

**South Carolina
Department of Revenue
Columbia, South Carolina**

State Auditor's Report

June 30, 2020



Independent Accountant's Report on Applying Agreed Upon Procedures

September 3, 2021

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

We have performed the procedures described in Attachment 1 on the systems, processes and behaviors related to financial activity of the South Carolina Department of Revenue (the Department) for the fiscal year ended June 30, 2020. The Department's management is responsible for the systems, processes and behaviors related to financial activity.

The Department's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of understanding the systems, processes and behaviors related to financial activity. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We were engaged by the Department to perform this agreed-upon procedures engagement and conducted our engagement 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 engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department for the year ended June 30, 2020. Accordingly, we do not express such 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 Department's management. 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.

We are required to be independent of the Department and to meet other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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. Haphazardly select five operating revenue transactions and inspect supporting documentation to determine:
 - Supporting documentation for transaction agrees with the general ledger as to amount, date, payor, and account classification.
 - Revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2020 Appropriation Act.
 - Both revenue collections and amounts charged are properly authorized by State law.
 - Receipts are recorded in the proper fiscal year.

We found no exceptions as a result of the procedures.

Cash Disbursements/Non-Payroll Expenditures

2. Haphazardly select five non-payroll disbursements and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures and invoice(s) agree(s) with general ledger as to vendor, amount, and date.
 - All supporting documents and approvals are present and agree with the invoice.
 - The transaction is an actual expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement is recorded in the proper fiscal year.
 - Clerical accuracy.

We found no exceptions as a result of the procedures.

Payroll

3. Haphazardly select five 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, and that their last paycheck, including any leave payout, was properly calculated in accordance with applicable State law.
4. Haphazardly select five 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 paycheck was properly calculated.

We found no exceptions as a result of the procedures.

Journal Entries and Transfers

5. Haphazardly select three journal entries and two transfers and inspect supporting documentation to determine:
 - Postings in the general ledger agree to supporting documentation.
 - Transaction is properly approved.
 - The purpose of the transaction.

We found no exceptions as a result of the procedures.

Reporting Packages

6. Inspect fiscal year end reporting packages submitted to the Office of the State Comptroller General (CG). Compare responses in the Master Reporting Package Checklist and any required supplemental information to year end reporting packages, the South Carolina Enterprise Information System (SCEIS) and Department prepared records. Additionally, compare the dates submitted to the due dates established by the CG's Reporting Policies and Procedures Manual.
7. In addition to the procedure above, perform the following:
 - **Accounts Payable Reporting Package**

Haphazardly select five payables to determine if reported amounts were properly identified, classified, and reported based on the inspection of the SCEIS general ledger, SCEIS *Yearend Reporting - Prior Year Payables with Vendor* report, SCEIS *Yearend Reporting – Inter-Agency Prior Year Payables* report, and Department prepared records.
 - **Litigation Reporting Package**

Haphazardly select five transactions from the SCEIS *Yearend Reporting – Litigation* report to determine that changes were properly approved, and amounts charged were within the approved limits and service date range.
 - **Subsequent Events Questionnaire**

Compare responses and required supplemental information to the SCEIS general ledger and 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, reported, and excluded from the original Accounts Payable Reporting Package submission.

Findings

Accounts Payable Reporting Package – Two of the five payables inspected were vendor payables misclassified as intergovernmental payables.

Litigation Reporting Package – Similar to the prior year finding, discrepancies associated with attorney fee payment approvals were encountered.

- For two of the attorneys inspected, total fees paid exceeded the authorized maximum fees approved by the Attorney General.
- One of the payments inspected included charges for services of an attorney not approved by the Attorney General.

Subsequent Events Questionnaire – An adjustment to the reported liability for compensated absences was overstated by approximately \$1,600.

Management's Responses

Accounts Payable Reporting Package – We classified all Interdepartmental Transfer (IDT) payments as intergovernmental payables, thinking that payments to other state agencies would fit into that category. However, after further review, we realize that only payments to government entities outside of the state's financial reporting entity should be classified in that category. We will change our processes and procedures to ensure any future IDT payments are properly classified.

Litigation Reporting Package – We will ensure that the total fees do not exceed the approved limits in the future, even if the amounts listed are labeled as estimates. If needed, we will obtain a revised approval for the increased amount. Likewise, we will ensure that all applicable attorneys are included on approval documents before payment. The corrective action will be accomplished through monitoring attorney fee payments.

Reporting Packages (Continued)

Management's Response

Subsequent Events Questionnaire – We correctly identified late submissions of leave; however, one of the items was included on the spreadsheet provided by the CG and should have not been included in our calculations. In the future we will review to ensure that the Subsequent Events Questionnaire only contains leave submitted after the CG spreadsheet is provided.

Composite Reservoir Accounts

8. Obtain a listing of Department composite reservoir accounts and inquire of Department management that the listing is complete.
9. Obtain two haphazardly selected monthly reconciliations and perform the following procedures:
 - Recalculate selected reconciliations and determine that they were timely performed, reviewed, and properly documented in accordance with Department procedures.
 - 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 explained and resolved.
 - Determine if adjusting entries were made in the accounting records.
10. Haphazardly select and inspect four composite reservoir account receipts to determine that they were properly described and classified in the accounting records and that they were recorded in the proper fiscal year.
11. Haphazardly select and inspect four composite reservoir account disbursements to determine that they were properly classified in the accounting records, were actual disbursements of the Department, and that goods and services were procured in accordance with Department procedures.

We found no exceptions as a result of the procedures.

Assets and Personal Property

12. Haphazardly select five capital asset acquisitions and inspect supporting documentation to determine that each asset was properly capitalized and posted to the general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
13. Through inquiry of management and inspection of supporting documentation, determine that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Laws Section 10-1-140.

Finding

The Department did not complete the property inventory required by South Carolina Code of Laws Section 10-1-140.

Management's Response

A comprehensive asset inventory was not completed during FY20, primarily due to COVID-19. We typically complete asset inventories between April – June. In complying with travel restrictions and remote working guidelines, we were unable to complete inventories in all offices. The section responsible for asset inventories is also responsible for building and employee safety, which dominated their limited time in the office during the normal inventory timeline. No procedure changes are necessary though, as we successfully completed an asset inventory in FY21.

DORWay Report

14. Obtain the fiscal year 2021 DORWay Allowance for Doubtful Accounts Report. Compare the current balance of three haphazardly selected account types on the report to Department records. Haphazardly select five 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.

Appropriation Act/ Department-Specific Provisos

15. Through inquiry of management and inspection of supporting documentation, determine that the Department complied with Proviso 118.16 of the fiscal year 2020 Appropriation Act regarding nonrecurring revenue received during the fiscal year.
16. Determine compliance with Department-specific state provisos (109.2 – Court Order Funds Carry Forward, 109.3 – Rural Infrastructure Fund Transfer, 109.4 – SCBOS Funds, 109.7 – Fraudulent Tax Return Program, 109.8 – Treasury Offset Program, and 109.9 – May Events) by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of the procedures.

Status of Prior Findings

17. Through inquiry of management and inspection of supporting documentation, 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 appropriate corrective action on the findings, except:

- As described in the Reporting Packages section finding above.
- Corrective action associated with the finding reported in the Cash Receipts/Revenue section of the prior year report is still ongoing until all gas tax deposits identified have been properly allocated.