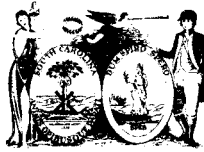


South Carolina Office of the State Treasurer  
Independent Accountants' Report on  
Applying Agreed-Upon Procedures  
*for the year ended June 30, 2003*

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
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July 7, 2004

The Honorable Grady L. Patterson, Jr., State Treasurer  
State of South Carolina  
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to the accounting records of the South Carolina State Treasurer's Office for the fiscal year ended June 30, 2003, was issued by Scott McElveen, L.L.P., Certified Public Accountants, 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,

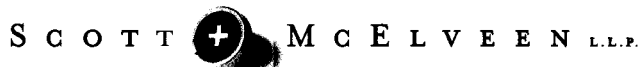
A handwritten signature in black ink, appearing to read "Tom Wagner".

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

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

Mr. Thomas L. Wagner, Jr., CPA  
 State Auditor  
 South Carolina Office of the State Auditor  
 Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Board of Trustees and management of Office of the State Treasurer (the "Agency") and the South Carolina Office of the State Auditor, solely to assist you in evaluating the accounting records of the Agency for the fiscal year ended June 30, 2003, in the areas addressed. The Agency'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. We selected certain recorded receipts to determine if these receipts were properly described and classified in the accounting records and if internal controls over the tested receipt transactions were adequate. We also selected certain 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, using estimations and other procedures, made inquiries regarding the reasonableness of collected and recorded amounts by revenue account. The individual transactions were chosen randomly. We found no exceptions as a result of these procedures.
2. We selected certain recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Agency, 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. We also selected certain 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 and made inquiries regarding 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 these procedures.

### CERTIFIED PUBLIC ACCOUNTANTS

Member: AICPA, SCACPA, SEC Practice Section  
 An Independent Member of the BDO Seidman Alliance

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3. We selected certain recorded payroll disbursements to determine if the tested 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 tested payroll transactions were adequate. We selected certain 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 also selected certain 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 performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing 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. We found no exceptions as a result of the procedures.
4. We selected certain 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 if the internal controls over these transactions were adequate. The individual transactions selected were chosen randomly. We found no exceptions as a result of these procedures.
5. We selected certain entries and monthly totals in the subsidiary records of the Agency 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 if the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained monthly reconciliations prepared by the Agency for the year ended June 30, 2003 and determined that the reconciliations were signed and dated by both the preparer and reviewer and that the reconciliations were dated at a reasonable time after month end. Our finding as a result of these procedures is presented in the Accountants' Comments section of this report.
7. We made inquiries regarding the Agency's compliance with applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for the year ended June 30, 2003. We found no exceptions as a result of the procedures.
8. We obtained copies of all closing packages as of and for the year ended June 30, 2003, prepared by the Agency and submitted to the Comptroller General. We reviewed 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. Our finding as a result of these procedures is presented in the Accountants' Comments section of this report.

9. We inquired of the Agency's management regarding federal assistance expended by the agency for the year ended June 30, 2003. According to the management, the Agency did not receive or expend any federal funds for the year ending June 30, 2003.

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 management of Office of the State Treasurer and 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.

*Scott McElwain, L.L.P.*

Columbia, South Carolina  
June 16, 2004

## **Section A – Findings**

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 internal controls. A material weakness is a condition in which the design or operation of one 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 below 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.

### **Review of Reconciliations**

During our procedures related to the Agency accounting department's reconciliations of its records to the Comptroller General's records, we found that the reconciliations for two months were not signed and dated by either preparer or reviewer. We also noted that reconciliations for six months were not prepared in a timely manner as recommended by the Comptroller General's office. Upon inquiry of the Agency's management, we learned that there was a shortage of accounting personnel during that time of the year; therefore, no one was available to perform the review. These reconciliations are prepared on a timely basis by the individual departments of the Agency.

The reconciliation of the Agency's records to the Comptroller General's by the accounting department is a critical control in maintaining the integrity of the Agency's and the State's accounting records. Without the proper performance and approval of this process, errors could exist in the Agency's records or the Comptroller General's records and not be detected. Even in times of personnel shortage, the Agency's management should find a way to perform all necessary reviews in a timely manner. We recommend that when this situation occurs in the future, that the personnel in the accounting department responsible for preparing the reconciliations notify management that the reconciliations are not being reviewed so that appropriate action may be taken.

### **Discrepancy of Closing Package**

During our review of closing packages, we noted that the compensated absence package total was incorrect. Per discussion with Human Resource personnel, the discrepancy is due to the fact that there was an error in the spreadsheet containing the compensated absences detail.

It is recommended that all reports supporting closing package amounts are footed to ensure that the reports are correctly stated.

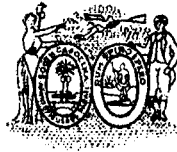
**Section B – Status of Prior Findings**

There were no prior findings for the year ended June 30, 1999, the last year for which an agreed-upon procedure report was issued for Office of the State Treasurer.



# OFFICE OF STATE TREASURER

GRADY L. PATTERSON, JR.  
STATE TREASURER



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June 30, 2004

Mr. Thomas L. Wagner, Jr., CPA  
State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Wagner:

We have received the preliminary draft copy of the Independent Accountants' Report on Applying Agreed-Upon Procedures performed on internal controls and accounting records of the Office of the State Treasurer for the fiscal year ending June 30, 2003. A review of the report has been completed and below is our response to items discussed in the Accountants' Comments.

#### Reconciliations

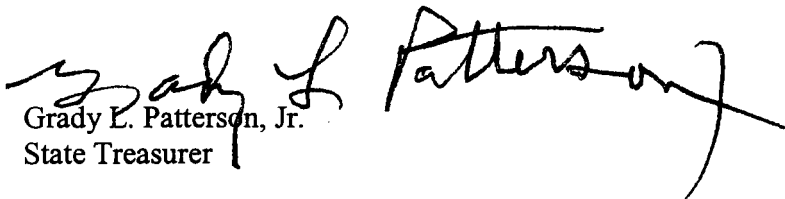
With budget reductions and a reduced staff, our office has shifted the official reconciliation process to another area of the agency to ensure compliance with separation of duties. Administration does however still perform an unofficial and timely reconciliation of the accounting records. As soon as any discrepancies are noted, corrective measures are taken. Our office will ensure that the official reconciliations are performed in a timely manner and be signed and dated by both the preparer and reviewer.

#### Discrepancy of Closing Package

Beginning in August 2003, the State Treasurer's Office began using the state's electronic leave system. The implementation of this system will eliminate the use of spreadsheets by generating the report needed for closing package purposes.

I would like to commend Scott McElveen, L.L.P. for their proficiency and professionalism in conducting the engagement. Their comments and our discussions will benefit us in the future.

Sincerely,

  
Grady L. Patterson, Jr.  
State Treasurer