



Audit Report

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Independent Accountants' Report On Applying Agreed-Upon Procedures

May 18, 2012

Mr. David A. Starkey, CPA
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We have performed the procedures enumerated below, which were agreed to by Beaufort County (the County), solely to apply agreed-upon procedures to the expenses surrounding the drainage improvement projects of the Beaufort County Department (Stormwater), for fiscal years 2003 through 2011. The County's management is responsible for the County's accounting policies and recordkeeping. 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 those parties specified in 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.

Our procedures and findings are as follows:

1) **Procedure:**

Review Stormwater Project Summary by fiscal year. Select a sample from projects that exceed \$20,000 and ensure that the sample selected provides 55% coverage of the total amount spent in each fiscal year.

Findings:

We selected 138 projects using a random methodology, each exceeding \$20,000, the total of all projects selected was \$8,093,897. This sample effectively exceeded the desired coverage of 55%. Support for these projects was furnished by Stormwater. Support was not available for 7 projects selected for testing. Due to the age of the projects, it is likely that these records were destroyed, since they are approaching the end of the established document retention window. Of the projects with support provided, the total net variance identified by procedures performed amounted to \$6,052 and 0.08% for the total sample of projects selected. See **Appendix A** for the sample selected and the projects missing support.

Management's Response:

The older projects' supporting documents are no longer being retained. Stormwater does not plan to change our retention policy.

2) Procedure:

From the sample selected for testing in the previous procedure, review individual spreadsheets provided and ensure that the total amount from the spreadsheet agrees to the Stormwater Project Summary Schedule.

Findings:

Of the 138 projects selected for testing, a total of 7 projects did not agree to the Stormwater Project Summary Schedule. The cumulative difference noted was \$3,565. All of these variances were corrected for report presentation purposes.

Management's Response:

During the preparation process some variances were noted, corrected, and the project summaries updated. These revised totals were eventually updated on the summary schedule. We will continue to conduct internal audits of projects to reduce these variances.

3) Procedure:

From the spreadsheets provided, agree all material costs over \$100, equipment costs, and direct and indirect labor costs to supporting documentation within reason.

Findings:

Condition 1: During our testing of material costs exceeding \$100, multiple variances were noted when comparing the costs per the project summary to supporting documentation. These variances netted to (\$28,637) and (0.35%), for the sample of projects selected from fiscal year 2003 to fiscal year 2011. See **Appendix B** for details of these variances by project. The variances noted surrounding material costs signify the misapplication of allocation methodology on the Stormwater Project Summary Schedule and does not necessarily represent an incorrect cost, or cash disbursement, of the County.

Criteria: All material costs charged to a job should be supported by an invoice from that time period. Additionally, the amount of material used on a project should be supported by Project Daily Summary Worksheets, which are completed by Stormwater employees each day, and compiled by administrative personnel at the end of the project. Lastly, certain materials do not have a specific supporting invoice due to the nature of the materials. These are allocated to projects as follows:

- Fill Dirt – Charged at \$1 per ton
- Water – Charged at \$0.01 per gallon
- Gas and Diesel Fuel– Charged to projects per gallon, at the monthly average cost of fuel purchased by the County.

Cause: Historical prices used to allocate specific materials to projects were not sufficiently tracked, creating difficulty in producing an invoice that agrees to the allocated price. Additionally, inconsistency in the completion of the Project Daily Summary Worksheets created variances when recounting the amount used on specific projects.

Effect: The purpose of defining a method of allocation is to create consistency in the application of material costs so projects are comparable and summaries are useful to management. When material quantities and/or costs are erroneously recorded, incorrectly charged, or misapplied, the resulting variances affect the manner in which a project is evaluated, and distorts the perceived cost to the County.

Management's Response:

Materials that are routinely used to complete a project are often purchased in bulk and dispensed as needed. Most of the variances were due to the unit cost of the material being applied without the sales taxes being taken in to consideration or a lag in the unit cost being updated once the materials had been purchased to replenish the stock supply. The County is implementing software with the capability to track project costs, including the purchase of materials. Errors have been reduced with the material unit costs being routinely entered into the system as the materials are purchased. The potential for human error has been significantly reduced with this information being entered by only one employee. However, all employees with access to this system can review the unit costs.

Condition 2: During our testing of equipment costs charged to projects, we noted variances between supporting documentation and the individual project spreadsheets, netting to \$6,944 and 0.09% from fiscal year 2003 to fiscal year 2011. Once again, these variances only represent the cost allocated to each project and are not necessarily a County incurred expense, or disbursement of cash. See **Appendix C** for details by project.

Criteria: Equipment is charged to individual projects on an hourly basis. The hourly rate is determined based on the annual depreciation, calculated using the straight-line method, plus the estimated annual maintenance and insurance. The annual figure is then divided by the anticipated number of hours it will be used per year. The rates charged for each piece of equipment are updated annually. Equipment usage on individual projects is tracked using the Project Summary Daily Worksheets, which are completed by Stormwater employees each day.

Cause: Inconsistency in the completion of the Project Summary Daily Worksheets, and at times legibility issues, created variances when recounting the hours of equipment usage on specific projects. In some instances, the hourly rate charged for specific pieces of equipment did not agree to the supporting spreadsheet due to manual entry errors during compilation.

Effect: When equipment usage is erroneously recorded, or misapplied, these variances affect the manner in which a project is evaluated, and distorts the perceived cost to the County.

Management's Response:

The County is implementing software with the capability to track project costs, including the equipment hourly rate and the number of hours. This system allows data provided by the construction crews to be entered daily, which allows a routine daily review of the information being provided by the crews. Any questions because of legibility can be resolved in a timely manner. Also the hourly cost of equipment is entered by one employee and is updated annually.

Condition 3: During our testing of the labor cost allocations, we noted variances between the established allocation methods, which vary by year, and the individual project spreadsheets. Additionally, we discovered variances between the labor hours indicated on Project Summary Daily Worksheets per our recount and the amounts charged on the project spreadsheet. The net variance amounted to \$27,745 and 0.34% for fiscal years 2003 through 2011. This variance is an allocation issue only and is not necessarily indicative of additional County expenses or cash outflows. See **Appendix D** for details by project.

Criteria: Labor is charged to a project based on the individual's hourly salary plus an additional 30% allocation to account for fringe benefits. Beginning in fiscal year 2009 an additional percentage was added to individual hourly rates to account for indirect labor. This percentage varies by year and is used to capture costs not directly charged to projects. Labor hours on projects are tracked using the Project Summary Daily Worksheets, which are completed by Stormwater employees each day.

Cause: The most significant portion of the variance noted was due to an over allocation of fringe benefits in fiscal year 2009. This error occurred due to a formula within the project spreadsheets, which added fringe benefits in years prior. Since the fringe benefits were already included in the hourly rate starting in fiscal year 2009, this formula effectively double counted fringe benefits and overstated labor costs for each project. Additionally, inconsistency in the completion of the Daily Cost Worksheets, and at times legibility issues, created variances when recounting the labor hours on specific projects.

Effect: When labor hours and/or costs are erroneously recorded or misapplied, these variances affect the manner in which a project is evaluated, and distorts the perceived cost to the County.

Mr. David A. Starkey, CPA
May 18, 2012

Management's Response:

The County is implementing software with the capability to track project costs, including labor hourly rate (to include the hourly wage and actual fringe benefits) and the number of labor hours. This system allows data provided by the construction crews to be entered daily, which allows a routine daily review of the information being provided by the crews. Any questions because of legibility can be resolved in a timely manner. Also the hourly labor rates are entered by one employee and are updated annually. Additionally there has been procedures implemented to ensure labor rates are updated when an employee hourly wages have been increased due to a promotion. Previously, administrative personnel and supervisory personnel did not consistently provide documentation of their hours for each project. They are now required to provide documentation along with the labor hours being entered.

4) **Procedure:**

Ensure that the total amounts from each project, including any revisions made during our procedures, agree to the final compiled document.

Findings:

The final compiled document was not adjusted for variances identified through the applied procedures and represents the unadjusted project cost. However, certain projects were adjusted during fieldwork for variances discovered by Stormwater, creating minor differences between the presented project cost and the unrevised project cost presented on **Appendix A**. These differences are included in the Net Variance Noted column of **Appendix A**.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. 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 Beaufort County and is not intended to be and should not be used by anyone other than the specified party.



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