

**SOUTH CAROLINA STATE LIBRARY
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2013

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
ATTORNEY FEE AUTHORIZATION	6
ACCOUNT CODING	7
SECTION B - STATUS OF PRIOR FINDINGS	8
MANAGEMENT'S RESPONSE	9

State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 23, 2014

The Honorable Nikki R. Haley, 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, 2013, 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 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 general ledger account 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 (\$200 – general fund, \$4,100 – earmarked fund, \$300 – restricted fund, and \$22,600 – federal 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 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 current year expenditures at the subfund and general ledger account 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 (\$62,600 – general fund, \$4,500 – earmarked fund, \$11,800 – restricted fund, and \$22,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Account Coding 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 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 general ledger account 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 (\$62,600 – general fund and \$22,900 – 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 ± 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 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 journal entry 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 State Library'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, 2013, 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 Reporting Policies and Procedures Manual requirements and if the amounts reported in the reporting packages agreed with the supporting workpapers and accounting records

Our finding as a result of these procedures is presented in Attorney Fee Authorization in the Accountant's Comments section of this report.

7. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2013, 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, 2009, 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 years ended June 30, 2012, 2011, and 2010.

We found no exceptions as a result of the procedures.

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina State Library Board
South Carolina State Library
June 23, 2014

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.

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.

ATTORNEY FEE AUTHORIZATION

South Carolina Code of Laws Section 1-7-170, as amended, states, “A department or agency of state government may not engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon a fee as must be approved by him.”

While testing the State Library’s litigation reporting package, we determined that the hourly rate paid by the State Library to an approved attorney exceeded the hourly rate approved by the Attorney General’s Office. The State Library did not detect the error when it approved and processed the attorney’s invoice for payment. As a result the State Library paid the attorney \$1,568 more than the Attorney General’s Office authorized.

We recommend the State Library implement procedures to ensure full compliance with Section 1-7-170 of the South Carolina Code of Laws, as amended. In addition, the State Library should develop and implement procedures to ensure timely detection and correction of errors.

ACCOUNT CODING

One of twenty five disbursement transactions randomly selected for testing was a payment for building renovations (SCEIS Account 5021320000). The State Library incorrectly coded the transaction as other contract services (5024990000).

Effective internal controls include procedures to ensure that transactions are properly recorded. The Comptroller General's Policies and Procedures provide account code definitions to help agencies to determine the proper account code and ensure consistent accounting treatment.

We recommend that the State Library strengthen its internal controls over the recording of financial transactions. The State Library should ensure that the person performing the independent review of accounting transactions verify that the preparer used the proper account code.

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 State Library for the fiscal year ended June 30, 2009, and dated October 12, 2010. We determined that the State Library has taken adequate corrective action on each of the findings. We applied no procedures to the State Library's accounting records and internal controls for the years ended June 30, 2012, 2011, and 2010.

MANAGEMENT'S RESPONSE



Section A-Violations of State Laws, Rules or Regulations

Attorney Fee Authorization

The South Carolina State Library has used an Attorney to provide support on personnel matters. We understand and accept that a payment was processed without a full review of the hourly rate permissible by the South Carolina Code of Laws. We have introduced procedural changes to insure that the hourly rate for each invoice will be verified before processing in the future.

We have contacted the Law Firm and have requested reimbursement for the total amount of \$1,568.00 over payment that was processed in error.

Account Coding

The South Carolina State Library processed several disbursement vouchers for building renovations in fiscal year 2012. This represents the first set of voucher the agency has processed for renovations in many years. The Senior Accountant chose the object code for "other contractual services" as most appropriate because she did not realize that there was a specific object code for renovations.

We understand and accept that this coding was, in fact, not the most appropriate object code to use. We have now put procedures in place to make sure that all renovations will be charged to the proper object code. We will also do a complete review of object codes to familiarize ourselves so that we can make sure proper coding is achieved.

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 1-11-425 of the South Carolina Code of Laws, as amended, requires this information on printing costs be added to the document.