

THE SENATE OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2014

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 12, 2015

Members of The Senate of South Carolina
South Carolina General Assembly
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Clerk of The Senate and The Senate of South Carolina (The Senate), solely to assist you in evaluating the performance of The Senate for the fiscal year ended June 30, 2014, in the areas addressed. The Senate'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 eight 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 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 (\$6,300 – earmarked fund and \$100 – federal fund) and ± 10 percent.
- We made inquiries of management pertaining to The Senate's policies for accountability and security over other documents issued for money. We observed The Senate personnel performing their duties to determine if they understood and followed the described policies.

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 Senate's policies and procedures and State regulations, were bona fide disbursements of The Senate, 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 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 (\$82,900 – general fund, \$6,100 – earmarked fund, and \$200 – 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 Senate's policies and procedures and State regulations.
- We inspected payroll transactions for fourteen selected new employees and fifteen individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with The Senate'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, earmarked, restricted and federal funds to ensure that expenditures were classified properly in The Senate's accounting records. The scope was based on agreed upon materiality levels (\$82,900 – general fund, \$6,100 – earmarked fund, and \$200 – federal fund) and ± 10 percent.
- We 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 Senate's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries and Interagency Appropriation Transfers**

- We inspected five selected recorded journal entries and all interagency 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 Senate'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 Senate'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 Senate 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 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 Senate 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 finding reported in the Accountant's Comments section of the State Auditor's Report on The Senate resulting from our engagement for the fiscal year ended June 30, 2013, to determine if The Senate had taken corrective action.

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

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 Senate 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 (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 Clerk of The Senate and Members of The Senate 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

Introduction

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that The Senate submitted to the CG certain fiscal year 2014 reporting packages that were incorrectly prepared, misstated, and/or not submitted in a timely manner. To accurately report The Senate's and the State's assets, liabilities and current year operation, the GAAP reporting packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's Reporting Policies and Procedures Manual states, "The accuracy of reporting package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existences of even "small" errors tend to cast doubt on the State internal control structure's ability to detect and correct errors. We all must work together to implement procedures that keep reporting package errors to an absolute minimum. Adequate internal controls include safeguards to ensure that your agency detects and corrects its own reporting package errors. Whenever the Comptroller General's Office or auditors detect errors, it means that your agency's internal controls have failed and should be improved." The following describes the errors noted on certain fiscal year 2014 reporting packages:

Timely Submission

During our review we noted the Master Reporting Package and the Subsequent Events Questionnaire were submitted one to three days late. Due dates for reporting packages are established by the Comptroller General's Office. Senate personnel stated the late submission of the Master Reporting Package was due to agency oversight. Personnel further stated that the Subsequent Events Questionnaire notification did not appear on the

CG Summary of Required Packages generated from the agency's Master Closing Package which they used as guidance for submissions. They missed the due date because of this and submitted when notified by the Comptroller General's Office.

Other Payroll Liabilities Reporting Package

During our testing of the Other Payroll Liabilities Reporting Package we determined The Senate's compensated absences liability reported on the Compensated Absences Summary Form was overstated by \$159. Finance staff entered the incorrect compensatory leave balance on the supporting worksheet for two employees which resulted in the overstatement.

Grants and Contribution Revenue Reporting Package

During our review of the Grants and Contribution Revenue Reporting Package we noted The Senate reported a \$4,857 refund of grant revenue in the "Grant Qualified Payments" column instead of in the "Other Accrual Adjustments" column on the Grants Activity Form. Finance personnel stated the reporting error resulted from a misinterpretation of the Comptroller General's Reporting Policies and Procedures Manual.

Recommendation

We recommend the finance staff strengthen its procedures to ensure that reporting packages are accurately completed, reviewed and submitted timely in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting working papers prior to submission to eliminate errors.

SECTION B - 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 Senate for the fiscal year ended June 30, 2013, and dated November 21, 2014. We determined that The Senate has not taken adequate corrective action on the finding; therefore we will report a similar finding titled Other Payroll Liabilities Reporting Package in Section A of the report.

MANAGEMENT'S RESPONSE

In part, your report states that “we determined The Senate’s compensated absences liability reported on the Compensated Absences Summary Form was overstated by \$159. Finance Staff entered the incorrect compensatory leave balance on the supporting worksheet for two employees which resulted in the overstatement.”

This reversal of the leave amount between two employees was due to human error and measures will be taken to prevent its reoccurrence in the future. Please note that this error, while on the same closing package that reported a formula calculation error in FY13, was in a different section of the package and was different type of error. The error reported in FY13 was not repeated, although the Office of Senate Finance will, as always, diligently review all packages to avoid human error mistakes.

Also, your report states that “The Senate reported a \$4,857 refund of grant revenue in the “Grant Qualified Payments” column instead of in the “Other Accrual Adjustments” column on the Grants Activity Form. Finance personnel stated the reporting error resulted from a misinterpretation of the Comptroller General’s Reporting Policies and Procedures Manual.”

Please be aware that the Senate no longer has Federal Grant Funding and should not experience this problem moving forward. However, the misunderstanding of the appropriate column to report the refund of grant revenue is a result of how it was reported on the SFFA report submitted to the State Auditor’s Office. The refund was reported as an expenditure (or qualified payment) on this report and, after two attempts by email to confirm the accuracy of the Senate submission with the Auditor’s Office without reply, it was accepted. Because the information on the Grants Activity Form is taken in part from the SFFA report, this amount was also included under Grant Qualified Payments.

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