

**SOUTH CAROLINA
LEGISLATIVE AUDIT COUNCIL
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2011

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
YEAR-END CUT-OFF	6
SECTION B - OTHER WEAKNESS	7
REVENUE RECOGNITION	8
SECTION C - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10

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

October 23, 2012

Members of the General Assembly
and
Members of the Council
South Carolina Legislative Audit Council
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Legislative Audit Council (the Council), solely to assist you in evaluating the performance of the Council for the fiscal year ended June 30, 2011, in the areas addressed. The Council'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 all recorded deposits 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 all recorded deposits 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.

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

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 Council, 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 fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$11,800 – general fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Year-End Cut-Off 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 all 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 major object code 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 level (\$11,800 – general 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 ± 5 percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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 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.

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 Council 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.

We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Council for the year ended June 30, 2011, and inspected selected reconciliations of balances in the Council'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 Council'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 Council'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 Council's compliance with Appropriation Act general and agency specific provisos.

We found no exceptions as a result of the procedures.

8. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the year ended June 30, 2011, prepared by the Council and submitted to the State Comptroller General. We inspected them to determine if they were prepared in accordance with the Comptroller General's GAAP Reporting Procedures Manual requirements and if the amounts reported in the reporting packages 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 finding reported in the Accountant's Comments section of the State Auditor's Report on the Council resulting from our engagement for the fiscal year ended June 30, 2008, to determine if the Council had taken corrective action. We applied no procedures to the Council's accounting records and internal controls for the years ended June 30, 2010 and 2009.

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 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 General Assembly and of the governing body and management of the Legislative Audit Council 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 - 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.

YEAR-END CUT-OFF

During our Cut-off Test of Expenditures, we determined that one of the twenty-five expenditures tested was not recorded in the proper fiscal year. The disbursement in question related to a petty cash reimbursement for the purchase of supplies made on May 16, 2011. The Council recorded the petty cash fund reimbursement in fiscal year 2012. Since the purchase occurred in fiscal year 2011 the replenishment of the petty cash account should have been recorded in fiscal year 2011.

Section 90.1 of the fiscal year 2010-11 Appropriation Act states, "...State agencies are required to submit all current year fiscal input documents to the Office of the Comptroller General by July 15, 2011."

We recommend the Council strengthen its internal controls over disbursements to ensure that expenditures are recorded in the proper fiscal year. We also recommend that policies be implemented to ensure that petty cash purchase documents are turned in for reimbursement in a timely manner.

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.

REVENUE RECOGNITION

The Council has the authority to charge state agencies for the costs associated with audits and reviews. Based on our review of the Council's accounting records we determined that the Council was not recording the accounting transactions related to agency audit services in accordance to generally accepted accounting principles (GAAP). GAAP would require the Council to recognize the cost associated with performing the audit services as an expenditure and recognize the agencies payment as revenue. Because the Council did not properly account for the financial transactions related to the performance of auditing services agency revenue and expenditures were understated. Effective fiscal year 2012 the Council began recording audit service revenue in accordance with GAAP.

We recommend the Council continue to monitor its accounting treatment of audit services to ensure that revenue and expenditures are properly recorded.

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 Legislative Audit Council for the fiscal year ended June 30, 2008, and dated September 16, 2009. We applied no procedures to the Council's accounting records and internal controls for the years ended June 30, 2010 and 2009. We determined that the Council has taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE



SOUTH CAROLINA GENERAL ASSEMBLY
Legislative Audit Council

Independence, Reliability, Integrity



PUBLIC MEMBERS

Philip F. Laughridge, CPA
Chairman
Mallory Factor
Vice Chairman
Thomas F. Hartnett
Jane P. Miller
S. Jahue Moore, Esq.

January 24, 2013

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

Dear Mr. Gilbert:

We have reviewed the preliminary draft of the agreed-upon procedures report for the fiscal year ended June 30, 2011, that was provided to us on January 13, 2013. As recommended, we will take steps to ensure that all expenditures are recorded in the correct fiscal year and that petty cash purchase documents are turned in for reimbursement in a timely manner. We will also continue to ensure that revenue and expenditures are properly recorded. As noted in your report, we corrected this issue effective fiscal year 2012.

We authorize the release of the final report. As always, we appreciate your diligent efforts on behalf of the State of South Carolina.

Sincerely,

Perry K. Simpson
Director

/cp

LEGISLATIVE MEMBERS

Senate

JUDICIARY COMMITTEE
Larry A. Martin, Chairman
Tom Young, Jr., Designee

FINANCE COMMITTEE
Hugh K. Leatherman, Sr., Chairman
Michael L. Fair, Designee

House of Representatives

JUDICIARY COMMITTEE
Gregory Delleney, Jr., Chairman
Walton J. McLeod, Designee

WAYS AND MEANS COMMITTEE
W. Brian White, Chairman
J. Roland Smith, Designee

Perry K. Simpson
Director

LAC.SC.GOV

1331 Elmwood Ave., Suite 315 ▪ Columbia, SC 29201 ▪ 803.253.7612 (VOICE) ▪ 803.253.7639 (FAX)

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.