

**SOUTH CAROLINA  
HOUSE OF REPRESENTATIVES  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2006**

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# *State of South Carolina*



## *Office of the State Auditor*

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

September 11, 2007

Members of the South Carolina House of Representatives  
South Carolina General Assembly  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Clerk of the South Carolina House of Representatives (the House), solely to assist you in evaluating the performance of the House for the fiscal year ended June 30, 2006, in the areas addressed. The House'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 and Earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$120 – General fund and \$2,000 – Earmarked fund) and  $\pm 10$  percent.

- We made inquiries of management pertaining to the agency's policies for accountability and security over documents issued and flags sold 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 finding as a result of these procedures is presented in Federal Funds 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 House, 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 and Earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$64,800 – General fund and \$10,400 – Earmarked fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the 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 and Earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$64,800 – General fund and \$10,400 – Earmarked fund) and  $\pm 10$  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  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

The individual transactions selected were chosen randomly. We found no exceptions as a result of the procedures.

4. **Journal Entries and Appropriation Transfers**

- We inspected all journal entries and 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.

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

5. **General Ledger and Subsidiary Ledgers**

- We inspected selected entries and monthly totals in the subsidiary records of the House 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 House for the year ended June 30, 2006, and inspected selected reconciliations of balances in the House'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 House'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 House'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 House 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.

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 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 Clerk of the House and Members of the House of Representatives 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**

## **OTHER WEAKNESS**

The condition described in this section has been identified while performing the agreed-upon procedures but it is not considered a violation of State Laws, Rules or Regulations.



## **FEDERAL FUNDS**

In fiscal year 2006 the House of Representatives (House) received \$70,000 from the State Law Enforcement Division (SLED). The source of funds was a federal grant from the Department of Justice, CFDA No. 16.007 – State Domestic Preparedness Equipment Support Program. The House was to use the funds it received from SLED to purchase and install upgrades to its security system. The House initially used State funds to purchase the equipment knowing that it would ultimately use the funding from SLED to repay the State accounts.

We determined that the House did not record the financial transactions in the proper STARS subfunds. The House should have recorded the receipt and expenditure of funds in a STARS federal subfund because the source of funds used to purchase the system was federal. We were told by House Bookkeeping personnel that they were unaware the funds were from a federal grant because they were not given the grant agreement. As a result the House treated the transaction as a reimbursement of state funds.

A system of effective internal controls requires all accounting transactions be given proper treatment and be properly recorded in the agency's book of record.

We are certain that the House would have accounted for the transactions in the proper subfund if they would have known that the funds were from a federal source and we understand that it is unusual for the House to receive funds from other than State sources. However, we believe that the House should have made inquiries to determine the source of the funds since this was an unusual transaction. We recommend the House implement procedures to require accounting staff to verify the source of any new revenue streams to ensure proper accounting treatment.

## **MANAGEMENT'S RESPONSE**



CHARLES F. REID  
CLERK OF THE HOUSE

# The House of Representatives

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October 1, 2007

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
State of South Carolina  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert,

I am in receipt of the preliminary draft copy of agreed-upon procedures of the accounting records of the South Carolina House of Representatives for the fiscal year ending June 30, 2006 and do authorize the release of this report.

Since we do not routinely receive Federal funds, we were unaware the funds received from SLED were Federal. We were not advised of this until after our books were closed in 2006 and audited for FY2005, at which time the Federal Funds came to light and to late for us to make the necessary correction. We will take the necessary steps too insure that federal funds are properly used and deposited in accordance with State and Federal guidelines.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles F. Reid".

Charles F. Reid  
Clerk of the House

CFR/smb

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