

**SOUTH CAROLINA LIEUTENANT
GOVERNOR'S OFFICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

**FOR THE PERIOD JULY 1, 2011
THROUGH MARCH 12, 2012**

State of South Carolina



Office of the State Auditor

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April 19, 2012

The Honorable Glenn F. McConnell
Lieutenant Governor
South Carolina Office of the Lieutenant Governor
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 Lieutenant Governor for the period July 1, 2011 through March 12, 2012, 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/cwc

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 13, 2012

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 Lieutenant Governor's Office (the Agency) and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Agency for the period July 1, 2011 through March 12, 2012, 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 made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law.
- We compared estimated revenues for the fiscal year ending June 30, 2012 (based on pro-rating actual revenues recorded through March 12, 2012) at the subfund and account level from sources other than State General Fund appropriations to those of the prior fiscal year. We investigated changes in the earmarked, restricted 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 (\$420 – earmarked fund, \$3,500 – restricted fund, and \$177,800 – federal fund) and ± 10 percent.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
April 13, 2012

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. A separate sample was selected for Administration and Aging programs.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared estimated non-payroll expenditures for the fiscal year ending June 30, 2012 (based on pro-rating actual non-payroll expenditures recorded through March 12, 2012) at the subfund and account level to those of the prior fiscal year. We investigated changes in the general, earmarked, restricted 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 (\$32,900 – general fund, \$70 – earmarked fund, \$3,500 – restricted fund, and \$208,600 – federal fund) and ± 10 percent.

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

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. A separate sample was selected for Administration and Aging programs.
- 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. A separate sample was selected for Administration and Aging programs.

- We compared estimated payroll expenditures for the fiscal year ending June 30, 2012 (based on pro-rating actual payroll expenditures recorded through March 12, 2012) at the subfund and account level to those of the prior fiscal year. We investigated changes in the general 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 (\$12,600 – general fund and \$13,300 – 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 Payroll 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. **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.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the fiscal year ended June 30, 2011, 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.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
April 13, 2012

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the fiscal year ended June 30, 2011, 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.

We found no exceptions as a result of these procedures.

8. **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 Lieutenant Governor's Office resulting from the engagement for the fiscal year ended June 30, 2009, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the years ended June 30, 2010 and 2011.

We found no exceptions as a result of these procedures.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
April 13, 2012

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 Lieutenant Governor, management of the Office of the Lieutenant Governor and State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Elliot Davis, LLC

Columbia, South Carolina
April 13, 2012

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:

- The Agency did not answer all applicable questions reflected on closing package forms as follows:
 - The Agency did not provide answers to sub-step questions (24)(B) and (24)(C) and (27)(B) and (27)(C) when it answered "yes" to questions (24) and (27) on the Master Reporting Checklist.
 - The Agency did not provide answers to the following questions reflected on the Capital Assets Questionnaire:
 - Question (5)(A) in Part 1
 - Question (12) in Part 5
 - Questions (13) and (14) in Part 6
- We noted the following exceptions related to the Agency's Compensated Absences Summary form:
 - The Agency did not report the number of employees earning accrued leave as of June 30, 2011.
 - The Agency did not report the balances for accrued leave as of June 30, 2011 in the proper designated section.

- We noted the following exceptions related to the Agency's Grants and Contributions Receivable and Deferred Revenue Summary Form:
 - The Agency did not properly complete the form as follows:
 - The Agency did not report a total balance for its restricted capital grants, contributions, and donations to support the sum of its restricted current and non-current capital grants, contributions, and donations. The total balance should have reflected \$2,986,133, which was supported by the Grant Analysis Worksheet.
 - The Agency reported deferred revenues of \$1,392 on its Grant Analysis Worksheet, but this amount was not reflected as the non-current balance for restricted capital grants, contributions, and donations on the form. The amount reflected on the form as the non-current balance for restricted capital grants, contributions, and donations was \$ (2,984,741).
- The Agency did not submit its Capital Assets Reporting Forms (Capital Assets Questionnaire and Capital Assets Summary Form) to the Office of the Comptroller General by the September 20, 2011 due date. It submitted these forms on September 28, 2011.

We recommend that the Agency develop and implement procedures to ensure that all closing packages are completed in accordance with the Office of 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 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.

PAYROLL

We noted one of the Agency's fourteen temporary employees that terminated employment was not removed from the Agency's payroll system in a timely manner. This employee was terminated on June 1, 2011, but was not removed from the payroll system until March 30, 2012.

We recommend the Agency conduct formal exit interviews with all employees, complete and process all applicable termination documents, and remove them from the payroll system immediately after the final pay check is issued. This will ensure that employees will not get paid for hours not worked.

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, 2009, and dated July 8, 2010. We applied no procedures to the Agency's accounting records and internal controls for the years ended June 30, 2010 and 2011. The finding noted during the prior engagement related to improper transaction processing and account classification. Based on discussions with management and our procedures performed in the areas referenced within the Independent Accountant's Report on Applying Agreed-Upon Procedures, we noted management has effectively mitigated the risk of this finding as follows:

- The Agency implemented the South Carolina Enterprise Information System during fiscal year 2011 and this system requires a reviewer for transactions to be posted to the general ledger.
- As the Agency has received less funding during fiscal years 2011 and 2012, there are less funding codes, and this reduces the complexity of coding transactions.
- Employees are more experienced than before in processing transactions and classifying them into the proper general ledger accounts.

MANAGEMENT'S RESPONSE



State of South Carolina
Office of The Lieutenant Governor

Glenn F. McConnell
Lieutenant Governor

April 13, 2012

Office on Aging
Tony Kester
Director

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

Dear Mr. Gilbert:

Thank you for the opportunity to review and respond to your report on the agreed-upon procedures to the accounting records of the South Carolina Lieutenant Governor's Office for the year ended June 30, 2011. Provided below are our comments to each of the findings in the Management's Response section of the report.

Finding

Closing Packages: Based on the testing performed, we noted the following exceptions: (1) We noted the Agency did not provide an answer to questions (24)(B) and (24)(C) when it answered "yes" to question (24) and it did not provide an answer to questions (27)(B) and (27)(C) when it answered "yes" to question (27) on the Master Closing Package. (2) The Agency did not provide the number of employees earning annual leave on the Compensated Absences Summary Form. (3) The Agency did not report the balances for accrued leave as of June 30, 2011 on the correct line on the Compensated Absences Summary Form. (4) The Agency did not enter a total balance for receivables (current and non-current) on the Grants and Contributions Revenue Closing Package. It entered \$2,984,741 for current receivables and reported \$ (2,984,741) for non-current receivables. Based on our examination of the supporting Grant Analysis Worksheet that was attached to the closing package, the Agency should have reported deferred revenues amounting to \$1,392 in the non-current field and a total of \$2,986,133 in the total field. (5) The Agency did not submit its Capital Assets Questionnaire Form and Capital Assets Summary Form on time. Both forms were due on 9/20/2011, but they were submitted on 9/28/2011. (6) We noted the Agency did not provide an answer to question (5)(A) noted in Part 1, (12) in Part 5, and (13) and (14) in Part 6 on the Capital Assets Questionnaire Form.

Management Response

Errors and omissions on the noted closing packages have been reviewed with current staff. In the future, closing packages will have all related questions and parts answered. More care will be exercised to assure correct information is reflected on the closing packages. Timelines will be established to assure timely submission of all closing packages.

Finding

Payroll (Terminations): Based on the testing performed, we noted Wesley Moran was removed from the payroll system 10 months following his last day of employment.

Management Response

Part time employees will be terminated from the payroll system once it is determined they will no longer be utilized by the agency.

Sincerely,



Tony Kester
Director