

South Carolina Budget and Control Board
Columbia, South Carolina
Independent Accountant's Report on
Applying Agreed-Upon Procedures
for the year ended June 30, 2015



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

April 21, 2016

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina State Budget and Control Board
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the South Carolina State Budget and Control Board for the fiscal year ended June 30, 2015, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in blue ink that reads "George L. Kennedy, III". The signature is written in a cursive style.

George L. Kennedy, III, CPA
State Auditor

GLKIII/trb

Contents

Independent Accountant’s Report on Applying Agreed-Upon Procedures	1-4
Accountant’s Comments	
Other Weaknesses.....	5
Capital Assets Reporting with Agency Response	6
Tracking Vendor Discounts with Agency Response	7
Maintenance of Employee Personnel Files with Agency Response	8



Independent Accountant's Report on Applying Agreed-Upon Procedures

Mr. George L. Kennedy, III, CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Budget and Control Board (the "Board") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Board for the fiscal year ended June 30, 2015, in the areas addressed. The Board'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 associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected 25 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Board's policies and procedures and State regulations.
- We inspected 25 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 Board's accounting records. The scope was based on agreed upon materiality levels (\$630,000 – earmarked fund, \$630,000 – restricted fund and \$19,000 – federal fund) and +/- 10 percent.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented as Tracking Vendor Discounts in the Accountant's Comments section of this report.

2. Non-Payroll Disbursements and Expenditures

- We inspected 25 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Board's policies and procedures and State regulations, were bona fide disbursements of the Board, and were paid in conformity with State laws and regulations and if the acquired goods and/or services were procured in accordance with applicable laws and regulations.
- We inspected 25 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 Board's accounting records. The scope was based on agreed upon materiality levels (\$220,000 – general fund, \$630,000 – earmarked fund, \$630,000 – restricted fund and \$19,000 – federal fund) and +/- 10 percent.

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

3. Payroll Disbursements and Expenditures

- We inspected 25 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 Board's policies and procedures and State regulations.
- We inspected payroll transactions for 6 new employees and 8 individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Board'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 Board's accounting records. The scope was based on agreed upon materiality levels (\$220,000 – general fund, \$630,000 – earmarked fund, \$630,000 – restricted fund and \$19,000 – 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 Board's accounting records.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented as Maintenance of Employee Personnel Files in the Accountant's Comments section of this report.

4. Journal Entries, Operating Transfers, and Appropriation Transfers

- We inspected 25 journal entries, 25 operating transfers, and 25 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 Board's policies and procedures and State regulations.

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

5. Appropriation Act

- We inspected Board documents, observed processes, and/or made inquiries of Board personnel to determine the Board's compliance with Appropriation Act general provisos as listed in the Appropriation Act work program, and Board specific provisos, if applicable.

The individual transactions selected were chosen haphazardly. 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, 2015, prepared by the Board 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.

The individual transactions selected were chosen haphazardly. Our finding as a result of these procedures is presented as Capital Assets Reporting section in the Accountant's Comments section of this report.

7. Status of Prior Findings

- There was one finding reported in the Accountant's Comments section of the Independent Accountant's Report on Applying Agreed-Upon Procedures on the Board resulting from our engagement for the fiscal year ended June 30, 2014. The finding related to a cash receipt that was recorded in the incorrect fiscal year resulting in an understatement of revenue for fiscal year 2014. In Management's response letter dated May 14, 2015, management stated an increased emphasis on the importance of properly recording revenue and that revenue transactions recorded in July would be reviewed to ensure posting in the correct fiscal year. We did not note any cash receipts that were recorded in the wrong fiscal year during our agreed-upon procedures for fiscal year 2015.

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, the Members of the Board, management, and the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Scott and Company LLC

Columbia, South Carolina

February 17, 2016

ACCOUNTANT'S COMMENTS

OTHER WEAKNESSES

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 Board 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 while performing the agreed-upon procedures but are not considered violations of State laws, rules or regulations.

Finding 1. Capital Asset Reporting

Condition:

We inspected 5 capital assets that were reported in the Capital Asset Reporting package to determine if they were properly reported in the reporting package sent to the Comptroller's General office at year end. One of the 5 transactions, which related to the Deer Park Building in the amount of \$128,586, was improperly recorded. The building was constructed in 2008 but was not recorded as a fixed asset until fiscal year 2015. When the building was recorded, it was recorded at cost, not taking into account the 7 years of accumulated depreciation.

Cause:

Due to employee oversight, the Board incorrectly recorded a fiscal year 2008 capital asset in fiscal year 2015 without accumulated depreciation.

Effect:

There was an overstatement of capital assets for fiscal year 2015, an understatement of expenses for fiscal year 2015 and an understatement of capital assets and depreciation expense for fiscal years 2008 through 2014.

Criteria:

An effective internal control system includes procedures designed to properly and timely record capital assets net of accumulated depreciation.

Recommendation:

We recommend the Board improve procedures to ensure that capital assets are recorded timely, including depreciation expense. Capital outlay expenditures that will be capitalized should be identified at the beginning of the project and included in construction in progress until the project is completed. The construction in progress would then be recorded in the proper classification of capital assets, i.e. buildings, and depreciated over its useful life.

Agency Response:

The Budget and Control Board follows statewide guidelines when processing capital asset expenditures. This particular instance was one where the Purchase Order (PO) stated "Palmetto 800 will provide services for simulcast sub-cell added to the Charleston Simulcast Cluster". The PO was posted against the object code of "Computer Equipment Services". The creator of the PO did not indicate any equipment was to be purchased and as such, the normal procedures were not followed, i.e. capital assets created. Our accounting system, SCEIS, has controls in the shopping cart creation (PO request) transaction to indicate whether assets will be purchased if the proper object codes/general ledger accounts are used. Current SCEIS system configuration requires the use of the current date in recording the asset and thus, it had to be recorded at cost without the appropriate accumulated depreciation. Training on our current procedures and system controls should help to prevent these errors from occurring in the future.

Finding 2. Tracking Vendor Discounts

Condition:

During our cash receipts procedures, we selected multiple cash receipts received from vendors relating to vendor contracts negotiated by the State's Material Management Office (the "MMO"). The MMO negotiates contracts with certain vendors at discounted rates in which any state agency may participate. The discounts are not taken at the time of purchase by the state agency but are calculated by the vendor at a later date based on total volume purchased by the State. The vendor then remits a check to the MMO for the total amount of discounts earned, and the MMO sends the checks to the Board for deposit and recording. During the test of these cash receipts, we became aware that the State does not have a method of tracking these vendor discounts to make sure that the State is being fully reimbursed for discounts in accordance with the various contracts.

Cause:

Vendors providing a discount are not uniquely identified in the general ledger accounting system, making it difficult to track purchases made to those vendors timely and verify the related discount.

Effect:

Due to the inability to track the discounts, management is unable to calculate and record any potential receivable at fiscal year-end or assure that all discounts have been provided by vendors.

Criteria:

An effective internal control system includes procedures designed to properly track revenue and expenses to ensure accurate financial reporting.

Recommendation:

We recommend the Board determine a method of tracking expenses with corresponding discounts to ensure appropriate cut-off of cash receipts, proper revenue recognition and completeness of all discounts taken.

Agency Response:

We concur with the finding regarding developing a system to identify all discounts due from vendors and reconcile to cash collections received for the discounts. Cash receipts currently are recorded timely and there are no discounts taken involved in this process.

Finding 3. Maintenance of Employee Personnel Files

Condition:

During our payroll procedures, 15 of the 25 employee personnel files selected did not contain current salary information nor were changes in salary information timely documented and maintained.

Cause:

Employee salary information has not been updated timely due to employee oversight and organizational restructuring.

Effect:

Failure to keep accurate employee salary data might result in errors in calculating pay, sick and vacation leave balances, retirement benefits and other employee benefits.

Criteria:

An effective internal control system includes ensuring that underlying records are complete and current to support accurate financial and regulatory reporting.

Recommendation:

We recommend the Board review all personnel files to ensure that salary changes are timely documented for each employee and that each personnel file contains the most current salary information.

Agency Response:

We concur with the finding. We are working to make sure all files are up to date and complete.