

South Carolina Budget and Control Board

Columbia, South Carolina

Independent Accountants' Report on

Applying Agreed-Upon Procedures

for the year ended June 30, 2009

State of South Carolina



Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 29, 2010

The Honorable Mark Sanford, Governor
and
Members of the South Carolina State Budget and Control Board
Columbia, South Carolina

This report resulting from the application of certain agreed-upon procedures to certain internal controls and accounting records of the Budget and Control Board for the fiscal year ended June 30, 2009, 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 "Richard H. Gilbert Jr.", written in a cursive style.

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

RHGjr/trb

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Independent Accountants' Report on Applying Agreed-Upon Procedures

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

We have performed the procedures described below, which were agreed to by the Members of the Board and management of South Carolina Budget and Control Board (the "Board") and the South Carolina Office of the State Auditor (the "State Auditor"), solely to assist you in evaluating the performance of the Board for the fiscal year ended June 30, 2009, in the areas addressed. The Board'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 25 selected recorded receipts to determine if these receipts were properly described and classified in the accounting records in accordance with the Board's policies and procedures and State regulations.
- We inspected 10 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 remittances 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 earmarked, restricted and federal funds to ensure that revenue was classified properly in the Board's accounting records. The scope was based on agreed-upon materiality levels (\$350,000 – earmarked fund, \$120,000 – restricted fund, and \$47,000 – federal fund) and +/- 10 percent.

- We made inquiries of management pertaining to the Board's policies for accountability and security over documents issued for money. We observed Board personnel performing their duties to determine if they understood and followed the described policies.

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

2. **Non-Payroll Disbursements and Expenditures**

- We inspected 25 selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Board's policies and procedures and State regulations, were bona fide disbursements of the Board, 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 10 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 Board's accounting records. The scope was based on agreed-upon materiality levels (\$140,000 – general fund, \$350,000 – earmarked fund, \$120,000 – restricted fund, and \$47,000 – federal fund) and +/- 10 percent.

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

3. **Payroll Disbursements and Expenditures**

- We inspected 25 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 Board's policies and procedures and State regulations.
- We inspected 2 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 5 selected new employees and 5 individuals who terminated employment to determine if the employees were added and/or removed from the payroll in accordance with the Board'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, earmarked, restricted and federal funds to ensure that expenditures were classified properly in the Board's accounting records. The scope was based on agreed-upon materiality levels (\$140,000 – general fund, \$350,000 – earmarked fund, \$120,000 – restricted fund, and \$47,000 – 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 Board's accounting records.

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

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

- We inspected 15 selected recorded journal entries, 5 operating transfers, and 5 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 when necessary, and were mathematically correct; and the transactions were processed in accordance with the Board's policies and procedures and State regulations.

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 Board 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 Board's policies and procedures and State regulations.

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

6. Reconciliations

- We obtained all of the monthly reconciliations prepared by the Board for the year ended June 30, 2009, and inspected selected reconciliations of balances in the Board'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 Board'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 Board's accounting records and/or in STARS.

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

7. Appropriation Act

- We inspected Board documents, observed processes, and/or made inquiries of Board personnel to determine the Board's compliance with Appropriation Act general and Board specific provisos.

We found no exceptions as a result of the procedures.

8. Closing Packages

- We obtained copies of closing packages as of and for the year ended June 30, 2009, prepared by the Board 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.

9. Status of Prior Finding

- We inquired about the status of the finding reported in the Accountants' Comments section of the Independent Accountants' Report on the Board resulting from our engagement for the fiscal year ended June 30, 2008, to determine if the Board had taken corrective action.

Our finding as a result of these procedures is presented in Section B in the Accountants' Comments section of this report.

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, the Members of the Board, management, 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 McElveen, LLP

Columbia, South Carolina
June 30, 2010

SECTION A – VIOLATION 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 condition described in this section has been identified as a violation of State Laws, Rules, or Regulations.

Reconciliations Were Not Completed Timely

We detected the following exception as a result of the procedures performed on the Board's selected monthly reconciliations:

- Revenue and expenditures reconciliations were not performed timely for the months of July, August, September, October, November, and December 2008 as well as January 2009.

The employee responsible for the preparation of monthly reconciliations was on sick leave for an extended period of time which contributed significantly to the reconciliations not being prepared timely. Therefore several months of reconciliations were performed at a much later date than required. The Comptroller General's Office STARS Policy and Procedures Manual requires State agencies to document reconciliations of accounting records at least monthly. The reconciliations must be signed and dated by the preparer, as well as reviewed and approved by an appropriate Board official other than the preparer. We recommend that the Board review their monthly reconciliation process to ensure that they are acting in accordance with the regulations of the State of South Carolina.

SECTION B – STATUS OF PRIOR FINDING

During the current engagement, we reviewed the status of corrective action taken on the finding reported in the Accountants' Comments section of the Independent Accountants' Report on the Board for the fiscal year ended June 30, 2008, and dated June 23, 2009. The following is the status of the prior year finding:

Prior Year Finding:

Status:

Improper Completion of Reconciliations

Similar finding in Section A of current year report

MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

RICHARD ECKSTROM, CPA
COMPTROLLER GENERAL



SC BUDGET AND CONTROL BOARD

Office of Internal Operations
STEPHEN L. ELLIOTT
DIRECTOR
(803)737-0500
FAX: (803) 737-1978

HUGH K. LEATHERMAN, SR.
CHAIRMAN, SENATE FINANCE COMMITTEE

DANIEL T. COOPER
CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE

FRANK W. FUSCO
EXECUTIVE DIRECTOR

June 25, 2010

Mr. Donald J. Mobley, CPA
Partner - Assurance and Advisory Services
Scott, McElveen L.L.P.
1441 Main Street, Suite 800
Columbia, South Carolina 29202

Dear Mr. Mobley,

In reviewing the finding resulting from the Agreed Upon Procedures engagement for the fiscal year ending June 30, 2008, the South Carolina Budget and Control Board submits the attached response.

If you have any questions concerning our response, please contact me at 737-5906.

Sincerely,

Renee D. Herndon
Manager of Audits and Fiscal Reporting
Office of Internal Operations
Budget and Control Board



MARK SANFORD, CHAIRMAN
GOVERNOR

CONVERSE A. CHELLIS III, CPA
STATE TREASURER

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FRANK W. FUSCO
EXECUTIVE DIRECTOR

SC BUDGET AND CONTROL BOARD

Office of Internal Operations
STEPHEN L. ELLIOTT
DIRECTOR
(803) 737-0500
FAX: (803) 737-1978

South Carolina Budget and Control Board

Management's Response For the Year Ended June 30, 2009

Section A - Violations of State Laws, Rules, or Regulations

Reconciliations Were Not Completed Timely

"Revenue and expenditure reconciliations were not performed timely for the months of July, August, September, October, November, and December 2008 as well as January 2009."

Due to an employee's extended illness, certain months were reconciled cumulatively in order to bring the Board's reconciliations current. Beginning with February 2009, each remaining month in the fiscal year was reconciled individually per the Comptroller General's Office STARS Policies and Procedures Manual.