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State Auditor's report June 30, 2020

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**South Carolina
Office of the Adjutant General**

Columbia, South Carolina

State Auditor's Report

June 30, 2020



Independent Accountant's Report On Applying Agreed-Upon Procedures

July 26, 2021

Major General R. Van McCarty
Adjutant General
State of South Carolina
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 Office of the Adjutant General (the Office) for the fiscal year ended June 30, 2020. The Office's management is responsible for the systems, processes and behaviors related to financial activity.

The Office'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 Office 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 Office 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 Office's management. 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:

- 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 Office 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 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 Disbursements/Non-Payroll Expenditures

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

Findings

The distribution of State appropriated disaster relief funds was miscoded as an allocation of other than State appropriated funds.

Similar to the finding reported in the prior year, blanket bond coverage was purchased without the approvals required by South Carolina Code of Laws Section 1-11-180.

Management's Response

We distributed Comptroller General's updated guidance dated June 9, 2021 to relevant staff. Applicable State expenditures will be posted to State Aid-Disaster for disaster relief grants beginning with Hurricane Dorian.

We reviewed 1-11-180 and submitted to the Attorney General's Office for bond approval. Then we forwarded document per the Department of Administration to the State Auditor's Office for approval. This process will be repeated when required.

Reporting Packages

2. 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 submitted by the due date established by the CG's Reporting Policies and Procedures Manual.
3. In addition to the procedure above, perform the following:
 - Cash and Investments Reporting Package

Determine if responses are reasonable and/or accurate. Agree amounts to the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS *Yearend Reporting - Cash and Investments* report and Office prepared records. Agree amounts to State Treasurer's Office Composite Bank Account reports and year end reconciliations.

Reporting Packages (Continued)

- Other Receivables Reporting Package

Agree reported amounts to the SCEIS general ledger, the SCEIS *Yearend Reporting - Accounts Receivable Current with Customer* report and Office prepared records.

- Capital Assets Reporting Package

Determine if responses are reasonable and/or accurate. Agree reported amounts to the SCEIS general ledger, the SCEIS *Asset History Sheet* and Office prepared records.

- Operating Leases Reporting Package

Agree amounts to the SCEIS general ledger, SCEIS *Yearend Reporting Operating Lease Expense with Vendor* report and Office prepared records. In addition, haphazardly select five leases reported on the Future Minimum Payment Schedule to determine if the effective date, expiration date, and future minimum payment amounts were properly calculated and reported on the schedule. Haphazardly select five contingent rental payments from the *Yearend – Reporting Operating Leases Expense with Vendor* report to determine if the payments were properly classified, coded, and calculated. Lastly, determine that the Office submitted copies of leases to the CG if they were not submitted in fiscal year 2019.

- Accounts Payable Reporting Package

Agree amounts to the SCEIS general ledger, SCEIS *Yearend Reporting - Prior Year Payables with Vendor* report and Office prepared records. Additionally, haphazardly select five payables to determine if reported amounts were properly identified, classified, and reported on the Accounts Payable Summary Form.

- Subsequent Events Questionnaire

Compare responses and any required supplemental information to the SCEIS general ledger and Office prepared records.

Findings

Cash and Investments Reporting Package – Similar to the finding reported in the prior year, some documentation discrepancies were encountered, including exclusion of SCEIS balances from the reporting package and missing bank reconciliation documentation for some accounts.

Other Receivables Reporting Package – Similar to the finding reported in the prior year, receivables totaling approximately \$187,000 were excluded from the reporting package.

Capital Assets Reporting Package – A required reconciliation was not submitted because two questions on the package were answered incorrectly.

Operating Leases Reporting Package – Similar to the finding reported in the prior year, calculation errors were identified in reported future minimum lease payments, property carrying amount, and future rental payments. In addition, it could not be confirmed that leases were submitted to the CG in accordance with the reporting package instructions.

Reporting Packages (Continued)

Accounts Payable Reporting Package – Similar to the finding reported in the prior year, three of the payables inspected were intergovernmental payables misclassified as vendor payables.

Subsequent Events Reporting Package – Similar to the finding in the prior year, the Office failed to report the necessary accounts payable and compensated absences updates.

Management's Response

Reporting packages will be evaluated for accuracy before submitting to the CG's Office by the preparer and reviewer. Prior year's errors will be reviewed in an effort to correct and not to duplicate.

Office Bank/Composite Reservoir Accounts

4. Obtain a listing of Office bank accounts and confirm with management that the listing is complete.
5. Obtain fiscal year monthly reconciliations for each Office bank account, haphazardly select three reconciliations, and 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 explained and resolved.
 - Determine if necessary, adjusting entries were made in the accounting records.

Finding

Similar to the finding reported in the prior year, documentation did not support the bank reconciliation for the composite reservoir account.

Management's Response

Email notifications and in person training have been completed to inform and refresh all individuals with signature authority on bank accounts to perform reconciliations per applicable Office reconciliation policy. Budget and Finance employees will review and record receipt of reconciliations.

TAG Employee Group, Inc.

6. Inspect the agreement between the Office and the TAG Employee Group, Inc. to determine if the agreement complies with the provisions listed in Proviso 100.4 of the fiscal year 2020 Appropriation Act.
7. Inspect the SCEIS General Ledger and the TAG Employee Group, Inc.'s accounting records to determine if the Office received the percentage of gross profits stated within the agreement between the Office and the TAG Employee Group, Inc.

TAG Employee Group, Inc. (Continued)

8. Inspect the TAG Employee Group, Inc.'s accounting records to determine if the TAG Employee Group, Inc. maintained insurance coverage that complied with the insurance coverage provision listed in Proviso 100.4 of the fiscal year 2020 Appropriation Act.

We found no exceptions as a result of the procedures. However, the Office has not received its share of 2018 and 2019 parking operations profits from the TAG Employee Group, Inc. in accordance with the agreement.

Appropriation Act / Office-Specific Provisos

9. Through inquiry of management and inspection of supporting documentation, determine that the Office complied with Proviso 118.16 of the fiscal year 2020 Appropriation Act regarding nonrecurring revenue received during the fiscal year.
10. Determine compliance with Office-specific state provisos (100.7 – Educational Seminar Revenue, 100.19 – Disasters Expenditure Status Report, and 100.21 – Natural Disaster FEMA Match) by inquiring with management and observing supporting documentation, where applicable.

Finding

The report required by Proviso 100.21 was submitted after the January 15, 2020 deadline stated in the proviso.

Management's Response:

The required report was submitted to the General Assembly on March 11, 2020. Subsequent reports have been submitted on a quarterly basis along with the Office's other proviso-mandated financial reports so that deadlines are met.

Status of Prior Findings

11. Through inquiry of management and inspection of supporting documentation, determine if the Office has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined that the Office has taken adequate corrective action on the findings reported during the engagement for the prior year, except:

- As described in the Cash Disbursements/Non-Payroll Expenditures section of this report.
- As described in the Reporting Packages section of this report.
- As described in the Office Bank/Composite Reservoir Accounts section of this report.
- Where encountered in statewide engagements.
- As described in the finding below.

Finding

Similar to the finding reported in the prior year, an asset acquisition was capitalized at a value below the State's capitalization threshold.

Management's Response

We will be more cautious of items that are near the capitalization threshold taking into consideration sales tax or other additional costs to place the asset into operation. This will be covered with the Supply Manager.