit.