

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

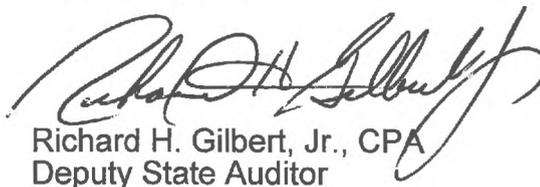
October 2, 2014

The Honorable J. Yancey McGill
Lieutenant Governor
South Carolina Office of the Lieutenant Governor
State House, 1st Floor
P.O. Box 142
Columbia, South Carolina 29202

Dear Lieutenant Governor:

The Office of the State Auditor approves your request to contract with Elliott Davis, LLC to perform the services described in the attached engagement letter dated September 30, 2014. The all-inclusive fee for providing such services is \$19,000. Any charges above the stated fee must have the prior written approval of the Office of the State Auditor.

Very truly yours,



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

Attachment

CC: Ms. Marie Waller, Chief of Staff



September 30, 2014

South Carolina Lieutenant Governor's Office
State House, 1st Floor
Columbia, South Carolina 29202

This letter is to explain our understanding of the arrangements for, and the nature and limitations of, the services we are to perform for South Carolina Lieutenant Governor's Office (the "Office") with respect to the following areas: (1) cash cutoff and bank account reconciliations; (2) grant expenditures; (3) general expenditures and cash disbursements; (4) revenues and cash receipts; and (5) journal entries. We will perform these services in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). We understand that the following specific procedures are to be performed as of and for the years ended June 30, 2014 and June 30, 2013 (the "two Periods"):

1. **Cash cutoff and bank reconciliations** - We will select two random samples of 10 bank reconciliations prepared by the Office for each of the two Periods (for a total of 20 reconciliations). We will trace each deposit in transit and outstanding check reflected on the reconciliations to clearing in subsequent monthly bank statements.
2. **Grant expenditures** - We will select two random samples of 25 grant expenditures for each of the two Periods (for a total of 50 expenditures) from the combined population of expenditures submitted for reimbursement to the U.S. Department of Health and Human Services (HHS) under the two following programs:
 - *Special Programs for the Aging, Title III, Part B - Grants for Supportive Services and Senior Centers*
 - *Special Programs for the Aging, Title III, Part C - Nutrition Service*

For each sample item we will perform the following procedures:

- a. Vouch the disbursement amount to supporting documents required to be maintained by the Office under its procurement policy and that of the State (the "procurement policy"). Such documents would include voucher packages, travel vouchers, and payroll records.
- b. Inspect supporting documents (described in item "a") for indication of proper authorization and approval in accordance with the procurement policy.
- c. Compare the vendor name reflected in the supporting documents to the Office's approved vendor listing.
- d. Trace the disbursement amount to the general ledger, and compare the description of the goods or services per the supporting documents to the general ledger account coding for reasonableness.
- e. Inspect the invoice for sign-offs from the requester, and from the authorized individual who approved the invoice for payment.
- f. Compare information reflected in the voucher package to the U.S. Department of Health and Human Services *Compliance Requirements for Activities Allowed or Unallowed* as stated in the March 2014 A-133 *Compliance Supplement* for the "Aging Cluster" for indication that the expenditure is allowable under the above programs.

3. **General expenditures and cash disbursements** - We will select two random samples of 25 general expenditures for each of the two Periods (for a total of 50 expenditures) from the Office's cash disbursement journal and perform the following for each sample item:
 - a. Vouch the disbursement amount to supporting documents required to be maintained by the Office under the procurement policy. Such documents would include voucher packages, travel vouchers, and payroll records.
 - b. Inspect supporting documents (described in item "a") for indication of proper authorization and approval in accordance with the procurement policy.
 - c. Compare the vendor name reflected in the supporting documents to the Office's approved vendor listing.
 - d. Trace the disbursement amount to the general ledger, and compare the description of the goods or services per the supporting documents to the general ledger account coding for reasonableness.
 - e. Inspect the invoice for sign-offs from the requester, and from the authorized individual who approved the invoice for payment.
4. **Revenue and cash receipts** - We will select two random samples of 25 cash receipts for each of the two Periods (for a total of 50 receipts) from the Office's cash receipts journal and perform the following procedures:
 - a. Trace the deposit to posting in the Office's monthly bank statements.
 - b. Inspect supporting documentation for indication that the receipt was recorded in the correct general ledger account.
5. **Journal entries** - We will select two random samples of 25 journal entries for each of the two Periods (for a total of 50 journal entries) from the Office's general ledger and inspect supporting documentation for indication of the following:
 - a. The journal entry was initiated by someone other than the individual who approved it.
 - b. The journal entry was approved by someone who is properly authorized.
 - c. The journal entry was for a reasonable purpose.

Based on the procedures reflected above, we will issue an independent accountant's report on applying agreed-upon procedures in accordance with Statements on Standards for Attestation Engagements (SSAE) as issued by the AICPA. This report will reflect our procedures and findings.

Our report will state that the Office is responsible for (1) complying with all applicable laws and regulations, including requirements related to federal grants; (2) establishing internal controls over the policies, procedures, and processes related to financial recordkeeping and reporting; and (3) monitoring the controls established over these areas to determine it is in compliance with applicable laws, regulations, and policies of the Office.

While performing our procedures, if prior to issuing our report we become aware of circumstances or conditions such as financial, operational or other matters determined to be worthy of management's consideration, we will bring these to your attention upon discovery.

We ask that you either confirm our understanding regarding the procedures described above. The sufficiency of these procedures is solely the responsibility of the Office. We make no representation regarding the sufficiency of the procedures described above for the Office's purposes or for any other purpose.

If circumstances arise which in our professional judgment prevent us from completing the engagement, we retain the unilateral right to take any course of action permitted by professional standards, including withdrawal from the engagement.

The services that we will perform are not designed and cannot be relied upon to disclose errors, fraud or illegal acts, should any exist. However, we will inform the appropriate level of management of any material errors that come to our attention and any fraud or illegal acts that come to our attention, unless they are clearly inconsequential.

Furthermore, the services were not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate to management any significant deficiencies or material weaknesses that become known to us during the course of the engagement.

The Office hereby indemnifies Elliott Davis, LLC and its shareholders and employees and holds them harmless from all claims, liabilities, losses and costs arising in circumstances where there has been a known misrepresentation by a member of the Office's management, regardless of whether such person was acting in the Office's interest. This indemnification will survive termination of this letter.

During the course of our engagement, we may accumulate records containing data that should be reflected in your books and records. You will determine that all such data, if necessary, will be so reflected. Accordingly, you will not expect us to maintain copies of such records in our possession.

We understand that assistance to be supplied by your personnel will be discussed and coordinated with us prior to us beginning our procedures. The timely and accurate completion of items that we will request from you is an essential condition to our completion of our services and issuance of our report.

Our fee for these agreed-upon procedures will be \$19,000. This fee is based upon the number of hours required to complete the work at our standard hourly rates.

Our invoices for this fee will be rendered as work progresses and are payable upon presentation. We will not issue our report until the above fee and expenses have been paid in full.

The above fee assumes that unexpected circumstances will not be encountered during the engagement, and that there will be no changes to the scope of the above agreed-upon procedures. If circumstances arise that would require us to perform services beyond the scope of the above agreed-upon procedures, such services will be billed at our standard hourly rates, which are summarized below:

<u>STAFF CLASSIFICATIONS</u>	<u>FEE/HOUR</u>
Shareholder	\$ 300
Senior Manager	185
Manager	165
Senior	155
Staff Accountant	135
Administrative	85

In the event we are requested or authorized by the Office or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the Office, the Office will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

This letter constitutes the complete and exclusive statement of agreement between Elliott Davis, LLC and South Carolina Lieutenant Governor's Office, superseding all other communications, oral or written, with respect to the terms of the engagement between the parties.

If this letter defines the arrangements as you understand them, please sign and date the enclosed copy and return it to us. We appreciate your business.

Very truly yours,

ELLIOTT DAVIS, LLC



Thomas J. McNeish, CPA
Shareholder

CONFIRMED ON BEHALF OF:

South Carolina Lieutenant Governor's Office

Signature

Title

Date