

**SOUTH CAROLINA RETIREMENT SYSTEM
INVESTMENT COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2011

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State of South Carolina



Office of the State Auditor

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DEPUTY STATE AUDITOR

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 29, 2012

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Retirement System Investment Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Retirement System Investment Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2011, in the areas addressed. The Commission'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 year recorded revenues at the subfund and account level to those of the prior year. We investigated changes in the restricted fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$39,000 – restricted fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the 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 Commission, 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 year expenditures at the subfund and account level to those of the prior year. We investigated changes in the restricted fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$38,000 – restricted 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 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 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 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 restricted fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$38,000 – restricted 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 Payroll in the Accountant's Comments section of this report.

4. **Journal Entries**

- We inspected recorded journal entries 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. **Appropriation Act**

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

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, 2011, prepared by the Commission 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 the procedures

7. **Investment Fees**

- We gained an understanding of the Commission's process for determining the reasonableness of investment fees paid to investment managers.
- We inspected selected investment funds to determine if the investment fee payments conformed with contractual arrangements.
- We reperformed the procedures performed by Commission staff to ensure that they followed their stated procedures.

The individual investment funds selected were chosen randomly. 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 Commission resulting from our engagement for the fiscal year ended June 30, 2008, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the fiscal years ended June 30, 2010 and 2009.

We found no exceptions as a result of the procedures.

The Honorable Nikki R. Haley, Governor
and
Members of the Commission
South Carolina Retirement System Investment Commission
Columbia, South Carolina
August 29, 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 Governor and of the governing body and management of South Carolina Retirement System Investment Commission 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 - 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.

PAYROLL

We selected a sample of employees who terminated employment from the Commission to determine if the employees' final paychecks were paid in accordance with the State's pay schedule. One employee terminated employment on May 20, 2011 and, according to the State's pay schedule, should have received payment on June 16, 2011. The former employee did not receive final payment until July 1, 2011.

The employee was not paid in accordance with the State's pay schedule because his supervisor did not timely approve the employee's work hours. Agency personnel explained that the employee's supervisor was unable to access the time and attendance system to approve the employee's hours.

Section 8-11-35 of the 1976 Code of Laws states, in part, "To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2nd of the prior fiscal year with the first pay period ending on June 16th of the prior fiscal year. The payroll period continues on a twice-monthly schedule as established by the State Budget and Control Board."

We recommend the Commission implement procedures to ensure that payroll information is submitted and approved in a timely manner to ensure timely payment in accordance with the State's pay schedule.

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 Commission for the fiscal year ended June 30, 2008, and dated August 27, 2009. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2010 and 2009. We determined that the Commission has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

REYNOLDS WILLIAMS, J.D., CFP
CHAIRMAN

EDWARD N. GIOBBI
VICE CHAIRMAN

WILLIAM M. BLUME, JR., CPA
COMMISSIONER

ALLEN R. GILLESPIE, CFA
COMMISSIONER



SOUTH CAROLINA RETIREMENT SYSTEM

INVESTMENT COMMISSION

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CURTIS M. LOFTIS, JR.
COMMISSIONER

JAMES R. POWERS
COMMISSIONER

S. TRAVIS PRITCHETT, D.B.A.
COMMISSIONER

HERSHEL HARPER, JR., CFA
CHIEF INVESTMENT OFFICER

October 24, 2012

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

Dear Mr. Gilbert:

Thank you for recent correspondence regarding the Office of the State Auditor's Report of the agreed upon procedures audit of the South Carolina Retirement System Investment Commission's administrative financial records for the year ending June 30, 2011. I appreciate the opportunity to respond to the accountant's comments.

ACCOUNTANT'S COMMENTS:

PAYROLL

We selected a sample of employees who terminated employment from the Commission to determine if the employees' final paychecks were paid in accordance with the State's pay schedule. One employee terminated employment on May 20, 2011 and, according to the State's pay schedule, should have received payment on June 16, 2011. The former employee did not receive final payment until July 1, 2011.

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We recommend the Commission implement procedures to ensure that payroll information is submitted and approved in a timely manner to ensure timely payment in accordance with the State's pay schedule.

AGENCY'S RESPONSE

Additional Background

The Retirement Systems Investment Commission uses the SCEIS system administered by the State to track employee payroll data. The SCEIS system does not provide an automated notification to supervisors when a temporary employee has pending hourly time to be approved.

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The instance cited concerns one particular employee who was transitioning from temporary to full time status. The dates in question are May 17-20, 2011; the amount in question is \$416.00.

The employee was taking his mandatory fifteen day break from May 20, 2011 through June 6, 2011. He was hired to fill a full time equivalent position (FTE) starting on June 7, 2011. To correctly enter this change into SCEIS, human resources staff terminated his temporary employment status and rehired him when he returned.

The SCEIS report CATS_DA (Display Working Times report) is run by payroll staff after each payroll as an internal control to ensure that all temporary time entered is approved. The report allows the payroll staff to verify all working dates are entered for the employee in SCEIS. Since this employee was in a terminated employment status, his unapproved time did not show on the CATS_DA report. However, RSIC staff was not aware of that weakness in the report at the time.

When this employee returned as a newly hired FTE on June 7, 2011 (no longer in a terminated status), his working time for May 17-20, 2011 showed up on the CATS_DA report (Display Working Times) as unapproved time and RSIC staff took appropriate action to approve the hourly time.

RSIC Control Enhancements

We have added additional controls to our standard operating procedure as follows to prevent this exemption from recurring:

Human resources staff will now run the ZHRMTR (Unapproved Time) report before terminating an hourly employee in SCEIS to ensure all unapproved time is approved prior to termination.

We also recommend that SCEIS consider configuring the system so notifications are sent to all supervisors concerning pending entries in SCEIS for employees' work times.

Once again, thank you for the opportunity to respond to the agreed upon procedures audit of administrative financial records for the fiscal year ending June 30, 2011. With this response, the South Carolina Retirement System Investment Commission has completed our review and authorizes release of the report. A list of Commission members and their contact information is enclosed.

Sincerely,



Adam Jordan
Acting Chief Executive Officer

Enclosures

4 copies of this document were published at an estimated printing cost of \$1.43 each, and a total printing cost of \$5.72. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.