

SOUTH CAROLINA SEA GRANT CONSORTIUM

CHARLESTON, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2004

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 1, 2005

The Honorable Mark Sanford, Governor
and
Members of the Board of Directors
South Carolina Sea Grant Consortium
Charleston, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Sea Grant Consortium (the Consortium), solely to assist you in evaluating the performance of the Consortium for the fiscal year ended June 30, 2004, in the areas addressed. The Consortium'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 and internal controls over the selected receipt transactions were adequate to detect errors and/or irregularities.
- 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 from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.
- We observed and evaluated the accountability and security over permits, licenses, and other documents issued for money.

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

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, were bona fide disbursements of the Consortium, 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. 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 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; 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 to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Personal Services Funding in the Accountant's Comment section of this report.

4. **Journal Entries**

- We inspected selected recorded journal entries 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.

The individual transactions selected 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 Consortium 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.

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 Consortium for the year ended June 30, 2004, and inspected selected reconciliations of balances in the Consortium'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 Consortium'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 Consortium's accounting records and/or in STARS.

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

7. **Compliance**

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

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, 2004, prepared by the Consortium 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.

9. **Schedule of Federal Financial Assistance**

- We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2004, prepared by the Consortium 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 were reasonable; and if they agreed with the supporting workpapers and accounting records.

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

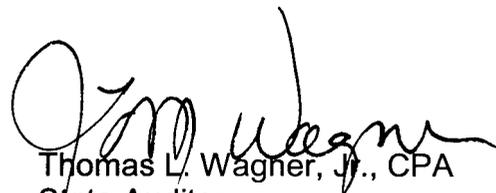
10. **Status of Prior Findings**

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 Consortium resulting from our engagement for the fiscal year ended June 30, 2001, to determine if adequate corrective action has been taken. We applied no procedures to the Consortium's accounting records for the years ended June 30, 2002 and 2003.

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 Governor and of the governing body and management of South Carolina Sea Grant Consortium 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.

PERSONAL SERVICES FUNDING

While testing payroll transactions, we found the Consortium had charged personal services costs for an administrative employee entirely to federal funds for part of the year. The funding change was made in order to assist the Consortium's budget shortage within General funds.

The Consortium did not have documentation to support charging the employee's salary to federal funds. Therefore, we were unable to determine if the costs were reasonable.

Office of Management and Budget Circular A-87, Attachment A, Section C, states, costs must be reasonable and necessary for the performance and administration of Federal awards. The charges must be allocable to the federal award.

We recommend the Consortium allocate personal services costs to appropriate funds on a reasonable basis. We also recommend the Consortium develop and conduct time and effort studies to ensure reasonableness of the allocation. And, since the Consortium could not support the personal service costs, we recommend the Consortium refund the unsupported expenditures to the federal grantor.

FEDERAL PROJECT CODES

While vouching the Consortium's Schedule of Federal Financial Assistance, we noted the Consortium uses the same project code (5000) for all of their grants. Therefore, in the Statewide Accounting and Reporting System (STARS), all grant expenditures and revenues are accounted for in one project code and are not separated by each individual grant. The Consortium was unaware of the requirement for a unique project code for each grant.

STARS manual, section 3.2.3.4 states that "agencies must request a separate number for each Federal grant or contract".

We recommend the Consortium assign each of their grants its own project code and make necessary allocations to separate the one project code into separate accounts by grant.

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 Consortium for the fiscal year ended June 30, 2001, and dated October 21, 2002. We applied no procedures to the Consortium's accounting records and internal controls for the years ended June 30, 2002 and 2003. We determined that the Consortium has taken adequate corrective action on each of the findings.

MANAGEMENT'S RESPONSE

September 21, 2005

**RESPONSE TO ACCOUNTANT'S COMMENTS
S C SEA GRANT CONSORTIUM
FY04**

Personal Services Funding

The agency due to the state budget crisis over the past four years, has been able to absorb budget cuts and avoid a reduction-in-force by reducing the percentage of state funded positions in the agency and transferring the reduced percentages of state funding to federal/other funds through the state budget process.

In anticipation of yet another budget cut in July 2005, an employee of the agency who was on the TERI plan offered to resign since the employee was fully state funded. The employee's resignation enabled the agency to again avoid a reduction-in-force. The employee was asked to continue to work for the Consortium in a position established with federal funds. The employee continued in the federally funded position which is 75% funded with Sea Grant administrative program funds without a change in the employee's previously established duties.

Due to a restoration of a portion of the agency's state budget allocation and to correct the allocation of the employee's personal services, the agency has already taken steps to restore a percentage of state funding to the employee's position as recommended by the State Auditor's office. The restoration of a percentage of state appropriated funds will allocate personal services costs to appropriate funding sources and allow the employee to perform and administer both state and federal duties within the auspices of OMB Circular A-87, Attachment A, Section C.

The Consortium administers among other grants, the Sea Grant funds for the State of South Carolina. The agency can support the personal service costs attributed to the administrative employee during the last quarter of the FYE04.

Federal Project Codes

During the review of the South Carolina Sea Grant Consortium's Schedule of Federal Financial Assistance (SFFA), it was noted that the Consortium uses the same project code (5000) for 12 of the Consortium's external federal grants examined by the Auditor's office.

The Consortium was unaware it was necessary to assign a unique project code to each of its grant awards. We were told by the state budget office that all of our grants are considered research and therefore we were only required to submit a GCR-6 and a copy of the grant award document page, which have been consistently prepared. During the audit of our FY01 records, which included a review of our SFFA, the audit team found irregularities with our SFFA and recommended changes which were implemented. At no time during the FY01 audit was the project code (5000) brought to our attention as an issue; had it been, we would have corrected the problem at that time.

During the FYE 2004 audit, the auditors were given the GAAP working papers of the Consortium. The working papers included Group Object Management Reports, Type Object Management Reports by Fund Group, the Fund Code Master Report and Description Master Report. We explained that each group represented a different Federal Grant Award. The Fund Group Name listed the Federal Grant Award Number for the Fund Group Code. For example, Fund Group Code '250' represented NOAA Grant Award No. NA16RG2250. This Fund Group Code is attached to each Fund associated with that grant.

At any time, the Consortium can run a report on any of its Federal grant awards/contracts for either total amount received or expended during the fiscal year. Reports can also be run for phase code purposes. Consortium staff can also identify the grant on CGO reports by looking at the Fund Code listed on these reports. For example, the Cash Transaction Register will have a multi-purpose code which represents the Fund Code. The Fund Code could then be used to find the associated grant.

The auditors were informed of the Fund Group Code but Consortium staff was not questioned concerning the Fund Code use and its association with the Federal grant awards.

Nevertheless, the Consortium will comply with the STARS manual, section 3.2.3.4, which states that "agencies must request a separate project number for each Federal grant or contract" as recommended by the Auditor's office.

Elaine Knight
Assistant Director

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