

THE SENATE OF SOUTH CAROLINA

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 1997

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 3, 1997

Members of The Senate of South Carolina
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of The Senate of South Carolina (the Senate), solely to assist you in evaluating the performance of the Senate for the fiscal year ended June 30, 1997, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records; collection and retention or remittance were supported by law; and accounting procedures and internal accounting controls over the reporting of the tested receipt transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was 87 percent of the aggregate amount of all recorded receipts. We found no exceptions as a result of the procedures.
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records; were bona fide disbursements of the Senate; and were paid in conformity with State laws and regulations and if accounting procedures and internal accounting controls over the reporting of the tested disbursement transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was one percent of the aggregate amount of all recorded non-payroll disbursements. We found no exceptions as a result of the procedures.

3. We tested selected recorded payroll disbursements to determine if the tested payroll and fringe benefits were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; and payroll transactions including employee payroll deductions were properly authorized by the employees and were in accordance with existing legal requirements and if accounting procedures and internal accounting controls over the reporting of the tested payroll transactions were adequate to provide proper control over these transactions. The items selected for testing were chosen randomly. The total of the selected items was less than one percent of the aggregate amount of all recorded payroll disbursements. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; the accounting procedures and internal accounting controls over the reporting of these transactions were adequate to provide proper control over these transactions; and they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct. The journal entries selected for testing were chosen randomly. The ratio of the total of the selected journal entries to the aggregate amount of all such recorded transactions was not readily determinable. The number of selected journal entries was 11 percent of the aggregate number of all such recorded transactions. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Senate to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the accounting procedures and internal accounting controls over the tested transactions were adequate to provide proper control over the books of original entry and the general ledger. The items selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Senate for the year ended June 30, 1997, and tested selected reconciliations of balances in the Senate's accounting records to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Senate's general ledger, agreed the applicable amounts to the STARS reports, determined that reconciling differences were adequately explained and properly resolved, and determined that necessary adjusting entries were made in the Senate's accounting records or STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Senate's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 1997 by performing the applicable tests and procedures listed on the State Auditor's Office's Appropriation Act 1997 work program. We found no exceptions as a result of the procedures.

8. We reviewed the status of the deficiency described in the finding reported in the Auditor's Comments section of the State Auditor's Report on the Senate resulting from our engagement for the fiscal year ended June 30, 1995, to determine if adequate corrective action has been taken. (We performed no procedures to the Senate's 1996 records. Therefore, no State Auditor's Report was issued on the Senate for the fiscal year ended June 30, 1996.) Our finding as a result of these procedures is presented in Compensatory Leave in the Accountant's Comments section of this report.
9. We obtained copies of the accompanying schedules of expenditures - budget and actual for the year ended June 30, 1997, and notes thereto prepared by the Senate and agreed the amounts by line-item appropriation within budgetary fund category thereon to the accounting records of the Senate. We checked the schedules and notes for mathematical accuracy. We found no exceptions as a result of the procedures.
10. We obtained copies of all closing packages as of and for the year ended June 30, 1997, prepared by the Senate and submitted to the State Comptroller General and reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Compensatory Leave in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items and on the effectiveness of the internal control structure over financial reporting described in paragraph one and procedures one through ten of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit or review of the Senate's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Thomas L. Wagner, Jr., CPA
State Auditor

THE SENATE OF SOUTH CAROLINA
 Schedule of Expenditures -
 Budget and Actual - Budgetary General Fund
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 4,867,327	\$4,686,454	\$ 180,873
Employer Contributions	1,901,932	1,830,433	71,499
Other Operating	579,000	575,137	3,863
Special Items:			
Approved Accounts	2,507,923	1,450,949	1,056,974
Interim Expenses Allowance	5,600	5,600	-
Official Expenses - President of the Senate	3,500	-	3,500
In-District Expenses Allowance	552,000	549,083	2,917
National Conference of State Legislatures	98,241	98,241	-
Council of State Governments	85,000	85,000	-
Miscellaneous General Operating - Flag Account	-	-	-
Miscellaneous General Operating - EIA Select Committee	-	-	-
Total Expenditures	<u>\$10,600,523</u>	<u>\$9,280,897</u>	<u>\$1,319,626</u>

The accompanying notes are an integral part of this schedule.

THE SENATE OF SOUTH CAROLINA
 Schedule of Expenditures -
 Budget and Actual - Other Budgeted Funds
For the Year Ended June 30, 1997

	Legal Basis <u>Budget</u>	Actual on Budgetary <u>Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 76,000	\$ 68,657	\$ 7,343
Employer Contributions	15,203	15,203	-
Other Operating	-	-	-
Special Items:			
Approved Accounts	-	-	-
Interim Expenses Allowance	-	-	-
Official Expenses - President of the Senate	-	-	-
In-District Expenses Allowance	-	-	-
National Conference of State Legislatures	-	-	-
Council of State Governments	-	-	-
Miscellaneous General Operating - Flag Account	10,656	6,146	4,510
Miscellaneous General Operating - EIA Select Committee	<u>265,172</u>	<u>224,925</u>	<u>40,247</u>
Total Expenditures	<u>\$367,031</u>	<u>\$314,931</u>	<u>\$52,100</u>

The accompanying notes are an integral part of this schedule.

THE SENATE OF SOUTH CAROLINA
 Schedule of Expenditures -
 Budget and Actual - Total Budgeted Funds
For the Year Ended June 30, 1997

	<u>Legal Basis Budget</u>	<u>Actual on Budgetary Basis</u>	<u>Variance</u>
Expenditures:			
Personal Services	\$ 4,943,327	\$4,755,111	\$ 188,216
Employer Contributions	1,917,135	1,845,636	71,499
Other Operating	579,000	575,137	3,863
Special Items:			
Approved Accounts	2,507,923	1,450,949	1,056,974
Interim Expenses Allowance	5,600	5,600	-
Official Expenses - President of the Senate	3,500	-	3,500
In-District Expenses Allowance	552,000	549,083	2,917
National Conference of State Legislatures	98,241	98,241	-
Council of State Governments	85,000	85,000	-
Miscellaneous General Operating - Flag Account	10,656	6,146	4,510
Miscellaneous General Operating - EIA Select Committee	<u>265,172</u>	<u>224,925</u>	<u>40,247</u>
Total Expenditures	<u>\$10,967,554</u>	<u>\$9,595,828</u>	<u>\$1,371,726</u>

The accompanying notes are an integral part of this schedule.

THE SENATE OF SOUTH CAROLINA

Notes to Schedules

June 30, 1997

NOTE 1 - BUDGET POLICY

The Senate is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Senate. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenues budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in 1997 Appropriation Act Proviso 72.9. as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Board's Division of Budget and Analyses and to the State Comptroller General. No such transfer may exceed 20 percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The schedules of expenditures - budget and actual present actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line-item expenditure basis. The level of legal control for each agency for each fiscal year is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures.

THE SENATE OF SOUTH CAROLINA

Notes to Schedules

June 30, 1997

NOTE 2 - STATE APPROPRIATIONS

The following is a reconciliation of the 1997 Appropriation Act as originally enacted by the General Assembly to amounts available for the Senate's budgetary general fund expenditures as reported on Schedule 1 for the year ended June 30, 1997.

Original Appropriation	\$
9,228,480	
State Budget and Control Board Allocations for Employee Base Pay Increases and Related Employee Benefits (Proviso 17C.19.)	
<u>120,826</u>	
Revised Appropriation - Legal Basis	
9,349,306	
Plus: 1996 Appropriation Brought Forward (1997 Proviso 3.23.)	<u>1,251,217</u>
Legal Basis Appropriation Available for 1997 Expenditures	<u>\$10,600,523</u>

Pursuant to Proviso 3.23. of the 1998 Appropriation Act, the Senate carried forward \$1,319,626 of unspent State General Fund appropriations from the current year to fiscal year 1998.

In addition, the Senate received \$50,000 Education Improvement Act funding from the State Department of Education to support the continuation of program and policy evaluations and studies and to support the State's participation in the Middle Grades Project, Professional Development Schools for prospective teachers in accordance with Proviso 19A.39. of the 1997 Appropriation Act which is reported in the budget of the other budgeted funds category on Schedule 2.

ACCOUNTANT'S COMMENTS

SECTION A - WEAKNESS NOT CONSIDERED MATERIAL

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining an internal control structure. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has an effective internal control structure.

The condition described in this section has been identified as a weakness subject to correction or improvement but it is not considered a material weakness or violation of State Laws, Rules, or Regulations.

COMPENSATORY LEAVE

The Senate's Operations and Management Manual, which establishes policies and procedures for Senate employees, states that employees may earn compensatory time at their department heads' discretion. The process used to account for compensatory time is decentralized and records, if any, are maintained by department heads. The agency does not have procedures to ensure that accrued overtime compensatory leave at year-end is reported on its compensated absences closing package. We reported this same finding in the Auditor's Comments section of our report on the Senate for the fiscal year ended June 30, 1995, and dated June 19, 1996. (We performed no procedures to the Senate's records for fiscal year 1996.)

Because the State's accounting system (STARS) is on the budgetary basis, the State Comptroller General obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages. Section 3.17 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) explains the compensated absences closing package and its preparation. Therein, the definition of *compensated absences* includes accumulated employee balances of compensatory time "regardless of whether employees will be compensated in the form of paid time off work or extra pay." The cited GAAP Manual section requires that working papers be maintained to support each employee's accumulated unused overtime compensatory time at June 30, daily or hourly pay rate in effect at June 30, and the value of overtime compensatory time at June 30.

An entity's accounting system consists of the methods and records it has established to identify, classify, record, and report its transactions and balances and to maintain accountability for the related assets and liabilities. Effective control procedures require the use of adequate records to help ensure the proper recording of transactions.

We again recommend the agency develop and implement procedures to help ensure that the accumulation and use of compensatory time is properly controlled and the year-end liability is properly reflected in its compensated absences closing package.

SECTION B - STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Auditor's Comments section of the State Auditor's Report on the Senate for the fiscal year ended June 30, 1995, and dated June 19, 1996. (We performed no procedures to the Senate's records for fiscal year 1996 and did not issue a report on the Senate for 1996.) We determined that the Senate has not taken adequate corrective action regarding that deficiency; therefore, we have repeated in Section A hereof a similar finding regarding Compensatory Leave records and reporting.

MANAGEMENT'S RESPONSE

THE SENATE OF SOUTH CAROLINA

October 12, 1998

Honorable Thomas L. Wagner, Jr.
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

I have reviewed and accept the draft Auditor's Report for the Senate for the fiscal year ending June 30, 1997. Although I am of the opinion that the reporting of compensatory leave is a matter of interpretation, I believe your comment and inclusion of this matter in the findings of this report to be fair.

As you know, the Senate's position is rooted in the Senate's Operations and Management Manual which states that compensatory leave may be granted and any records shall be kept and maintained as directed by the Department Head. Accrued leave is not maintained by the Senate Clerk's Office; consequently, at fiscal year-end there is no accrued leave to report. I have felt that the Senate would not be required to report compensatory leave that does not officially exist, however I also understand the position of the Auditor's Office and the basis for a different interpretation.

Please be assured that with the acceptance of this report, the Senate will take actions to report compensatory leave in a manner that is compliant with your recommendations. You are aware that this reporting discrepancy was first discovered during our FY 1995 audit and continued through FY 1997 until its resolution. With the kind assistance of your staff, FY 1998 compensatory leave for the Senate was reported in a manner that respects both your recommendations and the Senate's Operations and Management Manual. I am most appreciative of your consideration of this matter and apologize for the delay in my response.

Sincerely,

Frank Caggiano