SOUTH CAROLINA
OFFICE OF REGULATORY STAFF

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2016

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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

November 21, 2016

The Honorable Nikki R. Haley, Governor
and
Mr. C. Dukes Scott, Executive Director
South Carolina Office of Regulatory Staff
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of Regulatory Staff (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2016, 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 twenty-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 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 ($269,000 – earmarked fund, $35,600 – restricted fund, and $11,700 – federal 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 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 ($280,300 – earmarked fund, $23,500 – restricted fund, and $11,700 – federal fund) and ± 10 percent.
   - We inspected ten selected recorded procurement card transactions to determine if these transactions were purchased by an authorized cardholder user and are reasonable based upon the cardholder's position; monthly purchase summaries were submitted along with receipts and signed by supervisor and employee; and the single transaction limit was not exceeded with no indication of transaction splitting.

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 inspected five selected bonus pay disbursements to determine that the selected bonus did not exceed $3,000; agreed to supporting documentation; was properly approved; and was not awarded to an employee earning a salary greater than $100,000.
   - We inspected five selected bonus pay disbursements authorized by 2015-2016 Supplemental Appropriations Act to determine that the bonuses were paid in accordance with 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 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 ($280,300 – earmarked fund, $23,500 – restricted fund, and $11,700 – 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 and Operating Transfers Between Subfunds**
   - We inspected fifteen selected recorded journal entries and four operating transfers between subfunds 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, 2016, 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. **Schedule of Federal Financial Assistance**
   - We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2016, 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.

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 Governor and of the management of the Office and is not intended to be and should not be used by anyone other than these specified parties.

George L. Kennedy, III

George L. Kennedy, III, CPA
State Auditor

ACCOUNTANT'S COMMENTS

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:

We noted the following during our testing of the Office's reporting packages:

1. The Office stated on the Other Receivables Summary Form (Form 3.04.1) that no current net receivable should have been reported. We determined $3,512 should have been reported.

2. The Office incorrectly reported the future minimum lease payment for fiscal year 2019 for one lease and also omitted another lease from the Operating Leases Future Minimum Payment Schedule (Form 3.09.1a).

Cause:

1. Agency personnel improperly deducted $3,512 from current net receivables.

2. Agency personnel attributed these errors to the miscalculation of rental rates and to oversight.

Effect:

1. The amount of net current receivables was understated by $3,512 for Fund 34170000.

2. Total future minimum lease payments for fiscal year 2017 through fiscal year 2020 were understated by $8,697, $8,697, $7,520, and $5,073 respectively.

Criteria:

Section 1.7 of 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 strengthen its procedures to ensure reporting packages are prepared and completed in accordance with the Comptroller General's Reporting Policies and Procedures Manual. Office personnel responsible for completing and reviewing the reporting packages should review instructions for completing the packages and compare the supporting work papers prior to submission to eliminate errors.

Management's Response:

We agree with the findings. We will perform a more detailed review of open Accounts Receivable items at fiscal year end to ensure correct reporting. We will obtain all current leases in effect for the fiscal year and maintain a log of future minimum lease payments and will recalculate the future lease payments each fiscal year as well as institute an additional level of internal review to ensure all leases in effect are properly reported.

2 copies of this document were published at an estimated printing cost of $1.29 each, and a total printing cost of $2.58. Section 1-11-425 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.