

**SOUTH CAROLINA
HOUSE OF REPRESENTATIVES
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2013

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
OBJECT CODE	6
MILEAGE REIMBURSEMENT	7
REPORTING PACKAGES	7
EMPLOYEE DESIGNATION LISTING	9
SECTION B - OTHER WEAKNESS	10
EMPLOYEE VERIFICATION DOCUMENTATION	11
SECTION C - STATUS OF PRIOR FINDINGS	12
MANAGEMENT'S RESPONSE	13

State of South Carolina



Office of the State Auditor

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

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

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 11, 2015

Members of the South Carolina House of Representatives
South Carolina General Assembly
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Clerk of the House of Representatives (the House), solely to assist you in evaluating the performance of the House for the fiscal year ended June 30, 2013, in the areas addressed. The House'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 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 at the subfund and major object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the earmarked fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$1,200 – earmarked 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 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 House, 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.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$96,600 – general fund and \$1,000 – earmarked fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Object Code and Mileage Reimbursement 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 House'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 major object code level to those of the prior year. We investigated changes in the general and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$96,600 – general fund and \$1,000 – earmarked fund) and ± 10 percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of ± 10 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 Employee Verification Documentation in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries 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 House'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. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the House 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 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 House for the year ended June 30, 2013, and inspected selected reconciliations of balances in the House'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 House'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 House's accounting records and/or in STARS.

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

7. **Appropriation Act**

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

Our finding as a result of these procedures is presented in Employee Designation Listing in the Accountant's Comments section of this report.

8. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2013, prepared by the House 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 finding as a result of these procedures is presented in Reporting Packages in the Accountant's Comments section of this report.

9. **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 House resulting from our engagement for the fiscal year ended June 30, 2011, to determine if the House had taken corrective action. We applied no procedures to the House's accounting records and internal controls for the year ended June 30, 2012.

Our finding as a result of these procedures is presented in Reporting 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 Clerk of the House and Members of the House of Representatives and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy 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.

OBJECT CODE

During our analytical review of expenditures and during our review of reporting packages, we noted several errors in expenditure coding. We found that the House misclassified certain refund of prior year expenditure transactions as follows:

1. A refund for overpayment of attorney fees in fiscal year 2012 was recorded to object code 0240 – Attorney Fees in fiscal year 2013.
2. A refund for a fiscal year 2012 cancelled check for attorney fees from the State Treasurer’s Office was recorded to object code 0240 – Attorney Fees in fiscal year 2013.
3. A refund for approved travel expenses in fiscal year 2012 was reimbursed to object code 0502 – In State – Lodging in fiscal year 2013.
4. A reimbursement for fiscal year 2012 postage overage was received after year-end and recorded to 0315 – Postage Supplies in fiscal year 2013.
5. Payment made to a vendor was reimbursed after the contract was terminated in fiscal year 2012. The reimbursement was received during fiscal year 2013 and recorded to object code 0303 – Copying Equipment Supplies.

The transactions identified above should have been recorded to revenue object code 3801 – Refund of Prior Year Expenditures.

Accounting Policies and Procedures require refunds of current fiscal year expenditures to be recorded as reimbursements of the original object code charged. If a refund relates to an expenditure made in the prior year, it should be recorded to object code 3801 in accordance with the Comptroller General’s Disbursement Regulations.

We recommend the House ensure that staff preparing and reviewing deposit documents follow the policies and procedures established by the Comptroller General’s Office.

MILEAGE REIMBURSEMENT

During our test of expenditure transactions, we noted that the House processed a travel reimbursement voucher using an incorrect reimbursement rate. Because the error was not detected a House member was reimbursed \$25.96 in excess of the authorized amount.

South Carolina General Appropriations Act for Fiscal Year 2012-2013, Proviso 70.4 Part F, states that “Notwithstanding any other provision of law, subsistence and mileage reimbursement for members of the General Assembly shall not exceed the level authorized [\$0.455/mile] by the Internal Revenue Service as of June 30, 2008 for the Columbia area.”

The error occurred as a result of agency oversight, and was not detected during the approval process.

We recommend the House develop and implement internal controls over disbursements to ensure that errors of this nature will be detected and corrected timely.

REPORTING PACKAGES

The following errors were noted in the the Master Reporting Checklist and three of the reporting packages submitted by the House:

- Master Reporting Checklist – One question was answered incorrectly, resulting in the omission of a required accounts payable reporting package.
- Refunds Receivable package – The House used incomplete information to report its refunds received and total paid to vendors during the current fiscal year. Additionally, the Refund Receivables Summary Form incorrectly disclosed that no additional refunds were outstanding at June 30 and it reported refunds already received as a receivable. The “Funds with Zero Refunds Receivables and Related Accounts Form” did not include all funds.

- Operating Leases package – One payment was incorrectly included on the future minimum lease payment schedule. The payment should have been included in the Current Rent Expense Reconciliation; therefore, reported future minimum lease payments was overstated.
- Capital Assets package – Annual inventory was performed after year-end. The inventory should be reported on the reporting package as of June 30, 2013. It is the responsibility of agency personnel to ensure that an annual inventory of all assets is performed in a timely manner. The House incorrectly reported the beginning balance for Depreciable Assets on the summary form, which caused the remaining calculations on the form to be incorrect. We also noted that the accumulated depreciation for its retired assets was not removed. These errors caused the House’s reported balances for capital assets at June 30, 2013 to be understated by \$444,721, and depreciation expense to be overstated by \$159,010.

The Comptroller General’s Policies and Procedures state: “Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. Each agency’s executive director and finance director are responsible for submitting to the Comptroller General’s Office reporting packages and/or financial statements that are: Accurate and prepared in accordance with instructions, complete, and timely.”

Additionally, the Comptroller General’s Office provides agencies with detailed instructions along with each reporting package that should be closely followed to prevent errors and ensure accurate reporting.

We recommend the House follow the policies and procedures established by the Comptroller General's Office and thoroughly review each reporting package to ensure that it is accurately completed using the provided guidance and instructions.

EMPLOYEE DESIGNATION LISTING

During our review of the House's compliance with state laws, rules, and regulations, we noted that the House could not provide a complete and accurate listing of employees and their legislative designations as required by Section 70.1 of the 2012-13 Appropriation Act.

Section 70.1 states, "The positions included in this section designated (P) shall denote a permanent employee and the salary is an annual rate. The positions designated (T) shall denote a temporary employee and the salary is for a period of six months to be paid at that rate only while the General Assembly is in session. The positions designated as (Interim) shall denote a temporary employee and the salary is for a period of six months to be paid at that rate while the General Assembly is not in session. The positions designated (PTT) shall denote part-time temporary employees on a twelve-months basis. The positions designated (PPT) shall denote permanent part-time employees retained for full-time work for a period of months or the duration of the legislative session. The House of Representatives shall maintain an internal record denoting permanent, temporary, interim, part-time temporary, and permanent part-time employees."

We recommend the House implement procedures to ensure compliance with applicable provisos.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.

EMPLOYEE VERIFICATION DOCUMENTATION

Our testing of payroll identified three instances where the employee's personnel file did not have adequate documentation. The House did not retain copies of documentation used for employment verification purposes for three of its temporary employees.

An effective system of internal controls includes controls to ensure that an entity prepares and maintains accurate information to support all personnel and payroll transactions.

We recommend the House develop and implement procedures to ensure that documentation is maintained as support in employee personnel files.

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 House of Representatives for the fiscal year ended June 30, 2011, and dated October 26, 2012. We applied no procedures to the House's accounting records and internal controls for the year ended June 30, 2012. We determined that the House has taken adequate corrective action on each of the findings, with the exception of the Accounts Payable Reporting Package, which has been repeated in the Reporting Packages finding in this report.

MANAGEMENT'S RESPONSE



CHARLES F. REID
CLERK OF THE HOUSE

The House of Representatives

STATE OF SOUTH CAROLINA

P. O. BOX 11867

Columbia 29211

(803) 734-2010

SUITE 220
SOLOMON BLATT BUILDING
1105 PENDLETON STREET
COLUMBIA, SC 29201

March 3, 2015

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Re: Authorization of Release of Audit Report Concerning South Carolina House of Representatives for Fiscal Year Ended June 30, 2013

Dear Mr. Gilbert:

Please accept this letter authorizing release of the audit report concerning the South Carolina House of Representatives for the fiscal year ended June 30, 2013. For purposes of clarification I want to make sure that it is understood that my authorization applies to the amended audit report that was emailed to me and received on Monday, March 2, 2015.

On another note, I want to point out that I requested the opportunity to meet with Ms. Sue Moss and Ms. Carrie Ebberly to discuss the preliminary draft report. Ms. Moss and Ms. Ebberly met with myself and Ms. Shirley Black on Monday, March 2, 2015, and addressed all our questions and concerns. Ms. Moss and Ms. Ebberly were very helpful in explaining several details to us, and I greatly appreciate their assistance. They should be commended for their work.

If I might be of further service, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Charles F. Reid". The signature is written in a cursive style.

Charles F. Reid
Clerk of the House

4 copies of this document were published at an estimated printing cost of \$1.55 each, and a total printing cost of \$6.20. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.