

**SOUTH CAROLINA OFFICE
OF THE
ADJUTANT GENERAL**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2010

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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June 10, 2011

Major General Robert E. Livingston, Jr.
Adjutant General
State of South Carolina
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina Office of the Adjutant General for the fiscal year ended June 30, 2010, was issued by Elliott Davis, LLC, 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 black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 10, 2011

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Office of the Adjutant General (the Agency) and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2010, 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 in accordance with the Agency's policies and procedures and State regulations.
- 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 Statewide Accounting and Reporting System (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. Effective November 1, 2009, the Agency implemented the South Carolina Enterprise Information System (SCEIS). Upon implementation of SCEIS, STARS reports were no longer used by the Agency.
- We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.

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Deputy State Auditor
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- We compared current year recorded revenues at the subfund and object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked and federal funds to ensure that revenue was classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$86,000 – earmarked fund and \$583,000 – federal fund) and ± 10 percent.
- We made inquiries of management pertaining to the Agency's policies for accountability and security over renting armories. We observed Agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 in accordance with the Agency's policies and procedures and State regulations, were bona fide disbursements of the Agency, 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.
- 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. Effective November 1, 2009 the Agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Agency.
- We compared current year expenditures at the subfund and object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$97,000 – general fund, \$132,000 – earmarked fund, and \$523,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Variance Explanations and Expenditures Cutoff in the Accountant's Comments section of this report.

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 processed in accordance with the Agency's policies and procedures and State regulations.
- 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 the employees were added and/or removed from the payroll in accordance with the Agency's policies and procedures, that the employee's first and/or last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
- 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 payroll expenditures at the subfund and object code level to those of the prior year. We investigated changes in the general, earmarked and federal funds to ensure that expenditures were classified properly in the Agency's accounting records. The scope was based on agreed upon materiality levels (\$97,000 – general fund, \$132,000 – earmarked fund, and \$523,000 – federal fund) and ± 10 percent.
- We 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. We investigated changes of ± 5 percent to ensure that payroll expenditures were classified properly in the Agency's accounting records.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Variance Explanations in the Accountant's Comments section of this report.

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, the purpose of the transactions was documented and explained, the transactions were properly approved, and were mathematically correct; and the transactions were processed in accordance with the Agency's policies and procedures and State regulations.

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

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency 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 selected entries were processed in accordance with the Agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Agency for the year ended June 30, 2010, 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 accounts reconciled. 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 in STARS. Effective November 1, 2009, the Agency implemented SCEIS. Upon implementation of SCEIS, STARS reports were no longer used by the Agency.

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

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Deputy State Auditor
State of South Carolina
June 10, 2011

7. **Appropriation Act**

- We inspected Agency documents, observed processes, and/or made inquiries of Agency personnel to determine the Agency's compliance with Appropriation Act general and Agency specific provisos.

We found no exceptions as a result of these procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2010, 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 and if the amounts reported in the closing packages agreed with the supporting work papers and accounting records.

Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2010, prepared by the Agency and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting work papers and accounting records.

Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

10. **SCEIS Implementation**

- We compared cash, revenue and expenditure account closing balances from the Agency's legacy system to opening balances input into SCEIS to ensure that the Agency carried forward the proper account balances to SCEIS.

Our findings as a result of these procedures are presented in SCEIS Implementation in the Accountant's Comments section of this report.

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Deputy State Auditor
State of South Carolina
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11. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency resulting from the State Auditor's engagement for the fiscal year ended June 30, 2008. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2009.

Our findings as a result of these procedures are presented in Reconciliations and Closing Packages in the Accountant's Comments section of this report.

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 elements, 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, Office of the State Auditor, and management of the South Carolina Office of the Adjutant General and is not intended to be and should not be used by anyone other than these specified parties.

Elliott Davis, LLC

Columbia, South Carolina
June 10, 2011

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS

Management of each State agency is responsible for establishing and maintaining internal controls to ensure compliance with State Laws, Rules or Regulations. The procedures agreed to by the Agency require that we plan and perform the engagement to determine whether any violations of State Laws, Rules or Regulations occurred.

The condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

CLOSING PACKAGES

Section 1.7 of the Comptroller General's Closing Procedures Manual states that "each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely".

Our procedures related to the Agency's closing packages disclosed the following exceptions:

- An Operating Lease – Lessor Closing Package (GAAP Form 3.20) was not prepared although the Agency collected lease revenues from non-State parties under operating leases involving State-owned assets.
- There was no reference number for the Agency's leases listed on the Lease Register (GAAP Form 3.19.2).
- The "Agency Lease Identification Number" per the Operating Leases Summary Form (GAAP Form 3.19.1) did not agree with the "Agency Lease Identification Number" reflected on the Lease Register (GAAP Form 3.19.2).
- The Agency could not provide all documentation to support the miscellaneous revenue balance as reflected on the Accounts Receivable Summary Form – Enterprise, Internal Service or Trust Funds (GAAP Form 3.4.2). The total balance reflected on this form was \$142,218. The total amount supported by documentation was \$124,061.
- We noted there were "net corrections to beginning balances" reflected on the Capital Assets Closing Overview Package (GAAP Form 3.8.1) that were not supported by documented explanations.
- We noted one invoice that made up a portion of the total construction commitment balance reflected on the Capital Asset Closing Overview Package (GAAP Form 3.8.1) related to fiscal year 2011, but was recorded in fiscal year 2010.
- The Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1) was submitted to the Comptroller General's Office one day after the due date.
- The Agency could not provide documentation supporting the current fiscal year activity reflected on the Capital Assets Additions Reconciliation Form (GAAP Form 3.10.1).

- The Compensated Absences Summary Form (GAAP Form 3.17.1) was submitted to the Comptroller General's Office two days after the due date.

We recommend that the Agency develop and implement procedures to ensure that all closing packages are completed in accordance with the Comptroller General's Closing Procedures Manual instructions. Also, we recommend that the Agency make appropriate adjustments to future closing packages, if necessary, to correct the errors identified above.

SECTION B - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

EXPENDITURE CUTOFF

We inspected twenty-five non-payroll transactions to determine if they were recorded in the proper fiscal year. One of the twenty-five transactions related to an armory purchase made in June 2009 for \$26.10 that was not sent to the central office for reimbursement until February 2010. The expenditure was recorded by the Agency in March 2010 when it made the reimbursement.

As a result of the Agency not obtaining the reimbursement request in a timely manner, expenditures for fiscal year 2010 were overstated by \$26.10.

We recommend that the Agency implement procedures to ensure that reimbursement requests are received timely so that expenditures associated with the reimbursement are recorded in the proper fiscal year.

VARIANCE EXPLANATIONS

We compared current year and prior year balances for revenues, non-payroll expenditures, and payroll expenditures and investigated variances meeting a defined scope, including inquiring of Agency management to obtain explanations for certain variances. Agency management was unable to provide explanations for all non-payroll and payroll expenditure variances.

Consistent review of variance reports by management will help ensure accurate account classification. It will also assist in identifying potential improper or unauthorized expenditure transactions.

We recommend that management monitor variance reports throughout the fiscal year and be able to readily explain significant variances based on expectations derived from budget practices and prior year events and conditions.

RECONCILIATIONS

We inspected the Agency's twenty-eight subfund reconciliations prepared for the month of October 2009 to determine if explanations were documented for reconciling items, and found one for which no explanation was provided.

Adequate internal controls should include proper explanation of reconciling items to help ensure that the preparer of the reconciliation is accountable for all timing differences and to add clarity for the reviewer of the reconciliation.

We recommend that the Agency review its policies and procedures for preparing and reviewing subfund reconciliations. Based on the results of that review, the Agency should develop and implement procedures to ensure that all reconciling items are adequately explained and documented.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We inspected the schedule of federal financial assistance (SFFA) for the year ended June 30, 2010 and our procedures disclosed the following exceptions:

- Two federal programs had beginning fund balances that did not agree to the previous years' ending fund balances.
- The beginning fund balance column reflected a total of \$ (5,373,511). The corresponding general ledger balance reflected a total of \$ (5,407,496).
- The ending fund balance column reflected a total of \$ (9,677,878). The corresponding general ledger balance reflected a total of \$ (9,711,690).
- There was no indication of who prepared and approved the SFFA.
- There was no indication of when the SFFA was prepared and approved.

- There were four programs reflected on the List of Subrecipients that were not included on the SFFA.
- There were six programs with more expenditures reflected on the List of Subrecipients than those reported on the SFFA.
- There were two programs reflected on the List of Subrecipients that had a different CFDA number than the one reflected on the SFFA.
- Two of the ten sampled grant agreements were awarded for periods that included the fiscal year ended June 30, 2010. We noted these two federal programs were not included on the SFFA.
- One of the ten sampled grant agreements reflected approved federal funding of \$75,000. We noted the amount of expenditures recorded on the SFFA totaled \$79,066.
- One of the ten sampled grant agreements reflected a different project number than the one listed on the SFFA.

We recommend that the Agency follow all the requirements reflected in the letter of instructions provided by the State Auditor. We also recommend that the Agency maintain documentation to demonstrate that the SFFA reconciles to the accounting records. Finally, the Agency should prepare a checklist to ensure all of these requirements are addressed and to ensure proper reporting of federal expenditures.

SCEIS IMPLEMENTATION

We compared the ending cash, revenue and expenditure balances as of October 31, 2009 as reflected on the Agency's legacy system to the corresponding beginning balances as of November 1, 2009 as reflected on SCEIS for all subfunds. We noted differences of \$151,535.76, \$5,054.55, \$585,791.44, \$84,825.32 and \$4,653.90 in the expenditure balances for five subfunds.

We recommend that the Agency prepare reconciliations explaining all differences in expenditure balances between the legacy system and SCEIS and submit these reconciliations to the Office of the State Auditor for review.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the Agency for the fiscal year ended June 30, 2008, and dated April 14, 2009. We applied no procedures to the Agency's accounting records and internal controls for the year ended June 30, 2009. We have repeated the findings related to the preparation of reconciliations and closing packages.

MANAGEMENT'S RESPONSE

The State of South Carolina
Military Department



Office of the Adjutant General

ROBERT E. LIVINGSTON, JR.
MAJOR GENERAL
THE ADJUTANT GENERAL

1 NATIONAL GUARD ROAD
COLUMBIA, S.C. 29201-4752

June 15, 2011

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

The Office of the Adjutant General appreciates the opportunity to submit the attached response for the findings noted in the Agreed Upon Procedures review for the year ended June 30, 2010. If you need any other information, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank L. Garrick".

Frank L. Garrick, CPA
Chief Financial Officer

Closing Packages

Operating Lease-Lessor Closing Package: Question # 13 asks whether the agency collected any revenues from non-State parties under operating leases involving State-owned assets during the fiscal year. To this question we answered yes because we did collect revenue of this nature. However, when analyzing the leases to prepare the Operating Lease-Lessor Closing Package, we determined that the lease information was not reportable because the leases were either cancelable or had remaining lease terms of less than one year from June 30, 2010. I discussed this over the phone with the Comptroller General's Office and they noted on our Master Closing Package that the lessor package was not due. I have obtained an e-mail from the C/G's Office documenting this.

Operating Lease Closing Package: We concur with the finding and a lease reference number will be included on all future lease registers and added to those in existence.

Operating Lease Closing Package: Because a lease reference number was not included on the lease register, a reference number was also not included on the Operating Leases Summary Form. The reference number on the lease register will now be included in all future Operating Lease Summary Forms.

Accounts Receivable Summary Form-Enterprise, Internal Service or Trust Funds: The report used to determine the accounts receivable balance did not necessarily reference the original SCEIS document. Two receivables that were included in the Accounts Receivable Summary Form – Enterprise, Internal Service or Trust Funds did not reference original documents in the report, and it is only by going back to the original SCEIS document that you will see the supporting documentation. Document numbers 1400001203 and 1000068756 contain the backup for the two receivables.

Capital Assets Closing Overview Package:

Net Corrections to Beginning Balances - There was a reclassification of assets between funds at the beginning of FY10 which was not explained in the overview package. We will ensure that all amounts are explained in future closing packages.

Construction Commitment Balance – This invoice was dated 7/12/2010 but was for architectural design services performed on or before 6/30/2010. A copy of the goods receipt is attached to invoice payment document # 570011963.

Capital Assets Additions Reconciliation Form:

Due Date - A revision of the original form had to be submitted a couple of days after the original forms were submitted to the Comptroller General. A copy of all superceded forms except this form was kept. I obtained a copy of the C/G's log noting that all of our forms were submitted in good standing. However, should a revision be required in the future, we will ensure that a copy of the original form is maintained on file to document the timeliness of our original submission.

Current Fiscal Year Activity - A copy of the C/G's STARS capital expenditures form and our reconciliation of those expenditures is included in the file.

Compensated Absences Summary Form: We concur and will ensure that closing packages are submitted by the due date.

Expenditure Cutoff

We concur that the armory did not request reimbursement for its petty cash account in a timely manner. Although the armories are aware that they need to submit their reimbursement requests in a timely manner, if something of this nature occurs contact is made with the armory management notifying them of the issue. Also, a program manager has sent out a notice to all armory leadership that instances such as this may require them to address this issue with the Adjutant General.

Variance Explanations

Explanations were provided for all revenue and expenditure variances between FY09 and FY10 except the general fund and federal fund expenditures. We did not receive the variance listing until June 14th which was the last day to provide information prior to completion of the final report.

Reconciliations

There was one item for which the reconciler could not identify what caused the reconciling item before we went live on SCEIS. However, all accounts were reconciled by the General Ledger Accountant to STARS prior to the "push down" of revenue, expenditures, and cash from our legacy system to SCEIS. Effective November 2, 2009, completion of reconciliations is no longer required due to the implementation of the SCEIS accounting system.

Schedule of Federal Financial Assistance

A reconciliation between the FY09 Ending Balances and FY10 Beginning Balances is included on the last page of the SFFA. Regarding the differences between the beginning and ending fund balances on the SFFA as compared to the general ledger, the SCEIS team has recently made us aware that they know what the problem was with the carryforward of the beginning balances to the SCEIS system and are working to correct the issue. However, for reporting purposes we used the FY09 SFFA Ending Fund Balances as our FY10 Beginning Fund Balances so our report contained the correct information.

We concur with your finding regarding the documentation of who prepared and reviewed the SFFA and when. In the future we will ensure that all SFFA reports contain the names and dates of both the SFFA preparer and reviewer.

Regarding the other issues, we concur with your recommendations and will prepare a checklist to ensure all documents required in the SFFA package are complete and accurate. This checklist will be completed by the staff responsible for the grants management as well as finance staff to ensure that all grants are included in the schedule,

grant expenditures are in line with the grant award, and grant numbers are correct. Additionally, the List of Subrecipients will be reconciled back to the SFFA to ensure completeness and accuracy.

SCEIS Implementation

For the push down of data from our legacy system, SABAR, to the SCEIS system, all cash, revenue, and expenditure balances were reconciled to STARS. Following the push down, the balances loaded into SCEIS were reconciled back to SABAR and STARS. A portion of the expenditure variance noted for fund 31740000 is due to the fact that SCEIS general ledger account numbers 5130710000, 5150010000, 5150020000, and 5150030000 were omitted from the auditor's SCEIS expenditure column. The remaining expenditure variances noted in this finding are due to depreciation expense being recorded in SCEIS which was not recorded in either SABAR or STARS. Finally, the \$200 revenue variance between SABAR and STARS is due to a typo in the auditor's spreadsheet. If the spreadsheet is corrected there is no discrepancy in revenue.