

**SOUTH CAROLINA
HOUSE OF REPRESENTATIVES
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 28, 2015

Members of the South Carolina House of Representatives
South Carolina General Assembly
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Clerk of the House of Representatives (The House), solely to assist you in evaluating the performance of The House for the fiscal year ended June 30, 2014, in the areas addressed. The House'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 fifteen 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 and earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$0 – general fund and \$2,700 – earmarked fund) and ± 10 percent.
- We made inquiries of management pertaining to The House's policies for accountability and security over other documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

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.

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 House 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 and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$113,100 – general fund and \$2,600 – earmarked 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 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 two 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 twenty selected new employees and fourteen 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 fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$113,100 – general fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. 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 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 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 House'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 House 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. **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 House resulting from our engagement for the fiscal year ended June 30, 2013, to determine if The House had taken corrective action.

Our findings as a result of these procedures are 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 House has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$100 related to processing cash receipts and cash disbursements transactions unless the errors occur in 10 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 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 more than two of the reporting packages were submitted 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 House and Members of The House of Representatives 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 generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared reporting packages. We determined that The House submitted to the CG certain fiscal year 2014 reporting packages that were incorrectly prepared and/or misstated. To accurately report The House's and the State's assets, liabilities, and current year operations, 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 existence of even "small" errors tends 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:

Master Reporting Checklist

During our review of the Master Reporting Checklist we determined The House incorrectly reported total accumulated depreciation related to its capital lease as \$10,400 instead of \$15,600. The annual depreciation of \$5,200 for fiscal year 2013 had not been added to the accumulated depreciation total reported on the checklist.

Capital Assets Reporting Package

During our review of the Capital Assets Reporting Package we noted the following:

- 1) Accumulated depreciation was incorrectly reported on the agency's capital assets worksheet for two assets retired during the fiscal year. As a result of this error, accumulated depreciation – beginning balance and accumulated depreciation – current year retirements were both understated by \$7,157. We did note that the corrected accumulated depreciation – beginning balance amount agreed to the amount reported on the Capital Assets Summary Form.
- 2) Accumulated Depreciation – Additions were reported on the Capital Assets Summary Form as \$64,756 but should have been reported as \$62,786. This error resulted in a \$1,790 understatement of Total Capital Assets – Additions.
- 3) Accumulated Depreciation – Retirements were reported on the Capital Assets Summary Form as \$31,886 but should have been reported as \$24,729. This error resulted in a \$7,157 understatement of Total Capital Assets – Retirements.
- 4) As a result of the errors noted in 2) and 3) amounts reported on the Capital Assets Summary Form for End-of-Year Balance for Net Depreciable Assets and Total Capital Assets were overstated by \$5,367 and the amount reported for End-of-Year Balance for Total Accumulated Depreciation was understated by \$5,367.

Effective internal controls include procedures to ensure that supporting documentation is maintained for all assets and that subsidiary ledgers are reconciled and reviewed for accuracy.

Operating Leases Reporting Package

During our review of the Operating Leases Reporting Package we noted The House reported one-time rental expenses totaling \$636 as 'Other Adjustments' on Part 1 of the Operating Leases Summary Form – Lessee (form 3.09.1). House personnel stated this misclassification was due to a misinterpretation of the reporting package instructions.

Other Payroll Liabilities Reporting Package

During our review of the Other Payroll Liabilities Reporting Package we determined The House's compensated absences liability reported on the Compensated Absences Summary Form was understated by \$35,080. House finance staff entered the incorrect annual leave liability on the supporting worksheet for one employee which resulted in an understatement of \$14,686. In addition, we determined House finance staff did not include the two percent general salary increase which took effect June 2014 in its calculation of annual leave liability which resulted in an understatement of \$20,394.

Recommendation

We recommend The House strengthen its procedures to ensure that reporting packages are accurately completed and reviewed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. House finance 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.

ACCOUNT CODING

During our testing of revenues and during our analytical review of expenditures we noted the following coding errors:

- 1) Revenue totaling \$200 for late filing penalties was posted to G/L Account 4470020000 (Rent – Studios & Room) instead of G/L Account 4223080000 (Late Filing Penalty).
- 2) The \$1,569,215 purchase of office furniture for House members was coded to G/L Account 5030010000 (Office Supplies) instead of G/L Account 5200510000 (Office Equipment – Non-Cap).
- 3) The \$63,320 purchase of walkie-talkies for House Security was coded to G/L Account 5030090000 (Communication Supplies) instead of G/L Account 5200650000 (Communication Equipment – Non-Cap).
- 4) The \$2,889 purchase of a golf cart for House Security was coded to G/L Account 5031510000 (Motor Vehicle Supplies) instead of G/L Account 5200620000 (Major Tools and Other Mtr Equipment – Non-Cap).

House personnel stated the above coding errors were due to agency oversight.

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 determine the proper account code and ensure consistent accounting treatment.

We recommend House personnel ensure the person performing the independent review of accounting transactions verify that the preparer used the proper account code in accordance with the Comptroller General's Policies and Procedures.

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 House of Representatives for the fiscal year ended June 30, 2013, and dated February 11, 2015. We determined that The House has taken adequate corrective action on the deficiencies titled Object Code, Mileage Reimbursement, Employee Verification Documentation, and Reporting Packages (Refunds Receivable Package). In response to our inquiries, we were informed that The House has developed and implemented procedures to correct the deficiencies titled Employee Designation Listing and Reporting Packages (Capital Assets Package). However, because the procedures were implemented after June 30, 2014, we did not perform tests of the new procedures. We noted additional deficiencies during our test work which will be reported in similar findings titled Reporting Packages and Account Coding in Section A of the report.

MANAGEMENT'S RESPONSE

I am in receipt of the preliminary draft copy of agreed-upon procedures of the accounting Records of the South Carolina House of Representatives for the fiscal year ending June 30, 2014 and do authorize the release of the report.

Actions have been taken to correct the findings.

4 copies of this document were published at an estimated printing cost of \$1.48 each, and a total printing cost of \$5.92. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.