

**SOUTH CAROLINA
DEPARTMENT OF MOTOR VEHICLES
BLYTHEWOOD, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

April 11, 2019

Mr. Kevin A. Shwedo, Executive Director
South Carolina Department of Motor Vehicles
Blythewood, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Motor Vehicles (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. 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:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the Department 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 Motor Vehicles (R40)**

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 from management an understanding of variations over \$4,000,000 and 10% in the Earmarked Fund.
2. Obtain three haphazardly selected monthly reconciliations between the South Carolina Enterprise Information System (SCEIS) and Phoenix information systems, and perform the following procedures:
 - Determine if the selected reconciliations were performed in accordance with Department policy.
 - Agree applicable totals from the reconciliation to both SCEIS and Phoenix.
 - Determine if reconciling differences were adequately explained and properly resolved and all necessary adjusting entries were made in the applicable system's records.
 - Determine that selected reconciliations were timely performed and reviewed within a month after the applicable month-end.
3. Select all entries representing three haphazardly selected months of revenue distribution allocations (recorded as IJ SCEIS document type transactions) and inspect supporting documentation to determine that transactions accurately compile and transfer revenue from the clearing accounts to the correct revenue general ledger accounts based on Department supporting records.

Finding

For all three haphazardly selected monthly reconciliations between SCEIS and Phoenix, we observed multiple instances where the personnel performing various pieces of the reconciliations did not adequately document the timing of their performance with the date beside their initials. Due to this issue, we were unable to determine that reconciliations were being timely performed.

Management's Response

The agency agrees with the finding. However, the monthly reconciliation between SCEIS and Phoenix is an internal reconciliation which is part of the overall monthly distribution process. The various SCEIS to Phoenix reconciliations are worked from the beginning of the month until the actual distribution file is completed and sent to general accounting for processing. Since the reconciliations are completed prior to the final approval date of the distribution, and since the upload date into SCEIS can be determined, the timeliness of the distributions could also be determined by this date. The general accounting department did experience some turnover at the end of 2017 and multiple people worked on the reconciliations during FY18. It appears the dates were inadvertently omitted; however, the reconciliations would have been completed prior to the final distribution. In the future, the dates will be included on the excel file to indicate the completion of the reconciliation.

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 from management an understanding of variations over \$1,000,000 – General Fund, and \$1,200,000 – Earmarked Fund and 10%.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Randomly select ten KI document type disbursements relating to customer refunds and inspect supporting documentation to determine:
 - Transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to customer, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide refund of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursements are recorded in the proper fiscal year.
 - Proper clerical accuracy of refund amount.

6. Haphazardly select fifteen purchasing card transactions from the Comptroller General's listing of purchasing card transactions for fiscal year 2018 and inspect supporting documentation to determine:
 - The cardholder is an authorized user.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.

Payroll

7. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations over \$1,200,000 and 10% in the Earmarked Fund.

8. 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 greater than 10%.

9. 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 greater than 10%.

10. Haphazardly select fifteen 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. Haphazardly select ten 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.

12. Haphazardly select five bonus pay disbursements to determine:
 - Employee does not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - Payment agreed to supporting documentation.
 - Bonus pay was approved by the appropriate supervisor.

We found no exceptions as a result of the procedures.

Transfers

13. Haphazardly select a total of ten SCEIS document type Z0 / Z7 transfers for the fiscal year to:
- Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly reviewed and approved.
 - Inspect supporting documentation and confirm transfer amounts are being calculated correctly.

We found no exceptions as a result of the procedures.

Reporting Packages

14. 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 the CG's Reporting Policies and Procedures Manual.
15. In addition to the procedure above, perform the following:
- **Cash and Investments Reporting Package**
Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg -Cash and Investments report and/or Department prepared records. Determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations. Additionally, confirm all petty cash amounts to Office of the State Auditor petty cash authorizations.
 - **Prepaid Expenses Reporting Package**
Determine if amounts agree to the SCEIS Yearend Rptg -Prepaid Expenses report and/or Department prepared records. 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 and invoices.
 - **Accounts Payable Reporting Package**
Haphazardly select ten payables to determine reported amounts were properly identified, classified, and reported based on the inspection of the SCEIS general ledger, SCEIS Yearend Rptg – Prior Year Payables with Vendor and SCEIS Inter-Agency Prior Year Payables with Vendor Business Warehouse Reports, and/or Department prepared records. Determine if responses are reasonable/accurate based on inspection of applicable supporting documentation.
 - **Subsequent Events Questionnaire**
Determine if responses are reasonable/accurate and that all required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, select three payables reported on the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated, reported, and excluded from the original accounts payable reporting package submission.

Reporting Packages (Continued)

Findings

Prepaid Expenses Reporting Package

For two of the five selected prepaid expenses selected for inspection, the prepaid amounts were calculated incorrectly. As a result, these errors overstated current prepaid amounts by \$112,797 and noncurrent prepaid amounts by \$7,254.

Accounts Payable Reporting Package

The Department's supporting worksheet did not correctly sum the payable amounts for proper reporting by fund. As a result, one fund was overstated and another fund was understated by \$3,706. Additionally, we observed payables that were misclassified and reported under the incorrect payable category. This caused intergovernmental payables to be understated by \$367,016, other current liabilities to be overstated by \$419,874, and vendor payables to be understated by \$52,858 on the reporting package. Similar instances of payables being reported in the incorrect payable category were observed in the prior year.

Management's Responses

Prepaid Expenses Reporting Package

The agency agrees with the finding.

The totals used to figure the current and non-current amounts reported on the prepaid expenses reporting package were from the R400 Yearend Rptg-Prepaid Expenses report from the CG's CAFR team, and the actual invoices were used for the terms only. In the future, the finance team will thoroughly review the BEX report against the invoices to ensure the correct amounts are being used to determine the current, noncurrent, and expensed amounts.

Accounts Payable Reporting Package

The agency agrees with the finding.

After reviewing the accounts payable reporting package, it was realized the classification for intergovernmental payables was confused with intragovernmental payables and the totals were classified incorrectly. In the future, the classifications will be reviewed more thoroughly to avoid errors.

Composite Reservoir Accounts

16. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
17. Obtain fiscal year monthly reconciliations for each composite reservoir account and for a total of four haphazardly selected reconciliations (two reconciliations from each account), perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the Phoenix 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.

Composite Reservoir Accounts (Continued)

Finding

For all selected monthly reconciliations, we observed that the Department personnel performing and reviewing the reconciliations did not adequately document their date of performance and/or review. Due to this issue, we were unable to determine that reconciliations were being timely performed and reviewed.

Management's Response

The agency agrees with the finding.

The reconciliation process is normally completed on a monthly basis and should be dated by the preparer. In the future, general accounting staff will ensure completed reconciliations are dated. However, please note that due to year-end closeout and other situations which may arise, these reconciliations may not be completed monthly, but will be completed prior to fiscal year-end.

Internal Audit Reports

18. We inspected the Department's internal audit reports beginning with the end date of prior year fieldwork through the end of our fieldwork. Additionally, we inspected the documentation associated with Internal Audit's review of fiscal year 2018 inventory.

We found no exceptions as a result of the procedures.

Capital Asset Acquisitions

19. Haphazardly select five capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger, and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.

Finding

For one capital asset acquisition selected for inspection, we observed that the Department did not include sales tax when recording the asset's book value in the accounting system. As a result, the value of the capital asset was understated by approximately \$1,148.

Management's Response

The agency agrees with the finding.

In reviewing the payment document for the capital asset, it was determined that no tax was charged on the invoice, nor was the document marked for use tax. Therefore, no taxes were applied to the asset. In the future, the department will review invoices involving capital assets more closely to monitor whether taxes are added to ensure the proper valuation of the asset into SCEIS.

Litigation / Attorney Payments

20. Haphazardly select three transactions coded to the legal services general ledger account 5021010000 from the Yearend Reporting – Litigation Expense Report to inspect for proper account coding and that the transactions did not relate to attorney payments.

Litigation / Attorney Payments (Continued)

21. Haphazardly select two law firm transactions coded to the attorney fees general ledger account 5021020000 from the Yearend Reporting – Litigation Expense Report and determine if the Department obtained proper approval from the South Carolina Attorney General’s Office before engaging the law firm on a fee basis, and that amounts and service date ranges were charged within approved limits.

Finding

For one selected transaction that was recorded to general ledger account, legal services, we confirmed that the entry related to an insurance reimbursement of attorney fees for \$4,131 that was paid in the prior fiscal year. Due to the transaction relating to attorney fees, it was coded incorrectly as legal services in the general ledger.

Management’s Response

The agency agrees with the finding.

Within DMV, different departments present documentation to request funds for deposit into SCEIS. Finance processes the transactions based on the information provided from these areas. In the future, finance will work closely with the legal department to ensure the correct general ledger accounts are used when receiving reimbursement for attorney fees through the prepaid legal fund.

Governance, Risk and Compliance (GRC) SCEIS Module

22. Select all controls identified through the SCEIS GRC system that were in place during fiscal year 2018 and inspect mitigating control documentation. Confirm with management the controls are operating as designed.

We found no exceptions as a result of the procedures.

Appropriation Act

23. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
24. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable. The agreed-upon provisos are 82.1, 82.3, 82.4, 82.10, 82.11, and 82.13.

We found no exceptions as a result of the procedures.

Status of Prior Findings

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

We determined that the Department has taken adequate corrective action on the findings reported during the engagement for the prior fiscal year, except for the accounts payable reporting package finding above.