INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

SOUTH CAROLINA OFFICE OF THE STATE TREASURER
COLUMBIA, SOUTH CAROLINA

For The Year Ended June 30, 2005

State of South Carolina

Office of the State Auditor

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January 17, 2006

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

This report resulting from the application of certain agreed-upon procedures to the accounting records of the South Carolina State Treasurer's Office for the fiscal year ended June 30, 2005, was issued by The Hobbs Group, P.A., 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,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

TABLE OF CONTENTS
SOUTH CAROLINA OFFICE OF THE STATE TREASURER
COLUMBIA, SOUTH CAROLINA
For the Year Ended June 30, 2005

I. Independent Accountants' Report on Applying Agreed-Upon Procedures..... 1

II. Accountants' Comments

Section A - Weakness not Considered Material..... 5
Section B - Status of Prior Findings..... 6

III. Agency Response..... 7

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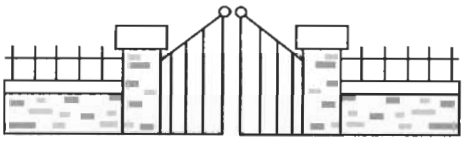

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures described below, which were agreed to by the South Carolina Office of the State Auditor and management of South Carolina Office of the State Treasurer ("*the Agency*"), solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2005, in the areas addressed. The Agency's management is responsible for its financial records, internal controls and compliance with State laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. **Cash Receipts and Revenues**
   - We inspected selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
   - We inspected selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
   - We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
   - We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
   - We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

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- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**
   - We inspected selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the South Carolina Office of the State Treasurer, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the selected disbursement transactions were adequate to detect errors and/or irregularities.
   - We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
   - We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
   - We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

3. **Payroll Disbursements and Expenditures**
   - We inspected selected recorded payroll disbursements to determine if the selected payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
   - We inspected selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
   - We inspected payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate.
   - We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.

- We compared current year recorded payroll expenditures to those of the prior year; compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**
   - We inspected selected recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate to detect errors and/or irregularities.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**
   - We inspected selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the selected transactions were adequate to detect errors and/or irregularities.

The transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

6. **Reconciliations**
   - We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2005, and inspected selected reconciliations of balances in the Agency's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Agency's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Agency's accounting records and/or STARS.

The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Review of Reconciliations in the Accountants' Comments Section of this report.

7. **Compliance**
   - We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of department personnel and/or observation of department personnel performing their assigned duties, the Agency's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2005.

   We found no exceptions as a result of the procedures.

8. **Closing Packages**
   - We obtained copies of all closing packages as of and for the year ended June 30, 2005, prepared by the Agency and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records.

   We found no exceptions as a result of the procedures.

9. **Status of Prior Findings**
   - We inquired about the status of the deficiencies described in the findings reported in the Accountants' Comments section of the Independent Accountants' Report on applying Agreed Upon Procedures for the South Carolina Office of the State Treasurer resulting from the engagement for the fiscal year ended June 30, 2004, to determine if adequate corrective action has been taken.

   We found no exceptions as a result of the procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

The Hobbs Group, P.A.

The Hobbs Group, PA
December 12, 2005

ACCOUNTANTS' COMMENTS

SECTION A – WEAKNESSES NOT CONSIDERED MATERIAL

The procedures agreed to by the Agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The condition described in this section has been identified as a weakness subject to correction or improvement but is not considered a material weakness or violation of State Laws, Rules, or Regulations.

Review of Reconciliations

During our procedures related to the Agency's reconciliations of their general ledger to STARS, we found that the Unclaimed Property Program was not recording transactions on the date they occurred in the general ledger. Instead, they are matching them to the dates recorded on STARS. Upon inquiry of the Agency's management, we learned that during the year-end closing procedures, the policy is to follow up on unrecorded transactions so that they do not cross over into another fiscal year and are recorded in the proper year, but they are not recorded in the proper month; therefore, are not listed as reconciling items on a monthly basis.

The detection and recording of transactions is a critical control in maintaining the integrity of the Agency's and the State's accounting records. We recommend that the Agency review the transaction logs monthly and record all transactions in the proper fiscal month. We recommend that any transactions not matching to STARS reports be listed as reconciling items and investigated accordingly. This will prevent transactions from going unrecorded at the Agency.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the Independent Accountants' Report on Applying Agreed-Upon Procedures on the South Carolina Office of the State Treasurer for the fiscal year ended June 30, 2004, and dated May 20, 2005. We determined that the Agency has taken adequate corrective action on each of the findings. In response to our inquiries, we were told that the Agency has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 2005, we did not perform tests to determine if the new procedures are operating effectively. Each of the prior findings and status of the findings are listed below.

Prior Finding 1 - Review of Cash Receipts and Revenues

A wire transfer was not recorded on BARS or STARS for four months after the deposit was made. Upon inquiry of the Agency's management, we learned that during the year-end closing procedures, the policy is to follow up on unrecorded deposits so that they do not cross over into another fiscal year and that staff assigned to this function was a new employee still being trained.

Status: Upon review during the current AUP testing of cash receipts and revenues, we noticed no instances of deposits not being recorded in a timely matter.

Prior Finding 2 - Review of Appropriation Transfers

The prior AUP discovered that there was an appropriation transfer keyed to BARS incorrectly. The object code posted to BARS did not agree to the authorized supporting documentation. The error was not detected in a supervisory review and the transaction was not included in the month end reconciling procedures.

Status: During our testing of appropriations during the current year engagement, appropriation transfers selected for testing agreed between BARS and STARS reports and supporting documentation.

Prior Finding 3 - Review of Closing Packages

In the prior year the miscellaneous revenues closing package was not timely filed according to the Office of the Comptroller General's GAAP Closing Procedures Manual. The Closing package was due on August 31, 2004. The package was prepared on September 3, 2004 and reviewed on September 10, 2004.

Status: Auditor found all closing packages to be timely submitted during the current engagement.

AGENCY RESPONSE

The management of the South Carolina Office of the State Treasurer chose not to respond to the Accountants' Comment in Section A.