

**SOUTH CAROLINA
LIEUTENANT GOVERNOR'S OFFICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

August 24, 2018

The Honorable Kevin L. Bryant, Lieutenant Governor
South Carolina Lieutenant Governor's Office
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Lieutenant Governor's Office (the Office), on the systems, processes and behaviors related to financial activity of the Office for the fiscal year ended June 30, 2017. The Office's management is responsible for the systems, processes and behaviors related to financial activity. 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 in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Office. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 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 inspected 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.

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. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

**South Carolina Office of the State Auditor
Agreed - Upon Procedures - South Carolina Lieutenant Governor's Office (E04)**

Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$3,000 – General Funds, \$40,000 – Earmarked Funds, \$15,000 – Restricted Funds, \$145,000 – Federal Funds and 10%.
2. Randomly select twenty cash receipts transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

Finding

One of the five cash receipts selected for procedure 3 was to refund a fiscal year 2017 expenditure. The revenue was received and deposited on July 5, 2017 and was recorded in fiscal year 2018. The State Treasurer's fiscal year end requirements instructed agencies to record funds received for refunding expenditures to fiscal year 2017 if those funds were received and deposited by July 14, 2017.

Management's Response

The inspection of cash receipts included transactions for state vehicle use by external parties (sub-recipients). The Lieutenant Governor's Office (E04) is billed for the vehicle and processes the payment via interdepartmental transfer (IDT). The payment received from the external party (sub-recipient) payable to the agency (E04) is deposited and credited directly to the expenditure account. Per the CG's Office Year-End procedures, our agency did not interpret the procedures on how to process deposits in a previous FY. Deposits were coded in error to FY18. In the future, our agency will follow the procedures given by the CG's Office.

Cash Disbursements/Non-Payroll Expenditures

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$105,000 – General Funds, \$40,000 – Earmarked Funds, \$5,000 – Restricted Funds, \$140,000 – Federal Funds and 10%.
5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Office procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Office procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Office, properly coded to the general ledger.

Cash Disbursements/Non-Payroll Expenditures (Continued)

- Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
- Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures selected we will inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.
 7. Haphazardly select five purchasing card disbursements from the Comptroller General's listings of purchasing card transactions for fiscal year 2017 to determine:
 - The cardholder is authorized.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

8. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$105,000 – General Funds, \$40,000 – Earmarked Funds, \$140,000 – Federal Funds and 10%.
9. Randomly select eight employees and for one haphazardly selected pay period inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Office.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Office.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

10. Select all bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Transaction was appropriately documented and approved.
11. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Office's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

Payroll (Continued)

12. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Office's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
13. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of variations over 10%.
14. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations over 10%.

There were no bonus pay disbursements to inspect for procedure 10. An off-cycle pay increase was charged as bonus pay in the accounting system.

Finding

A finding in the engagement for the prior fiscal year explained that adequate documentation was not provided to perform the agreed upon procedures on the 2016 payroll transactions selected for inspection. For the fiscal year 2017 payroll transactions selected for inspection, we were unable to confirm two terminations, one new hire, and one salary approval, due to a lack of documentation.

Management's Response

The Lieutenant Governor's Office will ensure that adequate documentation is maintained in personnel and payroll files to ensure the agency is in compliance with state laws.

Journal Entries and Transfers

15. Haphazardly select six journal entries and four transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedures.

Appropriation Act

16. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
17. Confirm compliance with Office-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Reporting Packages

18. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

Reporting Packages (Continued)

19. In addition to the procedure above, we performed the following:

- Grants and Contributions Revenue Reporting Package

Agree reported amounts on the Grant Activity Form to the South Carolina Enterprise Information System (SCEIS) general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue to determine accuracy and agree totals to the SCEIS general ledger and/or SCEIS Display Grant Master.

- Accounts Payable Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on the inspection of the SCEIS general ledger, SCEIS Yearend Reporting - Prior Year Payables with Vendor and/or Office prepared records. Haphazardly select five prior year payable transactions to determine if the amounts were properly classified, calculated and reported on the reporting package.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Office prepared records. In addition, inspect the payable from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Finding

Accounts payable discrepancies were noted in the engagement for the prior fiscal year. Discrepancies were noted with the fiscal year 2017 accounts payable balance as reported on the subsequent events accounts payable worksheet, primarily because approximately \$16,000 was reported for a payable that had already been reported on the summary form of the accounts payable reporting package.

Management's Response

The Lieutenant Governor's Office will follow the policies and procedures established by the Comptroller General's Office to ensure that the appropriate reporting packages are completed using the provided instructions. Additionally, the agency will cross check the above packages for duplications.

Governance, Risk and Compliance (GRC)

20. Select all (four) controls identified through the SCEIS GRC system and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Status of Prior Findings

21. Through inquiry and inspection, determine if the Office has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined the Office has taken adequate corrective action on each of the findings, except where noted in the Payroll and Reporting Package findings above.