

**SOUTH CAROLINA RETIREMENT SYSTEM
INVESTMENT COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

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**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 2, 2016

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, 2014, 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 five 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 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 from sources other than State General Fund appropriations 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 an agreed upon materiality level (\$76,100 – 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 twenty-five 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 twenty-five 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 an agreed upon materiality level (\$71,700 – restricted fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Segregation of Duties in the Accountant's Comments section of this report.

3. **Payroll Disbursements and Expenditures**

- We inspected twenty-five 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; and 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 five selected new employees and five individuals 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 an agreed upon materiality level (\$71,700 – 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 ± 10 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 five selected recorded journal entries and five 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. **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 provisos as listed in the Appropriation Act work program, and agency specific provisos, if applicable.

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, 2014, 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

Our findings as a result of these procedures are presented in Accounts Payable Reporting Package and Lease Payment in the Accountant's Comments section of this report.

7. **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 Commission resulting from our engagement for the fiscal year ended June 30, 2011, to determine if the Commission had taken corrective action. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2012 and 2013.

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
February 2, 2016

The concept of materiality does not apply to findings to be reported in the agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified parties. The specified parties have agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures (AUP):

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements (payroll and non-payroll) transactions (unless there is an indication that the error is systematic).
- Clerical errors of less than \$100 related to reporting packages (unless there is an indication that the error is systematic).
- Errors in applying account coding definitions to accounting transactions unless it is determined that 10 percent or more of the accounting transactions tested were found to be in error.
- Reporting Packages which are submitted less than 3 business days after the due date unless it is determined that 20 percent or more of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than 3 business days late.

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 the South Carolina Retirement System Investment Commission and is not intended to be and should not be used by anyone other than these specified parties.



George L. Kennedy, III, CPA
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.

ACCOUNTS PAYABLE REPORTING PACKAGE

During our testing of the Accounts Payable and Subsequent Events Reporting Packages, we noted a total of three transactions incorrectly reported as amounts payable as of June 30, 2014. The items related to these transactions were ordered in FY2014 but were not received until FY2015. Therefore, the amounts were not payable as of June 30, 2014. Accounts payable in total was overstated approximately \$10,911.

Section .12 Accounts Payable of the Comptroller General's Reporting Policies and Procedures Manual states: "GAAP for governmental entities require the reporting of liabilities (unpaid obligations) of the government as of the end of the year (June 30). ... Liabilities arise from: goods delivered on or before year-end [and] services received on or before year-end."

We recommend the Commission implement policies and procedures to ensure liabilities are recorded in the proper fiscal year.

LEASE PAYMENT

During our testing of the Operating Leases Reporting Package, we noted that the Commission overpaid two months' lease by 50% for Office space. The Commission had previously held a sublease agreement for which quarterly lease payments were made for half of the total lease amount. The Commission made a payment in October, 2013, covering half the lease amount for October, November, and December, 2013. Beginning November 1, 2013, the Commission took over the entire lease agreement for which a payment was made in June, 2014, covering the full lease amount for November, 2013, through June, 2014. The payment was not adjusted to take into effect the previous payment by the Commission covering half the lease amount for November and December, 2013. The Commission overpaid approximately \$4,339.

Section 11-3-185 of the South Carolina Code of Law states, in part: "Strict account must be kept of all these expenditures according to standard budget classifications. Money may be drawn only when actually owing and due."

We recommend the Commission implement policies and procedures to ensure payment is made only when owing and due, and for the proper amount.

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.

SEGREGATION OF DUTIES

During our test of non-payroll disbursements, we noted one transaction that was entered and approved in SCEIS by the same employee. We noted an additional two transactions for which the purchase orders and receipts of goods were created by the same employee. Per discussion with Commission staff, lack of segregation of duties in the disbursement process was due to a period of time involving staff turnover.

Sound internal control requires proper segregation of duties between access, accounting, and authorization. This is outlined in the Retirement System Investment Commission's Financial Processes Manual.

We recommend the Commission implement and follow procedures in order to establish sound internal control over disbursement transactions including having other administrative staff members assist in the approval process during any future staff turnover situations to ensure proper segregation of duties.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountant's Comments section of the State Auditor's Report on the Commission for the fiscal year ended June 30, 2011, and dated August 29, 2012. We applied no procedures to the Commission's accounting records and internal controls for the years ended June 30, 2012 and 2013. We determined that the Commission has taken adequate corrective action on the finding.

MANAGEMENT'S RESPONSE

Auditor's Comments:

ACCOUNTS PAYABLE REPORTING PACKAGE

During our testing of the Accounts Payable and Subsequent Events Reporting Packages, we noted a total of three transactions incorrectly reported as amounts payable as of June 30, 2014. The items related to these transactions were ordered in FY2014 but were not received until FY2015. Therefore, the amounts were not payable as of June 30, 2014. Accounts payable in total was overstated approximately \$10,911.

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We recommend the Commission implement policies and procedures to ensure liabilities are recorded in the proper fiscal year.

Agency Response:

We agree with your findings and have added an additional layer of review around this liability area into our Administrative Procedures.

Auditor's Comments:

LEASE PAYMENT

During our testing of the Operating Leases Reporting Package, we noted that the Commission overpaid two months' lease by 50% for Office space. The Commission had previously held a sublease agreement for which quarterly lease payments were made for half of the total lease amount. The Commission made a payment in October, 2013, covering half the lease amount for October, November, and December, 2013. Beginning November 1, 2013, the Commission took over the entire lease agreement for which a payment was made in June, 2014, covering the full lease amount for November, 2013, through June, 2014. The payment was not adjusted to take into effect the previous payment by the Commission covering half the lease amount for November and December, 2013. The Commission overpaid approximately \$4,339.

Section 11-3-185 of the South Carolina Code of Law states, in part: "Strict account must be kept of all these expenditures according to standard budget classifications. Money may be drawn only when actually owing and due."

We recommend the Commission implement policies and procedures to ensure payment is made only when owing and due, and for the proper amount.

Agency Response:

We agree with your findings regarding the 50/50 sublease agreement by the Commission with the Department of Commerce. Since the State Auditor's Office fieldwork, the Commission has worked with the Department of Commerce, to receive a reduced subsequent rent payment by noted overpayment amount. Thus this overpayment has been corrected and we have updated our Administrative Policies to more thoroughly document our review process around procurement and cash expenditures, which would include payments such as this lease.

Auditor's Comments:

SEGREGATION OF DUTIES

During our test of non-payroll disbursements, we noted one transaction that was entered and approved in SCEIS by the same employee. We noted an additional two transactions for which the purchase orders and receipts of goods were created by the same employee. Per discussion with Commission staff, lack of segregation of duties in the disbursement process was due to a period of time involving staff turnover.

Sound internal control requires proper segregation of duties between access, accounting, and authorization. This is outlined in the Retirement System Investment Commission's Financial Processes Manual.

We recommend the Commission implement and follow procedures in order to establish sound internal control over disbursement transactions including having other administrative staff members assist in the approval process during any future staff turnover situations to ensure proper segregation of duties.

Agency Response:

As you are aware the Investment Commission is a small agency with limited staff who are focused on the investment of the Retirement Systems Trust Fund. This limited staff obviously does not diminish the importance we put on strong internal controls, but however it does at times hamper our ability to have multiple layers of checks and balances especially when there is employee turnover in the small two person department area like Administration.

During the fiscal year covered by this audit, our Administrative Manager retired. At this time we promoted our Operations Officer to this role and began the recruitment process to fill that position. After an extensive search the position was filled several months after the Administrative Manager's retirement. During this recruitment period, our recently promoted Administrative Manager was performing multiple duties due to the open position still being recruited. Throughout this period and afterward it is worth noting that the Commission had the strong controls of having all requisitions signed by the Chief Executive Officer of the Agency or the Managing Director of Operations and Operational Due Diligence.

As noted above, the Commission values strong internal controls and we recently have been going through the process of updating our Administrative Policies to implement mandatory segregation of duties around the disbursement process. An excerpt of our updated Cash Disbursement policy (effective January 2016) is below:

Payment information must be entered and approved in SCEIS by two separate individuals at the RSIC. The Administrative Support Analyst (formally Operations Analyst) will normally enter payment information into SCEIS for payment processing and the Administrative Manager will approve payment information within SCEIS. The Managing Director of Operations and Operational Due Diligence shall approve payments entered by the Administrative Manager.

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