

**SOUTH CAROLINA  
LIEUTENANT GOVERNOR'S OFFICE  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2009**

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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

July 8, 2010

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, 2009, 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 (\$7,500 – general fund, \$35,400 – earmarked fund, \$13,500 – restricted fund, and \$134,100 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Transaction Processing and Account Classification 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 (\$33,700 – general fund, \$31,900 – earmarked fund, \$12,900 – restricted fund, and \$134,100 – federal fund) and  $\pm 10$  percent.

The individual transactions selected were chosen randomly. Our finding as a result of these procedures is presented in Transaction Processing and Account Classification 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 (\$33,700 – general fund, \$31,900 – earmarked fund, \$12,900 – restricted fund, and \$134,100 – federal fund) and  $\pm 10$  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  $\pm 5$  percent to ensure that payroll expenditures were classified properly in the agency's accounting records.

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

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

- We inspected selected recorded journal entries 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. 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 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. We found no exceptions as a result of the procedures.

6. **Reconciliations**

- We obtained all monthly reconciliations prepared by the Office for the year ended June 30, 2009, 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. 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 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, 2009, 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, 2009, 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.

We found no exceptions as a result of the procedures.

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, 2007, to determine if the Office had taken corrective action.

Our finding as a result of these procedures is presented in Transaction Processing and Account Classification 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 - 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.

## **TRANSACTION PROCESSING AND ACCOUNT CLASSIFICATION**

We tested twenty-five receipt transactions and found that two of the receipts were miscoded to object code 7201 - Miscellaneous Revenue. One receipt was a \$9,500 donation (object code 7605) and the other receipt related to a reimbursement of expenditure. (A similar finding was described in the State Auditor's Report on Applying Agreed-Upon Procedures for the fiscal year ended June 30, 2007 and dated August 15, 2008).

While performing an analytical review of revenue accounts we noted that the Office processed indirect cost reimbursements using object code 7201 – Miscellaneous Revenue. The Office should have recorded the transactions using object code 2802 – Indirect Costs – General Fund.

Our analysis of revenue and expenditure transactions also revealed that the Office processed all indirect cost transactions on STARS Form 40 instead of STARS Form 30. As a result of the Office using the incorrect STARS form, revenue and expenditures related to the transactions were overstated because revenue and expenditures were recorded twice. In addition, due to the manner in which these transactions were processed, the majority of the revenue and expenditure overstatement was not captured and eliminated at the statewide level and resulted in an overstatement in the State's financial statements.

We again recommend that the Office perform a careful review of receipts to ensure proper coding. Additionally, we recommend the Office contact the Comptroller General as needed when processing new or unusual transactions to ensure compliance with Comptroller General's Office procedures.

**SECTION B - 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, 2007, and dated August 15, 2008. We applied no procedures to the Office's accounting records and internal controls for the year ended June 30, 2008. We determined that the Office has taken adequate corrective action on each of the findings except we have repeated the following:

**2007 Finding**

Account Classification

**2009 Finding**

Transaction Processing and  
Account Classification

**MANAGEMENT'S RESPONSE**



**State of South Carolina**  
**Office of The Lieutenant Governor**

André Bauer  
Lieutenant Governor

Office on Aging  
Tony Kester  
Director

October 22, 2010

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 ended June 30, 2009. Provided below are our comments to each of the findings in the Management's Response section of the report.

**Transaction Processing and Account classification**

In the test of twenty-five receipt transactions the state auditor found that two receipts were miscoded to object code 7201 – Miscellaneous Revenue. One receipt was a \$9,500 donation (object code 7605) and the other receipt related to a reimbursement of expenditure.

**The Lieutenant Governor's Office on Aging has strengthened our review of these transactions, the maintenance of the receipts, and the supporting reconciliations. The implementation of the SCEIS accounting system has also allowed for more review of our revenue receipts by management.**

The state auditor while performing an analytical review of revenue accounts noted the Office processed indirect cost reimbursements using object code 7201 – Miscellaneous Revenue. The Office should have recorded the transactions using object code 2802 – Indirect Costs – General Fund.

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

In the State Auditor's analysis of revenue and expenditure transactions it was also revealed that the Office processed all indirect cost transactions on STARS Form 40 instead of STARS Form 30. As a result of the Office using the STARS form, revenue and expenditures related to the transactions were overstated because revenue and expenditures were recorded twice. In addition, due to the manner in which these transactions were processed, the majority of the revenue and expenditure overstatement was not captured and eliminated at the statewide level and resulted in an overstatement in the State's financial statements.

**The Comptroller General reviewed these transactions again, when asked by our Office. In their opinion a STARS Form 40 or STARS Form 30 could be used to complete these transactions in question. However, due to the SCEIS statewide accounting system these transactions are no longer in use, and will not be in question for future audits.**

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,

A handwritten signature in cursive script, appearing to read "Tony Kester".

Tony Kester  
Director

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