

**SOUTH CAROLINA
OFFICE OF THE ADJUTANT GENERAL
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2017



Independent Accountant's Report on Applying Agreed-Upon Procedures

April 18, 2018

Major General Robert E. Livingston, Jr.
Adjutant General
State of South Carolina
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Office of the Adjutant General (the Office), on the systems, processes and behaviors related to financial activity of the Office for the fiscal year ended June 30, 2017. The Office'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 Office. 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 Office 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.

This report is intended solely for the information and use of the management of the South Carolina Office of the Adjutant General 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 - South Carolina Office of the Adjutant General (E24)**

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 \$3,900 – General Funds, \$66,300 – Earmarked Funds, \$12,700 – Restricted Funds, \$567,900 – Federal Funds and 10%.
2. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures except as described in the applicable finding of the Composite Reservoir Accounts section.

Cash Disbursements/Non-Payroll Expenditures

3. 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 \$150,500 – General Funds, \$76,000 – Earmarked Funds, \$14,300 – Restricted Funds, \$524,500 – Federal Funds and 10%.
4. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine that disbursements are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Payroll

5. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$150,500 – General Funds, \$76,000 – Earmarked Funds, \$14,300 – Restricted Funds, \$524,500 – Federal Funds and 10%.
6. Randomly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Office's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
7. Randomly select twenty-four employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Office'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.
8. 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 variations over 10%.
9. 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 variations over 10%.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

10. Randomly select twenty-three journal entries and two 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 the procedures.

Appropriation Act

11. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
12. Confirm compliance with Office-specific state provisos by inquiring with management and observing supporting documentation.

Finding

Similar to the finding reported for fiscal year 2015, the blanket bonds of the Office were not approved as required and described in the South Carolina Code of Laws.

Management's Response

The need for the approval of the blanket bond has been put on the Calendars of the CFO and the Budget Analyst to remind and sign off on when the bond is due.

Reporting Packages

13. Obtain copies of all fiscal year end reporting packages submitted to the Office of the State Comptroller General. Inspect all reporting packages and related items (Except Grants, Litigation, and Fund Balance) and:
 - Determine if preparation was in accordance with Comptroller General Office requirements, including timely filing of all reporting packages.
 - Determine if amounts reported in the reporting package agree with the supporting workpapers and accounting records.
 - Haphazardly select five capital assets and three low value assets from current year acquisitions and determine if the assets were properly coded and classified in the accounting system.
 - Haphazardly select five capital asset retirements and determine if that amounts were properly coded and classified in the accounting system.

Findings

Reporting Package Filing and Subsequent Events

Three of twelve reporting packages were submitted after their respective due dates. One of the three reporting packages submitted after the due date, the Subsequent Events Questionnaire, lacked the signature of a reviewer as required by Comptroller General's Office instructions. Additionally, the net effect of accounts payable discrepancies noted with the Subsequent Events Questionnaire was approximately \$45,000 understated as a result of payables in the accounting system but not reported.

Reporting Packages (Continued)

Findings (Continued)

Cash on Hand/Petty Cash

A portion of the Office's petty cash on hand was not adequately supported with State Auditor approval.

Operating Leases

Two operating leases with combined future minimum lease payments of approximately \$150,000 were inadvertently excluded from the Future Minimum Payment Schedule of the reporting package.

Unearned Revenue

Reported unearned revenue was understated by approximately \$5,000 due to a clerical error.

Capital Assets

The amounts reported for outstanding construction commitments on the reporting package incorrectly included payables on construction contracts.

Management's Responses

The dates of all Closing Packages will be posted with reminders going out to both the preparer and reviewer to ensure that Packages are submitted by the due date.

All instructions will be reviewed (along with all audits) to ensure that items are reported identified and reported correctly. Detailed lists will be prepared and attached to Closing Packages listing those items that need to be added and those items that are not to be included.

Composite Reservoir Accounts

14. Obtain a listing of Office composite reservoir accounts and confirm with management that the listing is complete.
15. Obtain fiscal year monthly reconciliations for each composite reservoir account and for three haphazardly selected reconciliations, perform the following procedures:
 - Determine the selected reconciliations were timely performed and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
16. Inspect six haphazardly selected composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Office's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
17. Inspect five haphazardly selected composite reservoir account disbursements to determine if the disbursements were properly described and classified in the accounting records in accordance with the Office's policies and procedures and State regulations, were bona fide disbursements of the Office, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

Composite Reservoir Accounts (Continued)

Findings

Receipts - Similar to the finding reported for fiscal year 2015, several receipts inspected were not deposited timely in accordance with Proviso 117.1 of the Appropriation Act. The time between receipt and deposit ranged from two to seven weeks for four composite reservoir and one operating receipt transactions inspected. One of the receipts had been receipted in the previous fiscal year.

Reconciliations - The Office was implementing bank account reconciliation procedures for the composite reservoir account during the 2015 fiscal year engagement. Our inspection of fiscal year 2017 bank reconciliations revealed that the Office should ensure that reconciliation procedures clearly document the components comprising the difference between the bank balance and the book balance.

Management's Responses

The reconciliation form will be revised to include an area to record all missing documentation to include the components comprising the difference between the bank balance and the book balance.

Continue training all individuals to make claims and deposits in a timely manner in accordance with Proviso 117.1 of the Appropriations Act.

TAG Employee Group, Inc.

18. Inspect the contract between the Office and TAG Employee Group, Inc. confirming provisions are in accordance with applicable State law.
19. Inspect the TAG Employee Group, Inc.'s liability insurance policy confirming that the policy is in accordance with applicable State law.
20. Inspect the TAG Employee Group, Inc.'s accounting policies and procedures and confirm payments to the Office were made in accordance with applicable State law.

We found no exceptions as a result of the procedures.

Status of Prior Findings

21. Through inquiry and inspection, determine if the Office has taken appropriate corrective action on the findings reported during the engagement for the fiscal year 2015.

We determined that the Office has taken adequate corrective action on the findings reported during the engagement for the fiscal year 2015, except where noted in the findings above or in other fiscal year 2017 engagements.