

**SOUTH CAROLINA
LIEUTENANT GOVERNOR'S OFFICE**

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

January 12, 2017

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 management of the South Carolina Lieutenant Governor's Office (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 inspected twenty-five 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 six 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 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 (\$3,100 – general fund, \$33,100 – earmarked fund, \$12,500 – restricted fund, and \$126,000 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Receipt Recording 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 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 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 (\$97,900 – general fund, \$32,600 – earmarked fund, \$13,100 – restricted fund, and \$131,300 – 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 agency's policies and procedures and State regulations.
- We inspected payroll transactions for five selected new employees and five 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 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 (\$97,900 – general fund, \$32,600 – earmarked fund, and \$131,300 – 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. Our finding as a result of these procedures is presented in Payroll Supporting Documentation in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected seven selected recorded journal entries, five operating transfers, and one appropriation transfer 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, 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 findings as a result of these procedures are presented in Reporting Packages and Equipment Capitalization 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, 2015, 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 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-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.
- Submission of the Schedule of Federal Financial Assistance less than three business days 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 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

Condition:

Corrective action of the Office addressed some of the conditions regarding grants and accounts receivable balances as well as the accounts payable condition reported in the prior year State Auditor's report. However, the following conditions were identified in our testing of the Office's fiscal year ended June 30, 2015 reporting packages:

1. Accounts receivable was understated due to the omission of two receivable transactions from the reporting package.
2. The Office did not report the impact of additional payables reported with the subsequent events questionnaire on the grants receivable balance.
3. A leave balance discrepancy for one of five employees tested on the compensated absences report resulted in a misstatement of the liability.

Cause:

Interpretation of reporting package instructions and undetected discrepancies during the Office completion and review of the reporting packages were contributing factors for the noted exceptions.

Effect:

1. Accounts receivable was understated by approximately \$8,200 due to the omission of the noted transactions.
2. The grants receivable balance was understated by approximately \$2,400 due to omitting the impact of payables reported with subsequent events.
3. The liability for compensated absences was overstated by approximately \$450 as a result of the discrepancy noted 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 continue to develop and implement procedures to ensure that all reporting packages are completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual and instructions.

Management's Response:

The Lieutenant Governor's Office on Aging management is continuing to add procedures and processes to ensure all data is reported in accordance to the Comptroller General's Reporting Policies and Procedures.

EQUIPMENT CAPITALIZATION

Condition:

We tested capital asset acquisitions and noted the Office incorrectly capitalized four acquisitions that did not meet the State's minimum capitalization threshold.

Cause:

Misinterpretation of capitalization criteria contributed to the noted exceptions.

Effect:

Capital assets were overstated, and the Office was not in compliance with the State's capitalization policy.

Criteria:

Comptroller General's Reporting Policies and Procedures Manual provides the capitalization criteria for capital assets.

Recommendation:

We recommend the Office develop and implement procedures to ensure that assets are properly capitalized in accordance with the Comptroller General's Reporting Policies and Procedures Manual.

Management's Response:

The equipment that was improperly classified has been reclassified as of June 2016. The Lieutenant Governor's Office on Aging has designated a manager to oversee the assets to ensure proper procedures are followed in accordance to the Comptroller General's Reporting Policies and Procedure Manual.

SECTION B - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

RECEIPT RECORDING

Condition:

One of twenty-five receipts randomly selected for testing was to record an electronic transfer of funds receipt that had occurred in the previous fiscal year but had not been recorded in the general ledger.

Cause:

Office procedures failed to identify and record a receipt of funds in the fiscal year in which they were received.

Effect:

The receipt of approximately \$30,000 was recorded in the wrong fiscal year.

Criteria:

Effective internal controls ensure that receipts are recorded to the general ledger in the fiscal year that they are received, as required by State Treasurer's Office year end close-out procedures.

Recommendation:

We recommend that receipting policies and procedures are in place and operating to ensure that all Office receipts are recorded in the general ledger in a timely manner in the fiscal year that the receipt occurs.

Management's Response:

The Lieutenant Governor's Office on Aging has worked with the State Treasurer's Office to develop a sub-bank account for the Lieutenant Governor's Office on Aging at Bank of America to ensure the direct deposits are easily identified and recorded into South Carolina Enterprise Information System (SCEIS) in a timely manner. This has eliminated the potential for a reoccurrence of this situation that required a manual process to identify the agency's deposit that was recorded in the general account.

PAYROLL SUPPORTING DOCUMENTATION

Condition:

One of twenty-five payroll transactions randomly selected for testing was for an employee payment for a pay period in which the employee was salaried for part of the pay period and hourly for the remainder of the pay period. In reviewing the calculation it was discovered that the employee's payroll file lacked adequate documentation to support the salary portion of the calculation.

Cause:

A payroll action form supporting the latest salary of the employee was missing from the file.

Effect:

The employee payment was not adequately supported by the approved supporting documentation.

Criteria:

Effective internal controls require approved supporting documentation to support all employee payments.

Recommendation:

We recommend the Office develop and implement procedures to ensure that all salary payments are supported with adequate documentation.

Management's Response:

The human resources functions were contracted with the Budget and Control Board at the time of this occurrence. The agency has hired a Human Resource Manager and has reviewed all files to ensure compliance going forward as well as up-date policies and procedures.

The Lieutenant Governor's Office appreciates the work that was conducted by the State Auditor's Office to ensure compliance and assist in identifying areas of improvement.

SECTION C - 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 Office for the fiscal year ended June 30, 2014, and dated August 24, 2015. We determined that the Office is in the process of taking corrective action on each of the findings, however we have repeated Reporting Packages.

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