

**SOUTH CAROLINA RETIREMENT
SYSTEM INVESTMENT COMMISSION**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2008

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State of South Carolina



Office of the State Auditor

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DEPUTY STATE AUDITOR

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 27, 2009

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Retirement System Investment Commission
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 Retirement System Investment Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2008, in the areas addressed. The Commission'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 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 selected recorded receipts to determine if these receipts were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement.
- 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 object code level to those of the prior year. We investigated changes in the restricted fund to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$29,300 – restricted fund) and \pm 10 percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Object Code in the Accountant's Comments section of this report.

2. **Non-Payroll Disbursements and Expenditures**

- 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 agency's policies and procedures and State regulations, were bona fide disbursements of the Commission, 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 selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year.
- We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement.
- We compared current year expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the restricted fund to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality level (\$28,500 – restricted 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 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; payroll transactions, including employee payroll deductions, 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 selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS.
- We inspected payroll transactions for selected new employees and those 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 amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of ± 5 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**

- We inspected all recorded journal entries 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.

We found no exceptions as a result of the procedures.

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Commission 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 selected entries were processed in accordance with the agency's policies and procedures and State regulations.

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

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2008, and inspected selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's 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 Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS.

The reconciliations selected were chosen randomly. Our finding as a result of this procedure is presented in Reconciliations in the Accountant's Comment section in this report.

7. **Appropriation Act**

- We inspected agency documents, observed processes, and/or made inquiries of agency personnel to determine the Agency's compliance with Appropriation Act general and agency specific provisos.

Our finding as a result of this procedure is presented in Foreign Travel in the Accountant's Comments section of this report.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2008, prepared by the Commission and submitted to the State Comptroller General. We inspected them 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.

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 and of the governing body and management of the South Carolina Retirement Investment Commission and is not intended to be and should not be used by anyone other than these specified parties.



Richard H. Gilbert, Jr., CPA
Deputy 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.

OBJECT CODE

We tested twenty-five receipt transactions and noted that the Commission recorded one receipt transaction using an incorrect object code. The receipt transaction recorded a refund of an expenditure related to a performance rebate. The expenditure and the rebate occurred in the same accounting period. However the Commission recorded the rebate as a refund of a prior year expenditure.

Sections 2.1.6.10 and 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual define object codes.

We recommend the Commission implement procedures to ensure that personnel responsible for preparing and approving accounting transactions are familiar with STARS object codes.

RECONCILIATIONS

The Budget and Control Board Division of Internal Operations performs accounting functions for the Commission which includes preparing monthly reconciliations. We reviewed the monthly prepared reconciliations and found that four of the thirteen monthly reconciliations were not signed by the preparer. Four additional reconciliations were not signed by the reviewer.

Section 2.1.7.20 of the Statewide Accounting and Reporting (STARS) Manual states, "To ensure adequate error detection and to satisfy audit requirements, reconciliations must be performed at least monthly on a timely basis, documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, signed and dated by the preparer, and reviewed and approved in writing by an appropriate agency official other than the preparer."

We recommend the Commission ensure that reconciliation procedures are performed as prescribed by the STARS Manual.

FOREIGN TRAVEL

Section 4.2.21.0 of the Statewide Accounting and Reporting Manual (STARS Manual) states,

Any travel outside the United States, Canada, and Puerto Rico - Any foreign travel of a State employee will be reported annually at the end of each fiscal year by the authorizing agency to the President of the Senate, the Speaker of the House, and the Budget and Control Board.

The following information is to be included in the annual reports: (a) name of State employee; (b) destination; (c) inclusive dates of the travel period; (d) purpose of the travel; (e) total cost of the travel; and (f) source of funds.

The Commission did not report foreign travel to the parties specified in Section 4.2.21.0. The Commission spent \$9,075 on foreign travel during fiscal year 2007-08. Commission personnel stated that they were not aware of the requirement to report the foreign travel.

We recommend the Commission report foreign travel in accordance with STARS Manual requirements.

MANAGEMENT'S RESPONSE

James R. Powers
Chairman

Allen P. Gillespie, CFA
Vice Chairman

Converse A. Chellis, III, CPA
State Treasurer

Robert L. Borden, CFA, CAIA
Chief Executive Officer
Chief Investment Officer

State of South Carolina Retirement System Investment Commission



Post Office Box 11960
COLUMBIA, SOUTH CAROLINA 29211

Blaine Ewing, III

S. Travis Pritchett

Reynolds Williams
Chairman *Emeritus*

Nancy E. Shealy
General Counsel

January 12, 2010

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Gilbert:

Thank you for recent correspondence regarding the Office of the State Auditor's Report of the agreed upon procedures audit of the South Carolina Retirement System Investment Commission's administrative financial records for the year ending June 30, 2008. I appreciate the opportunity to respond to the auditor's comments.

Auditor's Comments:

OBJECT CODE

We tested twenty-five receipt transactions and noted that the Commission recorded one receipt transaction using an incorrect object code. The receipt transaction recorded a refund of an expenditure related to a performance rebate. The expenditure and the rebate occurred in the same accounting period. However the Commission recorded the rebate as a refund of a prior year expenditure.

Sections 2.1.6.10 and 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting (STARS) Manual define object codes.

We recommend the Commission implement procedures to ensure that personnel responsible for preparing and approving accounting transactions are familiar with STARS object codes.

Agency Response:

The Retirement System Investment Commission (Commission) received \$3,696,231.40 of revenue for the year ending June 30, 2008. Of the approximately \$3.7 million the Commission received, a \$39.99 vendor rebate check for delivery charges was recorded to an incorrect object code.

Due to the timeliness needed to obtain the \$39.99 rebate before it expired, the receipt of the rebate check occurred before the employee who made the purchase was reimbursed by the Commission. This person was also unsure the exact date the item was purchased and incorrectly believed that the item was purchased in the prior fiscal year. As soon as the rebate check was received, it was deposited into the bank as a refund of a prior year expenditure. It was not until the close of Fiscal Year 2008 that the employee located the receipt and requested reimbursement for the delivered item.

Auditor's Comments:

RECONCILIATIONS

We reviewed Commission prepared reconciliations and found that four of the thirteen monthly reconciliations were not signed by the preparer. Four additional reconciliations were not signed by the reviewer.

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Section 2.1.7.20 of the Statewide Accounting and Reporting (STARS) Manual states, "To ensure adequate error detection and to satisfy audit requirements, reconciliations must be performed at least monthly on a timely basis, documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, signed and dated by the preparer, and reviewed and approved in writing by an appropriate agency official other than the preparer."

We recommend the Commission follow reconciliation procedures as prescribed by the STARS Manual.

Agency Response:

Beginning in October 2005, all procurement and accounting functions of the Commission were processed through the South Carolina Budget and Control Board's Office of Internal Operations in the same manner as divisions of the South Carolina Budget and Control Board. This occurred because the Commission was an agency in its infancy with limited staff, and the additional cost of purchasing a separate accounting system was deemed as a waste of resources.

The Office of Internal Operations controlled disbursement of financial reports from the Comptroller General to each of its divisions and was responsible for reconciling Commission transactions with the Comptroller General's Statewide Accounting and Reporting (STARS) Manual's book of record. Since October of 2005, the Commission has reconciled internal financial reports with non STARS reports generated by the Office of Internal Operations.

It is unknown why personnel from Internal Operations did not sign as both the preparer and the reviewer on four of the thirteen monthly reconciliations they prepared for the year ending June 30, 2008.

Starting in November of 2008, the Commission became live with the South Carolina Enterprise Information System (SCEIS) and no longer relies on the Office of Internal Operations for procurement and accounting functions.

Auditor's Comments:

FOREIGN TRAVEL

Section 4.2.21.0 of the Statewide Accounting and Reporting Manual (STARS Manual) states, Any travel outside the United States, Canada, and Puerto Rico - Any foreign travel of a State employee will be reported annually at the end of each fiscal year by the authorizing agency to the President of the Senate, the Speaker of the House, and the Budget and Control Board.

The following information is to be included in the annual reports: (a) name of State employee; (b) destination; (c) inclusive dates of the travel period; (d) purpose of the travel; (e) total cost of the travel; and (f) source of funds.

The Commission did not report foreign travel to the parties specified in Section 4.2.21.0.

The Commission spent \$9,075 on foreign travel during fiscal year 2007-08. Commission personnel stated that they were not aware of the requirement to report the foreign travel.

We recommend the Commission report foreign travel in accordance with STARS Manual requirements.

Agency Response:

As mentioned in the response to the Reconciliation section of this document, all procurement and accounting functions of the Commission were processed through the South Carolina Budget and Control Board's Office of Internal Operations. This included all travel disbursements.

Commission staff as well as Budget and Control Board's Office of Internal Operations staff were unaware of the requirement to report foreign travel to the President of the Senate, the Speaker of the House, and the Budget and Control Board. The report that should have been sent for the year ending June 30, 2008 is enclosed. The Commission is aware that this report needs to be submitted in the future if any foreign travel is conducted.

Once again, thank you for the opportunity to respond to the agreed upon procedures audit of administrative financial records for the fiscal year ending June 30, 2008. With this response, the South Carolina Retirement System Investment Commission has completed our review and authorizes release of the report. A list of Commission members and their contact information is enclosed.

Mr. Richard H. Gilbert, Jr, CPA
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Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Borden". The signature is fluid and cursive, with a prominent initial "R" and a long, sweeping tail.

Robert L. Borden, CFA, CAIA
Chief Executive Officer & Chief Investment Officer

Enclosures

4 copies of this document were published at an estimated printing cost of \$1.46 each, and a total printing cost of \$5.84. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.