

**SOUTH CAROLINA
LIEUTENANT GOVERNOR'S OFFICE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2004

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 7, 2005

The Honorable André Bauer, Lieutenant Governor
South Carolina Office of the Lieutenant Governor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of South Carolina Lieutenant Governor's Office (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2004, in the areas addressed. The Office'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. **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, were bona fide disbursements of the Office, 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 to detect errors and/or irregularities.
- 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 to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Agency Accounting Records and Procurement in the Accountant's Comments section of this report.

2. **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 internal controls over the selected payroll transactions were adequate to detect errors and/or irregularities.
- 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 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 compared current year recorded payroll expenditures to those of the prior year; and compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Agency Accounting Records and Payroll in the Accountant's Comments section of this report.

3. **Operating Transfers**

- We inspected all recorded operating 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 to detect errors and/or irregularities.

Our finding as a result of these procedures is presented in Agency Accounting Records in the Accountant's Comment section of this report.

4. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the Office 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 selected transactions were adequate to detect errors and/or irregularities.

Our finding as a result of these procedures is presented in Agency Accounting Records in the Accountant's Comments section of this report.

5. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Office's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. 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 Office'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 Office's accounting records and/or in STARS.

Our finding as a result of these procedures is presented in Agency Accounting Records in the Accountant's Comments section of this report.

6. **Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers and other documents, inquiry of agency personnel and/or observation of agency personnel performing their assigned duties, the Office'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 2004.

Our findings as a result of these procedures are presented in Agency Accounting Records, Procurement, and Payroll in the Accountant's Comment section of this report.

7. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2004, prepared by the Office 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; 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.

8. **Status of Prior Findings**

- We inquired about the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Office resulting from our engagement for the fiscal year ended June 30, 2002, to determine if adequate corrective action has been taken. We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2003.

Our finding as a result of these procedures is presented in Agency Accounting Records in the Accountant's Comments section of this report.

The Honorable André Bauer, Lieutenant Governor
South Carolina Office of the Lieutenant Governor
July 7, 2005

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 Governor and of the management of the Office and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

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 internal controls. A material weakness is a condition in which the design or operation of one or more 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 in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

AGENCY ACCOUNTING RECORDS

During our engagement, we found that the Office did not prepare and maintain agency generated accounting recordings, including a general ledger, subsidiary ledger, and appropriate transaction registers. The Office's books consisted solely of the Statewide Accounting and Reporting System (STARS) printouts reflecting the Office's financial transactions processed by the State Comptroller General's Office. As a result, the Office could not and did not perform any reconciliations of balances on the Comptroller General's books and the Office's books, as required by STARS Manual Section 2.17.20. This section states:

To ensure adequate error detection and to satisfy audit requirements, such reconciliations must be:

- Performed at least monthly on a timely basis (i.e., shortly after month-end)
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

Good business practices and effective internal controls require the proper maintenance of a general ledger system that provides complete, accurate and timely information necessary for making financial decisions.

We recommend the Office prepare and maintain proper agency-generated accounting records and to perform monthly reconciliations in a timely manner as required.

PROCUREMENT

During our test of disbursements, we noted the Office did not follow the South Carolina Consolidated Procurement Code. The agency entered into a consulting contract with a total cost of \$6,900.

The Procurement Code, Section 11-35-1550(c) of the South Carolina Code of Laws, requires:

Purchases from five thousand one dollars to ten thousand dollars. Solicitation of written quotes from a minimum of three qualified sources of supply must be made and documentation of the quotes attached to the purchase requisition. The award must be made to the lowest responsive and responsible source.

Also, the State's Accounting and Reporting (STARS) Manual, Section 4.2.10.9 requires:

State agencies may procure consultant services up to their respective limits as established by the Budget and Control Board. Unless exempt, procurements of consultant services above that amount must be made by the Budget and Control Board, Division of Operations.

We recommend the Office personnel responsible for procurement be properly trained and knowledgeable of procurement rules and regulations. We also recommend the Office implement policies and procedures to ensure compliance with the South Carolina Procurement Code. The policies should outline steps to follow when procuring goods and services.

PAYROLL

During our testing of payroll expenditures, we noted several deficiencies in the Office's recording and processing of payroll transactions.

Pay Periods

During our testing of payroll transactions, we noted seven payroll transactions that did not conform to the state's standard pay periods.

The Office did not pay these employees in accordance with the compensation schedule outlined in Section 8-11-5 of the South Carolina Code of Laws which states:

To provide a regular and permanent schedule for payment of employees, the payroll period begins on June 2 of the prior fiscal year with the first pay period ending on June 16 of the prior fiscal year. The payroll period continues thereafter on a twice-monthly schedule as established by the State Budget and Control Board. This schedule must continue from one fiscal year to another without interruption, on a twice-monthly basis.

We recommend the Office follow the payroll schedule established by State law.

Timesheets

During our test work, we noted three temporary employees who did not have timesheets to support their time worked. We also noted one employee whose timesheets were not signed by a supervisor. South Carolina Human Resources Regulation Section 19-707.02 J.3 states:

Each agency must maintain the following information for nonexempt employees...

- h. Hours worked each workday and total hours worked each week.

In addition, the Office has procedures that require timesheets for temporary employees be attached to the applicable payroll voucher and signed by the employee's supervisor.

We recommend the Office follow their policy and maintain timesheets for temporary employees and require supervisors to approve those timesheets to ensure accurate time reporting and payroll processing.

Documentation of Pay Rate

During our test of payroll, we were unable to verify the hourly rate paid to a temporary employee. The agency did not prepare documentation noting the pay rate of its hourly employee.

Effective internal controls require documentation of an employee's pay rate throughout the employee's employment. Documentation of the pay rate is also needed to ensure accurate payment of wages.

We recommend the Office prepare and retain the appropriate documentation to support an employee's payroll calculation.

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 Accountant's Comments section of the State Auditor's Report on the Office for the fiscal year ended June 30, 2002, and dated December 19, 2002. We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2003. We determined that the Office has taken adequate corrective action on each of the findings except the finding Agency Accounting Records which is repeated in the Section A of this report.

MANAGEMENT'S RESPONSE