

**SOUTH CAROLINA STATE LIBRARY
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2007

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 24, 2008

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 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, 2007, 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, \$13,100 – earmarked fund, \$39,300 restricted fund, and \$19,500 – federal fund) and ± 10 percent.

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 (\$71,700 – general fund, \$18,900 – earmarked fund, \$39,200 - restricted fund and \$18,200 – 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 all 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.

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October 24, 2008

- 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 (\$71,700 – general fund, \$18,900 – earmarked fund, \$39,200 – restricted fund and \$18,200 – 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 journal entry transactions selected were chosen randomly. Our finding as a result of the procedures is presented in Maintenance of Records 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 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, 2007, and inspected selected reconciliations of balances in the Comptroller General'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, 2007, 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 finding as a result of these procedures is presented in Compensated Absences Closing Package 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, 2007, 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; and if the amounts agreed with the supporting workpapers and accounting records.

We found no exceptions as a result of the procedures.

10. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the State Library resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Commission had taken corrective action.

Our findings as a result of these procedures are presented in Section C 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
October 24, 2008

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.

CODING OF REVENUE

We tested 25 transactions in the test of cash receipts and noted three transactions were posted using incorrect object codes. The receipts were reimbursements of photocopy costs and were properly accounted for as reimbursements of expenditures. However the transactions were recorded using object code 5018 (library books, maps and film non-capitalizable) instead of using object code 0303 (copying equipment supplies). A similar finding was noted in our fiscal year 2006 report.

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

We recommend the State Library strengthen its policies and procedures to ensure that the preparers of accounting transactions are familiar with STARS accounting object codes. We also recommend that the State Library implement procedures that require an independent review of accounting transactions to ensure proper coding.

COMPENSATED ABSENCES CLOSING PACKAGE

We inspected the agency prepared compensated absences closing package and were unable to agree the total accrued annual and compensatory leave amounts reported on the compensated absences summary form to supporting documentation. The summary form was overstated \$58. According to agency personnel, the difference related to compensatory leave which could not be supported.

Section 3.17 of the GAAP Closing Procedures Manual instructions requires agencies to retain workpapers to support all information entered on the compensated absences closing package.

We recommend that the agency implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Closing Procedures Manual instructions and that source documentation is retained to support each closing package amount.

SECTION B - OTHER WEAKNESSES

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

CALCULATION OF PAY

For three out of eight employees tested in our test of terminations, we determined the agency miscalculated the employees' pay and underpaid the employees a total of \$71. The employees worked a partial pay period. When performing the partial pay calculation, agency personnel used the employees' annual hourly rate instead of a percentage of the employees' semi-monthly salary. A similar finding was noted in our fiscal year 2006 report.

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

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 the payroll calculation to ensure the calculations are mathematically accurate and agree to source documentation.

MAINTENANCE OF RECORDS

The agency was unable to locate one operating transfer we requested for testing. According to agency personnel, the document was misplaced.

Sound internal controls should be in place to ensure that accounting documents are retained and filed in an orderly and secure manner.

We recommended the State Library strengthen its procedures to ensure proper safeguarding and accountability of accounting documents.

POSTING OF DEPOSITS

We noted that one out of 25 cash receipts tested was not posted to the accounting records in a timely manner. The transaction was posted seven days after the deposit was made. A similar finding was noted in our fiscal year 2006 report.

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 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.

SECTION C - 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 State Library for the fiscal year ended June 30, 2006, and dated May 30, 2007. We determined that the State Library has taken adequate corrective action on the findings regarding Closing Packages and Schedule of Federal Financial Assistance. We determined the other deficiencies described in our prior report still exist; consequently we have repeated similar findings regarding Coding of Revenue, Calculation of Pay and Posting of Deposits in Section A and Section B of the report.

MANAGEMENT'S RESPONSE



south carolina STATE LIBRARY

January 14, 2009

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor Office
of the State Auditor
1401 Main St., Suite 1200
Columbia, S.C. 29201

Dear Mr. Gilbert:

In response to your letter, I have reviewed the preliminary draft copy of your report for fiscal year ending June 30, 2007. As requested, the following comments are provided:

Section A- Violations of State Laws, Rules or Regulations

Coding of Revenue: The State Library agrees that three transactions were noted as being incorrectly coded. The transactions contained incorrect objects. The State Library recognizes that object codes were incorrectly used. However, these transactions occurred before the previous audit and therefore we were unable to correct those transactions. We have corrected the problem and put measures in place to avoid the errors in the future.

Compensated Absences Closing Package: The closing package was prepared by the former Finance Director. We agree that there was not enough supporting documentation and we have complied with the rules and regulations for GAAP closing packages now.

Section B- Other Weaknesses

Calculation of Pay: The State Library agrees that we have been incorrectly calculating the employees' pay. The agency met with the former auditors and thought we had set up measures to be in compliance. We had in fact, still been incorrectly performing

calculations. Ed Tussin provided us with a calculation sheet which is now being used to calculate the employees' pay. The State Library is now in compliance.

Maintenance of Records: The State Library was unable to locate one operating transfer that was requested. While we do everything we can to insure that documents are securely kept we acknowledge that this one document was missing from our files. We will review procedures for files with the Finance staff to insure better control.

Posting of Deposits: The State Library agrees that one out of twenty-five deposits tested was not posted in a timely manner. We have reviewed procedures with the Finance staff to insure timely postings.

Section C- Status of Prior Findings

The State Library Finance Staff reviewed all findings in the prior audit and agreed upon ways to correct the findings. I feel that we have now brought the department in compliance with the findings. We were unable to correct the documents found in section B of the current report because the fiscal year had already closed when we received the audit finding reports the previous year. Had the Auditors tested months one and two of the new fiscal year we should have been in compliance.

You may consider this letter authorization to release your report. As requested, attached is a list of our current Board Members and mailing addresses along with a copy of this response on diskette.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Goble", written over a light gray rectangular background.

David Goble
Director

4 copies of this document were published at an estimated printing cost of \$1.58 each, and a total printing cost of \$6.30. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.