

# SCSL Digital Collections

## State Auditor's report

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**SOUTH CAROLINA  
DEPARTMENT OF INSURANCE  
COLUMBIA, SOUTH CAROLINA**

**STATE AUDITOR'S REPORT**

**JUNE 30, 2017**



## Independent Accountant's Report on Applying Agreed-Upon Procedures

June 8, 2018

Mr. Raymond G. Farmer, Director  
South Carolina Department of Insurance  
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 Insurance (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2017. 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:

- 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 Department of Insurance 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 Insurance (R20)**

**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 \$1,000,000 – General Fund, \$300,000 – Earmarked Fund, \$50,000 – Restricted Fund, \$100,000 – Federal Fund and 10%.
2. Randomly select twenty-five cash receipts transactions and inspect supporting documentation to:
  - Agree transaction amount, date, payor, document number, and account coding 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.
3. Randomly select twenty-five cash receipts and inspect supporting documentation to determine that receipts are recorded in the proper fiscal year.
4. Select the Department's year-end reconciliation of the credit card system to SCEIS and determine if it was performed timely and properly documented and if reconciling differences were adequately explained and properly resolved.

We found no exceptions as a result of the procedures.

**Cash Disbursements/Non-Payroll Expenditures**

5. 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 \$50,000 – General Fund, \$50,000 – Earmarked Fund, \$20,000 – Restricted Fund, \$50,000 – Federal Fund and 10%.
6. Randomly select twenty-five non-payroll disbursements and inspect supporting documentation to determine:
  - 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 and good business practice are present and agree with the invoice.
  - The transaction is a bona fide expenditure of the Department, properly coded to the general ledger.
  - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
  - Clerical accuracy / confirm proper sales/use tax.

## Cash Disbursements/Non-Payroll Expenditures (Continued)

For federally funded cash disbursements/non-payroll expenditures we will inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.

7. 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

8. Compare current year payroll expenditures at the subfund and account level to those of the prior year. Obtain an understanding of variations over \$50,000 – General Fund, \$50,000 – Earmarked Fund, \$20,000 – Restricted Fund, \$50,000 – Federal Fund and 10%.

9. Randomly select ten employees and inspect supporting documentation during the fiscal year to:

For Salaried Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Agree gross pay to supporting documentation confirming all changes to gross salary for the year. Determine that all changes have been properly approved.

For Hourly Employees:

- Obtain and inspect the employee's payroll and/or personnel file for various forms, communications, etc., to confirm that the person is a bona fide employee of the Department.
- Confirm the hourly rate and time sheets are properly approved; recalculate gross pay.

10. Haphazardly select four bonus pay disbursements to determine:

- Employee does not make more than \$100,000 annually.
- Bonuses received during the year did not exceed \$3,000.
- Transaction was appropriately documented and approved.

11. 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 pay check was properly calculated in accordance with applicable State law.

12. 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, 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.

## **Payroll (Continued)**

13. 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%.
14. 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 changes greater than 10%.

### **Finding:**

We could not verify that the rate of pay for three temporary employees had been approved. The Department does not have a formal policy in place to document the approval of hourly rates paid to temporary employees.

### **Management's Response:**

We concur with the finding. However, although documentation provided during the audit did indicate the necessary approvals, the process had not been formalized with a "form/document". We will create a formalized process with a form and keep these approvals in the temporary employee's folder. Most are interns we provide opportunities to during the summer months.

## **Journal Entries and Transfers**

15. Randomly select twelve journal entries and 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 noted no exceptions as a result of these procedures.

## **Appropriation Act**

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

We noted no exceptions as a result of these procedures.

## **Reporting Packages**

18. 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 CG's Reporting Policies and Procedures Manual.

## Reporting Packages (Continued)

19. In addition to the procedure above, we will 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 and the SCEIS Yearend Reporting - Cash and Investments report. Reconcile petty cash balance to OSA's petty cash authorization.
- Tax Revenue Reporting Package
  - Determine if amounts agree to Department prepared reports / spreadsheets.
- Other Receivables Reporting Package
  - Haphazardly select fifteen transactions to determine if the reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Reporting - Accounts Receivable Current with Customer report and / or Department prepared records. Determine if responses are reasonable / accurate based on inspection of applicable supporting documentation.
- Operating Leases Reporting Package
  - Determine if amounts agree to the SCEIS general ledger and the SCEIS Yearend Reporting – Operating Lease Expense w/ Vendor report. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded, and calculated by inspecting and recalculating the following reported amounts: (1) The effective dates, current expense, and future minimum lease payments of all operating leases; and (2) Three haphazardly selected payments for each remaining rental payment classifications (One Time Rentals, and Payments for Supplies and Other Billing Charges). Determine if responses are reasonable / accurate based on inspection of applicable supporting documentation.
- Litigation Reporting Package
  - Determine if the Department had obtained approval from the Attorney General's Office before engaging attorneys / law firms on a fee basis. Additionally, to ensure proper coding of legal and attorney payments, haphazardly select five transactions from the Yearend Reporting – Litigation Expense report to inspect for proper account coding, approval, amounts charged within approved limits, and service date range (as applicable).
- 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, we shall determine that late leave was appropriately reported as required by the questionnaire for proper compensated absences reporting.

## **Reporting Packages (Continued)**

### **Findings:**

#### **Tax Revenues Reporting Package**

On Form 3.02.1 (Tax Receivables Summary Form), the Department understated the amounts reported for Gross Receivables and Current Net Receivable by \$25,252.

#### **Operating Leases Reporting Package**

Our inspection of Form 3.09.1a (Operating Leases Future Minimum Payment Schedule) disclosed multiple exceptions. One lease was reported twice and another lease was omitted from the form. Additionally, the Department was unable to provide us with the lease for one of the ten leases reported and, as a result, we were unable to confirm if the future minimum payments reported for that lease were accurate. Further, the current calculation errors of future minimum lease payments were observed for several operating leases, resulting in an approximate \$15,800 overstatement.

#### **Litigation Reporting Package/Account Coding**

During our inspection of legal and attorney payments, we observed one payment of \$50,000 to a law firm for attorney services provided for reviewing, revising, and drafting legal documents associated with insurance securitizations. The Department incorrectly coded the transaction to G/L Account 5021010000 - Legal Services instead of G/L Account 5021020000 - Attorney Fees.

### **Management's Response:**

We concur with the findings and will take steps to minimize and/or eliminate these issues from occurring in the future.

For Tax Revenues, a formula in an Excel spreadsheet column of over 1,500 rows did not properly calculate the correct deferred revenue or accounts receivable when comparison between amount owed and amount paid was compared.

For Operating Leases, we will continue to improve our reporting of these. The majority of the issues encountered are a result of many of our leases being paid to a single vendor. Without tracking each and every lease payment throughout the year, prorating the payments across these leases when reporting is the primary culprit for these errors. More effort and staff are being assigned this area to improve the reporting in future years.

For the Litigation, this was just a misclassification error that was neither caught by us internally or the Comptroller General's staff. Both were for litigation, but one general ledger code captures expenditures associated with firms and another captures expenditures of attorneys within the firm.

### **Capital Assets**

20. Haphazardly select four capital asset retirements and determine if assets were properly coded and classified in the accounting system. Additionally, determine that retired assets were properly disposed in accordance with applicable State regulations.



**Finding:**

We were unable to confirm if the retired capital assets haphazardly selected for inspection were properly disposed in accordance with applicable State regulations. The Department could not provide documentation to support the retirements.

**Management's Response:**

We concur with the findings and will take steps to minimize and/or eliminate these issues from occurring in the future.

A real effort was under-taken at the end of FY16 to identify old assets that needed to be removed from our inventory list. These were disposed of in SCEIS during FY17 since the reporting package is not completed until end of September 2016 (i.e. FY17). Almost all of these were already fully-depreciated. Some of these were old computers and laptops that are often used for scraps by our Information Technology area. Having these items still on-hand in storage closet and not following the normal disposal process, we were unable to locate some of the documentation for the items in question.

**Procurement Card Transactions**

21. Obtain a listing of all authorized procurement card users in fiscal year 2017 and their credit limits. Additionally, we shall haphazardly select fifteen non-payroll disbursements from the Comptroller General's listing of purchasing card transactions for fiscal year 2017 in order to determine:
  - The cardholder is an authorized user.
  - The purchase is reasonable 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 card limit and there was no indication of transaction splitting.

We found no exceptions as a result of the procedures.