

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

STATE AUDITOR'S REPORT

JUNE 30, 1998

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 20, 1998

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, solely to assist you in evaluating the performance of the House for the fiscal year ended June 30, 1998, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the 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 tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested 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, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

2. We tested 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 House, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested 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 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected 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 tested 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 also tested payroll 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 various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures, such as comparing current year payroll expenditures to those of the prior year and comparing the percentage change in personal service expenditures to the percentage change in employer contributions, to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested all recorded journal entries and all appropriation transfers to and from other State agencies 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. We found no exceptions as a result of the procedures.
5. We tested 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 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 all monthly reconciliations prepared by the House for the year ended June 30, 1998, and tested 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 they were accurate and complete. For the selected reconciliations, we 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 for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the House'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 1998. Our finding as a result of these procedures is presented in Compensated Absences in the Accountant's Comments section of this report.
8. We obtained copies of all closing packages as of and for the year ended June 30, 1998, prepared by the House and submitted to the State 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 Compensated Absences in the Accountant's Comments section of this report.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the House's financial statements or any part thereof, 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 and members of the South Carolina House of Representatives and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

MATERIAL WEAKNESS AND/OR VIOLATION OF STATE LAWS, RULES OR REGULATIONS

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 and maintaining internal control. 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.

The condition described in this section has been identified as a material weakness or violation of State Laws, Rules, or Regulations.

COMPENSATED ABSENCES

Because the State's accounting system (STARS) is on the budgetary basis, the State Comptroller General obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages. Section 1.8 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states that management of each agency is responsible for submitting closing packages that are "accurate and completed in accordance with instructions." Section 3.17 explains the compensated absences closing package and provides guidance for its preparation. We tested the leave records for 25 of the House of Representatives' 96 employees earning leave at June 30, 1998, and determined that the House submitted to the Office of the Comptroller General an inaccurate compensated absences closing package.

The GAAP Manual states that *compensated absences* include accumulated employee balances of annual and sick leave and compensatory time "regardless of whether employees will be compensated in the form of paid time off work or extra pay." However, the House did not accumulate and value the compensatory leave balances of its employees and report the related June 30, 1998, liability in its closing package. Fifteen of the 25 employees' records tested had accumulated compensatory leave balances as of June 30, 1998, ranging from 1.20 hours to 954.70 hours. The House's records did not distinguish between holiday and overtime compensatory time. The values of the compensatory leave balances for these 15 employees totaled \$45,540.

We also noted that the House may be allowing some employees to accrue overtime compensatory leave balances in excess of the 240 hours maximum accrual specified in State Human Resources Regulation 19-703.04 A.4. and/or to carry over holiday compensatory leave credits beyond the time set forth in Regulation 19-703.06 C.4. That regulation requires holiday compensatory time to be used within 90 calendar days of when it was earned. Two of the 25 tested employees had compensatory leave balances at June 30, 1998, in excess of 240 hours.

The House did not reduce annual leave balances to the maximum carryforward of 45 days (337.5 hours) at the end of the 1997 calendar year for two of the 25 employees in our test. As a result, the employees' accrued leave balances were overstated and the House's annual leave liability at June 30, 1998, was overstated by \$3,554 on the closing package. Section 8-11-610 of the 1976 South Carolina Code of Laws, as amended, and State Human Resources Regulation 19-703.07 E prohibit the carryover of more than 45 days of annual leave from one calendar year to the next.

We recommend the House develop and implement procedures to ensure that it accurately reports and values all of its compensatory leave liability and its annual leave liability in the proper categories on its compensated absences closing package. Further, we recommend the House develop written policies and procedures to ensure that each employee's annual leave balance at each calendar year-end is reduced, when necessary, to the maximum legal carry-forward balance. Also, the House should implement control procedures to ensure that employees do not accrue overtime compensatory leave balances in excess of the limit prescribed by State regulation and that employees take holiday compensatory time within the ninety days specified by State regulation.

MANAGEMENT'S RESPONSE

RESPONSE TO ACCOUNTANT'S COMMENTS

The Accountant noted that the House of Representatives may be allowing some employees to accrue overtime compensatory leave balances in excess of the 240 hours maximum accrual specified in State Human Resources Regulation 19-703.04 A.4. This regulation is designed to track the Federal Fair Labor Standards Act and facilitate its implementation with state employees covered by that Act.

The Fair Labor Standards Act, in 29 USC § 203 (e)(2)(C)(V), excludes employees of state legislatures. See also the federal regulation implementing the statutory provision at 29 CFR § 553.12. Therefore, staff of the House of Representatives are not covered by the Fair Labor Standards Act and its provisions and restriction on compensatory time.