

SOUTH CAROLINA STATE LIBRARY

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

May 13, 2016

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 governing body and 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, 2014, 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 nineteen 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 five 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 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, \$5,100 – earmarked fund, \$1,000 – restricted fund, and \$20,400 – 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 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 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 twenty-one 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 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 (\$73,500 – general fund, \$4,700 – earmarked fund, \$14,600 – restricted fund, and \$23,800 – 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 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 all 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 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 (\$73,500 – general fund and \$23,800 – 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 payroll transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Termination Payment in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected five selected recorded journal entries, five operating transfers, 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 journal entry and appropriation transfer 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 Agency'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 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 Reporting Packages 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, 2014, 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, 2013, to determine if the State Library had taken corrective action.

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
May 13, 2016

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the State Library has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up On Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class tested.
- Clerical errors of less than \$100 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions tested were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.
- Submission of the Schedule of Federal Financial Assistance less than three business days late.

We were not engaged to and did not conduct an examination, 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 State Library 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.

REPORTING PACKAGES

Condition:

The following conditions were noted as a result of our testing of the State Library's fiscal year ended June 30, 2014 reporting packages:

- *Other Payroll Liabilities Reporting Package:* Pay rate discrepancies were noted for three of six individuals selected for detail testing on the compensated absences report.
- *Operating Leases Reporting Package:* Rent, which is properly accounted for as contingent rent in the accounting system, was not reported as contingent rent on the reporting package.
- *Prepaid Expenses:* Due to the State Library's response to question twenty on the Master Reporting Checklist, the Prepaid Expenses Reporting Package was not filed to report a prepaid expense. Some prepaid items were noted during our testing to indicate that a prepaid expense should have been reported.

Cause:

Undetected report discrepancies and interpretation of reporting package instructions impacted the conditions described above.

Effect:

- *Other Payroll Liabilities Reporting Package:* The liability for compensated absences was overstated by approximately \$7,000 as a result of the noted pay rate discrepancies on the compensated absences report.
- *Operating Leases Reporting Package:* Contingent rental payments of the State Library were not disclosed through the reporting package process.
- *Prepaid Expenses:* Prepaid Expenses of the State Library were not disclosed through the reporting package process.

Criteria:

Section 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "Each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office reporting packages and/or financial statements that are: accurate, and prepared in accordance with instructions, complete, and timely."

Recommendation:

We recommend the State Library develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Office Reporting Policies and Procedures Manual and form instructions.

Management's Response:

The South Carolina State Library acknowledges the findings in regards to the reporting packages for our agency. We will implement procedures necessary to avoid errors in relation to the Other Payroll Liabilities package. We will also make changes to the reporting of our Operating Leases package and will review all expenses to determine qualifying prepays.

TERMINATION PAYMENT

Condition:

We tested the termination payments of all three individuals who terminated employment in the fiscal year. The termination payment for one individual included payment for several days of the two-week notice for which the individual did not work.

Cause:

The agency had a termination policy for unusual termination circumstances which allowed payment as described above. We were unable to reconcile the policy to applicable State law.

Effect:

The individual was paid \$443 for time not worked as a result of the condition described above.

Criteria:

Section 8-11-30 of the South Carolina Code of Laws prohibits payment of salary not due.

Recommendation:

We recommend the State Library revise agency policy as necessary to ensure that it is in agreement with applicable State law.

Management's Response:

The South Carolina State Library acknowledges the finding of termination payments made to an employee. This employee was deemed a potential security risk due to his nature of work in IT. He did resign but was asked to leave immediately due to this risk and was paid for the days leading up to his effective resignation date. The State Library takes security of the agency very seriously, especially in regards to finance and infrastructure. It was deemed necessary to secure our infrastructure.

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, 2013, and dated June 23, 2014. We determined that the State Library has taken adequate corrective action on each of the findings.

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