

SOUTH CAROLINA STATE LIBRARY

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2006

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 30, 2007

The Honorable Mark Sanford, Governor
and
Members of the South Carolina State Library Board
South Carolina State Library
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina State Library (the State Library), solely to assist you in evaluating the performance of the State Library for the fiscal year ended June 30, 2006, in the areas addressed. The State Library'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 from sources other than State General Fund appropriations to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$1,100 – general fund, \$13,200 – earmarked fund, \$5,600 – restricted fund, and \$23,300 – federal fund) and ± 10 percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over documents issued for money. We observed agency personnel performing their duties to determine if they understood and followed the described policies.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Coding of Revenue and Posting of Deposits 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 State Library, 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 general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$69,300 – general fund, \$600 – earmarked fund, \$5,900 – restricted fund, and \$22,900 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of these 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 current year payroll expenditures at the subfund and major object code level to those of the prior year. We investigated changes in the general, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$69,300 – general fund, \$600 – earmarked fund, \$5,900 – restricted fund, and \$22,900 – federal fund) and ± 10 percent.
- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computed the percentage distribution of recorded fringe benefit expenditures by fund source and compared the computed distribution to the actual distribution of recorded payroll expenditures by fund source. 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. Our finding as a result of these procedures is presented in Calculation of Pay in the Accountant's Comments section of this report.

4. **Journal Entries, Operating Transfers and Appropriation Transfers**

- We inspected selected recorded journal entries, all operating transfers, and all interagency appropriation transfers 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.

The individual transactions selected for our test of journal entries were chosen randomly. 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 State Library 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 State Library for the year ended June 30, 2006, and inspected selected reconciliations of balances in the State Library'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 State Library'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 State Library's accounting records and/or in STARS.

We judgmentally selected the fiscal year-end reconciliation and randomly selected one month's reconciliation for testing. We found no exceptions as a result of the procedures.

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.

We found no exceptions as a result of the procedures.

8. **Closing Packages**

- We obtained copies of all closing packages as of and for the year ended June 30, 2006, prepared by the State Library 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.

Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2006, prepared by the State Library and submitted to the State Auditor. We inspected it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts agreed with the supporting workpapers and accounting records.

Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

The Honorable Mark Sanford, Governor
and
Members of the South Carolina State Library Board
South Carolina State Library
May 30, 2007

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 State Library and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

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.

CLOSING PACKAGES

Capital Assets

During our review of the fiscal year 2006 capital assets closing package we noted the beginning and ending balances reported for machinery and equipment on the accumulated depreciation summary form did not agree to the agency's supporting worksheet. We also noted that although the beginning and ending balances reported on the summary form for vehicles agreed to the supporting worksheet, the amounts reported for the individual vehicles were incorrect.

Sections 3.8 through 3.11 of the Comptroller General's GAAP Closing Package Procedures Manual (GAAP Manual) provide guidance for agencies reporting capital assets transactions and balances in closing packages. In addition, internal controls are strengthened by having someone knowledgeable of the closing package requirements independently review the closing package prior to submission to the Comptroller General's Office to ensure accuracy of the information submitted.

Compensated Absences

During our review of the fiscal year 2006 compensated absences closing package, we found that the accrued annual leave balance reported on the Annual Leave Liability Report for six of ten employees tested did not agree to hours documented on the employees' leave statement. We determined the Annual Leave Liability Report was incorrect because it reported leave balances as of July 12, 2006, the date the report was printed. Therefore, accrued annual leave liability reported on the closing package for these employees was understated by \$1,342. In addition, the State Library did not report \$951 of accrued overtime compensatory time on the closing package. State Library personnel could not explain why the report was incorrect.

Section 3.17 of the Comptroller General's GAAP Closing Package Procedures Manual specifies that agencies must retain working papers supporting all information reported on the closing package.

Recommendations

We recommend the State Library implement procedures to ensure that all closing packages contain accurate and complete information in accordance with GAAP Manual instructions. Further, the State Library should ensure that persons preparing and reviewing closing packages are knowledgeable of the GAAP Manual instructions.

CODING OF REVENUE

We tested 25 transactions in the test of cash receipts and 19 transactions in the revenue cut-off test. We noted that one of the 25 transactions from the test of cash receipts and five of the 19 transactions from the revenue cut-off test were posted using incorrect object codes. Revenue received for photocopy fees was recorded as a reimbursement of expenditures. The transaction should have been recorded using object code 0303 (copying equipment supplies) instead of object code 5018 (library books, maps and film).

Sound internal controls require that revenue be properly classified on the agency's books of account.

We recommend the State Library strengthen its policies and procedures to ensure all revenue received is properly classified and recorded in its accounting system.

CALCULATION OF PAY

For one out of eight employees tested in our test of terminations, we could not determine if final pay calculation was correct. Our review of documents maintained in the employee's personnel file, including a resignation letter and a payroll advice form, documented that the employee terminated employment on August 18, 2005; however, according to agency personnel the employee's last day worked was August 16, 2005. The employee was paid through August 16th, but the agency could not provide documentation to support using that date.

For another employee tested in our test of terminations, we determined the agency underpaid the employee \$4 for accrued annual leave. Agency personnel used the incorrect salary when calculating the payout.

For one employee out of nine tested in our test of new hires, we determined that the agency miscalculated the employees pay and overpaid the employee by \$5. The employee worked only one day out of the eleven day pay period. When calculating this partial pay, agency personnel used the employee's hourly rate instead of using a percentage of the employee's semi-monthly salary.

A well-designed internal control system includes controls to ensure the accuracy and completeness of information; procedures to ensure that calculations are supported by source documentation; and an independent review of calculations and verification of support documentation used in those calculations.

In addition, Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, stipulates that it is unlawful for anyone to receive a salary from the State which is not due or for anyone employed by the State to pay salaries or monies that are not due.

We recommend the State Library develop and implement procedures to ensure that payments to employees are correctly calculated. This should require an independent review of payroll calculations to ensure the calculations are mathematically accurate and agree to source documentation. The State Library should also develop and implement procedures to ensure that all personnel and payroll files are maintained properly and records included in the files are complete and accurate.

SECTION B - OTHER WEAKNESSES

The conditions described in this section have been identified while performing the agreed-upon procedures but they are not considered violations of State Laws, Rules or Regulations.

POSTING OF DEPOSITS

We noted that five out of 25 transactions from the test of cash receipts were not posted to the accounting records in a timely manner. The transactions were posted from six to twenty-nine days after the deposit was made.

A system of effective internal controls requires maintenance of a general ledger and accounting system which includes all accounts and transactions and provides complete, accurate, and timely information for budgetary and financial decision making. Because cash is an asset most vulnerable to loss, internal control procedures should require the agency to initiate accounting control over cash receipts immediately upon collection and to timely post the transactions to the accounting records.

We recommend the State Library develop and implement controls to ensure that receipt transactions are posted timely to the accounting records.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

During our review of the State Library's fiscal year 2006 schedule of federal financial assistance (schedule), we noted that the beginning balances for three grant phase years did not agree to the State Library's books. According to finance personnel, amounts reported on the schedule were taken from the Comptroller General's CSA 467CM - Trial Balance by Subfund, Project, and GLA report. During our review of the fiscal month 13 reconciliation, we noted amounts reported on the State Library's books did not agree to the 467 report because reconciling items relating to August 2005 had not been cleared.

The Office of the State Auditor's letter of instructions provides agencies with guidance and instructions for preparation of accurate and complete federal schedules.

We recommend that the State Library assign responsibility for preparing and reviewing its federal schedule to knowledgeable and well trained employees. Also, the State Library should establish written procedures regarding the preparation and independent review of the State Library's schedule of federal financial assistance to ensure that it is prepared in accordance with the Office of the State Auditor's letter of instructions. Further, the State Library should ensure that amounts reported on the schedule are accurate (e.g., reconciled to BARS and STARS) and complete.

MANAGEMENT'S RESPONSE

SOUTH CAROLINA STATE LIBRARY
Audit Response - June 30, 2006

July 27, 2007

CLOSING PACKAGES

CAPITAL ASSETS

The State Library acknowledges supporting documentation for the fiscal year 2006 capital assets closing package was lacking in details to sufficiently support the summary finding for the agency's accumulated depreciation.

Internal controls have been strengthened to insure that the preparer and reviewer follow the guidelines provided in section 3.8 through 3.11 of the Comptroller General's GAAP Closing Package Procedures Manual. All working papers will be retained with complete and accurate information.

COMPENSATED ABSENCES

State Library personnel now have a clearer understanding of available Annual Leave Liability Reports, run dates and associated adjustments. Starting with fiscal year 2007 the run dates are duly noted, all amounts are verified with the individual employee statements; needed adjustments are made, and proper supporting documentation is kept per section 3.17 of the Comptroller General's GAAP Closing Procedures Manual.

CODING OF REVENUE

Starting in fiscal year 2008 the coding of photocopy fees are properly recorded using object code 0303 (copying equipment supplies). Photocopies are no longer coded using object code 5018 (library hooks, maps and film). Deposits will be reviewed to insure coding to the proper classifications and recorded in the accounting system properly.

CALCULATION OF PAY

The State Library implemented a new Personnel Action Form (PAF) that provides pertinent information including the "Last Day Physically at Work". This new form will provide documentation and clarification of required information for various Human Resource purposes and will resolve the problem of unsupported documentation related to final payout calculations related to "Last Day Physically at Work."

The State Library acknowledges when processing an employee for termination Human Resources incorrectly indicated the employee's annual salary on the Personnel Action Form and the Payroll employee did not notice the error when calculating the accrued annual leave. The State Library now (fiscal 2008) requires Payroll to verify the annual salary amounts with the updated Payroll file in the agency's accounting system to eliminate errors in calculating annual leave payouts.

The State Library acknowledges calculating partial pay for salaried employees using the employee's hourly rate. The State Library has implemented a new form that calculates the partial pay using a percentage of the employee's semi-monthly salary based on number of days worked. This form will document and eliminate errors associated with partial payouts for salaried employee.

The Director of Finance and Business will review all payrolls and backup documents to insure the calculations are mathematically accurate, agree with source documentation and that the payroll files are complete and accurate. These new measures and internal controls will ensure compliance with the State Laws, Rules and Regulations as required.

POSTING OF DEPOSITS

The State Library has duly noted that cash receipt transactions were not recorded in the agency's accounting system in a timely manner. Accounting personnel have been trained in processing cash transactions and new procedures have been put in place. Deposits are now recorded to the agency's accounting system within one day. The agency now has a backup person trained to insure that deposits are recorded in a timely and accurate manner. The Director of Finance and Business is required to review all cash transactions for accuracy and timeliness.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The State Library acknowledges that the beginning balances for three grant phase years did not agree with the agency's accounting system. In fiscal year 2006 the State Library's Finance and Business Office had a 100% personnel turn over. As a result of the turnover there was a certain amount of confusion on the status of several of the federal grant phases. Assistance was sought, but the confusion was obviously not totally eliminated. The beginning balances have been corrected in BARS.

The new Director of Finance has worked with the Comptroller General's Office to correct the phase balances between the agency's accounting system BARS and the amount shown in STARS. A correcting transaction was processed. The STARS "Daily Transaction Register" appeared to have cleared the transaction to align the phase balances but the action did not carry over to the C SA 467CM – Trial Balance by Subfund, Project and GLA report due to incorrect transaction codes used to process the entry. A journal voucher has been processed to correct the STARS balances.

Adjustments will be made to the Schedule of Federal Financial Assistance for fiscal year 2006 and the corrected beginning balances will be used for the 2007 fiscal year schedule as recommended by the State Auditors. Written procedures are being developed to assure proper preparation and independent review of the State Library's schedule of federal financial assistance

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