

**SOUTH CAROLINA  
LIEUTENANT GOVERNOR'S OFFICE**

**COLUMBIA, SOUTH CAROLINA**

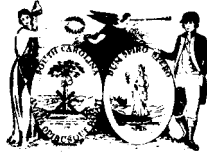
**STATE AUDITOR'S REPORT**

**JUNE 30, 2002**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 19, 2002

The Honorable Andre Bauer, Lieutenant Governor  
South Carolina Lieutenant Governor's Office  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the 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, 2002, 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:

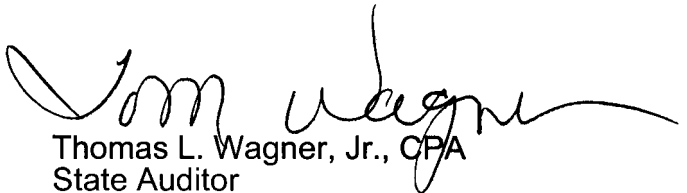
1. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Office, and were paid in conformity with State laws and regulations; if the acquired goods and/or services were procured in accordance with applicable laws and regulations; and if internal controls over the tested disbursement transactions were adequate. We also tested 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 for testing were chosen randomly. Our findings as a result of these procedures are presented in Agency Accounting Records and Expenditure Cutoff in the Accountant's Comments section of this report.

2. We tested selected 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 tested 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 also tested 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 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Agency Accounting Records and Expenditure Cutoff in the Accountant's Comments section of this report.
3. We tested all interagency 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. Our findings as a result of these procedures are presented in Agency Accounting Records in the Accountant's Comments section of this report.
4. We tested 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 tested transactions were adequate. Our findings as a result of these procedures are presented in Agency Accounting Records in the Accountant's Comments section of this report.
5. We tested monthly 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. 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. The reconciliations selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Agency Accounting Records in the Accountant's Comments section of this report.

6. We tested 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 2002. Our findings as a result of these procedures are presented in Agency Accounting Records and Expenditure Cutoff in the Accountant's Comments section of this report.
7. We obtained copies of all closing packages as of and for the year ended June 30, 2002, prepared by the Office and submitted to the State 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.

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 Lieutenant 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 discovered that the Office did not prepare and maintain agency-generated accounting records, including a general ledger, subsidiary ledgers 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. Therefore, 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 2.1.7.20 C. That section describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the Comptroller General reports provide significant assurances that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper to ensure adequate error detection and to satisfy audit requirements. Agencies are required to perform monthly reconciliations of cash, revenues, and expenditures.

Good business practices and strong 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 that the Office prepare and maintain proper agency-generated accounting records and to perform monthly reconciliations in a timely manner as required.



## **EXPENDITURE CUTOFF**

We noted that the Office did not have sufficient funds to pay for all its fiscal year (FY) 2002 operating expenditures. To prevent the Office's General Fund from ending FY 2002 with a budget deficit of approximately \$17,300, the Office split the employer's portion of the employee's health insurance premiums totaling \$24,902 between fiscal years 2002 and 2003; \$7,437 was charged to FY 2002 appropriations (voucher 168, fiscal month (FM) 13, dated July 22, 2002) and \$17,465 was charged to FY 2003 appropriations (voucher 169, FM 01, dated July 23, 2002). As a result, the Office paid FY 2002 Employer Contributions of \$17,465 with FY 2003 appropriations. In addition, the expenditure cutoff test identified three disbursement vouchers of the 20 vouchers tested (15%) that were charged to the incorrect FY. Two vouchers charged to FY 2003 appropriations were for goods/services purchased and received in FY 2002 and one voucher charged to FY 2002 appropriations was for goods/services bought in FY 2003.

Proviso 72.3 of the FY 2002 Appropriation Act requires that . . . "the sums of moneys set forth . . . are appropriated from the General Fund of the State . . . and other applicable funds, to meet the ordinary expenses of the State government for Fiscal Year 2001-2002 . . ."

We recommend the Office implement effective internal controls to ensure that vouchers are paid out of funds for the fiscal year when the goods/services are received. The Office should seek assistance from the State's Budget Office when it appears likely that a deficit will occur.

## **MANAGEMENT'S RESPONSE**

The management of the South Carolina Lieutenant Governor's Office did not respond to the findings identified in the Accountant's Comments Section of this report by the due date specified in our transmittal letter accompanying the preliminary draft for the agency's review dated December 31, 2002.

5 copies of this document were published at an estimated printing cost of \$1.34 each, and a total printing cost of \$6.00. The FY 2001-02 Appropriation Act requires that this information on printing costs be added to the document.