

**SOUTH CAROLINA
LIEUTENANT GOVERNOR'S OFFICE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2014

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 24, 2015

The Honorable Henry McMaster, Lieutenant Governor
South Carolina Lieutenant Governor's Office
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Lieutenant Governor's Office, solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2014, in the areas addressed. The Office'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 twenty-three 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, federal, and other funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$3,500 – general fund, \$24,800 – earmarked fund, \$12,600 – restricted fund, \$118,400 – federal fund, and \$29,200 – other 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 Office, 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, federal and other funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$65,000 – general fund, \$25,300 – earmarked fund, \$14,100 – restricted fund, and \$117,800 – federal fund, and \$29,200 – other 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 eight 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, 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 (\$65,000 – general fund, \$25,300 – earmarked fund, \$14,100 – restricted fund, and \$117,800 – 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 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 six 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 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 Office'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 Office 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 Office 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 Office resulting from the engagement for the fiscal year ended June 30, 2013, to determine if the Office had taken corrective action.

We found no exceptions as a result of the procedures.

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 Office 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 Lieutenant Governor and of the management of the South Carolina Lieutenant Governor's Office 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

We tested the reporting packages to determine that they were prepared in accordance with the Comptroller General's Office Reporting Package Policies and Procedures Manual and supported by adequate documentation. The Comptroller General's Policies and Procedures state, "Each agency is responsible for designing and implementing internal controls for the accurate reporting of agency assets, liabilities, fund balance or net assets, revenue, and expenditures as required by the State Reporting Policies and Procedures Manual. 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." Based on our tests we found the Office had incorrectly reported information on three reporting packages. The Office made two mistakes on the Grants and Contributions Reporting Package, one on the Miscellaneous Revenues Reporting Package, and one on the Accounts Payable Reporting Package.

Grants and Contributions Reporting Package

During our testing of the Grants and Contributions Reporting Package we noted that the Office made two errors while completing the package. First, we noted that the Office omitted some accounts payables which are needed to calculate the grants receivable. Grants that have outstanding payables which are reimbursable by the grantor should be included in the grants receivable calculation. This error caused an understatement of \$117,854. Second, during our review of the Grants Receivable Summary Form, we noted that the Office classified the grants receivable as non-current instead of current. The Office receives and expends federal grant monies on a reimbursement basis. The Office expects to be reimbursed for qualified expenditures periodically.

Miscellaneous Revenues Reporting Package

During our testing of the Miscellaneous Revenues Reporting Package, we noted the Office reported \$1,104,220 on the Accounts Receivable Summary Form as accounts receivable. Upon further investigation, it was determined that the receivable amount reported on the form was the sum of five year old payments received from other state agencies that were collected in full in the year they were recorded. According to the Office, the incorrect number was reported to them by the Comptroller General's Office (CGO). The Office is responsible for verifying the accuracy of the CGO reports. This misstatement overstated accounts receivable by \$1,104,220.

Accounts Payable Reporting Package

During our testing of the Accounts Payable Reporting Package we noted that the Office inaccurately reported its accounts payable. During our verification of the amounts reported on the reporting package, we found that the Office did not include a payable of \$5,814. The transaction was properly recorded as a prior year payable in the general ledger. This misstatement caused the Office to understate accounts payable by \$5,814.

Recommendation

We recommend the Office follow the policies and procedures established by the Comptroller General's Office to ensure that the appropriate reporting packages are completed using the provided instructions.

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 South Carolina Lieutenant Governor's Office for the fiscal year ended June 30, 2013, and dated May 16, 2014. We determined that the Office has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

The Lieutenant Governor's Office concurs with the findings related to the three Comptroller General's Office reporting packages.

For Fiscal Year 2015, the Finance staff has implemented an enhanced review process for the reporting packages prior to submission to the Comptroller General's Office. The Lieutenant Governor's Office is in the process of implementing specific training for the Finance staff related to all aspects of Finance and Accounting requirements. We are committed to identifying and utilizing the best accounting practices to ensure accurate financial data is provided in a timely manner with strong internal controls.

The Lieutenant Governor's Office appreciates the detailed review of the agreed-upon procedures that were conducted by the Office of the State Auditor.

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