

South Carolina Budget and Control Board

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2011

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 26, 2012

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, 2011, was issued by Scott and Company, L.L.P., Certified Public Accountant, 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 black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/sag

Contents

Independent Accountants' Report on Applying Agreed-Upon Procedures	1-5
Accountants' Comments	
Section A – Violation of State Laws, Rules or Regulations	6
Accounts Payable Closing Package	7
Section B – Other Weakness	8
Expenditures Cutoff	9
Section C – Status of Prior Year Finding.....	10
Management's Response	11-12



Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., Deputy 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, 2011, 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 the associated findings are as follows:

1. Cash Receipts and Revenues

- We inspected 25 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 10 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 remittances 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 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 (\$110,000 – general fund, \$310,000 – earmarked fund, \$160,000 – restricted fund and \$140,000 – federal fund) and +/- 10 percent.

- We made inquiries of management pertaining to the Board's policies for accountability and security over permits, licenses, and other documents issued for money. We observed Board personnel performing their duties to determine if they understood and followed the described policies.

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

2. Non-Payroll Disbursements and Expenditures

- We inspected 25 recorded non-payroll disbursements to determine if these disbursements were 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, 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 10 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, 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 (\$110,000 – general fund, \$310,000 – earmarked fund, \$160,000 – restricted fund and \$140,000 – federal fund) and +/- 10 percent.

The individual transactions were chosen randomly. Our finding as a result of these procedures is presented as finding 2011-2 in the Accountants' Comments section of this report.

3. Payroll Disbursements and Expenditures

- We inspected 25 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 that payroll transactions, including employee payroll deductions, 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 5 new employees and 5 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, 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 (\$100,000 – general fund, \$310,000 – earmarked fund, \$160,000 – restricted fund and \$140,000 – 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 +/- 5 percent to ensure that payroll expenditures were classified properly in the Board's accounting records.

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

4. Journal Entries, Operating Transfers and Appropriation Transfers

- We inspected 10 recorded journal entries, 5 operating transfers, and 5 appropriation transfers to determine if these transactions were properly described and classified in the accounting records, that they agreed with the supporting documentation, the purpose of the transactions was documented and explained, the transactions were properly approved when necessary, the transactions 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 randomly. We found no exceptions as a result of the procedures.

5. Composite Reservoir Accounts

- We obtained all monthly reconciliations prepared by the Board for the year ended June 30, 2011, and inspected selected reconciliations of balances in the Board's accounting records to those reflected on the State Treasurer's Office monthly reports to determine if accounts reconciled. For the selected reconciliations, we determined if they were timely performed and properly documented in accordance with State regulations, recalculated the amounts, agreed the applicable amounts to the Board's general ledger, agreed the applicable amounts to the State Treasurer's Office monthly reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting journal entries were made in the Board's accounting records.
- We inspected 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 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 inspected 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, 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 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.

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

6. 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 and Board specific provisos.

We found no exceptions as a result of the procedures.

7. Closing Packages

- We obtained copies of all closing packages as of and for the year ended June 30, 2011, prepared by the Board and submitted to the State Comptroller General. We inspected the closing packages to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements and if the amounts reported in the closing packages agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented as finding 2011-1 in the Accountants' Comments section of this report.

8. Schedule of Federal Financial Assistance

- We obtained a copy of the Schedule of Federal Financial Assistance for the year ended June 30, 2011, prepared by the Board 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 and if the amounts agreed with the supporting work papers and accounting records.

We found no exceptions as a result of the procedures.

9. Status of Prior Finding

- We inquired about the status of the finding reported in the Accountants' Comments section of the State Auditor's Report on the Board resulting from the engagement for the fiscal year ended June 30, 2010, to determine if the Board had taken corrective action.

We found no exceptions as a result of the procedures.

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 LLP

Columbia, South Carolina
June 28, 2012

ACCOUNTANTS' 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 Board 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.

Accounts Payable Closing Package

Finding 2011-1:

Condition:

During our testing of the Accounts Payable Closing Package, we discovered that its balance was understated by \$30,000.

Cause:

An invoice included in the Accounts Payable Closing Package was keyed incorrectly by the amount of \$30,000.

Effect:

There was an understatement of the balance of the Accounts Payable Closing Package of \$30,000 at June 30, 2011.

Criteria:

Section 1.7 of the Comptroller General's Closing Procedures Manual states that "each agency's executive director and finance director are responsible for submitting to the Comptroller General's Office closing package forms and/or financial statements that are accurate and prepared in accordance with instructions, complete, and timely."

Recommendation:

We recommend the Board improve procedures to ensure that all closing packages are completed in accordance with the Comptroller General's Closing Procedures Manual instructions.

SECTION B - OTHER WEAKNESS

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State laws, rules or regulations.

Expenditures Cutoff

Finding 2011-2:

Condition:

We inspected twenty-five non-payroll transactions to determine if they were recorded in the correct fiscal year. One of the twenty-five transactions related to delivery charges of \$28.75 made in June 2010 was incorrectly recorded as expenditure in July 2010.

Cause:

An invoice dated June 30, 2010 was incorrectly recorded as FY11 expenditure instead of FY10 expenditure.

Effect:

There was an overstatement of expenditures for FY11.

Criteria:

An effective internal control system includes procedures designed to properly record expenditures in the correct fiscal year.

Recommendation:

We recommend the Board improve procedures to ensure that expenditures are recorded in the correct fiscal year. This will ensure accurate financial reporting.

SECTION C – STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountants' Comments section of the State Auditor's Report on the Board for the fiscal year ended June 30, 2010, and dated January 26, 2011. We determined that the Board has taken adequate corrective action on the finding.

NIKKI BAILEY, CHAIR
GOVERNOR

CURTIS M. LOFTIS, JR.
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

Office of the Executive Director
Martia S. Adams
EXECUTIVE DIRECTOR

(803) 734-2320
Fax: (803) 734-2117

HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

W. BRIAN WHITE
CHAIRMAN, HOUSE WAYS AND MEANS
COMMITTEE

June 28, 2012

Mr. Donald J. Mobley, CPA
Partner – Assurance and Advisory Services
Scott and Company LLP
Post Office Box 8388
Columbia, South Carolina 29202

Dear Mr. Mobley,

In reviewing the finding resulting from the Agreed Upon Procedures engagement for the fiscal year ending June 30, 2011, the South Carolina Budget and Control Board submits the attached response.

If you have any questions concerning our response, please contact me at 737-5906.

Sincerely,

Renee D. Herndon
Manager of Audits and Fiscal Reports
Office of Internal Operations
Budget and Control Board

SECTION A – VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

Accounts Payable Closing Package

“An invoice included in the Accounts Payable Closing Package was keyed incorrectly by the amount of \$30,000.”

The Budget and Control Board agrees with this finding. We will perform a more detailed review of items reported on the Reporting Packages for FY 2012 to ensure amounts are accurate.

SECTION B – OTHER WEAKNESSES

Expenditures Cutoff

“An invoice dated 6/30/2010 was incorrectly recorded as a FY11 expenditure instead of correctly as a FY10 expenditure.”

The Budget and Control Board agrees with this finding. A billing interface was posted with a new year posting date, creating the corresponding payable documents for IDT agencies in the new fiscal year. Before the batch could be reversed and recreated, an IDT agency processed a payment with a new year effective date. Going forward, Internal Operations will be notified of all accounts receivable interfaces in SCEIS and will review for proper posting dates.