

**SOUTH CAROLINA STATE TREASURER'S OFFICE  
SOUTH CAROLINA LOCAL GOVERNMENT INVESTMENT POOL**

**COLUMBIA, SOUTH CAROLINA**

**MANAGEMENT LETTER**

**JUNE 30, 2005**

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
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October 28, 2005

The Honorable Grady L. Patterson, Jr.  
State Treasurer  
State of South Carolina  
Columbia, South Carolina

This report on the internal control of the South Carolina Local Government Investment Pool for the fiscal year ended June 30, 2005 was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc



Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the financial statements of South Carolina Local Government Investment Pool (the Pool) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Pool's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Pool's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described on page 30. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we believe the reportable condition described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



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1st Global Insurance Services, Inc.*

This report is intended solely for the information and use of the State Auditor, Pool participants and management of the Pool and is not intended to be and should not be used by anyone other than these specified parties.

*Rogers & Lalan, P.A.*

September 22, 2005

**SOUTH CAROLINA STATE TREASURER'S OFFICE  
SOUTH CAROLINA LOCAL GOVERNMENT INVESTMENT POOL**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

**IMPROVEMENTS NEEDED IN REPORTING OF FINANCIAL STATEMENTS**

**Condition:** The Office of the State Treasurer (STO) manages and maintains the accounting records for the Pool. The STO does not currently prepare financial statements or prepare a trial balance, including all closing entries, from the Pool's accounting records at fiscal year end. In prior years, the STO has utilized the audit firm to prepare the financial statements and would review them to ensure that the amounts and information presented in the financial statements were in agreement with their accounting records. As noted in Note 5 to the financial statements, errors occurred in the prior year statements that were not detected by the STO during their review. As a result the prior year financial statements contained material errors.

**Criteria:** The financial statements are management's representation. The auditor performs certain tests in order to make assertions about the financial statements and that they are prepared using generally accepted accounting principles (GAAP). A strong system of internal controls requires that an entity develop and implement procedures to ensure that the financial statements are accurate.

**Effect:** The amounts reported in the Pool's financial statements in the prior years are inaccurate. However, the errors that occurred affected GAAP reporting and did not affect individual participant balances which are maintained on a different basis of accounting.

**Cause:** Unknown

**Recommendation:** We recommend that management modify its procedures to ensure that all amounts are properly recorded in the GAAP basis records and financial statements of the Pool.

STATE OF SOUTH CAROLINA

# OFFICE OF STATE TREASURER

GRADY L. PATTERSON, JR.  
STATE TREASURER



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October 27, 2005

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
State of South Carolina  
Columbia, South Carolina 20201

Dear Tom:


We have reviewed the management letter issued by Rogers & Laban, PA for the Local Government Investment Pool (LGIP) as of June 30, 2005 and offer the following response:

As pointed out in the audit finding, none of the adjustments had to do with the accounting for participant funds. All were related to the previous auditor's presentation of financial statements according to their understanding of GAAP requirements.

LGIP staff requested full explanations and documentations of the adjustments made by the previous auditor. The previous auditor, one of the largest audit firms in the country, was unable to provide adequate documentation on a timely basis, therefore, in order to avoid further delays in the state's CAFR, the staff decided to rely on the expertise of the audit firm and release the report as drafted by the auditor.

These concerns were disclosed to the current auditor prior to bidding on the assignment. Given that the GAAP presentation standards have been clarified by the new auditor, staff is prepared to provide a GAAP basis trial balance to the auditor and review future statements, but will continue to rely on the auditor for expertise in financial statement presentations and any changes to the standards.

Sincerely,

  
Grady L. Patterson, Jr.  
State Treasurer

GLPJr:cp