

**SOUTH CAROLINA OFFICE
OF THE STATE INSPECTOR GENERAL
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATION OF STATE LAWS, RULES OR REGULATIONS	5
REPORTING PACKAGES	6
SECTION B - STATUS OF PRIOR FINDING	7
MANAGEMENT'S RESPONSE	8



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 21, 2015

The Honorable Nikki R. Haley, Governor
and
Mr. Patrick J. Maley, Inspector General
South Carolina Office of the State Inspector General
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the State Inspector General (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2014, in the areas addressed. The Office'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 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 fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$10,700 – earmarked fund) and ± 10 percent.

We found no exceptions as a result of the procedures.

2. **Non-Payroll Disbursements and Expenditures**

- We inspected seventeen 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 Office, 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 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 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 (\$9,600 – general fund and \$10,700 – earmarked fund) and ± 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected seventeen 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 agency's policies and procedures and State regulations.
- We inspected payroll transactions for three new employees and one individual 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 current year payroll expenditures at the subfund and account level to those of the prior year. We investigated changes in the general fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$9,600 – general 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 agency's accounting records.

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

4. **Journal Entries and Transfers**

- We inspected one recorded journal entry and selected five 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 transfer transactions selected were chosen randomly. We tested all journal entries. We found no exceptions as a result of the procedures.

5. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Office's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and agency 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, 2014, prepared by the Office 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.

7. **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 Office resulting from our engagement for the fiscal year ended June 30, 2013, to determine if the Office had taken corrective action.

We found no exceptions as a result of the procedures.

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 Office has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).

The Honorable Nikki R. Haley, Governor
and
Mr. Patrick J. Maley, Inspector General
South Carolina Office of the State Inspector General
August 21, 2015

- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.

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 and of the management of the South Carolina Office of the State Inspector General 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 - 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.

REPORTING PACKAGES

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "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." Based on our review of the Office's reporting packages we noted the following:

- An Accounts Payable Reporting Package was not completed even though the Office had payables at year end.
- The Future Minimum Payment Schedule included in the Operating Leases Reporting Package was overstated by approximately \$2,500.
- The compensated absences liability reported in the Other Payroll Liabilities Reporting Package was overstated approximately \$850.
- The Subsequent Events Questionnaire was submitted one week late.

Because the Office is a relatively new agency, it used resources from another State agency to assist in preparation of the reporting packages. The Office did not detect the errors during its review.

We recommend the Office develop and implement procedures to ensure that reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

SECTION B - STATUS OF PRIOR FINDING

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 Office for the fiscal year ended June 30, 2013, and dated December 22, 2014. We determined that the Office has taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE



State of South Carolina
Office of the Inspector General

September 21, 2015

Mr. Richard H. Gilbert, Jr.
Deputy State Auditor
1401 Main St. – Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert

In response to the finding noted in “Section A – Reporting Packages” concerning errors on two reporting packages; the absence of another reporting package and the lateness of a fourth reporting package, I would like to offer the following response.

The Office of the State Inspector General (SIG) agrees with and accepts the findings concerning the FY 2014 closing packages. In reference to those findings, I would like to add that, during fiscal years 2012, 2013 and 2014, our office contracted with another state agency to perform all required administrative duties (finance and human resources) associated with our office, which included the preparation of the reporting packages. Also, during this time period there was no employee designated to perform the duties of a finance director within our small seven person staff. While I understand that it was our responsibility to assure these reporting packages were completed accurately and submitted in a timely fashion, we did rely on the agency performing our administration, particularly since we were new to all the yearend requirements.

Effective for Fiscal Year 2015 our own staff is performing all of our administrative duties and an employee has been given the finance responsibility, which includes completing all required reporting packages and doing so in a timely manner. All required reporting packages for 2015 have been filed on time.

Thank you for the opportunity to respond to this finding and thanks to your staff for their efforts in this agreed upon procedures review of the SIG.

Sincerely,

Patrick J. Maley
Inspector General

PM/pw

4 copies of this document were published at an estimated printing cost of \$1.40 each, and a total printing cost of \$5.60. Section 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.