

South Carolina Office of the State Auditor

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

June 30, 2003

State of South Carolina



Office of the State Auditor

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June 29, 2004

Members of the State Budget and Control Board
State of South Carolina
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain accounting records of the South Carolina Office of the State Auditor for the fiscal year ended June 30, 2003, was issued by Scott McElveen, LLP, Certified Public Accountants, 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 cursive script that reads 'Tom Wagner'.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

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S C O T T  M C E L V E E N L L P.

Independent Accountants' Report on Applying Agreed-Upon Procedures

Members of the State Budget and Control Board
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Office of the State Auditor, solely to assist you in evaluating the performance of the South Carolina Office of the State Auditor for the fiscal year ended June 30, 2003, in the areas addressed. Management for the South Carolina Office of the State Auditor 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. We selected certain recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also selected certain 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 from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, made inquiries regarding the reasonableness of collected and recorded amounts by revenue account. The individual transactions were chosen randomly. We found no exceptions as a result of the procedures.

2. We selected certain recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the South Carolina Office of the State Auditor, 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; and if internal controls over the selected disbursement transactions were adequate. We also selected certain 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 to those of the prior year and made inquiries regarding the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

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3. We selected certain recorded payroll disbursements to determine if the tested 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 internal controls over the tested payroll transactions were adequate. We selected certain 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 also selected certain transactions for new employees and those who terminated employment to determine if internal controls over these transactions were adequate. 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; (and) comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.
4. We selected certain recorded journal entries, operating transfers, and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in the Accountants' Comments section of this report.
5. We selected certain entries and monthly totals in the subsidiary records of the Agency 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 internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained monthly reconciliations prepared by the South Carolina Office of the State Auditor for the year ended June 30, 2003 and determined that the reconciliations were signed and dated by both the preparer and reviewer and that the reconciliations were dated at a reasonable time after month end. Our finding as a result of these procedures is presented in the Auditors' Comments section of this report.
7. We made inquiries regarding the South Carolina Office of the State Auditor's compliance with applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for the year ended June 30, 2003. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 2003, prepared by the South Carolina Office of the State Auditor and submitted to the Comptroller General. We 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. We found no exceptions as a result of the procedures.

9. We were advised that the South Carolina Office of the State Auditor did not receive any Federal Financial Assistance. As a result, we performed no procedures in this area.

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 areas, 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 members of the State Budget and Control Board 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 McElvan, L.L.P.

Columbia, South Carolina
May 20, 2004

Section A – Finding

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 internal controls. A material weakness is a condition in which the design or operation of one of the specific internal control components 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 effective internal controls.

The conditions described below have been identified as weaknesses subject to correction or improvement but are not considered material weakness or violations of State Laws, Rules, or Regulations.

CORRECTING JOURNAL ENTRIES

In performing our procedures of recorded journal entries, we noted that the description used for the purpose of the correcting journal entries was brief and inadequate. As a result, without detailed analysis attached to each entry, it is difficult to understand the reasoning for the correcting journal entries being made.

We recommend that a better description be prepared for every correcting journal entry, therefore allowing a better understanding of why a correcting journal was made.

AUTHORIZATION AND REVIEW

In performing our procedures of recorded journal entries and monthly reconciliations; we noted the following instances in which proper review by a supervisor was absent:

- A. In our test of correcting journal entries, we noted 2 instances out of the 20 entries tested, in which the entry was prepared and input into the accounting system by a preparer without having been properly initialed by a supervisor.
- B. In our test of monthly reconciliations, we noted that the monthly reconciliation for the tenth month of the fiscal year was not signed off by the reviewer.

For both of the preceding instances, we recommend that the agency maintain consistent procedures in regards to proper supervisory review of financial information before being finalized to ensure that all information presented is accurate and complete.

Section B – Status of Prior Findings

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of our report on the South Carolina Office of the State Auditor for the year ended June 30, 2003, and dated October 23, 2000. We applied no procedures to the records of the South Carolina Office of the State Auditor accounting records and internal controls for the years ended June 30, 2001 and 2002. We determined that the South Carolina Office of the State Auditor has taken adequate corrective action on each of the findings.

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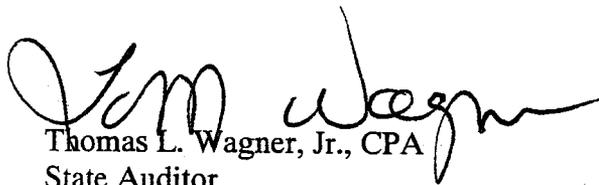
Management's Response

CORRECTING JOURNAL ENTRIES

In response to this finding, the accounting procedures of the State Auditor's Office have been revised to include a more detailed description with any correcting journal entry. The description will provide a complete explanation of the reasoning behind the correcting entry.

AUTHORIZATION AND REVIEW

The State Auditor's Office has placed additional emphasis on consistent application of procedures that insure proper supervisory review of financial information for accuracy and completeness.



Thomas L. Wagner, Jr., CPA

State Auditor

June 23, 2004