

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

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

July 8, 2019

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), 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 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.

George L. Kennedy, III, CPA
State Auditor

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

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 for the following: Earmarked Fund: Misc Transfer-Other Fund (G/L Account 4890040000 [fund 30350000]), Unclassified Revenue (G/L Account 4530050000 [fund 30417000]), Misc Revenue-Deferred Revenue (G/L Account 4530030007), and Non-Cash Asset Donation (G/L Account 4310080000); and Restricted Fund: Sales Tax-EIA (G/L Account 4020020000).
2. Haphazardly select ten operating revenue transactions and inspect supporting documentation to:
 - Agree transaction amount, date, payor, document number, and account classification 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.
 - Determine that receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

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 from management an understanding of variations for the following: General Fund: Equip & Supp-Storage (G/L Account 5030067210) and Rent-Non St Owned Property (G/L Account 5040060000); and Earmarked Fund: IT Contractors (G/L Account 5020077230), Mgmt Consultants (G/L Account 5021500000), Other Cnt-Non-IT & Non-Real Estate (G/L Account 5024990000), Prgms & Lic-EU Computing (G/L Account 5030067131), and Rent-Non St Owned Property (G/L Account 5040060000).
4. Haphazardly select fifteen non-payroll 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 are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - The disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - The disbursement was recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select ten purchasing card transactions from the Office of the State Comptroller General's (CG) 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

6. 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%.
7. 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 greater than 10%.
8. Haphazardly select ten 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.
9. 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.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

10. Haphazardly select eight 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.

Reporting Packages

11. Obtain copies of fiscal year end reporting packages submitted to the 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.

Reporting Packages (Continued)

12. 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 South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Reporting - Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations. Further, determine if the Department's petty cash accounts were properly authorized by the Office of the State Auditor.

- Prepaid Expenses Reporting Package

Determine if amounts agree to the SCEIS Yearend Reporting - 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.

- Operating Leases Reporting Package

Agree applicable effective dates and future minimum lease payments on the Operating Leases Future Minimum Payment Schedule to the prior year Schedule. For any new operating leases reported, determine that the effective dates, periodic minimum payment, current expense, and future minimum payments were accurately reported based on inspection of invoices and lease agreements.

- Litigation Reporting Package

Haphazardly select five transactions from the SCEIS Yearend Reporting – Litigation Expense report to determine if charges were properly coded and approved.

- 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 three 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. Further, compare the Annual Leave, Holiday Leave, and Compensatory Leave balances for each employee from the CG's Compensated Absences Report to the balances reflected in SCEIS as of June 30, 2018 to determine if the Department had any unreported late leave submissions.

Findings

Cash and Investments Reporting Package

The Department responded that cash on hand was properly reflected on the CG petty cash report. However, it was determined that the report did not accurately reflect cash on hand, and there was a net discrepancy of approximately \$16,000.

Reporting Packages (Continued)

Findings (Continued)

Subsequent Events Questionnaire

The Department indicated that there were no late submissions of leave identified. However, late submissions of leave existed in the leave system when the subsequent events questionnaire was submitted.

Management's Response

For the Cash and Investments Package, an entry to fix the discrepancy was made in FY19, which should prevent this issue from occurring again.

DOR will change its process regarding late submissions of leave in order to better comply with the Subsequent Events Questionnaire.

Composite Reservoir Accounts

13. Obtain a listing of Department composite reservoir accounts and confirm with Department management that the listing is complete.
14. Obtain fiscal year monthly reconciliations for each composite reservoir account and for four haphazardly selected reconciliations, 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 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.
15. Haphazardly select and inspect five composite reservoir account receipts 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 and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.
16. Haphazardly select and inspect five composite reservoir account disbursements 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 inspection of bank reconciliations for the composite bank accounts revealed that, for three of the four accounts, the Department does not document an independent review of the prepared reconciliation.

Management's Response

DOR was not aware that an independent review of the reconciliations was needed; however, the agency's procedures will be changed to incorporate these reviews going forward.

DORWay Report

17. Obtain the fiscal year 2019 DORWay Allowance for Doubtful Accounts Report. Compare the current balance of five haphazardly selected account types on the report to Department records. Haphazardly select twenty individual balances from the Department's records and inspect supporting documentation to confirm proper inclusion and classification on the DORWay report.

We found no exceptions as a result of the procedures.

Governance, Risk and Compliance (GRC) SCEIS Module

18. 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

19. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
20. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Capital Assets

21. Haphazardly select three 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.

We found no exceptions as a result of the procedures.

Internal Audit Reports

22. Inspect the Department's internal audit reports beginning with the end date of prior year fieldwork through the end of our current year fieldwork to determine any impact on our agreed upon procedures.

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

Status of Prior Finding

23. 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 the procedures.