

**SOUTH CAROLINA OFFICE
OF THE STATE INSPECTOR GENERAL
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2015

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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

August 2, 2016

The Honorable Nikki R. Haley, Governor
and
Mr. Patrick J. Maley, Inspector General
South Carolina Office of the State Inspector General
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the State Inspector General (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2015, 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 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 fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$10,300 – earmarked fund) and ± 10 percent.

We found no exceptions as a result of the procedures.

2. Non-Payroll Disbursements and Expenditures

- We inspected eighteen 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 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 (\$9,900 – general fund and \$10,300 – earmarked 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 seventeen 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 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 (\$9,900 – general 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 and Transfers**

- We inspected one recorded journal entry and selected five 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.

We tested all journal entries. The individual 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 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, 2015, 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 finding as a result of these procedures is 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 finding reported in the Accountant's Comments section of the State Auditor's Report on the Office resulting from our engagement for the fiscal year ended June 30, 2014, to determine if the Office 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 Office has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Up Upon 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.

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 management of the South Carolina Office of the State Inspector General 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 - VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules or Regulations.

REPORTING PACKAGES

Condition:

Corrective action was taken to address several conditions reported in the State Auditor's Report on the Office for the fiscal year ended June 30, 2014. However, the following repeated conditions were identified in our testing of the Office's fiscal year ended June 30, 2015 reporting packages:

1. The Future Minimum Payment Schedule included in the Operating Leases Reporting Package was overstated.
2. The reported compensated absences liability was overstated due to changes to the liability subsequent to the filing of the reporting package.

Cause:

1. Based on the terms of the lease, there is a discrepancy between what has been paid, remaining payments, and what is reported for future minimum lease payments.
2. Changes in the compensated absences liability, due to leave submissions approved subsequent to the filing of the original reporting package, were not identified and reported with the Subsequent Event Questionnaire.

Effect:

1. The future minimum operating lease payments were overstated by approximately \$2,500.
2. Payroll liabilities were overstated by approximately \$400 as a result of the exception described above.

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 Office implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Policies and Procedures Manual and reporting package form instructions.

Management's Response:

The Office of the State Inspector General (SIG) agrees with and accepts the findings concerning the FY 2015 closing packages. The finding concerning the Operating Leases Reporting Package was due to our error in misinterpreting the termination date of our office lease. The finding concerning the compensated absences liability was due to the preparer failing to run a report that would have identified the late approval of leave, thus reducing the June 30, 2015 liability. Steps have been put in place to prevent such errors in the future.

SECTION B - STATUS OF PRIOR FINDING

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 Office for the fiscal year ended June 30, 2014, and dated August 21, 2015. We have repeated the finding titled Reporting Packages.

4 copies of this document were published at an estimated printing cost of \$1.32 each, and a total printing cost of \$5.28. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.