

SOUTH CAROLINA STATE LIBRARY

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2009

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 12, 2010

The Honorable Mark Sanford, Governor
and
Members of the South Carolina State Library Board
South Carolina State Library
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina State Library (the State Library), solely to assist you in evaluating the performance of the State Library for the fiscal year ended June 30, 2009, in the areas addressed. The State Library'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 (\$900 – general fund, \$2,100 – earmarked fund, \$4,000 – restricted fund, and \$23,800 – federal fund) and \pm 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Indirect Cost and Transaction Approval and Documentation 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 State Library, 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 (\$74,600 – general fund, \$200 – restricted fund, and \$21,000 – federal 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, 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 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 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 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 (\$74,600 – general fund and \$21,000 – 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 Termination Pay in the Accountant's Comments section of the 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. Our finding as a result of these procedures is presented in Transaction Approval and Documentation in the Accountant's Comments section of this report.

5. **Appropriation Act**

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

We found no exceptions as a result of the procedures.

6. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2009, prepared by the State Library 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.

We found no exceptions as a result of the procedures.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2009, prepared by the State Library 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.

We found no exceptions as a result of the 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 State Library resulting from our engagement for the fiscal year ended June 30, 2007, to determine if the State Library had taken corrective action. We applied no procedures to the State Library's accounting records and internal controls for the year ended June 30, 2008.

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



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.

INDIRECT COST

Our analytical review of revenues revealed that, in fiscal year 2009, indirect cost of approximately \$23,000 did not get transferred to the General Fund in accordance with agency and state policy. The oversight was caused by a miscommunication between the State Library and the SCEIS staff about how the indirect cost transactions were going to post in fiscal year 2009.

Section 3.2.3.3 of the Comptroller General's Statewide Accounting and Reporting Manual requires the timely submission of indirect costs to the non-Federal subfund.

We recommend that the State Library ensure that its procedures for remittance of indirect costs to the General Fund are in place and working in accordance with state policy.

SECTION B - OTHER WEAKNESSES

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.

TRANSACTION APPROVAL AND DOCUMENTATION

The agency could not provide adequate support documentation for several of the transactions tested. In addition, several transactions did not contain evidence of agency approval. The transactions in question were all initiated and processed by the SCEIS team on behalf of the agency.

An effective system of internal controls includes controls to ensure that accounting transactions are adequately supported by source documentation. It also ensures that the transaction has been approved by someone authorized to approve the transaction.

We recommend the State Library implement procedures to ensure that all accounting transactions processed through its accounting system are supported by source documentation and approved by appropriate State Library personnel.

TERMINATION PAY

The State Library took appropriate action to correct the prior year finding titled Calculation of Pay. However, during our test of employees who terminated employment we noted exceptions for three of the six employees tested. We found that one employee was paid for days worked after the documented termination date. Although the agency was able to provide an explanation for the additional days worked, they could not provide documentation to support the explanation. The other exceptions were the result of one person's final pay being calculated based on an incorrect salary and an error in an employee's annual leave payout amount.

A well-designed and effective internal control system includes an independent review of payroll calculation and verification of supporting documentation used in those calculations.

We recommend the State Library strengthen internal controls to ensure accurate maintenance of records in the employees' payroll files and take steps to ensure accurate calculation of payroll at termination.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on the findings reported in the Accountant's Comments section of the State Auditor's Report on the State Library for the fiscal year ended June 30, 2007, and dated October 24, 2008. We applied no procedures to the State Library's accounting records and internal controls for the year ended June 30, 2008. We determined that the State Library has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE



STATE LIBRARY

November 12, 2010

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main St. Suite 1200
Columbia, S.C. 29201

Dear Mr. Gilbert:

In response to your letter, I have reviewed the preliminary draft copy of your report for fiscal year ending June 30, 2009. As requested, the following comments are provided:

Section A-Violations of State Laws, Rules or Regulations

Indirect Cost: The State Library agrees that indirect costs were not submitted and posted back to the general fund in fiscal year 2009. During this time, the SCEIS team was posting our indirect costs for us. The State Library has established procedures in place to post indirect cost internally and within the proper time frame.

Section B-Other Weakness

Transaction Approval and Documentation: The State Library agrees that sufficient supporting documentation did not exist for several transactions that were tested during the audit. All of the documents tested which did not have supporting documents were created and keyed by the SCEIS team. We were not notified of the transactions prior to the audit, nor were we aware that adequate backup did not exist. While we cannot force the SCEIS team to refrain from making transactions on our behalf we have established monthly procedures to verify transactions which have been created, so that we may catch these instances when they occur. We have also retroactively reviewed all transactions for previous fiscal years and have received all necessary backup paperwork.

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Termination Pay: The State Library agrees that there two employees termination pay was calculated incorrectly. We have reviewed the individual termination payouts to determine how the errors were made and will avoid future errors.

You may consider this letter authorization to release your report. As requested, attached is a list of our current Board members and mailing address along with a copy of this response.

Sincerely,

A handwritten signature in black ink, appearing to read "Leesa Benggio", written over a printed name.

Leesa Benggio

Division Director, Administration

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