SOUTH CAROLINA
LIEUTENANT GOVERNOR’S OFFICE

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2007

CONTENTS

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 15, 2008

The Honorable R. Andre Bauer, Lieutenant Governor
South Carolina Office of the Lieutenant Governor
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Lieutenant Governor's Office (the Office), solely to assist you in evaluating the performance of the Office for the fiscal year ended June 30, 2007, in the areas addressed. The Office'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 ($100 – general fund, $14,900 – earmarked fund, $13,800 – restricted fund, and $88,400 – federal fund) and ± 10 percent.

The individual transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Account Classification, Deposits, Reconciliations, and Transaction Sequence 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 Office, 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 ($41,400 – general fund, $14,000 – earmarked fund, $10,600 – restricted fund, and $90,400 – federal fund) and ± 10 percent.

   The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Expenditure Cut-Off in the Accountant's Comments 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 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.

- 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 ($41,400 – general fund, $14,000 – earmarked fund, $10,600 – restricted fund, and $90,400 – 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 Pay Calculations 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 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 transactions selected were chosen randomly. Our findings as a result of these procedures are presented in Transaction Sequence and Journal Entries 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 Office 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. Our finding as a result of these procedures is presented in Transaction Sequence in the Accountant's Comments section of this report.

6. **Reconciliations**
   - We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2007, and inspected selected reconciliations of balances in the Office'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 Office'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 Office's accounting records and/or in STARS.

   The reconciliations selected were chosen randomly. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.

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 Office 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. **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 Office 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; if the amounts agreed with the supporting workpapers and accounting records.

   Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

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 Office resulting from our engagement for the fiscal year ended June 30, 2006, to determine if the Office had taken corrective action.

    Our findings as a result of these procedures are presented in Account Classification, Pay Calculations, Reconciliations, and Schedule of Federal Financial Assistance in the Accountant's 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 and of the management of the Lieutenant Governor's Office 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.

ACCOUNT CLASSIFICATION

In our test of cash receipts and analytical review of revenues, we noted several instances in which the Office recorded transactions to the wrong object codes.

1. The Office recorded receipt number CC00044 for $178 to its accounting system (GAFRS) using object code 7201 – Miscellaneous Revenue. The same transaction was recorded to the Comptroller General's records (STARS) using object code 3801 – Refund of Prior Year Expenditures. We were unable to determine the appropriate classification because the receipt lacked sufficient supporting documentation.
2. Receipt number CC00159, representing a refund of expenditure, was recorded to GAFRS under object code 1875 – Aid to Other Entities and to STARS under object code 1775 – Allocation to Other Entities. The Office should have recorded the receipt in both GAFRS and STARS under object code 1875 since this was the object code used for the original expenditure.
3. The Office recorded revenues of $91,326, earned under Medicaid and Medicare contracts with the South Carolina Department of Health and Human Services, using object code 2805 – Federal Grants - Subcontract State Agencies rather than to object code 3901 – Medicaid and Medicare Reimbursement. The Office detected the error during its reconciliation of GAFRS to STARS for fiscal month 13 but was unable to make a correction as the Comptroller General's Office had already closed its books.
4. Training conference registration fees of $60,219 associated with the Office's annual Summer School for Gerontology were recorded to object code 7201 – Miscellaneous Revenue. The Office should have recorded the revenue to object code 4829 – Training Conference Registration Fee.

The Comptroller General's Policies and Procedures Manual (STARS Manual) provides object code definitions to assist agencies in properly classifying transactions.

We recommend that the Office establish appropriate policies and procedures to ensure that personnel responsible for assigning object codes to accounting transactions are knowledgeable of STARS Manual classifications and perform a careful review of the supporting documentation. In addition, the Office should strengthen its controls with regard to the maintenance of supporting documentation to ensure that supporting documentation adequately explain the substance of the transaction and is available for inspection.

DEPOSITS

During our tests of receipts and revenues we were unable to determine if six of the fifty receipts tested were deposited in a timely manner because the Office did not document the date of receipt.

General Proviso 72.1. of the fiscal year 2007 Appropriations Act requires that all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

We recommend that the Office develop and implement procedures to ensure that the date a cash receipt is received is documented.

EXPENDITURE CUT-OFF

During our cut-off test of expenditures, we identified one voucher for $1,000 which the Office paid in the incorrect fiscal year. Supporting documentation showed that the services were provided in June 2007 and the Office approved the payment on June 29, 2007; however, the voucher was paid in fiscal month 01 of fiscal year 2008. Proviso 72.2. of the fiscal year 2008 Appropriations Act states that all funds appropriated from the general fund of the State are appropriated to meet the ordinary expenses of State government for fiscal year 2008.

We recommend that the Office strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year.

PAY CALCULATIONS

Three of the nineteen termination pay transactions and two of the fifteen new hire pay transactions tested contained errors that resulted in total underpayments of $135 and total overpayments of $564. The errors occurred because the Office paid each salaried employee for a partial pay period by multiplying the hours not worked in the pay period by an hourly rate derived from the number of hours in a work year and then subtracting the result from the employee's semi-monthly pay. The Office should have paid the employee based on the proportion of hours worked to the total hours available in 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. In addition, South Carolina Code of Laws section 8-11-30 (A) states, "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees ..."

We recommend the Office revise its procedures to compute pay for partial pay periods based on the percentage of time worked (days or hours as appropriate) to the total available work time (days or hours) in the pay period.

SECTION B - OTHER WEAKNESSES

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

RECONCILIATIONS

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the Comptroller General reports provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper to ensure adequate error detection and to satisfy audit requirements. Agencies are required to perform monthly reconciliations for revenues, expenditures, and ending cash balances and promptly correct errors discovered in the accounting records of the agency or the Comptroller General as appropriate. Internal controls are strengthened when reconciliations are performed at the object code level.

In our review of the fiscal year 2007 reconciliations, test of cash receipts, and analytical review of revenues we noted several instances in which STARS revenue object code balances did not agree with balances in the agency's general ledger (GAFRS) because the Office had not performed its reconciliations at the object code level.

We recommend the Office develop and implement procedures to ensure that reconciliations are performed at the object code level of detail in order to detect errors. Reconciliations should provide documentation demonstrating how GAFRS account balances agree to STARS for revenues, expenditures, and ending cash balances.

TRANSACTION SEQUENCE

Effective internal controls require that the agency maintain the numerical sequence of transactions to ensure that all transactions are accounted for and are properly recorded. During our testing we noted several instances in which document sequences were not properly maintained.

1. We noted three instances in which a receipt number was assigned to more than one transaction.
2. The Office records various types of journal entries. We noted that some types are numbered sequentially while other types are not. While we were able to account for the numerical sequence of the "JE" series, the Office used other series (e.g. "COE" and "FX") that did not follow a numerical sequence. Also, we noted that journal entries made to correct disbursement or receipt vouchers were assigned the same document number as those vouchers plus an alpha suffix. Because various journal entry series were not in numerical sequence, the Office was unable to provide us with a complete population of journal entries for testing.
3. We generated 35 random numbers from the Office's receipt series CC00001 through CC00239 and another 30 random numbers from the range CC00210 through CC00247. We found that 10 numbers within these series were not assigned and did not appear in the Office's accounting system. In addition, we noted that the first number in the series (CC00001) was not used. The Office does not maintain a receipt log and was unable to explain why these numbers were not assigned.

We recommend that the agency implement procedures (e.g. use of a transaction number log) to ensure that all transactions are assigned document numbers in sequence. In addition, the Office should document breaks in sequence and the reasons therefore.

JOURNAL ENTRIES

We tested 25 journal entries and noted eleven did not include a signature evidencing review and approval. We were told that the journal entries were not signed because they were requested by the person who also has authority to approve them. Because the entries were not independently reviewed and approved the likelihood of an error occurring and not being detected in a timely manner increases.

Effective internal controls require that transactions be independently reviewed and approved to ensure the timely detection of errors and prevent unauthorized transactions from occurring.

We recommend that the Office implement procedures to ensure that all journal entries are properly reviewed and approved by the appropriate official who is independent of the preparer. In addition, the journal entries should include the signature of the official to evidence the review and approval.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We tested the Office's fiscal year 2007 schedule of federal financial assistance (SFFA) and noted the following errors:

1) The federal grantor was not listed for CFDA 93.667.
2) The program title for CFDA 93.052 did not agree with the Catalogue of Federal Domestic Assistance.
3) The STARS project and phase codes for CFDA 93.042 and 93.045 did not agree to the Comptroller General's CSA467 report.

The State Auditor's Office provides a letter of instructions to each State agency for the proper completion of the SFFA.

We recommend that the Office ensure that the SFFA is prepared and independently reviewed by staff that is knowledgeable of the requirements of the State Auditor's letter of instructions and federal reporting requirements.

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 Office for the fiscal year ended June 30, 2006, and dated July 17, 2007. We determined that the Office has taken adequate corrective action on each of the findings except we have repeated the following:

2006 Finding	**2007 Finding**
RECEIPTS AND REVENUES	
Deposits	DEPOSITS
Classification of Revenues	ACCOUNT CLASSIFICATION
PAYROLL	
Termination Pay	PAY CALCULATIONS
RECONCILIATIONS	RECONCILIATIONS
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE	SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

In response to our inquiries, we were told that the Office has developed and implemented procedures to correct the weaknesses reported in the prior year. However, because the procedures were implemented after June 30, 2007, we did not perform tests of the new procedures.

MANAGEMENT'S RESPONSE

State of South Carolina
Office of The Lieutenant Governor

Andre Bauer
Lieutenant Governor

Office on Aging
Tony Kester
Interim Director

December 11, 2008

Mr. Richard H. Gilbert Jr., CPA
Office of State Auditor
1401 Main Street Suite 1200
Columbia, SC 29201

Dear Mr. Gilbert:

Thank you for the opportunity to review and respond to your report on the agreed-upon procedures to the accounting records of the South Carolina Lieutenant Governor's Office for the year ending June 30, 2007. Please accept this letter as report release authorization for the Office for the report mentioned previously. Provided below are our comments to each of the findings in the Management's Response section of the report.

Account Classification

In the test of cash receipts and analytical review of revenues, the State Auditor noted several instances in which the Office recorded transactions to the wrong object codes.

1. The Office recorded receipt number CC00044 for $178 to its accounting system (GAFRS) using object code 7201 – Miscellaneous Revenue. The same transaction was recorded to the Comptroller General's records (STARS) using object code 3801 – Refund of Prior Year Expenditures. We were unable to determine the appropriate classification because the receipt lacked sufficient supporting documentation.
2. Receipt number CC00159, representing a refund of expenditure, was recorded to GAFRS under object code 1875 – Aid to Other Entities and to STARS under object code 1775 – Allocation to Other Entities. The Office should have recorded the receipt in both GAFRS and STARS under object code 1875 since this was the object code used for the original expenditure.

1301 Gervais Street, Suite 200 Columbia, SC 29201 (803) 734-9900 • Fax (803) 734-9886

3. The Office recorded revenues of $91,326, earned under Medicaid and Medicare contracts with the South Carolina Department of Health and Human Services, using object code 2805 – Federal Grants - Subcontract State Agencies rather than to object code 3901 – Medicaid and Medicare Reimbursement. The Office detected the error during its reconciliation of GAFRS to STARS for fiscal month 13 but was unable to make a correction as the Comptroller General's Office had already closed its books.
4. Training conference registration fees of $60,219 associated with the Office's annual Summer School for Gerontology were recorded to object code 7201 – Miscellaneous Revenue. The Office should have recorded the revenue to object code 4829 – Training Conference Registration Fee.

The Lieutenant Governor's Office on Aging has strengthened our review of these transactions, the maintenance of the receipts, and the supporting reconciliations. All of these policies and procedures were implemented after receiving our prior findings from the State Auditor's report for the last fiscal year ending June 30, 2006. The report was received by the LGOA on July 17, 2007, which did not allow for these procedures to be implemented from our prior audit since the fiscal year was already closed.

Deposits

During our tests of receipts and revenues we were unable to determine if six of the fifty receipts tested were deposited in a timely manner because the Office did not document the date of receipt.

General Proviso 72.1. of the fiscal year 2007 Appropriations Act requires that all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, be remitted to the State Treasurer at least once each week, when practical.

We recommend that the Office develop and implement procedures to ensure that the date a cash receipt is received is documented.

The agency receives a small amount of deposits for our annual Summer School of Gerontology. Most of these deposits are for registration fees for attendees and vendors who are attending classes. The LGOA follows the policy set by the State Treasurer to remit these funds when practical. Although the LGOA feels that this is not always practical for a weekly deposit of these registration fees. All the deposits for Summer School require the office to check the course schedule for summer school, and to make sure that all the courses are available to the attendee in order to avoid overbooking or cancellation of classes. Once there is confirmation on the availability of the courses the deposit is immediately remitted to the State Treasurer. The LGOA has implemented the recommendations by the State Auditor's Office to strengthen our date receipt procedures.

Expenditure Cut-off

During our cut-off test of expenditures, we identified one voucher for $1,000 which the Office paid in the incorrect fiscal year. Supporting documentation showed that the services were provided in June 2007 and the Office approved the payment on June 29, 2007; however, the voucher was paid in fiscal month 01 of fiscal year 2008.

1301 Gervais Street, Suite 200 Columbia, SC 29201 (803) 734-9900 • Fax (803) 734-9886

Proviso 72.2. of the fiscal year 2008 Appropriations Act states that all funds appropriated from the general fund of the State are appropriated to meet the ordinary expenses of State government for fiscal year 2008. We recommend that the Office strengthen its procedures to ensure that expenditures are recorded in the proper fiscal year.

The Lieutenant Governor's Office on Aging has made the appropriate changes to our policy based on the recommendations by the State Auditor's Office in order to avoid these errors in the future.

Pay Calculations

Three of the nineteen termination pay transactions and two of the fifteen new hire pay transactions tested contained errors that resulted in total underpayments of $135 and total overpayments of $564. The errors occurred because the Office paid each salaried employee for a partial pay period by multiplying the hours not worked in the pay period by an hourly rate derived from the number of hours in a work year and then subtracting the result from the employee's semi-monthly pay. The Office should have paid the employee based on the proportion of hours worked to the total hours available in 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. In addition, South Carolina Code of Laws section 8-11-30 (A) states, "It is unlawful for a person: (1) to receive a salary from the State or any of its departments which is not due; or (2) employed by the State to issue vouchers, checks, or otherwise pay salaries or monies that are not due to state employees ..."

We recommend the Office revise its procedures to compute pay for partial pay periods based on the percentage of time worked (days or hours as appropriate) to the total available work time (days or hours) in the pay period.

I do not agree with this finding and believe all payments were due and correct. The calculations used by this office use a standard hourly rate which is the annual salary divided by the total working hours in a year which is 1950. This results in a constant annualized rate of pay and is not skewed by an arbitrary number of days in a pay period. Salaries are calculated on 260 working days in a year and not days in a pay period. Annual leave is calculated on an annual salary. We were also instructed by your office to use an annual basis for calculating furlough days and not the number of working days in a pay period.

During the audit, we attempted to get some clarification on what is the correct process for a partial payment in a pay period. The State Auditor's Office referenced a memo from twenty three years ago which does reference a change to percentage of working days in a pay period from hours in a year as this agency practices. The Deputy Comptroller General over payroll indicated it is up to each agency to write each payroll correctly and in compliance with state norm. This statement indicates that the memo from twenty three years ago is not to be considered state norm.

1301 Gervais Street, Suite 200 Columbia, SC 29201 (803) 734-9900 • Fax (803) 734-9886

I believe it would benefit all agencies if there were some official statement indicating what is considered the state norm in order to prevent these types of findings. This agency is more than willing to follow any process agreeable to the State Auditor's Office and the Comptroller General's Payroll Office. Any assistance your office could provide would be a benefit to this agency.

In the interim, with no clear direction, we will use percent of working days until we are notified to use another method.

Reconciliations

The Comptroller General's Policies and Procedures Manual (STARS Manual) describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency's accounting records and those in the State's accounting system (STARS) as reflected on the Comptroller General reports provide significant assurance that transactions are processed correctly both in the agency's accounting system and in STARS and that balances presented in the State's Comprehensive Annual Financial Report are proper to ensure adequate error detection and to satisfy audit requirements. Agencies are required to perform monthly reconciliations for revenues, expenditures, and ending cash balances and promptly correct errors discovered in the accounting records of the agency or the Comptroller General as appropriate. Internal controls are strengthened when reconciliations are performed at the object code level.

In our review of the fiscal year 2007 reconciliations, test of cash receipts, and analytical review of revenues we noted several instances in which STARS revenue object code balances did not agree with balances in the agency's general ledger (GAFRS) because the Office had not performed its reconciliations at the object code level.

We recommend the Office develop and implement procedures to ensure that reconciliations are performed at the object code level of detail in order to detect errors. Reconciliations should provide documentation demonstrating how GAFRS account balances agree to STARS for revenues, expenditures, and ending cash balances.

The agency does complete monthly reconciliations for revenue, expenditures, and cash balances. Our internal controls have been strengthened to perform these reconciliations at the object code level. However, due to the late completion of last year's audit the LGOA did not have the opportunity to correctly implement this recommendation from our prior audit dated July 17, 2007 in this current audit because the fiscal year was already closed.

Transaction Sequence

Effective internal controls require that the agency maintain the numerical sequence of transactions to ensure that all transactions are accounted for and are properly recorded. During our testing we noted several instances in which document sequences were not properly maintained.

1. We noted three instances in which a receipt number was assigned to more than one transaction.

1301 Gervais Street, Suite 200 Columbia, SC 29201 (803) 734-9900 • Fax (803) 734-9886

2. The Office records various types of journal entries. We noted that some types are numbered sequentially while other types are not. While we were able to account for the numerical sequence of the "JE" series, the Office used other series (e.g. "COE" and "FX") that did not follow a numerical sequence. Also, we noted that journal entries made to correct disbursement or receipt vouchers were assigned the same document number as those vouchers plus an alpha suffix. Because various journal entry series were not in numerical sequence, the Office was unable to provide us with a complete population of journal entries for testing.
3. We generated 35 random numbers from the Office's receipt series CC00001 through CC00239 and another 30 random numbers from the range CC00210 through CC00247. We found that 10 numbers within these series were not assigned and did not appear in the Office's accounting system. In addition, we noted that the first number in the series (CC00001) was not used. The Office does not maintain a receipt log and was unable to explain why these numbers were not assigned.

We recommend that the agency implement procedures (e.g. use of a transaction number log) to ensure that all transactions are assigned document numbers in sequence. In addition, the Office should document breaks in sequence and the reasons therefore.

The agency has implemented a new policy for our transaction sequencing. All transactions, transfers, and journal entries are now automated, sequenced, and maintained in paper and electronic format with all the required documentation. Also training and staff development have strengthened this process, and should allow for no breaks in sequence or process.

Journal Entries

We tested 25 journal entries and noted eleven did not include a signature evidencing review and approval. We were told that the journal entries were not signed because they were requested by the person who also has authority to approve them. Because the entries were not independently reviewed and approved the likelihood of an error occurring and not being detected in a timely manner increases.

Effective internal controls require that transactions be independently reviewed and approved to ensure the timely detection of errors and prevent unauthorized transactions from occurring.

We recommend that the Office implement procedures to ensure that all journal entries are properly reviewed and approved by the appropriate official who is independent of the preparer. In addition, the journal entries should include the signature of the official to evidence the review and approval.

he Lieutenant Governor's Office on Aging did not have any errors within our journal entry process, but our policy has changed through the recommendation of the State Auditor. All entries require a signed, date stamped form, and are prepared by the appropriate employee, and signed by the official that has the authority to approve these transactions.

1301 Gervais Street, Suite 200 Columbia, SC 29201 (803) 734-9900 • Fax (803) 734-9886

Schedule of Federal Financial Assistance

We tested the Office's fiscal year 2007 schedule of federal financial assistance (SFFA) and noted the following errors:

1) The federal grantor was not listed for CFDA 93.667.
2) The program title for CFDA 93.052 did not agree with the Catalogue of Federal Domestic Assistance.
3) The STARS project and phase codes for CFDA 93.042 and 93.045 did not agree to the Comptroller General's CSA467 report.

The State Auditor's Office provides a letter of instructions to each State agency for the proper completion of the SFFA.

The Lieutenant Governor's Office on Aging will follow the policy set forth by the State Auditor's Office from the letter of instructions given to this office regarding these findings.

We appreciate the professional manner in which your staff conducted this engagement and for the suggestions that you provided to assist us in correcting deficiencies identified in your report.

Sincerely,

Tony Kester
Interim Director

1301 Gervais Street, Suite 200 Columbia, SC 29201 (803) 734-9900 • Fax (803) 734-9886

4 copies of this document were published at an estimated printing cost of $1.78 each, and a total printing cost of $7.12. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.