

**SOUTH CAROLINA  
HOUSE OF REPRESENTATIVES  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2008**

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# *State of South Carolina*



## *Office of the State Auditor*

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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 29, 2009

Members of the South Carolina House of Representatives  
South Carolina General Assembly  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Clerk of the South Carolina House of Representatives (the House), solely to assist you in evaluating the performance of the House for the fiscal year ended June 30, 2008, in the areas addressed. The House'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 all fiscal month 12 and 13, fiscal year 2008 and fiscal month 01, fiscal year 2009 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 and earmarked funds to ensure that revenue was classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$260 – general fund and \$1,400 earmarked fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Deposit 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 House's policies and procedures and State regulations, were bona fide disbursements of the House, 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 and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$70,400 – general fund and \$1,300 – earmarked fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Object Codes and Use Tax in the Accountant's section of this report.

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 selected 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.
- 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 and earmarked funds to ensure that expenditures were classified properly in the agency's accounting records. The scope was based on agreed upon materiality levels (\$70,400 – general fund and \$1,300 – earmarked fund) and  $\pm 10$  percent.

- We compared the percentage change in recorded personal service expenditures to the percentage change in employer contributions. We investigated changes of  $\pm 5$  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 Pay Calculation in the Accountant's Comments section of this report.

4. **Journal Entries and Appropriation Transfers**

- We inspected all recorded journal entries and 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.

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 House 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 haphazardly. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the House year ended June 30, 2008, and inspected selected reconciliations of balances in the House'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 House'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 House's accounting records and/or in STARS.

The reconciliations selected were judgmentally chosen. 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 House'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, 2008, prepared by the House 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 findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments Section of this report.

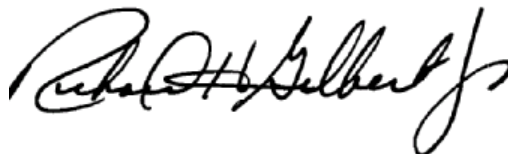
9. **Status of Prior Findings**

- We inquired about the status of the findings reported in the Accountant's Comments section of the State Auditor's Report on the House resulting from our engagement for the fiscal year ended June 30, 2008, to determine if the House had taken corrective action.

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 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 Clerk of the House and Members of the House of Representatives and is not intended to be and should not be used by anyone other than these specified parties.



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.

## **DEPOSIT**

During our test of cash receipts, we determined that one of the twenty-five receipts tested was not deposited in a timely manner. Our review of receipt number 2479, issued by the House Ethics Committee, documented that a check was received on March 31, 2008. However, the check was not forwarded to bookkeeping until April 11, 2008. House staff explained that the employee responsible for collecting Ethics Committee receipts had been out on disability leave. When the staff member's duties were reassigned to another individual, the check was discovered and immediately forwarded to bookkeeping. Bookkeeping deposited the check timely.

South Carolina Code of Laws section 12-36-2120 (61) requires that "...Funds received as revenue from the sale of materials or as reimbursements for the cost of providing certain supplies or services or refunds must be remitted to the State Treasurer as collected, but in no event later than twelve working days from the date of the receipt of any such funds.

We recommend that the House strengthen its procedures to ensure that receipts are deposited in accordance with State law.

## **OBJECT CODES**

During our analytical review of expenditures, we noted that a payment of \$228 for attorney fees was incorrectly recorded to object code 0204, Data Processing Services rather than to object code 0240, Attorney Fees.

Section 2.1.6.20 of the Comptroller General's Statewide Accounting and Reporting Manual (STARS) provides definitions of expenditure object codes to help agencies properly classify expenditures.

We recommend the House perform a careful review of voucher packages to ensure that expenditures are charged to the correct object codes as defined in the STARS Manual.

## **PAY CALCULATION**

We tested the final payroll calculations of 25 employees who separated employment and noted that the House incorrectly calculated the final pay for one of the employees tested. The House staff calculated the terminated employee's partial pay based upon hours worked during the pay period instead of the percentage of time worked during the pay period.

Generally accepted accounting principles (GAAP) require that transactions be given consistent accounting treatment. Because the number of work days or hours available in each pay period varies, using an annual rate to calculate partial pay produces inconsistent results among pay periods. Accordingly, the Comptroller General's Office has recommended using a proportionate time approach for calculating partial pay.

We recommend the House calculate partial pay using percentage of time worked during the pay period to ensure consistent accounting treatment.

## **CLOSING PACKAGES**

### **Introduction**

The Office of the Comptroller General (CG) obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency prepared closing packages. To accurately report the Office's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore, Reference 1.7 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that "The accuracy of closing package data is extremely important. Large errors jeopardize the accuracy of the State's financial statements. The existence of even "small" errors tends to cast doubt on the State internal control structure's ability to detect and correct errors. Reference 1.7 further states that a supervisory employee should perform a

review that includes tracing all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself. The following describes the errors noted on certain fiscal year 2008 closing packages:

### **Litigation Closing Package**

We found that the House did not report one case on the Litigation Overview Form which was reported on the Litigation Contingency Report Form in the prior year. This omission occurred because the preparer believed the Litigation Overview Form did not provide an appropriate box description of the status of the case. The Clerk of the House advised that the time for appeal for the case had lapsed. The case was previously reported under the situation labeled C1: "The situation has been decided, but appeal is reasonably possible. Potential gain or loss is \$500,000 or more".

The GAAP Manual Reference 3.13 states to complete a Litigation Overview Form "for all actual and threatened cases that were pending for your agency at June 30, all that have arisen since June 30, any others that were reported last year on a Litigation Contingency Report Form, and for payments made to private attorneys during the current fiscal year. Reference 3.13 further describes settled cases as those that were dropped and those that were decided for which the probability of appeal is believed to be remote.

### **Capital Assets Depreciation**

As noted in our finding "Use Tax", the House paid use tax on voucher number 599 that was not due. The voucher was for the purchase of two capitalizable equipment items. The House properly omitted the use tax payment from the capitalizable cost for both items on its capital asset inventory but improperly included use tax in the capitalizable cost of the items on its depreciation schedule. The result of the error was an overstatement of reported depreciation expense for fiscal year 2008.

## **Recommendations**

We recommend that the House implement procedures to ensure that all closing packages contain accurate and complete information in accordance with the GAAP Manual requirements and instructions. The procedures should include an independent review of each closing package by an individual knowledgeable of closing package instructions to ensure the accuracy of the closing package and adequacy of documentation supporting the closing package.

## **SECTION B- OTHER WEAKNESS**

The condition described in this section has been identified while performing the agreed-upon procedures but is not considered a violation of State Laws, Rules or Regulations.

## **USE TAX**

During our review of the capital assets closing package, we noted that the closing package included a reconciling item which documented that the House had improperly paid use tax on voucher number 599. The House discovered the error when preparing the closing package and requested and received a refund from the vendor in fiscal year 2009. House staff told us that the error occurred because the voucher was inadvertently placed in the use tax payment folder during the payment process.

A strong system of internal controls requires a review of all cost data including shipping, sales and use taxes, etc. prior to approving the payment.

We recommend the House perform a careful review of cost data in the voucher packages prior to payment approval to ensure that all costs are appropriate for the payment.

## **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 House for the fiscal year ended June 30, 2007 and dated July 25, 2008. We determined that the House has taken adequate corrective action on each of the findings.

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