

**SOUTH CAROLINA
LIEUTENANT GOVERNOR'S OFFICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 17, 2007

The Honorable R. Andre Bauer, Lieutenant Governor
South Carolina Office of the Lieutenant Governor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of South Carolina Lieutenant Governor's Office (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2006, 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 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 object code level from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, 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 (\$100 – general fund, \$15,100 – earmarked fund, \$15,700 – restricted fund, and \$85,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Receipts and Revenues 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 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 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, 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 (\$31,400 – general fund, \$14,800 – earmarked fund, \$14,000 – restricted fund, and \$89,400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Disbursements 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, 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 (\$31,400– general fund, \$14,800 – earmarked fund, \$14,000 – restricted fund, and \$89,400 – 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 \pm five percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected selected recorded journal entries and all 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 the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Office 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 Office for the year ended June 30, 2006, and inspected selected reconciliations of balances in the Office'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 Office'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 Office's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.

7. **Appropriation Act**

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

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

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, 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 GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

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

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the Office 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 and if the amounts agreed with the supporting workpapers and accounting records.

Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

10. **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 Office resulting from our engagement for the fiscal year ended June 30, 2004, to determine if Agency had taken corrective action. (We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2005.)

Our finding as a result of these procedures is presented in Payroll 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.

The Honorable R. Andre Bauer, Lieutenant Governor
South Carolina Office of the Lieutenant Governor
July 17, 2007

This report is intended solely for the information and use of the Governor and of the management of the Lieutenant Governor's Office and is not intended to be and should not be used by anyone other than these specified parties.

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

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.

RECEIPTS AND REVENUES

Deposits

During our test of cash receipts we were unable to determine if seven of the fifty receipts tested were deposited in a timely manner because the Office did not document the date of receipt.

General Proviso 72.1. of the fiscal year 2006 Appropriations Act requires that all general State revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

We recommend that the Office develop and implement procedures to ensure that the date a cash receipt is received is documented.

Classification of Revenues

During our test of cash receipts and cut-off test of revenues, we noted nine instances in which the Office recorded revenues to its general ledger under incorrect or invalid STARS object codes. Six of these misclassifications involved revenues received from the South Carolina Department of Health and Human Services. These receipts should have been recorded to STARS object code 2805, Federal Grant Sub-contract State Agencies. However, the Office recorded these revenues to object code 2822, Federal Operating Grants - Restricted. Two of the misclassifications occurred because the Office recorded refunds of prior year expenditures as a reduction to current year expenditures rather than to revenue object code 3801, Refund Prior Year Expenditures. One of the refunds, in the amount of \$1,500, was for an expenditure paid from State general fund appropriations. Because unspent appropriations lapse at fiscal year end, the refund should have been credited to the State's general fund. The final instance occurred because the Office used an invalid object code.

The Comptroller General's Policies and Procedures Manual (STARS Manual) provides object code definitions to assist agencies in properly recording revenues and expenditures.

We recommend that the Agency establish appropriate policies and procedures to ensure that personnel responsible for assigning object codes perform a careful review of the supporting documentation, are knowledgeable about the proper classification for all types of receipts and be familiar with STARS Manual object code definitions. Finally, we recommend that the Office remit \$1,500 to the State's General Fund.

Unrecorded Revenue

We were unable to reconcile Revenue object code 3801, Refund of Prior Year Expenditures from the Statement of Estimated and Actual Revenues (CSA406 report) to the agency's general ledger. Office personnel told us that they do not record revenue remitted to the State general fund to its accounting system (GAFRS).

Generally accepted accounting principles (GAAP) require transactions be recorded to ensure proper financial statement presentation. Also, the STARS Manual states that reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the Comptroller General reports provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report.

We recommend that the Office record all revenues to GAFRS, including revenues remitted to the State's general fund.

PAYROLL

Termination Pay

One of the five termination pay transactions tested contained an error that resulted in an underpayment of \$252. The underpayment occurred because the Office paid the employee for nine days instead of the ten days the employee actually worked.

Section 41-10-50 of the South Carolina Code of Laws states “when an employer separates an employee from the payroll for any reason, the employer shall pay all wages due to the employee within forty-eight hours of the time of separation or the next regular payday which may not exceed thirty days.”

We recommend the Office carefully follow its established policies and procedures regarding reviews of payroll related calculations to ensure that information used is accurate. Further, we recommend that the Office make every attempt to reimburse the employee the \$252 underpayment.

Pay Periods

During our test of employee additions and terminations, we noted two employees were not paid timely in accordance with the State’s compensation schedule. Section 8-11-35 of the South Carolina Code of Laws states, “To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues thereafter on a twice-monthly schedule as established by the State Budget and Control Board. This schedule must continue from one fiscal year to another without interruption, on a twice-monthly basis.” A similar finding was noted in the prior State Auditor’s Report.

We recommend that the Office establish procedures to ensure timesheets are received in a timely manner in order to be processed in time to comply with the payroll schedule established by State law.

GAAP CLOSING PACKAGES

Introduction

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared closing packages because the State's accounting system (STARS) is on a budgetary basis.

We determined that the Office submitted to the CG certain fiscal year 2006 closing packages that were incorrectly prepared and/or misstated. To accurately report the Office's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that "The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors. All errors are avoidable. We all must work together to implement procedures that keep closing package errors to an absolute minimum. An adequate internal control system includes safeguards to ensure that your agency detects and corrects its own closing package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's system of internal control could be stronger". Reference 1.7 further states that a supervisory employee should perform a review that includes tracing all amounts from the appropriate agency accounting

records or other original sources to the working papers and finally to the closing package itself. In addition, Reference 1.8 directs agencies to keep working papers to support each amount and other information they enter on each closing package form. The following outlines the errors noted on certain fiscal year 2006 closing packages:

Grant/Contribution Receivables and Deferred Revenue

The Office reported incorrect amounts for its grant receivables and grant deferred revenue closing package. The errors occurred because of the following:

1. Revenues on the grants analysis worksheet (worksheet) did not agree with revenues on the schedule of federal financial assistance (SFFA) for two grants. (The SFFA is considered the starting point for determining receivables and deferred revenue.)
2. Accounts payable was omitted from the worksheet for one grant.
3. The year-end balances shown on the worksheet for two grants were not correctly calculated. For one grant, the year-end balance was not shown on the worksheet. For the other grant, the year-end balance omitted the accounts payable amount shown on the worksheet.

These errors resulted in an understatement of both grant receivables and deferred revenues for \$1,211,183 and \$10,854, respectively.

GAAP Manual Reference 3.3 states: "The final closing package amounts should reconcile to your Schedule of Expenditures of Federal Awards plus or minus accounts payable and accounts payable reversals and non-Federal grants/contributions." Also, the reviewer checklist question 13 asks the reviewer if the closing package amounts agree to the Schedule of Expenditures of Federal Awards. (This schedule is considered the same as the Office's SFFA referred to above).

Operating Lease

The Office understated the future minimum lease payments for its postage meter lease by \$56. The error occurred because the Office used the incorrect sales tax rate when calculating the future lease payments.

Accumulated Depreciation

The amount reported for accumulated depreciation on retired assets did not agree with supporting documentation. We determined that the supporting documentation was in error because the Office calculated depreciation using a shorter useful life than it used in the previous two years. The amount reported on the closing package was based on the previous useful life and therefore correct.

Recommendations

We recommend that the Office implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Manual requirements and instructions. We recommend that the Office design and implement procedures requiring an independent review of each closing package by an individual knowledgeable of closing package instructions to ensure the accuracy of the closing package and adequacy of documentation supporting the closing package.

RECONCILIATIONS

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's

accounting system (STARS) as reflected on the Comptroller General reports provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper to ensure adequate error detection and to satisfy audit requirements. Agencies are required to perform monthly reconciliations for revenues, expenditures, and ending cash balances at the level of detail in the Appropriation Act and promptly correct errors discovered in the accounting records of the agency or the Comptroller General as appropriate. Further, reconciliations must be reviewed and approved in writing by an appropriate agency official other than the preparer.

Our review of the fiscal year 2006 reconciliations and analytical review of revenues disclosed several deficiencies in internal controls.

- 1) Reconciliations were not signed and dated by both the preparer and the reviewer.
- 2) Revenue reconciliations were not performed at the object code level.
- 3) Numerous instances were noted in which STARS revenue object code balances did not agree with the agency's general ledger (GAFRS).

We recommend the Office develop and implement procedures to ensure that reconciliations are performed at the level of detail required in the STARS manual. Personnel responsible for reconciliation preparation and review should be knowledgeable about the proper level of detail monthly reconciliations are to be performed. Reconciliations should provide documentation demonstrating how GAFRS account balances agree to STARS. Furthermore, we recommend that both the reviewer and preparer of reconciliations sign and date each reconciliation performed.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We tested the Office's fiscal year 2006 schedule of federal financial assistance (SFFA) and noted several errors:

- 1) The fiscal year 2006 beginning fund balance did not agree to the fiscal year 2005 ending fund balance and the fund source was not correct for CFDA 93.667.
- 2) The STARS Project and Phase Code was incorrect for three projects: CFDA 93.053 - Nutritional Service Incentive Program, CFDA 93.779 - Real Choice, and CFDA 93.779 - Aging and Disability Resource Center Grant.
- 3) The grant title for grant number 11-P-20219/4, CFDA 93.779 did not agree with the Notice of Award (NOA). The NOA grant title is State Health Insurance Assistance Program. The grant title shown on the SFFA is Project I-Care.

The State Auditor's Office provides a letter of instructions to each State agency for the proper completion of the SFFA.

We recommend that the Office ensure that the SFFA is prepared and independently reviewed by staff that is knowledgeable of the requirements of the State Auditor's letter of instructions and federal reporting requirements.

BLANKET BOND APPROVAL

South Carolina Code of Laws Section 1-11-180 states that the Budget and Control Board may approve blanket bonds for a State department, agency, or institution including bonds for state officials or personnel. However, the form and execution of blanket bonds must be approved by the Attorney General. The Budget and Control Board has delegated its responsibility to the State Auditor.

In our review of the Office's compliance with this law, we noted that the Office did not obtain Attorney General and State Auditor approval for its employee blanket bond.

We recommend that the Agency comply with the South Carolina Code of Laws Section 1-11-180 and obtain approvals for its blanket bond from the Attorney General and State Auditor as appropriate.

SECTION B - OTHER WEAKNESSES

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

DISBURSEMENTS

During our test of disbursements, we noted that Office staff did not document that the invoice was checked for clerical accuracy for seven of the twenty-five transactions tested.

Internal controls over disbursement transactions are strengthened when voucher packages are checked for clerical accuracy. This process should be documented to demonstrate that the process was performed.

We recommend that the Office establish and implement policies and procedures to document that voucher packages have been checked for completeness and accuracy.

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 Office for the fiscal year ended June 30, 2004, and dated July 7, 2005. (We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2005.) We determined that the Office has taken adequate corrective action on each of the findings except for Pay Periods in the Payroll finding which we have repeated.

MANAGEMENT'S RESPONSE



State of South Carolina
Office of The Lieutenant Governor

André Bauer
Lieutenant Governor

Office on Aging
Curtis M. Loftis, Jr.
Director

October 2, 2007

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

Dear Mr. Gilbert,

The South Carolina Lieutenant Governor's Office has prepared the following response to the findings presented in the Agreed Upon Procedure audit of financial records ending June 30, 2006. With this response, we have now completed our review and authorize release of the report.

The agency has taken corrective action to address the findings noted in the report.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Kester".

Tony Kester
Deputy Director Administration

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