

SOUTH CAROLINA AERONAUTICS COMMISSION

WEST COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2015

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South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 29, 2016

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Aeronautics Commission
West Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of South Carolina Aeronautics Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2015, in the areas addressed. The Commission'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 twenty-five selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Commission's policies and procedures and State regulations.
- We inspected eight selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- 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 at the subfund and account 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 Commission's accounting records. The scope was based on agreed upon materiality levels (\$22,400 – earmarked fund and \$15,600 – federal fund) and ± 10 percent.

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 twenty-five selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the commission's policies and procedures and State regulations, were bona fide disbursements of the Commission, 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 twenty-five selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current year expenditures at the subfund and account 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 Commission's accounting records. The scope was based on agreed upon materiality levels (\$20,700 – general fund, \$24,300 – earmarked fund, and \$15,100 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in the comments titled Expenditure Recognition and Accounting Period in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected five 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; and payroll transactions were properly authorized and were in accordance with existing legal requirements and processed in accordance with the Commission's policies and procedures and State regulations.
- We inspected payroll transactions for five selected new employees and five individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Commission'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 current year payroll expenditures at the subfund and account 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 Commission's accounting records. The scope was based on agreed upon materiality levels (\$20,700 – general fund, \$24,300 – earmarked fund, and \$15,100 – 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 ± 10 percent to ensure that payroll expenditures were classified properly in the Commission's accounting records.

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

4. **Journal Entries**

- We inspected six selected recorded journal entries 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 Commission's policies and procedures and State regulations.

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

5. **Appropriation Act**

- We inspected Commission documents, observed processes, and/or made inquiries of Commission personnel to determine the Commission's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and Commission specific provisos, if applicable.

We found no exceptions as a result of the procedures.

6. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2015, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records

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

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2015, prepared by the Commission 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 workpapers and accounting records.

We found no exceptions as a result of the procedures.

8. **Status of Prior Findings**

- We inquired about the status of the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from another Practitioner's engagement for the fiscal year ended June 30, 2013, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2014.

We found no exceptions as a result of the procedures.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Aeronautics Commission
July 29, 2016

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Commission has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up On Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 and of the Commissioners and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - VIOLATIONS 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 conditions described in this section have been identified as violations of State Laws, Rules or Regulations.

EXPENDITURE RECOGNITION

Condition:

We compared current year expenditures at the subfund and account level to those of the prior year, and investigated changes to ensure that expenditures were classified properly in the Commission's accounting records. We noted three separate transactions wherein refunds of fiscal year 2014 expenditures were recorded in the ledger as reductions of fiscal year 2015 expenditures, rather than being recorded in a prior period refund revenue account.

Cause:

Per our discussion with Commission personnel, oversight appears to have caused the discrepancy.

Effect:

The Commission's reported expenditures and the revenue general ledger account 45200100000 "Refund of Prior Year Expenditures" for the State Aviation Fund (3166) were understated by \$38,857.

Criteria:

The Comptroller General's revenue account descriptions states that General Ledger account number 4520010000 is to be used for a Refund from prior year expenditures.

Recommendation:

We recommend that the Commission implement policies and procedures to ensure refunds from prior year expenditures are recorded in the correct ledger account.

Management's Response:

We have implemented procedures to ensure all receivables posted as refunds of expenditure which have not been collected are liquidated and re-posted at fiscal yearend as revenue, i.e. prior year refunds of revenue.

ACCOUNTING PERIOD

Condition:

We inspected twenty-five non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. One of the twenty-five disbursements we tested, a payment of \$4,347, was not recorded in the proper fiscal year. The disbursement in question was recorded in fiscal year 2015; however the supporting documentation indicated that services were rendered on July 1, 2015. Accordingly, this disbursement should have been recorded in fiscal year 2016.

Cause:

The invoice was processed for payment during year-end closing period and was inadvertently paid as a fiscal year 2015 transaction.

Effect:

The Commission's expenditures were overstated by \$4,347 in fiscal year 2015 and understated by a matching amount in fiscal year 2016.

Criteria:

The South Carolina Office of the Comptroller General's Memorandum titled "FY 2014-15 End-of-Year" states: "During July, two fiscal years will be open (FY 2015 and FY 2016) in SCEIS. Period 12 of FY 2015 is open to process payments for goods and services received on or before June 30, 2015, but for which invoices are processed after that date."

Recommendation:

We recommend the Commission strengthen its procedures over disbursements to ensure that expenditures are recorded in the proper fiscal year.

Management's Response:

We agree with this finding. In the future, documents will be reviewed more closely to ensure invoices are classified correctly.

REPORTING PACKAGES

Condition:

We obtained copies of all reporting packages as of and for the year ended June 30, 2015, prepared by the Commission and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records. These procedures resulted in the following:

1. While inspecting supporting documentation for the Receivables and Other Deferred Revenue Reporting Package, we noted four documents which had been reversed and subsequently omitted from the Commission's reported year-end balance. The total consequence of the four reversals was to under report accounts receivable by \$65,881.
2. While inspecting supporting documentation for the Inventory Reporting Package, we noted a calculation error. The Commission used an invoice from a retail purchase of jet fuel to determine the per gallon price used in the calculation of the ending inventory balance. The Commission's inventory on-hand as of June 30, 2015 was actually purchased from a distributor at a lower price per gallon.

Cause:

Per our discussion with Commission personnel, oversight appears to be the cause of both discrepancies.

Effect:

1. The Commission's June 30, 2015 accounts receivable balance was understated by \$65,881.
2. The Commission's June 30, 2015 inventory balance was overstated by approximately \$68,431.

Criteria:

1. Section _4 of the Comptroller General's Reporting Policies and Procedures Manual states in part: ...for GAAP reporting purposes, the State's policy is to report accounts receivable at June 30 if, at that date, both: The goods or services had been provided and payment for goods or services had not yet been collected.
2. Part IV of the Comptroller General's Reporting Policies and Procedures Manual defines the Last Invoice Price Method as "An inventory valuation method that ignores fluctuations in pricing during the holding period of the inventory by utilizing only the last price paid for an inventory item in the valuation calculation."

Recommendation:

We recommend that the Commission implement policies and procedures to ensure that all Reporting Packages are prepared in accordance with Comptroller General's Reporting Policies and Procedures Manual requirements and that the amounts reported in the reporting packages agree with the supporting workpapers and accounting records.

Management's Response:

1. We agree with this finding. Procedures have been implemented to ensure these documents are reversed and re-posted in the same fiscal period.
2. We agree with this finding. We have updated the information provided annually to include the multiple types of fuels broken out by type and price.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2013, and dated June 9, 2014. We applied no procedures to the Commission's accounting records and internal controls for the year ended June 30, 2014. We determined that the Commission has taken adequate corrective action on the finding.

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