

**SOUTH CAROLINA  
DEPARTMENT OF REVENUE  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2016**



George L. Kennedy, III, CPA  
State Auditor

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

July 19, 2017

Mr. W. Hartley Powell, Director  
South Carolina Department of Revenue  
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Revenue (the Department), solely to assist you in evaluating the systems, processes and behaviors of the Department for the fiscal year ended June 30, 2016. 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 in Attachment 1 for the purpose of which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Clerical errors of less than \$1,000 related to processing cash receipts and cash disbursements transactions unless the errors occur in ten percent or more of the transaction class inspected.
- Clerical errors of less than \$1,000 related to reporting packages.
- Errors in applying account coding definitions to accounting transactions unless it is determined that ten percent or more of the accounting transactions inspected were found to be in error.
- Reporting packages which are submitted less than three business days after the due date unless it is determined that more than two of the reporting packages were submitted late.

Mr. W. Hartley Powell, Director  
South Carolina Department of Revenue  
July 19, 2017

This report is intended solely for the information and use of the management of the South Carolina Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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State Auditor

**South Carolina Office of the State Auditor  
Agreed Upon Procedures Related to the South Carolina Department of Revenue (R44)**

**Cash Receipts/Revenues**

1. Compare current year operating revenues and operating transfers in at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain and document an understanding of variations over \$20,000,000 and 10% in general funds, \$1,000,000 and 10% in earmarked funds, \$100,000 and 10% in restricted funds as well as any variations noted in federal funds.
2. Randomly select fifteen operating revenue transactions and inspect supporting documentation to:
  - Agree transaction amount, date, payor, document number, and account coding to the general ledger.
  - Determine that revenues/receipts were deposited in a timely manner.
  - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select five operating revenue transactions and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

**Finding**

The date of receipt was not properly documented for three receipt transactions. As a result, we were unable to determine if these receipts were deposited in a timely manner.

**Management's Response**

The Department agrees that three receipt transactions were not date stamped to document date of receipt. The Department has updated its cash receipts approval procedures to include verifying the date of receipt. The Department has also verified that all FY17 deposits and existing FY18 deposits have the date of receipt documented.

**Cash Disbursements/Non-Payroll Expenditures**

4. Compare current year non-payroll operating expenditures and operating transfers out at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$300,000 and 10% in general and earmarked funds, \$2,500 and 10% in restricted funds as well as any variations noted in federal funds.
5. Randomly select twenty-five non-payroll operating disbursements and inspect supporting documentation to determine:
  - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
  - All supporting documents and approvals required by Department procedures and good business practice are present and agree with the invoice.
  - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
  - The disbursement complied with all State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
  - Clerical accuracy / verify proper sales/use tax.

## Cash Disbursements/Non-Payroll Expenditures (Continued)

Haphazardly select one federally funded cash disbursement/non-payroll operating expenditure and inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment (as other transactions above) and applied uniformly to both federally assisted and other activities of the recipient.

6. Randomly select twenty-five non-payroll operating disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of these procedures.

## Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$300,000 and 10% in general and earmarked funds, \$2,500 and 10% in restricted funds as well as any variations noted in federal funds.

8. Randomly select twenty-five bonus pay disbursements authorized by the 2015-2016 Supplemental Appropriations to determine:

- The employee is a permanent state employee in a full-time equivalent position who has been in continuous state service for at least six months prior to July 1, 2015.
- The employee does not make more than \$100,000 annually.
- Bonus pay was split between funds according to the ratio of the employee's base salary and/or paid from the employee's approved funding source.

9. Randomly select nineteen employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.

10. Randomly select eighteen employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.

11. Compare the percentage change in personal service expenditures to the percentage change in employer contributions expenditures. Obtain an explanation of changes of +/- 10%.

12. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of changes of +/- 10%.

We found no exceptions as a result of these procedures.

## Journal Entries and Transfers

13. Randomly select twenty-two non-recurring journal entries and three transfers for the fiscal year to:
  - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
  - Confirm transaction is properly approved.
  - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of these procedures.

## Appropriation Act

14. Complete the Appropriation Act work program provided to management noting areas of noncompliance, if any.
15. Confirm compliance with Department-specific state provisos by inquiring with management and observing supporting documentation.

We found no exceptions as a result of these procedures.

## Reporting Packages

16. Obtain copies of fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Inspect the Master Reporting Package Checklist to determine whether required supplemental information and appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
17. In addition to the procedure above, we will perform the following:
  - Cash and Investments Reporting Package
    - Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger and the SCEIS Yearend Rptg – Cash and Investments report. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations.
  - Prepaid Expenses Reporting Package
    - Determine if amounts agree to the SCEIS Yearend Rptg – Prepaid Expenses report. In addition, haphazardly select five prepaid expenses to determine if the amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger, invoices, and Department prepared reports/spreadsheets.
  - Operating Leases Reporting Package
    - Determine if amounts agree to the SCEIS general ledger, the SCEIS Operating Leases Expense w/ Vendor report, and/or Department prepared reports/spreadsheets. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded, and calculated by inspecting the following reported amounts: (1) Five haphazardly selected contingent rental payments; (2) All property operating leases; (3) Five haphazardly selected equipment operating leases; and (4) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (Payments for Supplies and Other Billing Charges and Other Adjustments).

## Reporting Packages (Continued)

- Litigation Reporting Package
  - Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger. In addition, haphazardly select five litigation cases to determine if responses and amounts from related supplemental information are reasonable/accurate based on inspection of the case file.
- Miscellaneous Commitments Reporting Package
  - Determine if responses and amounts are reasonable/accurate based on inspection of invoices and/or contractual agreements.
- Subsequent Events Questionnaire
  - Determine if responses and any related supplemental information are reasonable/accurate based on inspection of the SCEIS general ledger, invoices, and/or Department prepared reports/spreadsheets.

## Findings

The future minimum payments for two lease agreements were not correctly reported on the Operating Leases Future Minimum Payment Schedule. As a result, the future minimum payments for fiscal years 2019 and 2022 through 2026 were overstated by \$14,661 and \$2,400, respectively.

The remaining commitment amount reported for one contractual agreement was overstated by \$1,340 on the Significant Miscellaneous Commitments Form.

## Management's Response

The Department agrees with the findings related to the Operating Leases and Significant Miscellaneous Commitments Reporting Packages.

In regards to the Operating Leases Reporting Package, the procedures for reviewing this package have been updated to include a full review of all lease agreements. This additional review will include the expiration date, payment frequency and periodic payment amount. Also, any analysis completed in a previous year will be thoroughly reviewed during the current year.

In regards to the Significant Miscellaneous Commitments Reporting Package, additional verifications were added to the procedures to ensure that all payments to a contracted vendor were included in the analysis. These procedures were implemented in the FY17 submission of this Reporting Package.

## Composite Reservoir Accounts

18. We confirmed with the Department their use of composite reservoir accounts.
19. Obtain fiscal year reconciliations for each composite reservoir account and for each year end reconciliation, perform the following procedures:
  - Determine the selected reconciliations were timely performed, properly documented in accordance with State regulations, and mathematically correct.
  - Agree applicable amounts from reconciliations to the Department's internal tax systems.
  - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
  - Determine if reconciling differences were adequately explained and properly resolved and agree the lesser of five or 100% of reconciling items to bank statements and/or other Department maintained supporting documentation.
  - Determine if necessary adjusting entries were made in the accounting records.

## **Composite Reservoir Accounts (Continued)**

20. Inspect five receipts from the year end reconciliation for one composite reservoir account to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, recorded in the proper fiscal year, and that the revenue collection and retention/remittance is supported by law.
21. Inspect five disbursements from the year end reconciliation for one composite reservoir account and two disbursements from the year end reconciliation of another composite reservoir account to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

### **Finding**

The fiscal year end book balance for one composite reservoir account was not properly reconciled to the bank balance. All receipts and disbursements were properly accounted for on the reconciliation; however, any reconciling items (i.e. bank charges) were not documented.

### **Management's Response**

The Department agrees that the reconciliation submitted for the Bank of America – Bingo Petty Cash account did not agree to the bank statement. The Department had notated the difference on internal reports, but did not submit those with the Cash and Investments Reporting Package. The Department has updated its procedures to include reconciling items on the Reporting Package submission, and those changes were implemented on the FY17 Cash and Investments Reporting Package.

### **Status of Prior Findings**

22. Inquire about the status of findings reported in the Accountant's Comments section of the engagement for the prior fiscal year to determine if the Department has taken appropriate corrective action.

We found no exceptions as a result of these procedures.

### **Internal Audit Reports**

23. Inspect the Department's internal audit reports beginning with the end date of prior year fieldwork through the end of our fieldwork.

We found no other matters related to our agreed-upon procedures.