

**SOUTH CAROLINA LIEUTENANT  
GOVERNOR'S OFFICE**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2013**

# *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

May 16, 2014

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 fiscal year ended June 30, 2013, 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

## CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1-4
II. ACCOUNTANT'S COMMENTS	5
SECTION A - OTHER WEAKNESSES	6
PAYROLL DISBURSEMENTS AND EXPENDITURES	7
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	8
SECTION B - STATUS OF PRIOR FINDINGS	9
MANAGEMENT'S RESPONSE	10



## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 16, 2014

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Office of the Lieutenant Governor (the Agency) and the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the Agency for the fiscal year ended June 30, 2013, 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 current fiscal year recorded revenues 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 (\$500 – earmarked fund, \$3,500 – restricted fund, and \$150,000 – federal fund) and  $\pm 10$  percent.

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.
- We inspected selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared current fiscal year expenditures 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 (\$30,000 – general fund, \$100 – earmarked fund, \$3,500 – restricted fund, and \$200,000 – federal fund) and  $\pm 10$  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.
- 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
- We compared current fiscal year payroll expenditures 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 (\$30,000 – general fund and \$200,000 – federal fund) and  $\pm 10$  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  $\pm 5$  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 Disbursements and Expenditures 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. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Agency 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 individual transactions selected were chosen randomly. We found no exceptions as a result of these procedures.

6. **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.

7. **Reporting Packages**

- We obtained copies of all reporting packages as of and for the fiscal year ended June 30, 2013, 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 Reporting Policies and 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 these procedures.

8. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the fiscal year ended June 30, 2013, prepared by 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 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.

Mr. Richard H. Gilbert, Jr., CPA  
South Carolina Office of the State Auditor  
May 16, 2014

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 Agency resulting from our engagement for the period July 1, 2011 through March 12, 2012, to determine if the Agency had taken corrective action. We applied no procedures to the Agency's accounting records and internal controls for the period March 13, 2012 through June 30, 2012.

We found no exceptions as a result of these 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 Lieutenant Governor, management of the Office of the Lieutenant Governor and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



Columbia, South Carolina  
May 16, 2014

**ACCOUNTANT'S COMMENTS**

## **SECTION A - OTHER WEAKNESSES**

Management of the 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 while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

## **PAYROLL DISBURSEMENTS AND EXPENDITURES**

A Personnel Action Form is required to be signed by the Agency's Director, Human Resources Director, Personnel Director and Supervisor for each new hire as a means to provide evidence that the hiring of the new employee was authorized. We noted that Personnel Action Forms for three of the Agency's new hires during the fiscal year ended June 30, 2013 did not reflect the required signatures to document that the new hires were properly authorized. Of these three Personnel Action Forms, one did not reflect the signature of the Director, one did not reflect the signature of the Personnel Director and one did not reflect the signature of the Supervisor.

These Personnel Action Forms were missing these signatures due to lack of management oversight. It is important for each Personnel Action Form to be approved and signed by all responsible officials in order to mitigate the risk of an unauthorized employee being hired. We recommend that the Agency implement controls to ensure that all levels of authorization are documented prior to an employee being hired, and that all Agency hiring policies are followed.

## **SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Section 117.110 of the Appropriation Act states “to ensure timely completion of the Statewide Single Audit, state agencies which do not receive a separate audit of federal expenditures, must submit to the Office of the State Auditor a schedule of federal program expenditures in a format prescribed by the Office of the State Auditor, no later than August 15 of each year”.

We noted that there were three grants in which the expenditures reflected on the Agency’s list of subrecipients did not agree with those reported on the schedule of federal financial assistance. Furthermore, the total expenditures reflected on the list of subrecipients exceeded the expenditures reflected on the schedule of federal financial assistance by \$24,609. This occurred because management of the Agency did not perform a review to ensure that the expenditures reflected on the list of subrecipients agreed to those reflected on the schedule of federal financial assistance.

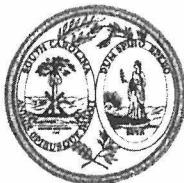
It is important for the list of subrecipients to report the same amount of expenditures that are reported on the schedule of federal financial assistance when a federal grant is passed down to a subrecipient. This ensures the accuracy and completeness of both schedules and allows the pass-through entity to better monitor the activities performed by the subrecipient. It also mitigates the risk that unauthorized funds are being passed down to another entity.

We recommend that the Agency implement procedures to review the list of subrecipients and the schedule of federal financial assistance and cross-reference both before finalizing and submitting them to the Office of the State Auditor.

## **SECTION B - 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 period July 1, 2011 through March 12, 2012, and dated April 19, 2012. We applied no procedures to the Agency's accounting records and internal controls for the period March 13, 2012 through June 30, 2012. In response to our inquiries, we were told that the Agency has developed and implemented procedures to correct the weaknesses reported for the period July 1, 2011 through March 12, 2012.

**MANAGEMENT'S RESPONSE**



State of South Carolina  
Office of The Lieutenant Governor

Glenn F. McConnell  
Lieutenant Governor

Office on Aging  
Tony Kester  
Director

May 16, 2014

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 ending June 30, 2013. Below are our comments to each of the weaknesses in the Management's Response section of the report.

**Payroll Disbursements and Expenditures**

We noted that Personnel Action Forms for three of the Agency's new hires did not reflect required signatures to document that the new hires were properly authorized. We recommend that the Agency implement controls to ensure that all levels of authorization are documented prior to an employee being hired, and that all Agency hiring policies are followed.

**Management Response**

Additional steps have been implemented to assure that all levels of authorization are documented prior to an employee being hired, and that all hiring policies are followed.

**Schedule of Federal Financial Assistance**

We noted three instances in which expenditures to sub-recipients per the Agency's List of Sub-Recipients (the List) did not agree to expenditures reported on the Agency's Schedule of Federal Financial Assistance (SFFA). In addition, the total of these expenditures per the List exceeded total expenditures per the SFFA by \$24,609. We recommend that the Agency

Mr. Richard H. Gilbert, Jr., CPA

Page 2

May 16, 2014

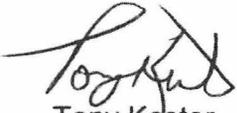
implement procedures to ensure that the List is reconciled to the SFFA prior to the SFFA being finalized.

### **Management Response**

The agency has identified a report in SCEIS that includes Journal Entries for reporting purposes. This report will prevent a recurrence of this event again.

If I can provide any additional clarification, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tony Kester', written in a cursive style.

Tony Kester  
Director