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Independent Accountants' Report on  
Applying Agreed-Upon Procedures at  
South Carolina Office of the  
State Auditor  
Columbia, South Carolina

*for the year ended June 30, 2006*

# *State of South Carolina*



## *Office of the State Auditor*

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RICHARD H. GILBERT, JR., CPA  
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January 23, 2007

Members of the State Budget and Control Board  
State of South Carolina  
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain accounting records of the South Carolina Office of the State Auditor for the fiscal year ended June 30, 2006, was issued by Brown CPA, LLC, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/cwc

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## Independent Accountants' Report on Applying Agreed-Upon Procedures

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by management of the South Carolina Office of State Auditor, solely to assist you in evaluating the performance of the South Carolina Office of the State Auditor for the fiscal year ended June 30, 2006, in the areas addressed. The South Carolina Office of the State Auditor'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 used estimations and other procedures to evaluate the reasonableness of collected and recorded amounts by revenue account.

The individual transactions selected were chosen systematically. Our finding as a result of these procedures is presented in the Accountants' 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, were bona fide disbursements of the South Carolina Office of the State Auditor, 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 systematically. 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 to detect errors and/or irregularities.
- 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; 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 systematically. We found no exceptions as a result of the procedures.

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

- We inspected selected recorded journal entries, operating transfers, and 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 to detect errors and/or irregularities.

The individual transactions selected were chosen systematically. 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 South Carolina Office of the State Auditor 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 systematically. We found no exceptions as a result of the procedures.

**6. Reconciliations**

- We obtained all monthly reconciliations prepared by the South Carolina Office of the State Auditor for the year ended June 30, 2006, and inspected selected reconciliations of balances in the South Carolina Office of the State Auditor 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 South Carolina Office of the State Auditor'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 South Carolina Office of the State Auditor's accounting records and/or in STARS.

The reconciliations selected were chosen systematically. Our finding as a result of these procedures is presented in the Accountants' Comments section of this report.

**7. Compliance**

- We confirmed through inspection of payroll and non-payroll disbursement vouchers, cash receipts and other documents, inquiry of South Carolina Office of the State Auditor personnel and/or observation of South Carolina Office of the State Auditor personnel performing their assigned duties, the South Carolina Office of the State Auditor'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 2006.

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 South Carolina Office of the State Auditor 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.

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 members of the State Budget and Control Board, South Carolina Office of the State Auditor, the Deputy State Auditor and management of the South Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

BROWN CPA, L.L.C.

Irmo, South Carolina  
January 10, 2007

## ACCOUNTANTS' COMMENTS

The procedures agreed to by the South Carolina Office of the State Auditor 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.

### **Section A – Other Weaknesses Not Considered Material**

The conditions described in this section have been identified as weaknesses subject to correction or improvement but they are not considered material weaknesses or violations of State Laws, Rules, or Regulations.

## CASH RECEIPTS AND REVENUE

In performing our procedures on the Cash Receipts and Revenue section of the engagement we noted that during the year the South Carolina Office of State Auditor disposed of certain surplus equipment. The proceeds from the sale were recorded to the accounting records under object code 7854 Sale of Machinery and Equipment (Capitalized). The equipment disposed of did not meet the classification requirements of this object code and, rather, should have been recorded to object code 7859 Sale of Machinery and Equipment (Non-Capitalized).

We recommend that a more thorough review of the periodic financial reporting, in particular the Statement of Estimated and Actual Revenue report as prepared by the Office of the Comptroller General be performed to insure that recorded transactions are consistent with the underlying activities.

## RECONCILIATIONS

In performing our procedures on the reconciliations section of the engagement we noted that certain monthly revenue and cash receipt reconciliations did not have adequate explanations or documentation attached to or otherwise documented within the reconciliation supporting the differences between the amounts recorded in STARS as reflected on the Comptroller General's reports as compared to the amounts recorded by the South Carolina Office of State Auditor within their accounting system.

We recommend that a more thorough review of the periodic financial reporting, in particular the Statement of Estimated and Actual Revenue report as prepared by the Office of the Comptroller



General be performed to insure that differences between STARS and the South Carolina Office of State Auditor are adequately identified and explained as part of the reconciliation package.

**Section B – Status of Prior Comments**

There were no findings reported in the Accountants' Comments section of the previous Independent Accountants' Report on the Office of the State Auditor for the fiscal year ended June 30, 2005, and dated January 11, 2006.

## ATTACHMENT A

# *State of South Carolina*



## *Office of the State Auditor*

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### **Management Response**

#### CASH RECEIPTS AND REVENUE

In order to mitigate the possibility of future minor object code errors, a more careful application of the object codes to transactions will be performed. In addition a more careful review of STARS Manual revisions and periodic financial reports will be conducted.

#### RECONCILIATIONS

In addition to the expense reconciliation worksheet, a revenue accounts reconciliation worksheet will be added to each monthly reconciliation to more fully explain any differences between the STARS and BARS accounts.

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  
January 23, 2007