

**SOUTH CAROLINA  
DEPARTMENT OF ADMINISTRATION**

**COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2017**



## Independent Accountant's Report on Applying Agreed-Upon Procedures

March 23, 2018

Ms. Marcia S. Adams, Executive Director  
South Carolina Department of Administration  
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 Administration (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. The Department's management is responsible for the systems, processes and behaviors related to financial activity. 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 either for the purpose for 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 related to financial activity 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.

Ms. Marcia S. Adams, Executive Director  
South Carolina Department of Administration  
March 23, 2018

This report is intended solely for the information and use of the management of the South Carolina Department of Administration 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.



George L. Kennedy, III, CPA  
State Auditor

**South Carolina Office of the State Auditor  
Agreed - Upon Procedures Related to the South Carolina Department of Administration  
(D50)**

**Cash Receipts/Revenues**

1. Compare current year revenues 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 \$150,000 and 10% in General Funds and \$1,000,000 and 10% in Earmarked Funds, Restricted Funds, and Federal Funds.
2. Randomly select twenty-five cash receipts 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, in accordance with Proviso 117.1 of the Appropriation Act.
  - Ensure that both revenue collections and amounts charged are properly authorized by law.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

**Findings**

Indirect cost recoveries of \$87,945 relating to fiscal year 2016 were posted in fiscal year 2017.

The receipt date was not documented for two receipt transactions. As a result, we were unable to determine if revenue was deposited in a timely manner in accordance with State law.

**Management's Response**

We have implemented a process to post indirect cost recoveries timely. At a minimum, they will be posted quarterly and within the adjustment period at the end of the fiscal year.

Our procedures ensure timely deposits of all monies. State law requires we go to the bank at least weekly, we go daily.

One item in question was deposited by Surplus Property. Surplus Property goes to the bank daily as well. They now have remote deposit capture, which means they can deposit checks from the office frequently throughout the day. The other deposit was for a vendor credit which was mailed from Chicago. This check was deposited 12 days from the date of the check. We have no way of knowing when the check was received in the office.

Our procedures ensure we deposit all funds on hand daily or at a minimum within two days. All other deposits were verified by comparing check date to deposit date.

**Cash Disbursements/Non-Payroll Expenditures**

4. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain and document an understanding of variations over \$1,000,000 and 10% in General Funds and Earmarked Funds and \$500,000 and 10% in Restricted Funds and Federal Funds.

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

5. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
  - 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.
  - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations, etc.
  - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures we will 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 and applied uniformly to both federally assisted and other activities of the recipient.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

### Finding

Eight payments made under the Commercial Vehicle Repair Program were not coded correctly or consistently between contractual services and supplies in accordance with the Department's policy.

### Management's Response

We met with State Fleet Management Staff and re-trained them on entering the appropriate general ledger accounts. The OCG is also reviewing transactions and rejecting documents using incorrect general ledger accounts.

### 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 \$1,000,000 and 10% in General Funds and Earmarked Funds and \$500,000 and 10% in Restricted Funds and Federal Funds.
8. Randomly select twenty-five salaried employees and haphazardly select one hourly employee and perform the following procedures:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

## **Payroll (Continued)**

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
  - Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.
9. Select all three bonus pay disbursements to determine:
    - Employee does not make more than \$100,000 annually.
    - Bonuses received during the year did not exceed \$3,000.
    - Transaction was appropriately documented and approved.
  10. Randomly select fourteen employees hired during the fiscal year to determine the employees 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.
  11. Randomly select thirteen employees who terminated employment during the fiscal year to determine the employees 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.
  12. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes of greater than or equal to 10%.
  13. 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 greater than or equal to 10%.

We found no exceptions as a result of these procedures.

## **Journal Entries and Transfers**

14. Randomly select seventeen journal entries and eight 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**

15. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
16. 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

17. 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 the appropriate reporting packages were prepared and submitted by the due date established by CG's Reporting Policies and Procedures Manual.
18. In addition to the procedure above, we will perform the following:
  - Grants and Contributions Revenue Reporting Package

Haphazardly select ten grants to determine if the reported beginning and ending fund balances, receipts, qualified expenditures, fund, grant number, and CFDA number agree to the South Carolina Enterprise Information System (SCEIS) general ledger and/or SCEIS Display Grant Master. In addition, recalculate the reported total receivables and deferred revenue to determine accuracy.
  - Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Reporting – Inventory report. In addition, determine if the Department's physical inventory was properly completed by agreeing amounts to the SCEIS general ledger and/or Department prepared records.
  - Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Reporting – Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) Ten haphazardly selected contingent rental payments; (2) The effective dates, current expense and future minimum lease payments of ten haphazardly selected operating leases; and (3) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One Time Rental Payments, Payments for Supplies and Other Billing Charges and Other Adjustments).
  - Accounts Payable

Haphazardly select ten payables to determine if amounts were properly classified, calculated and reported based on inspection of the SCEIS general ledger, SCEIS Yearend Reporting – Prior Year Payables with Vendor report and/or Department prepared records.
  - Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

## Reporting Packages (Continued)

### Findings

#### Operating Leases Reporting Package –

1. The details of three lease agreements (i.e. effective dates, scheduled rent increases) were not properly reported on the Operating Leases Future Minimum Payment Schedule. As a result, future minimum payments for these leases were understated by an aggregate total of \$11,577 for fiscal years 2019 – 2022.
2. One of the Department's building leases was amended in fiscal year 2017 to account for sub-lease agreements with two state agencies. Based on our review of the lease agreement and related amendments, the Department's portion of the future minimum payments was not properly calculated and reported on the Operating Leases Future Minimum Payment Schedule. We determined future minimum payments were overstated by an aggregate total of \$490,321 for fiscal years 2018 – 2025.
3. The Department reported a lease with an initial term of one year on the Operating Leases Future Minimum Payment Schedule. The CG's Reporting Policies and Procedures Manual states that leases included on the package should represent "...noncancelable operating leases in effect at June 30 with a remaining term at June 30 exceeding one year." As this lease had an initial term of only one year it should have been excluded from the package. As a result, future minimum payments for fiscal year 2018 were overstated by \$3,000.

Subsequent Events Questionnaire – One payable was incorrectly reported on the Subsequent Events Accounts Payable Worksheet. The related invoice was for services applicable to both June 2017 and July 2017, so only a portion of the payment would have been a payable for fiscal year 2017. However, the entire invoice amount was included in the payable calculation. As a result, fiscal year 2017 payables were overstated by \$1,874.

### Management's Response

We have implemented procedures to prevent incorrect lease reporting going forward. We will verify we have copies of all leases by analyzing the general ledger accounts data quarterly. Also, at the end of the fiscal year, we will request updated lease agreements from each appropriate office.

The prior year payable was overstated. We were invoiced for prior year consultations and current year consultations on one invoice. Since the "prior year payable" notation goes in header text, the invoice could not be broken out between current year and prior year. We will train our accounts payable staff on the correct way to handle these types of expenditures by separating the invoice into two documents if the amount exceeds \$2,500.00.

### Procurement Card Transactions

19. Haphazardly select ten procurement card purchases and inspect supporting documentation to determine:
  - The cardholder is an authorized user.
  - The purchase is reasonable based on the cardholder's position.
  - The monthly purchase statement was submitted along with applicable receipts and signed by both the cardholder and supervisor.
  - The transaction did not exceed the single transaction limit or the individual credit card limit and there was no indication of transaction splitting.

We found no exceptions as a result of these procedures.

### **Internal Audit Activities**

20. Inquire of the Department's internal audit personnel regarding internal audit activities completed from the end date of prior year fieldwork through the end of our fieldwork.

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

### **Status of Prior Finding**

21. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the finding reported during the engagement for the prior fiscal year.

We found no exceptions as a result of these procedures.